

Sojitz IR Day
Business Presentation Meeting (September 3, 2018)
Condensed Transcript of Q&A Session

General

Q. What amount of returns from investments planned for the three divisions during the period of the medium-term management plan has been incorporated into forecasts?

A. In the Machinery & Medical Infrastructure Division, we are planning to conduct both business investments totaling around ¥15.0 billion over a three-year period. and trading operations. By establishing a balanced portfolio of trading operations boasting relatively high returns and infrastructure investments promising stable returns, we aim to achieve return on assets (ROA) of more than 4.7% and, if possible, overall returns of more than 5%. Our basic policy for new investments in the Metals & Mineral Resources Division will be to execute investments by asset replacement. For upstream resource investments, we will take part in projects clearing hurdle rates that are higher than the rates used for general investments in other divisions, of around 10%, for example, out of consideration for the high volatility of resource prices. As for the Retail & Lifestyle Business Division, we will target ROA of 3% by continuously generating returns that clear our internal hurdle rate. Overall returns in this division will be comprised of a combination of returns from M&A activities and business investments, incidental returns from trading company operations, and returns from trading.

Machinery & Medical Infrastructure Division

Q. I understand that Sojitz is taking measures to mitigate currency and other risks related to the Turkish hospital project. Do you see the current depreciation of the Turkish lira as representing a risk?

A. The construction contract pertaining to this project calls for full-turnkey contract in U.S. dollar-denominated amounts, fixing the contract costs. Accordingly, depreciation of the Turkish lira will have little impact on our earnings. Assuming that the project does not go over cost, almost no losses should be incurred. At the moment, the construction is progressing ahead of schedule. If we continue at this pace, we should be able to open the hospital earlier than the scheduled date of October 2020. Sojitz's investments and loans will be conducted on a yen basis and mechanisms are in place to adjust base earnings after the hospital's opening for foreign exchange movements and inflation. This situation reaffirms our belief that losses will not be incurred.

Q. After the opening of the hospital in Turkey, I suspect that Sojitz will be using revenue denominated in Turkish lira to repay foreign currency denominated-debt. Should Turkish lira depreciate, how will Sojitz's earnings be impacted?

A. The structure of this public-private partnership project is similar to that of an independent power producer project. As such, it employs a scheme in which base earnings will generally translate to stable earnings on a yen basis, even if foreign exchange rates fluctuate. In addition, we have a payment guarantee from the Turkish government and investment insurance.

Q. It is my understanding that, under its current business model, the largest contributor to the earnings of the Machinery & Medical Infrastructure Division is its bearings business. What risks do you foresee for the future of this business? For example, how will the improvement of the technological capabilities of Chinese manufacturers impact the bearings of Japanese manufacturers 10 years from now?

- A. We are well aware of the fact that, should the quality of bearings manufactured in emerging countries improve, our earnings will decline if we do not change how we do business. For many years, we have been developing a model in China in which we invest in joint-venture companies with Japanese manufacturers and component manufacturers to sell products made in China to overseas markets. Sojitz has also formed strong relationships with both new and established bearing manufacturers in China. We have already begun selling the products of such manufacturers to India and other markets, and we look forward to further promoting sales of these products in the future. The overall growth rate of the bearings market is increasing at a rapid pace, and we expect that bearings will continue to have a role as core components to industry going forward. When looking at the next decade, it is unlikely that the total volume of bearings sold will decrease in the foreseeable future. By maintaining an up-to-date and accurate understanding of changes in the global supply and demand balance, we will prepare preemptive responses to these changes to secure earnings.
- Q. In the plant project business, Sojitz mentioned that it will be transforming its business model and revenue sources while also continuing its conventional engineering, procurement, and construction operations. Environment-related businesses and gas-to-power operations were cited as new undertakings on this front. Could you please offer some more details on the measures that will be taken during the period of the medium-term management plan with this regard?
- A. Our gas-to-power operations entail developing LNG terminals in Southeast Asia and other parts of Asia and constructing gas-fired thermal power plants next to these terminals. The Energy & Social Infrastructure Division has already begun developing large-scale gas-to-power projects in Indonesia. In addition, TTCL Public Company Ltd., a company in which the Machinery & Medical Infrastructure Division recently commenced investment, is engaged in such projects in Myanmar. Moving forward, the Machinery & Medical Infrastructure Division will work together with the Energy & Social Infrastructure Division to cater to the robust demand for gas-to-power projects predicted to emerge in Asia. Environment-related businesses include waste-to-energy plants. In this area, we aim to participate in projects related to the privatization of advanced waste-to-energy plants in Europe while also developing such projects in Asia.

Metals & Mineral Resources Division

- Q. I suspect that the decision to shift from thermal coal to coking coal was, in part, a response to issues related to CO₂ emissions. Sojitz is generating profits in the area of ¥10.0 billion a year from its coal portfolio, which primarily consists of thermal coal interests. Do you still plan to sell thermal coal interests despite these profits? Also, what is the planned time schedule for the replacement of coal assets?
- A. Currently, overseas financial institutions are pulling funds out of coal-fired thermal power plants and thermal coal mines. Nonetheless, we are expected to fulfill our responsibility to supply thermal coal. Under this situation, we need to consider risks in a comprehensive way from a medium-to-long-term perspective. Generally, it is said to be more difficult to sell interests than it is to buy interests, and it is important to sell interests while they are still profitable in order to avoid future losses. We are therefore constantly mindful of the ideal time to sell. Also, the Company is always considering the possibility of replacing the assets it holds based on consideration of risks and returns, and this is not limited to thermal coal and coking coal.
- Q. When BHP Billiton Mitsubishi Alliance operated the Gregory Crinum coking coal mine, I believe that this mine produced around 5.0 million tons of coal a year. However, the materials provided by Sojitz put this mine's production volume at 2.0 million tons a year. What is the reason for this disparity?

- A. BHP Billiton Mitsubishi Alliance conducted both open-air mining and pit mining at the Gregory Crinum mine. Sojitz plans to begin with open-air mining and then move on to pit mining later. Although our production plans have not been finalized, we have calculated that an annual production volume of between 2.0 million and 2.5 million will be ideal.
- Q. I would like to confirm if certain coal mines owned by the Metals & Mineral Resources Division are nearing the end of their mineable lives or not.
- A. The amount of deposits of coal mines change based on coal prices. If coal prices rise, the amount of coal that is economically feasible to mine will increase as the amount of recoverable reserves.
- Q. The Gregory Crinum coking coal mine was acquired at a price of ¥8.0 billion. What amount of capital expenditure will be required to commence production? If one assumes a price of U.S.\$150 a ton for 2.0 million tons of hard coking coal and that the ancillary operations will be conducted using surplus equipment capacity, it can be anticipated that a significant amount of profit will be generated, perhaps making for post-tax profit in the area of ¥5.0 billion to ¥10.0 billion. Is this estimate correct?
- A. We are currently in the process of formulating a plan for how best to restart the Gregory Crinum coking coal mine after the acquisition has been completed. Luckily, the dragline excavators and other equipment as well as the coal washing facilities, offices, loading equipment, and railway tracks of the mine are still intact. We therefore anticipate that the total capital investment required will be much less than it would be for a greenfield project. As we acquired this mine, we expect it to generate returns. However, we cannot comment on profit estimates at this moment as we are still in the process of formulating our plan for restarting the mine.
- Q. I understand that, as the price of thermal coal rises, so will the amount of recoverable reserves and consequently production volume. Is there a need to consider structural factors arising from an environmental, social, and governance perspective, such as how there might not be a drive to increase coal supply volumes, even if demand rises in emerging countries? Could you please explain how prices could be affected by such operating environment factors?
- A. Currently, even small and medium-sized thermal coal mines that do not require large amounts of capital investment can turn a profit. However, as financial institutions have stopped funding the development of new coal mines, it can be expected that companies lacking sufficient funds will not be able to commence the development of new mines. Meanwhile, the thermal coal mines sold by Rio Tinto plc are being bought up by Chinese companies and by Glencore plc, creating somewhat of an oligopoly in Australia. It is likely that coal-fired thermal plants will decrease over the long term. However, we expect that demand for power from such plants will continue to increase over the next 3 to 10 years in emerging countries like Vietnam, Indonesia, and India. Also, the current price of U.S.\$110 to U.S.\$120 is incredibly high from a historic perspective. Based on all of these factors, it is currently difficult to form an outlook for the future of the coal market.
- Q. If the price of thermal coal were to exceed Sojitz's assumptions and forecasts, would the additional cash flows generated be used for investment in the Metals & Mineral Resources Division or would these cash flows be allocated throughout the Company in a balanced manner?
- A. Just because funds were generated by a specific division, it does not mean that we will use those funds entirely within said division. Rather, funds will be allocated by considering the balance of investments and portfolios from a Companywide perspective.
- Q. Hearing that niobium is a type of steel auxiliary feedstock, it seems reasonable to expect that a rise in demand for steel products would increase the price of auxiliary feedstock. Is this case with niobium?

- A. Niobium is a very scarce resource, even among rare metals. There are only a few companies in the world that produce this resource. Among these companies, Companhia Brasileira de Metalurgia e Mineração (CBMM) of Brazil boasts a global share of between 70% and 80%. This situation gives CBMM the capacity to control the price of niobium. However, this company does not exercise this capacity, rather pursuing a strategy of growing demand by maintaining consistent prices, which in turn has contributed to stable earnings for Sojitz.

Retail & Lifestyle Business Division

Q. Sojitz Foods Corporation seems to be benefiting from increases in performance. However, there have also explanations of how the safeguard issues created a special demand situation. Given that Meat One is a future initiative, what are the reasons behind the large increases in performance at Sojitz Foods and what factors are contributing to the growth of this company?

- A. Over the past several years, we have exercised a relatively highly degree of competitiveness in areas such as develop-and-import schemes for cuts of North American beef and supply of such products within Japan. As a result, Sojitz Foods is enjoying higher sales volumes and profits, which is a reason behind its increased performance. While proceeding to capitalize on these strengths, we commenced the Meat One project with an eye to future expansion.

Q. Could you please provide an overview of the food product supply chain in Vietnam and its overall earnings contributions?

- A. At the moment, we are not at the stage at which we can expect earnings contributions from our four businesses in Vietnam. We aim to increase the combined earnings contributions from these businesses by the year ending March 31, 2021.

Q. Could you please provide some details on your initiatives regarding Ministop Vietnam? I understand that the number of investees is increasing. What are the current conditions in the Vietnamese food product distribution market? What type of growth did Sojitz initially anticipate? Also, what is your outlook for final profits and what conditions are being seen at the moment?

- A. On a macroeconomic basis, the GDP growth rate remains strong and in line with our initial forecasts. However, personnel expenses have been slightly higher than anticipated. In addition, the levels of per store sales growth and costs are not necessarily as projected. We are also slightly behind schedule when it comes to new store openings. Nevertheless, we have succeeded in raising the number of stores to 122. Going forward, we intend to transition from a direct operation model to a franchise model to transform our earnings structure and increase the extent of earnings contributions from this business prior to 2020 and the start of the next medium-term management plan.

Q. With regard to Sojitz's investment in Saigon Paper Corporation, it was stated that this company has annual sales of around ¥13.0 billion and that you expect a state of profitability to be reached around 2020. What was the reason for this acquisition and what are the conditions for profitability in this business? Also, what are the characteristics of Vietnam's containerboard market and of Saigon Paper itself?

- A. Saigon Paper boasts strengths in terms of both manufacturing and sales. For example, it procures half of its raw materials, which have a direct impact on manufacturing costs, from its used paper collection centers, granting it a high degree of self-sufficiency for materials. In addition, the company possesses wastewater facilities and all of the other basic infrastructure necessary for a manufacturer. Moreover, its sales network encompasses more than 60 regions and cities across Vietnam, and it conducts direct sales to various commercial facilities. To contribute to the further growth of Saigon Paper, we plan to utilize the Sojitz Group's management and funding capabilities to augment this company's containerboard manufacturing equipment in order to realize increased

production capacity while introducing larger equipment to boost production efficiency. We thereby aim to heighten this company's gross profit ratio. We expect that full-fledged earnings contributions will commence in the year ending March 31, 2020.

Q. In relation to Saigon Paper, I understand that the price of used paper is proving highly volatile as a result of conditions in China. How will this situation be addressed? Also, what is your outlook with this regard?

A. The rising price of used paper overseas is indeed expected to have an impact on conditions within Vietnam. However, Saigon Paper procures half of its raw materials from its own used paper collection centers located in Vietnam, and the impact on this company has been minimal as a result. We will continue to monitor used paper prices going forward so that we can verify the impacts and implement appropriate response measures.

Q. While you have provided information on the past performance of principal subsidiaries in the Retail & Lifestyle Business Division, no information was offered on the future performance of these subsidiaries. What are the current trends in profits among principal subsidiaries and which subsidiaries are expected to see profit growth in the future?

A. We are committed to increasing the earnings contributions from the General Commodities & Lifestyle Department, the Food & Retail Department, and the Investment Management Department in order to build stable earnings foundations for the Retail & Lifestyle Business Division as part of our efforts under the current medium-term management plan.

Q. The Retail & Lifestyle Business Division incorporates many very small businesses that span all areas of the food, shelter, and clothing fields. These businesses have begun generating profits in the area of ¥60.0 billion for Sojitz. Looking ahead, what is the smallest or lowest profit business that Sojitz will participate in? Also, what are your policies for selection and concentration measures in this area?

A. The small scale of sales of individual offerings in the Retail & Lifestyle Business Division is one of the characteristics of its business domain. However, we do not intend to engage in a wide range of incredible small businesses. Future investments will be conducted while considering factors like scale and efficiency as we seek to allocate our resources in a targeted manner to develop businesses of an appropriate scale.