

Condensed Transcript of Q&A Session Regarding Infrastructure & Healthcare Division from Sojitz IR Day (December 10, 2021)

First Questioner

- Q. Under Medium-Term Management Plan 2023, the Infrastructure & Healthcare Division is slated to invest ¥100.0 billion to grow its operations to the point that it can generate profit for the year of ¥20.0 billion consistently after the plan has concluded. In what areas will the division invest for this purpose? The overview of the division on slide 3 of the presentation we saw earlier showed six business fields, including NISSHO ELECTRONICS CORPORATION. Where will you be investing and what areas do you expect to become profit drivers during and after the period of Medium-Term Management Plan 2023?
- A. As shown on slide 4, the Infrastructure & Healthcare Division has previously been investing in independent power producer and hospital public-private-partnership projects that generate relatively stable returns. However, although such projects produce consistent earnings, the upside is limited. Around ¥50.0 billion of the aforementioned ¥100.0 billion in investments to be conducted under Medium-Term Management Plan 2023 will be investments of this nature. The remaining ¥50.0 billion will be directed toward downstream areas. Specifically, we will be looking to invest in the energy conservation and energy management fields. Investments in these fields promise relatively fast earnings contributions. Of course, the risks are greater than those of standard power generation projects, but we willing to take those risks in pursuit of a larger upside. Moreover, these investments will be performed on top of a stable earnings foundation. Sojitz recently acquired energy service company operations in the United States. Sojitz will also be engaged in power generation businesses in Pennsylvania, New Jersey, and Maryland, which means they will take place on the same power grid as the energy service company operations. Accordingly, we will not be diving into numerous unrelated businesses, but we will rather be developing connected businesses. We will pursue further synergies and growth in these businesses by connecting them to our real estate operations. Slide 5 shows figures that combine these three business areas. We expect a strong degree of progress in these areas during the period of the medium-term management plan. The main concerns in these businesses are delays in construction and closing, but if we can address these concerns, we are sure to see profits grow.
- Q. You mentioned that the division would be conducting a certain degree of investment in downstream areas, and that these investments would be relatively quick to make earnings contributions. However, the level of risks associated with these businesses makes them seem to be of a bit high-risk, high-return nature, especially when compared to prior businesses. What are your policies regarding risks and returns?
- A. Downstream areas include both business-to-business areas and business-to-consumer areas. Sojitz will begin by targeting business-to-business areas. For example, we are looking to develop a gas-fired thermal power business in which we install pipes to supply gas to companies. The risks associated with

this business include contract cancelations and the high barrier to entry. We are considering the possibility of developing our electricity retail business in Spain with an eye to branching out from business-to-business areas to business-to-consumer areas, but the prices in this business are quite low. This situation will make things challenging for us in terms of costs of capital should funds or other rivals appear. However, Spain offers regional advantages, like the possibility of collaborating with soccer teams. In Spain, 64% of the population identifies as soccer fans, and 40% of people are highly passionate fans. In this manner, the country has a culture and values of living together with soccer. We are thus tasked with finding ways of addressing the risk of contract cancelations by increasing the retention of customers who are soccer fans. We therefore intend to advance multiple collaborative campaigns with soccer teams with the aim of reducing our churn rate. Electricity costs need not be low. Based on this belief, Sojitz will seek to provide reasonably affordable electricity that has additional value included in the price to increase customers' willingness to pay.

Q. Whether business to business or business consumer, electricity wholesale businesses entail a structural susceptibility to volatility in electricity prices, as is currently being seen this winter. Is it safe to assume that Sojitz is not getting involved in businesses that face risks of massive losses?

A. Looking at the Spanish electricity retail business of Nexus Energia S.A., we have effectively hedged against the risks of short-term fluctuations. You see, although the range of hedging products available in Japan is quite limited, there is a wide range of products to take advantage of in overseas markets. We therefore do not expect operations to feel a significant impact this winter. However, it is possible that major oil companies or older power companies will attempt to compete by driving down prices. For this reason, we are not limiting our operations in Spain to retail; we are also securing reliable sources of renewable energy. This is not so much a task for Nexus as it is a task for Sojitz as a major shareholder of Nexus. We aim to procure power reliably by developing such power sources, and we have stated this intention to Nexus.

Q. Am I correct in thinking that Sojitz will be expanding its power procurement capabilities in upstream businesses while also managing its portfolio in a manner that allows it to minimize the associated risks?

A. You are correct. We may face unforeseen risks in the future, but we will need to overcome these risks.

Second Questioner

Q. Slide 5 shows the returns expected from investments conducted as part of growth strategies under the medium-term management plan. It was stated that you anticipate returns of ¥10.5 billion during the period of the plan, but you also said that it will take a while for infrastructure related businesses to begin producing returns. What amount of returns do you consider to be assured? Roughly one year has passed since the formulation of the medium-term management plan. What is the level of returns that you expect to be highly likely to be achieved?

A. We have earmarked ¥100.0 billion for investments during the period of the

medium-term management plan, and we expect to invest around 80% of this amount during the year ending March 31, 2022. We therefore anticipate a certain degree of returns from these investments. However, we have to remain mindful of the impacts of the COVID-19 pandemic. There are some projects in which construction is behind schedule as a result of the pandemic, and this makes it unclear how much in returns these projects will be able to generate. Luckily, the pandemic seems to be subsiding, and we therefore look to push toward getting these projects commercially operational as quickly as possible.

Q. Could you please offer some details about the telecommunications tower business in the Philippines you announced? IPS Co., Ltd., and other listed Japanese companies are developing telecommunications businesses in the Philippines. However, large financial conglomerates tend to be responsible for urban development in this country, and they are those the ones that own the land. It therefore seems like a foreign company, such as Sojitz, might struggle if it tried to enter into this market. I am also not sure what type of competition Sojitz might face from local companies. However, I sense that there is a lot of potential in the business. What, specifically, will be your strategy in this business?

A. There are currently already three major telecommunications carriers in the Philippines. We have decided to acquire an existing business operator that has a strong relationship with one of these carriers, and we therefore will have a relatively strong foothold with regard to one-third of this market. Smart Communications, Inc., another of the three major telecommunications carriers, is receiving support from Nippon Telegraph and Telephone Corporation. We look to gain access to this company by teaming up with Japanese and overseas partners. We will thereby aim to develop a business foundation that has a connection to two-thirds of the market. Meanwhile, mobile phone service providers have already begun employing a sale and leaseback scheme with regard to their communications towers. Through this scheme, they sell their towers to tower sharing companies to switch to a lease arrangement. Sojitz hopes to facilitate this trend, and we believe that the potential for earnings to be generated through this approach is very high.

Third Questioner

Q. What risks does Sojitz face with regard to its ability to recover investments in telecommunications tower operations in Myanmar? What are Sojitz's thoughts regarding risks given the recent political issues seen in this country? Also, I understand that Sojitz has significantly downsized its crude-oil related assets. Has there been any changes to your asset holding policies?

A. The political issues in Myanmar are incredibly troubling. However, telecommunications towers are essential pieces of infrastructure, and the trends in their usage have been favorable. Regardless, we are concerned with the halt to the construction of the new type of tower that we had originally intended to target.

We also need to be mindful of risks like the physical attacks launched against telecommunications tower companies by certain government bodies. Another issue we need to consider is foreign exchange restrictions. Roughly half of our

earnings in this country are denominated in U.S. dollars while the other half is denominated in Malaysian kyat. We must therefore always remain aware of whether or not kyat-denominated earnings can be transferred overseas. Funds were allocated twice in 2021, and we will need to pay close attention to these trends going.

In regard to our policies for holding crude oil-related assets, our basic policy is to withdraw from upstream interests, and we are diligently implementing this policy.