Condensed Transcript of Q&A Session Regarding Results Briefing for the Year Ended March 31, 2020 (May 1, 2020)

First Questioner

Q. In the year ending March 31, 2021, profit attributable to owners of the Company in the Metals & Mineral Resources Division is projected to decline ¥7.0 billion year on year. Could you please provide a breakdown of the considerations that led to this figure?

A. The Metals & Mineral Resources Division posted profit attributable to owners of the approximately ¥20.0 billion in the year ended March 31, 2020, and we are forecasting a figure of around ¥13.0 billion in the year ending March 31, 2021, which will represent a year-on-year decrease of around ¥7.0 billion. Approximately ¥3.0 billion of this decrease will be the result of the rebound from one-time increases that occurred in the year ended March 31, 2020, as well as the impacts of the deterioration of the steel market stemming from the COVID-19 pandemic. In addition, a decrease of ¥5.0 billion is projected in relation to coal, namely prices falling in conjunction with the downturn in the markets for thermal coal and coking coal that was apparent at the time of formulation of the third-quarter revision to full-year forecasts for the year ending March 31, 2021. The combined total of these two decreases is ¥8.0 billion. Furthermore, although we have formulated a schedule for production in Australian coking coal operations, we are unable to engage in sales negotiations as blast furnaces are not currently in operation in Japan and because furnaces are subject to lockdowns in India. Accordingly, we expect that almost no profits will be seen in these operations.

Q. Profit attributable to owners of the Company is expected to increase by ¥4.2 billion year on year in the Aerospace & Transportation Project Division. However, the air travel industry is facing a difficult operating environment. What is your outlook for performance in this division in the year ending March 31, 2021?

A. The Aerospace & Transportation Project Division failed to meet its target in the year ended March 31, 2020, as a result of one-time losses and project delays, but we believe that this division has the potential to generate profit in the area of ¥4.0 billion to ¥4.5 billion under normal circumstances. The forecast for the year ending March 31, 2021, is based on a finalized delivery schedule for aircraft-related transactions, and we therefore do not expect any major deviations from this forecast. The most notable performance factor in comparison to the year ended March 31, 2020, is the delayed deliveries of aircraft. The risk of these orders being cancelled is low, but there is a chance that they may be delayed. It is also possible that profitability may decline slightly in our used aircraft leasing operations. However, we should be able to compensate for any such declines through our part-out operations, and these declines will not have a significant impact on overall performance accordingly.

Second Questioner

Q. It was stated the impact of the COVID-19 pandemic on Sojitz's performance is estimated to amount to ¥23.0 billion based on the assumption that the current conditions will continue until the end of June 2020. Automotive-, material-, and retail-related operations have been cited among the areas of business to be most significantly impacted. What portions of the ¥23.0 billion impact estimate will be represented by each of these areas when accounting for other areas of business?

A. A rough breakdown of the ¥23.0 billion estimated impact of the COVID-19 pandemic by segment will see approximately 20% of this impact associated with automotive-related operations. Material-related operations, by which we primarily refer to chemical product and steel businesses, will account for roughly 40% of this impact while retail-related operations, which pertain to consumer goods, will account for about 15%.

Q. President Fujimoto stated that the ¥5.0 billion in structural reform expenses incorporated into forecasts will be incurred for the purpose of updating Sojitz's business model and addressing underperforming businesses. Could you please give some insight into the direction to be taken by Sojitz's management after the conclusion of the COVID-19 pandemic?

A. The structural reforms were decided in part base on the recognition that there is a need to review Sojitz's businesses in light of the stagnant growth of the Japanese market and the current trend toward various major companies integrating their operations. At the same time, although the COVID-19 pandemic may have brought business to a prolonged halt, it has also created an opportunity for us to accelerate the integration of our operations. Based on these realizations, we chose to incorporate ¥5.0 billion in structural reform expenses into our full-year forecasts for the year ending March 31, 2021. As for the outlook for the operating environment following the conclusion of the COVID-19 pandemic, we feel that a large step forward has been taken in the so-called fourth industrial revolution. This is most likely due to developments such as workstyle reforms; changes in living environments, including those pertaining to teleworking; and revisions to human resource systems. Elsewhere, remote medical services have come to be accepted. Significant progress can be expected in such fields going forward. While these fields will probably not be immediately growing into giant markets, there is still a need to monitor future trends in these fields and to prepare to address their growth.

Third Questioner

Q. Although I suspect that Sojitz's financial constitution today is quite different then it was at the time of 2008 financial-crisis, I would like to know how tight the funding situation is at Sojitz? Have there been any issues with borrowers or other business partners?

A. There is no cause for concern with regard to the funding situation at Sojitz. As of March 31, 2020, we had not witnessed any increases in over-due credit. Looking ahead, credit costs are expected to start being incurred largely overseas, and division heads have thus been instructed to carefully monitor trends pertaining to collection in April and beyond. At the same time, we recognize that credit insurance underwriting is becoming increasingly difficult with regard to both public and private entities. It may therefore be necessary to review the very nature of the transactions we engage in. However, we do not intend to impose a uniform response on all cases. Rather, we will examine the situation of each business partner to determine whether or not the impacts of the COVID-19 pandemic are temporary in order to avoid a one-size-fits-all approach toward collections. Division heads have been instructed to adopt such an approach.

Q. I expect that Sojitz will be engaging in asset replacement in the year ending March 31, 2021. However, the current situation seems like it will make selling assets difficult. Are forecasts based on transactions for which certain arrangements have already been made or on the assumption that conditions will recover during the second half of the fiscal year?

A. In regard to our outlook for asset replacement activities, there are some transactions that have already been decided, but we recognize that the current environment is not conducive to asset sales. We have conducted some transactions ahead of schedule based on this outlook, and our plans have been formulated with consideration paid to the current situation. We therefore expect to be performing a certain amount of asset replacement activities during the year ending March 31, 2021. Looking ahead, current trends suggest that there is a chance we will see changes in the investment stances of potential buyers. We will therefore need to monitor trends going forward.

Fourth Questioner

Q. Free cash flow is forecast to fall into the negative in the year ending March 31, 2021. Given the current volatility of the operating environment and the risk of future economic recession, how much flexibility has been installed in Sojitz's financing plans?

A. In the year ending March 31, 2021, we are planning to conduct new investments and loans to the tune of ¥100.0 billion. However, there are not yet many projects for which investments or loans have been executed or finalized; such projects only amount to around ¥30.0 billion worth of investments and loans. As for asset replacement, we concluded sales contracts in the previous fiscal year and prior, and a large portion of the projected recovery amount will be collected within the next year. Accordingly, we have significant room for adjustments in reaction to movements in operating and other cash flows.

Q. How certain is the outlook for Sojitz's ability to reduce costs and recover investments from new investments and loans, two of the major factors behind projected profit growth?

A. Looking first at costs, whereas we incurred around ¥3.0 billion in travel, social, and meeting expenses in the first quarter of the year ended March 31, 2020, these expenses have been almost none existent during the first quarter of the year ending March 31, 2021. Although the reduction of these costs is dependent on how long Japan's state of emergency declaration remains in effect, cutting costs in these areas throughout the fiscal year will form the backbone of our cost reduction efforts. In addition, we project a reduction of 50% in due diligence costs from the year ended March 31, 2020. We therefore have a relatively clear picture of from where cost reductions will be coming. As for asset replacement, there is still a robust appetite for solar power generation projects. While we need to consider the scale and timing of sales, we expect to be able to complete a certain degree of asset replacement activities. In addition, we are relatively certain that the projected ¥8.0 billion in returns from investments conducted during the period of Medium-Term Management Plan 2017 will be generated as planned. We also expect profits to be generated by major investments and loans conducted under Medium-Term Management Plan 2020. For example, our Vietnamese papermaking operations should be recovering in tandem with the market. However, we do recognize that there is some possibility for downturns in Australian coking coal operations.

Fifth Questioner
Q. Could you please explain why the Chemicals Division was able to achieve profit in the year ended March 31, 2020, that was in line with the previous fiscal year despite its difficult operating environment? Also, why are you forecasting a decline in profit in this division in the year ending March 31, 2021?

A. Chemicals Division profit in the year ended March 31, 2020, was relatively unchanged year on year due to the rebound from the one-time losses recorded in the prior fiscal year. The risk management systems of the Chemicals Division were enhanced during the year ended March 31, 2020, as part of efforts to stabilize profits in this division. In the year ending March 31, 2021, profits are expected to decline due to the deterioration of market conditions for methanol and other chemical products as well as to reductions in transaction volumes stemming from slowdown in automobile and consumer electronics production.

Sixth Questioner
Q. In what countries and regions are the impacts of the COVID-19 pandemic the most significant?

A. The extent of the impacts of the COVID-19 pandemic mirror the distribution of Sojitz's sales by region, with the most significant impacts being seen in areas such as the United States, Japan, and Asia. At the moment, we have not disclosed a by-region breakdown of the impacts of the pandemic.

Seventh Questioner
Q. What is the state of operations in coal businesses amid the COVID-19 pandemic?

A. Operations at coal interests are being carried out based on permits from the local authorities. We have slightly curtailed the scale of operations, and common COVID-19 countermeasures are being implemented.

Eighth Questioner
Q. Supplementary information provided in disclosure materials noted that the book value of oil and gas assets was ¥20.0 billion on March 31, 2020.

I understand that Sojitz performed impairment on oil and gas interests centered on assets located in the North Sea. Are there any risks of additional impairment losses being recorded given the decline in oil prices?

A. The amount of impairment on oil and gas interests in the North Sea was calculated based on a projection for the future prices of these assets, which accounted for a consensus reached in March 2020, and on the current price estimate of U.S.$20 per barrel arrived at out of consideration for the price declines that began in April 2020. Although forward prices have not dropped significantly since April, we cannot deny the possibility that further impairment losses will be recorded in the year ending March 31, 2021, in response to future trends in forward prices. However, these losses will be recorded based on the calculation flow employed thus far, and we will therefore take the measures deemed necessary after appropriate price calculations.