Condensed Transcript of Q&A Session Regarding Results Briefing for the Second Quarter Ended September 30, 2022 (November 2, 2022)

Presenters Masayoshi Fujimoto, Representative Director, President & CEO Seiichi Tanaka, Representative Director, Executive Vice President, CFO

First Questioner

Q. I am incredibly grateful for the lower limit of ¥130 per share for dividend payments in the year ending March 31, 2024. The stock market is concerned that general trading companies will suffer significant declines in earnings in the year ending March 31, 2024, given the strong performance being seen in the year ending March 31, 2023. It seems the lower limit to be a measure for safeguarding dividends against decreases stemming from large downturns in earnings. President Fujimoto has stated that the lower limit of ¥130 per share was calculated based on profit for the year of ¥100.0 billion.
How do you assess Sojitz's earnings capacity going into the year ending March 31, 2024?

A. Fujimoto, CEO:
We project a three-year average of ¥65.0 billion for profit for the year over the period of Medium-Term Management Plan 2023 (MTP 2023). Specifically, this will be comprised of profit for the year of ¥53.0 billion in the first year of the plan, ¥65.0 billion in the second year, and ¥77.0 billion in the third year. This plan was formulated based on a conservative outlook for the prices of coal and other commodities. Accordingly, we have confidence in the ability of Sojitz to generate profit for the year of between ¥80.0 billion and ¥90.0 billion, even without the high coal prices we are seeing currently.
The lower limit of ¥130 per share for dividend payments was put forth as a symbol of our confidence with this regard.
Our dividend policies for the year ending March 31, 2024, and beyond will be announced together with the next medium-term management plan.

Q. Could you explain the Company's policy for share buybacks in the year ending March 31, 2024? The three-year operating cash flow for the period of MTP 2023 is surpassing forecasts. Given progress in investments with regard to this cash flow, I suspect that there will be some room to increase shareholder returns or to conduct share buybacks should greater-than-expected cash flows be generated. However, the current operating environment is plagued with uncertainty. When you choose to conduct share buybacks in the year ending March 31, 2024, on what indicators will the decision be based and what amounts and timing are you envisioning?

A. Fujimoto, CEO:
The total investment amount of ¥37.0 billion in the six-month period ended September 30, 2022, might seem a bit low, but we have been amassing a substantial list of potential investment projects.
The low amount investment in the first half of the fiscal year is a result of

delays in the actual execution of these investments, which can be attributed to the time required for due diligence activities.
Nonetheless, we expect to conduct investments that surpass the target of ¥330.0 billion for the three-year period of the medium-term management plan. We are investing after assessing candidates based on effectiveness, feasibility, and profitability. Decisions regarding the timing or amounts of potential share buybacks will be made prior to the financial results briefing for the year ending March 31, 2023, and our decision will be announced at this briefing.
Tanaka, CFO:
As you mentioned, risks are on the rise. However, the decision to conduct buybacks was based on the assumption that we will be able to maintain a financial position and capital structure sufficient for allowing us to keep the ratio of risk assets to equity below 1.0 times no matter how much stress the Company is put under.

Q. It would seem that the announced share buybacks are aimed at increasing return on equity by lowering equity, which should make it easier to improve the price-to-book ratio (PBR) and subsequently contribute to the accomplishment of Sojitz's target of a PBR 1.0 times or more. Am I correct in assuming that this announcement was geared toward the accomplishment of this goal?

A. Fujimoto, CEO:
As we have set a target for the PBR in the medium-term management plan, it is important for us to work toward this target.

Second Questioner

Q. I would like to ask about the upward revision to the full-year forecast for profit for the year. The projection of ¥31.0 billion for profit for the period in the second half of the fiscal year is less than half the amount posted in the six-month period ended September 30, 2022. This seems like a significant loss of momentum, even when considering factors such as the drop in resource prices, the regular maintenance at methanol production subsidiaries, and the seasonal trends in overseas fertilizer businesses. It was stated earlier that Sojitz is capable of generating profit for the year of between ¥80.0 billion and ¥90.0 billion. What is the reason for the perceived disparity in comparison to this statement? Also, what operating environment factors have been incorporated into the outlook for the remainder of the fiscal year?

A. Fujimoto, CEO:
We are taking a conservative outlook toward the remainder of the fiscal year. Performance will be impacted by the halt to the sales of automobiles in Russia, and we need to account for other unpredicted risks. The forecast also incorporates factors in the Chemicals Divisions like trends in methanol prices and regular maintenance (temporarily suspension of production) at subsidiaries. In overseas fertilizer businesses, we do not anticipate any significant earnings in the second half of the fiscal year, as is the case every year.
Tanaka, CFO:

The price of coking coal is down when compared to the first quarter.
In addition, we will experience a net decrease in one-time earnings recorded in the Infrastructure & Healthcare Division in the first half. Meanwhile, the number also includes the impacts of the slumping U.S. steel market in our steel product businesses.
The price of naphtha is also down, and we have thus been prompted to take a conservative outlook toward the plastic resin and rare earth markets.
Furthermore, forecasts account for the bearish conditions seen in the domestic markets for building materials and plywood as a result of trends in housing sales in Japan.
For the year ending March 31, 2023, we have incorporated into our forecasts a buffer of ¥5.0 billion for downward impacts on performance from the related inflation resilience and cost increases. This buffer continues to be present in forecasts for performance in the second half of the fiscal year. The combined impact of these factors is expected to cause profit for the period in the second half of the fiscal year to be around ¥50.0 billion less than the figure recorded in the first half.

Q. As Sojitz has set a lower limit for dividend payments of ¥130 per share, does this mean that the consolidated payout ratio might exceed the targeted level of 30%.
Why the level of ¥130 per share was chosen?
What will be your policy regarding dividend payments should performance surpass the forecasts in the year ending March 31, 2023?

A. Fujimoto, CEO:
The lower limit for dividend payments of ¥130 per share, as well as the plan to conduct share buybacks in the year ending March 31, 2024, was based on our forecast of profit for the year of ¥110.0 billion for the fiscal year ending March 31, 2023. The consolidated payout ratio is projected to exceed 30% in the year ending March 31, 2024. In the meantime, we do not expect performance in the year ending March 31, 2023, to surpass the forecast level of profit for the year of ¥110.0 billion to any significant degree.
Accordingly, should such a significant upswing occur, we will need to announce our policies at that time.
Please understand that we have no intention of deviating from our policy of targeting a consolidated payout ratio of 30% over the three-year period of the medium-term management plan.

Third Questioner

Q. The yen depreciation trend raised the hurdle for overseas investments.
The Company previously stated that it has been scrutinizing each potential investment during the first half. Today’s explanation, however, seems to point to the idea that it is only delays in due diligence that are resulting in slow investment progress.
Can we assume that any concerns for delays in returns from investments in the year ending March 31, 2024, are unfounded?

A. Fujimoto, CEO:

We cannot deny the fact that investments are behind schedule. This is largely because of delays in due diligence and efforts to reconfirm the profitability of projects.
There is also a possibility that the recognition of returns from investments might not occur until subsequent fiscal years as a result of the timing of consolidation.
However, there is no significant change to our plan to generate the anticipated returns during the year ending March 31, 2024.

Q. Slide 8 of President Fujimoto's presentation was a new slide that detailed Sojitz's efforts to establish a strong business base and undergo transformation, which is a cornerstone of the current medium-term management plan.
While President Fujimoto did not touch on this, the slide presents the number of previously underperforming companies at which profitability has been achieved.
MTP 2023 adopts the indicator of cash return on invested capital (CROIC). However, this is an indicator for which improvements are difficult to see for those of us outside of the Company. I think that the number of underperforming companies demonstrating improvements is meant to illustrate increases in CROIC.
<u>How does the Company quantitatively assess increases in CROIC?</u>

A. Tanaka, CFO:
We are unable to present finalized numbers for CROIC by division until the fiscal year has been concluded. In the meantime, we have put forward value creation guideline figures to be pursued by each division. The figures will be disclosed by division together with the full-year financial results for the year ending March 31, 2023, and it will be possible to confirm how performance compares to the value creation guideline figures at this point in time.
Fujimoto, CEO:
We have seen a significant rise in awareness regarding CROIC and cash generation among us. For example, ongoing, precisely targeted cost-cutting and other measures have enabled us to boost profit margins for chemical products from the prior 2% or 3% to around 4% or 5%.
The growth in our chemical products businesses is undeniable, and we hope that you will take this growth as a sign of increased awareness with this regard.
We are also advancing various measures to halt loses at underperforming companies.

Fourth Questioner

Q. The Chemicals Division is generating significant earnings.
<u>What is your assessment of the earnings capacity of this division in relation to the forecast for profit for the year of ¥17.0 billion in the year ending March 31, 2023, and what type of growth potential do see for the division</u>?

A. Fujimoto, CEO:
The Chemical Division has not made large investments. Rather, the growth in the earnings of this division has mainly been a product of steadfast effort to

raise the profit margins of existing products and withdraw from low-profit businesses.
We have, of course, benefited from the high prices for naphtha and methanol, but this fact should not detract from the substantive improvements that have been seen in the earnings capacity of the Chemicals Division. In the past, we have judged the scale of the Chemicals Division's business as being in the range of ¥10.0 billion or ¥12.0 billion.
However, this division now generates earnings of around ¥15.0 billion or ¥16.0 billion, and with no significant changes to its operating environment.
We plan to invest in this division going forward, and we thus anticipate that the Chemicals Division will see massive growth in the future.

Q. I would like to ask about the Retail & Consumer Service Division. It was mentioned that this division will post gains on asset replacement in the year ending March 31, 2023.
What is this division's earnings capacity and what type of growth do you anticipate in this division after investments?

A. Fujimoto, CEO:
The division completed investment in Royal Holdings Co., Ltd., and our acquisition of The Marine Foods Corporation, for example.
However, the growth in earnings that has been achieved seems insufficient given the scale of these investments. This lackluster growth is because Royal Holdings is currently in the process of recovering from the impacts of the COVID-19 pandemic.
Meanwhile, our in-flight catering company is growing in conjunction with the recovery of the aviation industry. The same can be said of JALUX Inc. We expect earnings in this field to grow as conditions recover.
In the past, our investments in the field have primarily been focused in Japan. However, we look to grow our retail operations overseas going forward.
Such growth might not be seen in the year ending March 31, 2023, but anticipate that the Retail & Consumer Service Division will grow into a division that can generate earnings of more than ¥10.0 billion in years ending March 31, 2024 or 2025, and during the period of the next medium-term management plan.

Fifth Questioner

Q. Now that Rating and Investment Information, Inc., has increased its issuer rating of Sojitz to A-, the Company has an A- rating from both of the Japanese rating firms, the other being Japan Credit Rating Agency, Ltd. However, there has been almost no change in Standard & Poor's rating of Sojitz. What are your goals and targets with regard to ratings?

A. Fujimoto, CEO:
We are thoroughly committed to raising our ratings from the two Japanese rating firms. As for Standard & Poor's, there is a lot of opaqueness with regard to measures and results, but we still hope to improve our rating from this company.

Sixth Questioner

Q. What is the situation at the Gregory Crinum coal mine and what is your outlook for production volumes in the year ending March 31, 2024?

A. Fujimoto, CEO:
We had initially expected to commence pit mining at the Gregory Crinum coal mine during the year ending March 31, 2023.
However, the company to which we had planned to outsource pit mining operations has requested a cancelation of their contract as they have fallen on difficult times.
We are currently assessing our options, including the possibility of carrying out the pit mining ourselves.
Accordingly, we can expect to begin pit mining is the second half of the year ending March 31, 2024 at earliest. However, we do not want to rush this process. Production volumes in the year ending March 31, 2024, are thus projected to be around the same level as seen in the year ending March 31, 2023, and we do not anticipate any significant increases in production volumes.

Q. What initiatives will be taken in relation to decarbonization under the next medium-term management plan? Sojitz has expressed its intent to reduce its coal exposure. When viewing the decarbonization trend as an opportunity, what sorts of investments, strategies, or policies will be adopted?

A. Fujimoto, CEO:
I recently signed a memorandum of understanding with Sembcorp Industries Limited. This memorandum is based on the theme of decarbonization and entails us partnering with Sembcorp to engage in activities such as development tests on green ammonia. We have thus reached an agreement to jointly develop ammonia and other hydrogen-related businesses. Sojitz intends to continue such efforts going forward.

Seventh Questioner

Q. The risk of price upper limits is rising for renewable energy businesses in Europe, creating an opaque environment. Given this backdrop, could you offer some details with regard to Sojitz's renewable energy portfolio and plans to expand the regional coverage of this portfolio in the future?

A. Fujimoto, CEO:
We are conducting a wind power generation business in Ireland. As you mentioned, we recognized possibility of price upper limits, which is a source of uncertainty. Nevertheless, we have been able to turn a profit, despite the low amounts of wind, and we therefore expect to be able to secure a certain degree of profit even if price limits are imposed.
As for our future plans, Sojitz has acquired a stake in Nexus Energia S.A., a major Spanish electricity retailer, and we also intend to invest in connecting such peripheral fields to upstream areas. We thereby aim to develop operations that encompass both upstream and downstream areas. As far as location, in Europe, we look to invest in countries like Spain.

Q. Will this approach toward linking sales and generation operations also be adopted in Australia and South America, where Sojitz has been expanding its operations as of late?
What area will be the greatest target of Sojitz's business expansion efforts going forward?

A. Fujimoto, CEO:
At the moment, we expect Europe and Australia. In South America, we anticipate a rather challenging environment over the foreseeable future.
Tanaka, CFO:
Our current investments in the Asia Pacific region include solar power generation projects in Vietnam and Australia. I don't have any prospects of renewable energy projects in Europe outside of our wind power generation business in Ireland. As for price limits in Europe, if the limits are around the feed-in tariff system of 180 euro per MWh, we should be able to secure a sufficient degree of business profitability. Accordingly, I see no significant concerns with this regard.
Fujimoto, CEO:
We mentioned Australia and Europe as potential targets for future business expansion, but we are also developing roof-installation solar power generation businesses in Vietnam and Indonesia. The possibility of developing such operations has also arisen in countries like India, though the scale these operations will not be particularly large. We thus plan to take a cautious approach when examining such opportunities.