Condensed Transcript of Q&A Session Regarding Results Briefing for the Three-Month Period Ended June 30, 2022 (August 2, 2022)

Presenters Seiichi Tanaka, Representative Director, Executive Vice President, CFO Mizue Nakazawa, General Manager, Corporate Accounting Department

First Questioner

Q. In the three-month period ended June 30, 2022, strong progress was made toward full-year forecasts, and overall performance was favorable, with the exception of some one-time factors. The Metals, Mineral Resources & Recycling Division, in particular, showed a large year-on-year increase in profit. However, I understand that this increase was largely due to a rise in the price of coking coal, which continued throughout a portion of the three-month period. What is your forecast for sales volumes throughout the remainder of the fiscal year, including with regard to the start of underground mining at the Gregory Crinum coal mine?

A. Tanaka, CFO:
We had initially planned to start underground mining at the Gregory Crinum coal mine at the beginning of the fiscal year, but the cave-in that occurred last year has impeded progress with this regard. Our current outlook is that we should be able to start production and sales in October 2022. As a result, the projected production volume from this mine is expected to be 500,000 tons lower than the initially forecast volume of 3 million tons. The production volume in the three-month period ended June 30, 2022, equates to only 13% of the full-year forecast. However, we have already concluded contracts for 89% of the coking coal to be sold in the year ending March 31, 2023, but prices have not yet to be decided for around 80% of the coal to be sold.

Q. Why is the price of coking coal falling at the moment and what is your outlook for the price of this resource going forward?

A. Tanaka, CFO:
The drop in the price of coking coal was originally a result of the reduction of production of crude steel in China. However, steel demand has fallen to a degree that surpasses the reduction in production, resulting in surplus steel being exported. This trend is driving down the price of steel materials around the world. This factor has been compounded by concerns for a potential recession, making for loose balance of supply and demand for steel. We expect that this situation will continue to place downward pressure on the price of coking coal and iron ore for the foreseeable future.

Q. You mentioned that the selling prices have not yet been decided for 80% of the coking coal to be sold in the year ending March 31, 2023. This means that selling prices have not been decided for the vast majority of coal to be sold throughout the remainder of the fiscal year. Given that progress toward full-year profit targets for the Metals, Mineral Resources & Recycling Division was strong in the three-month period ended June 30, 2022, how will the difference between price assumptions and the actual prices impact performance on a full-year basis?

A. Our price assumptions for the second half of the fiscal year projects prices of U.S.$220 per ton of coking coal and U.S.$140 per ton of thermal coal. Accordingly, we do not expect any significant declines in comparison to our full-year forecast for profit for the year (attributable to owners of the Company) for the Metals, Mineral Resources & Recycling Division of ¥51.0 billion as a result of sales of coal for which selling prices are still undecided. We had initially formulated price assumptions on a quarterly basis. Our forecast price assumptions, which are based on forward prices, for the second quarter and beyond project that prices will continue to drop throughout the fiscal year. Current prices are at a similar level to those projected by our price assumptions, and performance is not expected to fall significantly below forecasts as a result.

Q. In the three-month period, performance surpassing Sojitz's forecasts and market outlook was seen in divisions other than the Metals, Mineral Resources & Recycling Division. Is this strong performance expected to continue going forward?

A. In the Infrastructure & Healthcare Division, one reason performance surpassed forecasts is that our initial forecasts did not account for the gain on the sale of our telecommunications tower business in the Philippines. In addition, we are seeing steady performance in our U.S. energy service company businesses and at LNG Japan Corporation and IT business-related companies. Accordingly, the sale of the telecommunications tower business is expected to directly translate to a rise in performance above forecasts. In the Chemicals Division, there are signs that the price of methanol might drop, and we therefore cannot anticipate progress as swift as that seen in three-month period going forward. Overall performance should be solid, nonetheless, as we do not expect any significant drop in prices for rare earths or other resources. The Consumer Industry & Agriculture Business Division has only been able to transfer a portion of the rise in raw material prices seen in fertilizer businesses. However, we had not expected to be able to transfer any of this rise, and even this limited transference should thus contribute to performance that exceeds forecasts.

The source of concern going forward will be the Retail & Consumer Service Division. In this division, it will be necessary to monitor the lingering impacts of Japan's seventh wave of COVID-19 infections. We also must recognize that the retail field is one in which developing businesses requires a significant amount of time. The forecast of ¥5.0 billion for profit for the year (attributable to owners of the Company) is expected to be met due to steady performance in imported beef and general commodity businesses, but it is unlikely that performance will rise above this forecast. In the Automotive Division, meanwhile, forecasts have accounted for the impacts of semiconductor shortages, and it is thus unlikely that the ongoing semiconductor shortages will cause performance to fall below forecasts. The bigger concern in this segment is the possibility of a rebound from the benefits of the current yen depreciation trend.

Second Questioner

Q. Could you please offer some details on Sojitz's operations in Russia? I have heard that the impacts of Russia's invasion of Ukraine are being felt in automotive and coal trading businesses. However, this situation does not seem to have had an impact on performance in the three-month period ended June 30, 2022. It does feel likely that earnings will decline in Sojitz's automotive businesses going forward. What differences are being seen in comparison to the Company's initial outlook?

A. Tanaka, CFO:
In our automotive businesses in Russia, we are currently unable to order new automobiles. However, we had a total inventory of around 700 vehicles including those being shipped and offshore, at the beginning of the fiscal year. Our focus in the year ending March 31, 2023, will thus be selling these vehicles. We had succeeding in selling more than half of this stock as of June 30, 2022. As a result, the gross profit margin is currently quite high. An even larger contributor to the firm performance of our automotive businesses in Russia may be the strength of the Russian ruble. The value of the ruble compared to the Japanese yen is more than twice the level seen at the beginning of the fiscal year, and this trend is being reflected in the performance of Subaru Motor LLC. Nevertheless, we do not feel that performance is significantly better than initially forecast.

Q. Am I correct to assume that coal trading activities in Russia were practically nonexistent in the three-month period ended June 30, 2022?

A. Tanaka, CFO:
No business activities were conducted based on new contracts. As was stated at the financial results briefings for the year ended March 31, 2022, we are steadily moving ahead with the collection of advance payment receivables associated with Russian coal, but we are not engaging in any other business activities with this regard at the moment. We had originally anticipated that factors related to transactions in Russia would result in a decrease in earnings of ¥6.0 billion, and we are maintaining this outlook.

Q. The outlook for the operating environment remains opaque. If my memory is correct, I seem to recall that Sojitz's trading-related businesses have been highly susceptible to bad debt in past cases of operating environment deteriorations resulted from financial tightening or other factors. I understand that the Company is more rigorous in managing the credit of customers today than it was in the past. Is it safe to assume that Sojitz is now more resilient to losses from bad debt? Also, could you please offer some details on your risk management policies?

A. Tanaka, CFO:
At the moment, there are no serious concerns with regard to customer credit risks. Our credit management and screening procedures are much more rigorous than they have been in the past, and we are managing all business processes, including trading, through our supply chain risk management activities. While we cannot completely eliminate the risk of incurring bad debt, it is unlikely that this risk will increase significantly even if an economic recession occurs.

Third Questioner

Q. Aside from resources and materials, are there any other businesses that are suffering due to concern for recession risks?

A. Tanaka, CFO:
Currently, the only Sojitz businesses for which inflation is producing a favorable environment are those of the Chemicals Division and the Consumer Industry & Agriculture Business Division. In the second half of the fiscal year, we expect to begin gradually feeling the impacts of monetary tightening, but, at the moment, the impacts of inflation are being felt more strongly than those of recessions or deflation.

Q. In regard to renewable energy businesses and Sojitz Building Materials Corporation, given that initial performance is better than expected, what are your directives for the remainder of the fiscal year should the current favorable operating environment continue?

A. Conditions are brisk in the entire electricity sector, not just renewable energy. One factor behind this situation is the rising price of electricity in Europe. Accordingly, solid performance is projected in the electricity retail business we acquired in Europe in the last fiscal year as well as in the downstream gas businesses in Nigeria. LNG Japan is also enjoying robust performance as its annual sales volume has already been decided, and the price of these sales will be linked to the price of oil. Due to these factors, performance is expected to be strong throughout the renewable energy and other businesses of the Infrastructure & Healthcare Division.
As for Sojitz Building Materials, performance has not been particularly favorable, even though there aren't noteworthy declines in prices or in the number of new housing constructions.

Q. Could you please offer some details regarding progress in generating returns from new investments conducted under MT P 2023, whether the targets for these returns will be met, and the outlook for the investment environment when taking into account macroeconomic conditions?

A. Our full-year forecast for returns from new investments conducted under Medium-Term Management Plan 2023 in the year ending March 31, 2023, is ¥5.0 billion. In the three-month period ended June 30, 2022, returns from these investments nearly reached ¥1.0 billion. A large portion of the returns in the three-month period is attributable to the gain on the sale of the telecommunications tower business in the Philippines. Nevertheless, we expect to be able to achieve the forecast figure of ¥5.0 billion due to earnings contributions to be seen in the second half of the fiscal year. Specific factors behind these contributions will include the electricity retail business in Europe and the energy service company business in the United States.
As for new investments in the year ending March 31, 2023, we currently have a long list of candidates for investments totaling around ¥200.0 billion, when excluding non-financial investments. However, we had only conducted around ¥20.0 billion, or 10%, of these potential investments as of June 30, 2022. Our long list contains a substantial number of candidates, and negotiations are currently underway with regard to some of these candidates. The pace of

investments is likely to slow going forward as there is a need to carefully assess the potential benefits of overseas investments in light of the current yen depreciation trend. Of course, we will not be haphazardly investing just because we can; we intend to carefully assess the prospects of each potential investment.

Fourth Questioner

Q. An increase in ¥18.4 billion was seen in coal-related profits in the three-month period ended June 30, 2022. Could you please offer a breakdown of this amount in terms of coking coal and thermal coal? Also, what is your outlook for the negotiations regarding the sale of thermal coal interests?

A. Tanaka, CFO:
Of the increase of ¥18.4 billion in coal-related profits in the three-month period ended June 30, 2022, approximately 90% was associated with coking coal and coal for pulverized coal injection applications. Also, we are currently moving forward with negotiations in relation to the sale of thermal coal interests, but we have no updates to make with this regard at the moment.

Q. It would appear that the earnings contributions for thermal coal interests are small given the current market prices. What are the reasons behind this situation?

A. Tanaka, CFO:
Sojitz's only direct holdings of thermal coal interests are in Australia. For this reason, our annual production volume is only around a modest 900,000 tons, and earnings contributions for thermal coal interests only accounted for about 10% of total earnings contributions in the three-month period ended June 30, 2022, as a result.

Q. In what regions is the Automotive Division enjoying strong performance? Was the division able to sell automobiles without lowering prices? Are they any other prices measures you can comment on?

A. Tanaka, CFO:
Performance has been strong in North America and Latin America. Progress toward our full-year forecast in our Hyundai automobile business in Puerto Rico, for example, was nearly 30% in the three-month period ended June 30, 2022. Conditions in this market are brisk. Even though we have seen a slight year-on-year reduction in sales of new automobiles in Puerto Rico, overall demand has not declined to a degree that is large enough to have a noteworthy impact on our operations in this country. In Asia, we have seen firm performance in our Hyundai automobile business in Thailand. Overall progress in sales was not particularly strong in the three-month period, but these operations are contributing to earnings in the Automotive Division nonetheless. We are also seeing favorable performance in our dealership businesses in the United States. As for our Subaru automobile operations in Russia, we have maintained high gross profit margins, despite the limited stock of sellable automobiles, while also enjoying the benefits of the ruble appreciation. Our Hyundai automobile business in Pakistan, meanwhile, has been struggling. An outflux of capital from emerging countries has resulted in difficulties in securing foreign currency in Pakistan. This situation is restricting our ability to

import parts into this country, which will likely have an impact on local production and sales volumes in this country.

Fifth Questioner

Q. Could you please offer some details on your thoughts regarding extraordinary losses and risk factors in relation to the ¥5.0 billion proposed as a buffer against the opaque operating environment? In your response, I would appreciate if you would touch on factors such as the potential impacts on performance of non-current assets in automotive businesses in Russia and the increased royalty rates in the state of Queensland in Australia.

A. Tanaka, CFO:

On factor we expect to fall under the buffer of ¥5.0 billion is the interest rate hikes in the United States. Interest rates applied to U.S.-dollar denominated debt are increasing at a speed and to a degree that surpass our expectations. We have initially anticipated that a rise in interest rates of 1.75 percentage points would decrease earnings by between ¥1.5 billion and ¥1.6 billion. However, interest rates are already expected to be increased by an amount that is nearly double this prediction. Accordingly, the additional ¥1.5 billion in impact will need to be accounted for under the ¥5.0 billion buffer. The increase in coal production costs associated with rises in royalty rates in Queensland and fuel and personnel expenses should be contained within the range of the provisions amassed in the three-month period ended June 30, 2022. We thereby expect to be able to limit these expenses to around ¥51.0 billion on a full-year basis. As for Subaru dealerships and other fixed assets in Russia, we think it is still a little too earlier to make a decision of whether or not to record impairment losses. If at all possible, we would like to avoid impairment losses on fixed assets in Russia by virtue of our effort to maintain business activity in service station, parts sales, and other operations. However, impairment will be performed if deemed necessary.