Condensed Transcript of Q&A Session Regarding Results Briefing for the Third Quarter Ended December 31, 2022 (February 2, 2023)

Presenters
Yoshiki Manabe, Managing Executive Officer, COO, General Accounting Department, Business Accounting Department, Finance Department
Mizue Nakazawa, General Manager, Corporate Accounting Department

First Questioner

Q. It was stated that the forecast for full-year performance in the Others segment accounts for ¥20.0 billion in costs expected to be incurred following revisions to asset assessments. I understand that these costs stem from the increase in expenses that resulted from the delays in project progress and revision to the plans of underway projects seen amid inflation, interest rate hikes, and other operating environment factors. Could you please explain exactly which assets were subject to these revisions in assessments?

A. Manabe, Managing Executive Officer:
The ¥20.0 billion in costs expected to be incurred following revisions to asset assessments that were incorporated into full-year performance forecasts reflect provisions recorded in response to assessment revisions on assets for projects for which changes to business plans are required. I cannot offer details on specific projects or amounts, but I can say that these projects include those in which expenses are expected to rise due to the impacts of the COVID-19 pandemic. We had forecast profit for the year of around ¥130.0 billion on a full-year basis, and we will revise asset assessments while maintaining this outlook. Moreover, we included these costs in forecasts to avoid a situation in which performance was lower than projected due to our having to record year-end impairment losses after having previously raised forecasts. Accordingly, we have chosen not to change the forecast announced together with financial results for H1 of this fiscal year. Our main concern is delays to projects that are already underway, and this will be the focus of such revisions.

Q. At the briefing for financial results for H1, a forecast of ¥140.0 billion for core operating cash flow was announced. This forecast was later raised to ¥150.0 billion, citing strong performance as the reason. However, there was no talk of raising dividend payments, despite the revision. Could you please explain the Company's policies for shareholder returns?

A. Core operating cash flow has been strong, effectively amounting to ¥41.0 billion in Q1, ¥32.9 billion in Q2, and ¥31.0 billion in Q3. Q4 core operating cash flow is anticipated to be a bit lower, only coming to still-strong ¥20.0 billion. Our progress in recovering funds through asset replacement coupled with the delays in new investments is anticipated to result in a core cash flow that greatly surpasses our initial expectations. We are in the process of formulating our forecasts for the year ending March 31, 2024. The allocation of this cash flow will be one subject of

strategic discussion during this process. For example, we will need to examine the types of assets required to build an earnings foundation that can consistently generate profit for the year of more than ¥100.0 billion under the next medium-term management plan (MTP). Another matter to be considered will be how to secure the funds necessary for growth investments for building such a foundation.
Sojitz is still growing, and the Company is thus at a stage in which it requires ongoing growth investments. At the same time, however, it is important to look at the possibility of allocating expectation-exceeding cash flow to shareholder returns. In Q2, we announced share buybacks to be conducted during the year ending March 31, 2024. We plan to communicate the concrete timings and amounts of these buybacks as we talk about strategic investments and other topics when announcing our full-year financial results for the year ending March 31, 2023.

Q. Am I correct in my understanding that you will be conducting shareholder returns alongside growth investments?

A. We had initially budgeted for new investments of around ¥330.0 billion under MTP 2023. However, based on performance in the year ended March 31, 2022, and the year ending March 31, 2023, there is a possibility that total investments over the period of the plan might come to, or maybe even exceed, ¥400.0 billion. This possibility is something that we will need to consider when formulating strategic policies for the fields in which we will invest under the next MTP. At the same time, we recognize the need to think about shareholder returns. Let me state it in clear terms: shareholder returns are a priority for Sojitz. We intend to issue satisfactory returns to our shareholders through substantial dividends or share buybacks.

Second Questioner

Q. Could you please offer some details on Q3 coking production volume and the future outlook for the Gregory Crinum coking coal mine based on the circumstances surrounding the pit mining construction and the heavy rains in Australia?

A. Manabe, Managing Executive Officer:
We have received notification from the mining subcontractor to which we contracted the pit mining work at the Gregory Crinum mine stating that they will discontinue their contract with Sojitz. At the moment, we thus find ourselves examining how we might go about resuming pit mining. Possibilities we are considering include hiring a different subcontractor or operating the mine ourselves. Accordingly, the timing at which we up production capacity is something that we will need to look at after clearing up this matter.
Meanwhile, Australia experienced heavy rains in May and October 2022 as well as in January 2023. These rains caused reductions in production volumes of 50,000 tons and 180,000 tons, respectively. As for the January rains, production will be halted for about a month, and we are in the

process of assessing the impacts.
We had initially expected to sell 2.9 million tons of coking coal during the year ending March 31, 2023. However, taking into account the 0.8-million-ton reduction from the delays in construction at the Gregory Crinum mine, and now the impacts of the heavy rains, our current projection is that the sales volume will be only around 1.5 million tons.

Q. Is it safe to assume that a significant amount of time will be required to make the decision of whether a different subcontractor will be hired to conduct pit mining at the Gregory Crinum mine or whether Sojitz will do it in-house?

A. We understand the need for a swift decision. However, resuming operations will require us to secure human resources and conduct some restorations. Accordingly, a bit of time will be required before we can resume production.

Q. If Australia is not hit by heavy rains in the year ending March 31, 2024, is it possible that we might see an increase of between 300,000 and 400,000 tons in production volume?

A. Your assumption is correct. If there are no heavy rains, production volumes will likely return to the 2.0 million to 2.1 million tons we had initially projected from standard open-air mining.

Q. Could you explain the ¥20.0 billion in loss on liquidation of assets anticipated in the year ending March 31, 2023. In the past, Sojitz has recognized between ¥5.0 billion and ¥10.0 billion in what the Company refers to as “structural reform expenses,” but this asset liquidation loss seems much larger than normal. Will the year ending March 31, 2024, be free of such losses if we do not see further inflation or interest rate hikes? In other words, was this loss a one-time event that will not be recurring? Also, what are your thoughts with regard to the possibility of recording loss on liquidation of assets in the year ending March 31, 2024?

A. Manabe, Managing Executive Officer:
We have not referred to the loss on liquidation of assets as “structural reform expenses.” This anticipated loss incorporates the one-time costs expected to be incurred due to plan revisions stemming from project delays and increased expenses. In this way, the loss differs from structural reform expenses, which are associated with the portfolio reorganizations that accompany asset sales or replacement. The number of delayed projects is not particularly large. The project loss on liquidation of assets will account for the roughly ¥20.0 billion in expenses to be incurred while addressing these delayed projects, and we do not expect similar losses in the year ending March 31, 2024.

Third Questioner

Q. What are your thoughts regarding performance in non-resource businesses inQ3? When excluding the impacts of inter-Company eliminations, these businesses produced respectable results, despite the economic slowdown and other risks. Are there any signs of change or reasons for concern that can be seen when looking at specific business lines?

A. Manabe, Managing Executive Officer:
The interest rate hikes in the United States and the trends in China will be factors that require careful attention going forward. We had expected that the interest rate hikes in the United States would impact our automotive, freight railcar leasing, and other businesses in this country, but the actual impacts have not ended up being particularly large. Our automotive businesses are feeling the effects of lacking automobile inventories that stemmed from semiconductor shortages, which helped us raise the selling prices of our products and thereby mitigate the impacts of said interest rate hikes. As for the freight railcar leasing business, certain interest rates are fixed, and we have been able to address interest rate hikes elsewhere by transferring the increases to lease fees.
Meanwhile, caution will be required with regard to chemical product and other businesses that are easily susceptible to changes in the macroeconomic environment.
In regard to trends in China, we have seen slight declines in sales of automobiles and plastic resins for use in household appliances, but the impacts have been minimal. Our outlook for Q4 incorporates a potential downturn in earnings due to the sales declines, but we expect the Q4 impacts to minimal as well. As for the year ending March 31, 2024, we are predicting a recovery trend in the H2 of the fiscal year, despite the uncertainty surrounding the future trends in COVID-19 infections due to the change in government policies for addressing the pandemic.
Furthermore, the appreciation of the U.S. dollar coupled with the depreciation of Asian currencies is a source of concern with regard to the sale of automobiles in Asia. However, we do not have any particular concerns with regard to other businesses.

Q. You mentioned the possibility of new investments totaling ¥400.0 billion over the period of MTP 2023, ¥70.0 billion more than the initially earmarked ¥330.0 billion. Progress in new investments was slow prior to December 31, 2022. Will it really be possible to conduct investments to such a large degree during the year ending March 31, 2024? Also, do you have some idea of the fields in which such additional investments will be conducted?
In addition, it was stated that new investments are expected to generate earnings contributions of around ¥15.0 billion in the final year of the MTP. If Sojitz conducts an additional ¥70.0 billion worth of new investments, will that create additional earnings contributions?

A. Under MTP 2023, we had initially intended to conduct ¥150.0 billion worth of new investments during the year ending March 31, 2023. At the moment, however, we are a little behind schedule, and it only looks like we will be able to conduct around ¥100.0 billion in investments. When engaging in M&A activities, we need to devote a significant amount of time to due diligence activities and to discussions with counterparties, specifically with regard to how we merge our respective strategies and the business prospects presented by the transaction. As a result, some large-scale strategic investments may be delayed until the year ending March 31, 2024, or are currently planned for that year. Focus areas for such investments will include essential infrastructure, retail, recycling, and the consistently earning field of automobiles.

Q. Subtracting the ¥150.0 billion in investments in the first year of the MTP and the ¥100.0 billion in investments in the year ending March 31, 2023, from the new projected total of ¥400.0 billion seems to suggest that the year ending March 31, 2024, will see investments of ¥150.0 billion. Will this increased scale of investment produce increased returns?

A. We have conducted a number of large investments over the two couple of years. Examples include Marine Foods Corporation, a gas retail business in Nigeria, energy service company and freight car leasing businesses in the United States, and an electricity retail business in Spain. These investments are producing steady earnings contributions. Conversely, earnings from our retail-field investments in JALUX Inc. and Royal Holding Co., Ltd., as well as our investment in an in-flight catering business will be prefaced on the recovery of air travel demand, which could take some time. In this manner, some investments immediately begin producing earnings while others need time to start generating returns. We have begun to see a notable amount of earnings contributions from investments conducted since the first year of the MTP.

Q. Sojitz allocated a portion of the surplus cash generated over the three-year period of the previous MTP to share buybacks. Does the Company plan to revise its policy despite those recent acquisitions? Do you have any information that could be used by people outside of the Company to assess this situation?

A. I have no particular comment to offer with this regard.

Fourth Questioner

Q. The Q4 profit forecasts for the Automotive Division, the Chemicals Division, and the Aerospace & Transportation Project Division appear to be a bit conservative. For the Automotive Division and the Chemicals Division, is this because the forecasts account for the risk of economic slowdown. As for the Aerospace & Transportation Project Division, I believe that this division should be capable of generating a little more earnings in the fourth quarter when considering defense system and other businesses. Why, then, is the forecast so conservative?

A. Manabe, Managing Executive Officer:
Our forecast for Q4 profit in the Automotive Division is indeed a bit conservative. Operations in the Americas saw strong performance up until the Q3. Regardless, we have gone with a conservative forecast to account for the impacts of the foreign exchange influences being felt in sales of South Korean and Chinese automobiles in certain parts of Asia and especially in our operations in Pakistan.

The Chemicals Division may be enjoying a firm market for chemical products, but we have still chosen to set a conservative forecast in reflection of the halting of operations at a methanol production company for regular maintenance that will take place in the Q4.

In a normal year, the Aerospace & Transportation Project Division would generate a significant amount of profit in the Q4. However, Q4 profit will be a bit lower than normal as some earnings that would generally have been recorded in the fourth quarter were recorded ahead of schedule in the nine-month period ended December 31, 2022.

Q. Earnings from renewable energy businesses amounted to ¥2.8 billion in the nine-month period ended December 31, 2022, an increase of ¥2.0 billion year on year. What were the reasons behind this increase?

A. Manabe, Managing Executive Officer:

The primary reasons behind the increase in earnings from renewable energy businesses were higher profit in our wind power business in Ireland, a result of the rise in electricity prices in Europe, and earnings contributions from domestic solar power businesses.

Looking ahead, we will continue to focus on securing earnings from healthcare businesses in the Infrastructure & Healthcare Division. We also anticipate earnings contributions from the newly acquired energy service companies in the United States and electricity retail business in Spain.