

Condensed Transcript of Q&A Session Regarding Aerospace & Transportation Project Division from Sojitz IR Day (November 29, 2021)

First Questioner

- Q. Slide 11, which looks at the Aerospace & Transportation Project Division's targets for profit for the year, contains a graph showing a breakdown of earnings by sales agents, aircraft leasing, part-out, and other sources. Do these breakdowns account for the railcar leasing operations you explained? I would also like a breakdown of earnings by business. In addition, it looks like earnings from leasing and part-out will increase in the year ending March 31, 2023, and then decrease thereafter. Given this outlook, would it be possible to receive a breakdown of the earnings contained in each category and the characteristics of said earnings?
- A. The sales agent category includes sales agent operations targeting commercial airlines, such as Japan Airlines Co., Ltd. (JAL), and ANA HOLDINGS INC. (ANA). It also includes sales agent operations dealing in defense systems, such as those through which we are seeking to modernize Japan's fleet of F15 fighter jets. The leasing, part-out, etc. category includes aircraft leasing and part-out businesses as well as global transactions associated with The Boeing Company. Global transactions account for a large portion of this category, and earnings attributable to these transactions will be high in the year ending March 31, 2023, as a result of the timing of said transactions. Railcar leasing operations are included in the transportation businesses category. In addition to railcar leasing, this category also includes railway maintenance, repair, and overhaul businesses as well as the engineering, procurement, and construction (EPC) operations underway in India.
- Q. It would appear as those earnings from sales agent operations are set to increase. What exactly are you projecting to contribute to this rise in earnings? Will this earnings growth be the result of a rise in the number of aircraft purchased or some other operating environment factor?
- A. A single aircraft order will result in earnings being recorded over the course of several years. The rise in earnings you speak of is the result of earnings from new orders being added to those from previous orders.
- Q. The diagram on the right side of Slide 4 mentions the "provision of new value blurring the boundaries between transportation methods." This diagram depicts the growth of various fields, but what was the reasoning behind the use of the phrase "blurring the boundaries between"?
- A. In the past, we have pursued growth on an individual business basis. Going forward, however, we want to develop businesses matched to the movement of cargo and people. For example, we might develop a harbor business that encompasses the transportation of cargo via ships, the receipt of that cargo, and then its transportation into inland Japan using railways. In this manner, we look to provide solutions that combine aircraft, shipping, and railways.

Second Questioner

- Q. I do not really understand what is referred to by global Boeing transactions. What is Sojitz's role in these transactions?
- A. Our traditional sales agent operations have entailed the sale of aircraft to Japanese airlines. Our current global partnership operations, meanwhile, are not limited just to Japanese airlines, but instead involve Sojitz playing a role in satisfying the needs of both Boeing and domestic and overseas airlines. One example of these operations would be the purchasing of aircraft that are scheduled to later be turned over to ANA. After purchasing, Sojitz will install seats and other fixtures before handing the aircraft over to ANA. In this manner, we will move beyond our traditional sales agent transactions to develop a business through which we propose Sojitz's functions to Boeing and to airlines.
- Q. Sojitz has long had a strong relationship with JAL and ANA. Through what framework will Sojitz provide functions to overseas airlines in the global market?
- A. Overseas airlines will send their requests to Boeing, and Boeing will consult with Sojitz if there are any functions that it is unable to provide. If we can offer these functions, we will do so. In other words, Boeing will function as an intermediary through which we will do businesses with overseas airlines.
- Q. The Aerospace & Transportation Project Division is looking to develop leasing, part-out, global partnership, and other businesses. Among these businesses, the scale of aircraft-related operations is particularly large. I understand that the total assets of this division stand around ¥200.0 billion. To what degree do you plan to grow total assets going forward? I suspect some complications will be faced given that certain assets are associated with trading, but what scale of assets are you envisioning?
- A. We expect a certain degree of fluidity in assets. At the same time, we plan to conduct M&A and other transactions early in the period of the current medium-term management plan. These activities will result in an increase in assets of the level of tens of billions of yen during the plan period.
- Q. Can we expect an increase in return on assets (ROA) in the Aerospace & Transportation Project Division? This division develops a number of businesses that require longer timetables. Is it thus correct to assume that ROA will decline in the short term before increasing in the long term?
- A. We anticipate that ROA will be buoyed by the increased air travel expected to emerge in 2023 and 2024. As for cash return on invested capital, the division has a level of around 5% Cash ROIC, and we believe that we will be able to maintain this level over the foreseeable future.

Third Questioner

- Q. You mentioned "blurring the boundaries between transportation methods," and specifically the idea of connecting transportation via ships and railways through harbors. Am I correct in thinking that you are anticipating harbor terminal and other investments that will entail large investment amounts?

Also, if you are planning to connect various transportation methods, is it safe to assume that this will entail a certain degree of investment?

- A. I think that you are envisioning rather large harbors. We, however, are targeting smaller harbors that will be used to unload single batches of cargo, load this onto a dedicated service railway line, and transport it to a factory. Accordingly, we expect that the amounts of investments will be relatively small.
- Q. What are your medium- to long-term policies for marine businesses? Engine propulsion transitions will likely be an area gaining attention going forward, but adopting such transitions will probably require 10 to 20 years. Shipping companies are looking to avoid the risk of holding ships with such transitions. I therefore expect that value will be created by someone assuming these holding risks. Does Sojitz have any intentions of developing businesses that entail assuming the holding risks of such ships?
- A. Ship holding risks are quite large and the associated markets are highly volatile. Accordingly, Sojitz would like to refrain from holding ships if possible. We will therefore look to introduce customers to holding options while creating funds and otherwise taking advantage of third-party capital in order to develop a ship management business in the future.

Fourth Questioner

- Q. The Aerospace & Transportation Project Division is forecast to post profit for the year of ¥4.0 billion in the year ending March 31, 2022. What type of figures are you projecting for the years ending March 31, 2023, and 2024? Also, when looking at the graph on slide 11, it would seem that the greatest increase in profit growth rates will be seen in business jet operations. At the same time, slide 6 appears to show a rise in Sojitz's share in chartering operations when looking at the number of managed aircraft. What factors will contribute to the aforementioned profit growth?
- A. For specific figures, I invite you to extrapolate from the graphs on slide 11. In business jet operations, it is not so much that our market share has increased, but rather that Sojitz manages 15 of the 21 large-scale business jets in Japan. These figures exclude business jets tied to a specific company or privately owned jets that the owner manages directly. Nonetheless, you will see that we manage almost all business jets in Japan that do not meet the aforementioned criteria. We expect guaranteed growth in earnings from the management of these jets as well as from their sale. Conversely, demand for charter flights from Japan to overseas is incredibly limited. There are some cases of government officials chartering flights to participate in international conferences, but demand is currently low otherwise, due in part to the long quarantine periods required for international travel. Charter flight demand within the United States, meanwhile, is incredibly strong. We anticipate that demand will grow when the quarantine period requirements in Japan are lifted.
- Q. What is the current level of part-out inventories and what type of conditions are being seen in this business? In the past, the part-out business has been a cause of earnings fluctuations. Is there any supplementary information you can offer with this regard?

- A. We are currently facing challenging conditions in the part-out business. If people start moving and using aircraft, there will be a need to maintain these aircraft, which will result in an increase in demand for parts. This demand will likely also stimulate demand for parts supplied through part-out schemes in light of their relative affordability. For example, we expect that a rise in transportation within Europe would drive a gradual increase in part-out demand, but not in prices. To prevent sales at overly low prices, we will need to set hurdle rates and exercise diligence in our sales activities. Meanwhile, Sojitz has acquired an equity stake in European part-out company TDA Holdings B.V., and we hope to make similar acquisitions in the United States. Previously, Sojitz has adopted a model of purchasing secondhand aircraft, disassembling them, and generating earnings by contracting others to conduct sales. However, this approach did not enable us to accumulate insight regarding end buyers and customers. The decision to invest in TDA was made with the goal of acquiring such insight. We expect that this acquisition will allow us to move past our prior purely investment-oriented business model to adopt a model for actively engaging with the market.

Fifth Questioner

- Q. The graph on slide 11 shows a projected decline in earnings attributable to the leasing, part-out, etc. category. What are the reasons behind this decline? JAL has stated that, as it had increased the portion of its fleet that it owns, it was able to keep monthly cash outlays lower than its peers amid the COVID-19 pandemic. Based on this experience, JAL looks to maintain high levels of fleet ownership. Given such developments, it would seem demand that would have previously been directed toward leasing will instead go toward aircraft ownership. Do you share this outlook?
- A. Quite the contrary, there is an overarching trend seen among airlines toward lowering the numbers of aircraft owned. Airlines are reducing their numbers of large-scale Boeing 777-200 and 777-300ER aircraft while increasing their numbers of medium-sized aircraft. They are also increasing their ownership of smaller Boeing 320 and 737 aircraft. Through these trends, the total number of aircraft held by airlines is declining while the asset values are rising for large-scale aircraft.
- In the future, Sojitz will be focused on the sale of medium-sized and smaller aircraft. Many of the large-scale Boeing 777-200 and 777-300ER aircraft held by airlines are now between 10 and 15 years old. Though aircraft are usually retired when they are 15 to 20 years old, this is happening ahead of schedule as a result of the COVID-19 pandemic. Meanwhile, medium-sized aircraft are being used to provide services previously conducted using large-scale aircraft. Older aircraft, such as Boeing 767s, are being utilized for this purpose, and airlines will likely continue to use these aircraft until they are 18 or 19 years old. The demand emerging after the retirement of these aircraft will probably be directed toward Boeing 730 and 787 aircraft. Sojitz has the potential to generate earnings by selling such aircraft, and we look to capitalize on this potential.
- Q. Why will leasing earnings accounted for in the leasing, part-out, etc. category

decline in the years ending March 31, 2023, and 2024?

- A. The decline in leasing earnings will be attributable to our global partnership with Boeing.