

## Condensed Transcript of Q&A Session at Small Meeting (November 16, 2021)

### [Sojitz Representatives]

Kayoko Naito, Outside Director  
Norio Otsuka, Outside Director  
Naoko Saiki, Outside Director  
Ungyong Shu, Outside Director

## Q&A Session

### ■ Board of Directors Proceedings

#### **Q. What changes and reforms have been implemented with regard to the proceedings of the Board of Directors?**

A. Otsuka:

In June 2021, an additional outside director was appointed, increasing the number of outside directors from seven to eight, which represents 50% of the total number of directors. When we look at all attendees of Board of Directors meetings, including Audit & Supervisory Board members, we will see that 50% attendees have been outside officers since the year ended March 31, 2021, as six of the 12 attendees in that year were outside officers. Even if only the directors can vote on resolutions, discussions are always held based on the idea of what is best for Sojitz, and there has been no clear distinction between directors and Audit & Supervisory Board members when it comes to discussions. In the year ending March 31, 2022, seven of the 13 attendees to Board meetings are outside directors, but there has been no significant change to the proceedings as a result. When speaking with President Fujimoto at meetings of the Nomination Committee and other occasions, we talk about subjects like how best to increase ratios of outside officers and what traits and specialties should be sought in new members of the Board of Directors. We also look at specific candidates with this regard. These efforts have shaped the formulation of succession plans for members of the Board of Directors. As a result of these efforts, Board members have been increasingly able to offer opinions grounded on perspectives not found within general trading companies, making the Board an even more viable organ for a general trading company that develops a wide range of businesses.

#### **Q. How are opinions compiled and integrated at meetings of the Board of Directors?**

A. Otsuka:

Briefings on the items to be put to resolution at meetings of the Board of Directors are held prior to the meetings, and these briefings are attended by all outside officers. The briefings serve as an opportunity for us to gain an understanding of others' opinions and thoughts regarding the items, which enables us to determine what role each individual should play in the discussions at the upcoming Board meeting. Discussions are also a major part of reports at Board meetings. Attendees make a point to voice any opinion they feel will be valuable, no matter what that might be, and records of these discussions are stored. However, we do not make a point of compiling everyone's opinion into one final statement.

It is common for company board meetings to involve internal officers making proposals and offering explanations to outside officers to gain their understanding and agreement, and this is also true of Sojitz. If there is something that outside officers cannot understand, exhaustive explanations or discussions are held until an understanding has been reached. In the future, I hope to continue this approach of reaching an agreement through ongoing discussion.

**Q. How are agenda items prioritized at meetings of the Board of Directors?**

A. Otsuka:

We take steps to ensure that discussions can be carried out as efficiently as possible given the time restrictions. A major theme of discussion in the year ended March 31, 2021, was how much the Board of Directors should be involved in discussions related to the formulation of Medium-Term Management Plan 2023 (MTP2023). In the year ending March 31, 2022, a top priority is monitoring factors such as the progress of the plan, and I therefore look to guide overall meeting procedures to ensure that a sufficient amount of time can be devoted to this purpose. Matters that can be entrusted to the executive team will be left up to them in order to reduce the total number of items raised to the Board. At the same time, matters will be discussed ahead of time when appropriate to prevent large fluctuations in the number of items on the agenda between meetings. I thereby hope to ensure that meetings can be concluded in about two hours. The results of assessments of the effectiveness of the Board of Directors will be used to improve Board meeting proceedings in the year ending March 31, 2023.

**■ Nomination Committee**

**Q. What is the composition of the Nomination Committee?**

A. Saiki:

The Nomination Committee currently has five members, four outside directors and President Fujimoto. With most of the members being outside directors, the committee is capable of engaging in objective and transparent discussions from an independent perspective. I therefore believe that this composition is appropriate. This composition has led to increased objectivity and transparency in human resource development and selection as well as to stronger corporate governance. There is some validity to the belief that a committee comprised of two to three internal directors would contribute to deeper discussion. However, it could also be said that a committee consisting only of outside directors will be able to engage in more independent and objective discussion. Based on this perspective, and the expected role of the Nomination Committee, we should consistently reevaluate the composition of the committee. At Sojitz, the Nomination Committee functions as an advisory body, and is not a decision-making body. This is a factor that must be accounted for when considering the committee's composition. It is senior management that is responsible for establishing and implementing succession plans. To ensure that this process is able to be carried out appropriately and smoothly, we believe that there is a need for the Nomination Committee to be comprised of a majority of outside directors so that the necessary advice and guidance can be received.

**Q. What steps are taken to ensure that outside directors are able to fulfill their consultation, advisory, and oversight functions on the Nomination Committee?**

A. Saiki:

At meetings of the Nomination Committee, outside directors pose various questions to President Fujimoto and offer advice, and Sojitz is receptive toward this input. In addition, various opportunities are arranged to allow outside directors to directly confirm the skills, experience, motivation, and personality of candidates for officer positions. Based on this combination of frameworks and opportunities, I believe that the Nomination Committee is functioning appropriately.

**Q. Could you please offer some details about the director and Audit & Supervisory Board member skill matrix and about officer candidate selection?**

A. Saiki:

We began developing a director and Audit & Supervisory Board member skill matrix around

2019 based on the expectations of the market. At the time, we discussed this matter from a number of perspectives at meetings of the Nomination Committee. Some of the applicable outside directors were already serving their terms at this point, and we developed the skill matrix with an emphasis on the areas we want stakeholders to consider when it comes to management oversight. Sojitz has appointed officers with a variety of track records, backgrounds, and skills. The skill matrix highlights areas we would like you to pay particular attention to based on the division of responsibilities of officers. For this reason, we have marked three to four areas of expertise for each officer. The areas marked indicate the skills that Sojitz expects the directors to exercise. This makes it easy to confirm that there are no areas in which we lack the necessary for operational execution or management oversight. We also recognize that the skill matrix is something that will need to be revised based on changes in the times and on the needs of Sojitz's management strategies.

**Q. What steps are taken to acquire the necessary information when selecting successor candidates and to ensure the effective implementation of succession plan?**

A. Saiki:

The Nomination Committee is predominately comprised of outside directors. Accordingly, our main venue for acquiring the information we need is to ask President Fujimoto and to have him exercise accountability in responding to these questions. Other sources of information include, for example, what is call the "summer session" at Sojitz. Outside directors attend this intensive management assembly of officer-level employees as observers, and we are thereby able to gain a better understanding of the strategic approaches, ambitions, and personalities of executive officers and division chief operating officers and to see how the exercise leadership. In the future, I want to speak with various Sojitz employees so that I can learn more about the Company's corporate culture. I also expect that such communication will function as an opportunity to acquire valuable information for selecting future management candidates. As for ensuring the effective implementation of succession plans, the most important thing is to have thorough discussions with the president on matters such as Sojitz' vision and strategies for improving corporate value. Based on these discussions, we should determine the qualities required by this vision and these strategies from our outside perspective while also being mindful of the input of the president.

**■ Remuneration Committee**

**Q. Could you please explain the revised officer remuneration systems, including such factors as whether benchmarking companies were used; the background for adopting environmental, social, and governance (ESG) indicators; and the remuneration systems for outside directors?**

A. Naito:

We did not utilize absolute benchmarks when considering the revision of officer remuneration systems, but we did reference other [general] trading companies in relation to the levels of remuneration of officers and employees. In regard to ESG indicators, MTP2023 prioritizes ESG initiatives, and the decision to adopt ESG indicators was thus made based on the belief that linking remuneration systems to the Company's goals would help build a stronger Sojitz. However, we recognize that ESG factors are hard to quantify, and the lack of externally recognized indicators made things more difficult. Nevertheless, we were able to find viable indicators that are also distinctively Sojitz. This included using the ratio of female employees that Sojitz stations overseas as a trading company as an indicator of the empowerment of female employees.

As for outside directors, basic remuneration is paid as a fixed amount, a provision that I think is incredibly effective for ensuring the objectivity of discussions.

**Q. What details can you offer regarding the revision of performance-linked remuneration systems and the linkage to ESG indicators?**

A. Naito:

The current remuneration systems have been very clearly defined, but I think that their relationship to ESG indicators is still not entirely clear. We will therefore be looking to clarify this relationship and to disclose the resulting systems in the future.

**■ Medium-Term Management Plan 2023**

**Q. What challenges are faced with regard to MTP2023?**

A. Shu:

There are two major challenges that we have identified with regard to MTP2023. The first challenge is minimizing volatility in Sojitz's performance. Sojitz is in the process of strengthening non-resource businesses, and there is thus an ongoing need to devote effort to reducing the volatility of performance.

The second challenge relates to the need to transition from intermediary businesses to investment businesses. Sojitz has accumulated sufficient experience with this regard, and this experience has begun being reflected in performance. However, effectively developing an investment business will require continuous effort to improve the balance of risks and returns. Businesses in which the investments in individual projects are not particularly large, in a sense, have less concentrated risks. This means that earnings contributions from such investment businesses are relatively consistent. This consistency is, of course, a benefit. However, the amount of effort that management has to devote to a project does not change much if it is in the scale of billions of yen or in the scale of tens of billions of yen.

Accordingly, the feasibility of engaging in larger projects will be something to be looked at going forward. However, larger products entail larger risks. If a larger investment ends up producing lower returns, it is possible that those earnings will be judged to lack reproducibility or potential future consistency, which would make the investment liable to discounting. In investment businesses, it is important to seek to tackle larger projects. At the same time, a company must also exercise scrutiny in selecting projects to ensure that the balance of risks versus returns improves as a result of these larger investments. In addition, a company should consistently practice discipline to limit the scope of investment candidates to those projects that can guarantee future improvements to performance and enhanced organization capabilities.

**Q. What are the quantitative targets of MTP2023?**

A. Otsuka:

Over the past year, a major subject of discussion was whether to include a target for price book-value ratio (PBR) in MTP2023. It is true that stock price is merely one result of a company's efforts, and there is thus a risk associated with setting a PBR ratio as a company and its management only have so much responsibility for this result. However, even acknowledging this risk, I believe a sound and correct argument was made that it is just that important for Sojitz to emphasize its stock price. The idea of setting a PBR target was not proposed by outside directors; it came from Sojitz's senior management team. This proposal demonstrated management's degree of commitment and is something that I was very happy to see. However, we have still not reached a clear conclusion on how this target should be treated or how to work toward its accomplishment, and this is thus a consistent topic of discussion.

**Q. What type of commitments have outside directors made toward the quantitative**

## **targets of MTP2023?**

A. Shu:

I understand that the commitment of outside directors toward the PBR target of 1.0 times or above is generate earnings that exceed the cost of capital. If earnings increases are merely the result of temporary factors, and will therefore not be reproduceable, or if they are the product of taking excessive risks, it goes without saying that the cost of capital will rise, which will not contribute to improved PBR. Accordingly, outside directors will need to effectively assess and monitor Sojitz's efforts to ensure they are generating returns that surpass the cost of capital. We should also evaluate returns to determine if they are qualitatively appropriate given the scope of risks, if they are reproducible and will be ongoing as opposed to being one-time returns, or if they are a result of factors beyond the control of management. Outside directors are committed to qualitatively assessing and monitoring returns based on these perspectives. I also feel that this is a responsibility of outside directors. General trading companies generate earnings primarily from investments, and it is these investments that drive the growth of such companies. For this reason, Sojitz has in place rigorous frameworks for reviewing investment projects that employ a multitude of indicators, including return on invested capital, return on equity, and profit margins versus investment resources. I therefore believe that the frameworks for working toward the PBR target of 1.0 times or above have been installed within the daily processes implemented in Sojitz's investment businesses.

## **Q. How is Sojitz going about generating business synergies?**

A. Otsuka:

The word "synergy" was not commonly used at Sojitz even just three years ago. Sojitz is smaller than other general trading companies, and it would therefore find itself at a disadvantage were it to try and compete with other companies in their own arena. I have often said that overcoming this disadvantage would require Sojitz to take advantage of its small scale and the more open organization this scale allows. However, this idea did not really click with people at the time. Recently though, I have witnessed a gradual increase in discussion regarding co-creation and other methods of advancing initiatives on a cross-division basis. Examples of such co-creative initiatives can be seen in Sojitz's investments in Royal Holdings Co., Ltd., and JALUX Inc. I have also noticed a number of other examples of multiple divisions pooling their resources to pursue improvements in corporate value, and these efforts give me hope for the future. It will require time for these efforts to generate synergies in true sense of the word or for such cross-division initiatives to produce earnings. Nonetheless, I believe that encouraging Sojitz to embark on such new undertakings is one of our roles as outside directors, and I intend to continue to fulfill this role going forward.

## **Q. What details can you offer about the process of formulating MTP2023?**

A. Saiki:

One of the subjects discussed at the summer session was backcasting. There has been a massive change in how people at Sojitz think. Specifically, I have seen the emergence of a type of strategic thinking that involves formulating a vision for Sojitz in 2030 and then determining what Sojitz lacks and what it needs to do today in order to accomplish this vision. In addition, co-creation and sharing is a keyword of the medium-term management plan. The summer session as well as other training sessions were used as opportunities to discuss how to help all employees understand the thinking of senior management and to entrench this thinking as a fundamental part of Sojitz's corporate culture. MTP2023 was a plan formulated based on a backcasting approach, and this plan was forged through extensive discussion with employees from a variety of levels of the organization. Outside directors, as well, took part in discussions and examinations at various opportunities.

## ■ Other Topics

### **Q. Could you please explain Sojitz's human resource strategies?**

A. Otsuka:

Sojitz has begun conducting cross-division personnel relocations more frequently than it has in the past, but it is still not as though these relocations are very frequent, but frequent relocations are not a must. Nevertheless, the idea of sharing resources among divisions to raise corporate value is becoming more common, and this idea can only be expected to keep gaining traction in the future. Given the fact that Sojitz generates the vast majority of its earnings overseas, it is also about time for it to appoint at least one non-Japanese executive officer.

### **Q. What trends have been seen in Sojitz's non-financial investments?**

A. Shu:

A major focus in non-financial investments is heightening the value of intellectual capital. The ability to find appropriate business opportunities while maintaining a focus on ESG factors, circular economies, and other such matters hinges on the capabilities of human resources. Recognizing this, Sojitz is passionate about investing in human resources. I believe that such non-financial investments are also an effective means of increasing human resource value and capitalizing on earnings opportunities during the course of implementing ESG strategies.

A. Saiki:

Sojitz is a general trading company, and this means that human resources are its most important management resource. I am therefore confident that investing in human resource development for the purpose of boosting medium- to long-term corporate value and competitiveness is the right idea. Meanwhile, digital transformation is of the utmost importance when it comes to transforming organizations. Non-financial investments in areas like human resources and digital transformation are thus imperative to improvements to medium- to long-term corporate value and profitability. I am committed to offering my support and advice for such investments.

### **Q. What steps is Sojitz taking to strengthen risk management?**

A. Shu:

The Board of Directors receives regular reports on the types of risks taken, and we discuss whether the approach toward risk taking is appropriate. Risk management includes such tasks as quantifying risks, sharing information on quantified risks, and allocating management resources based on this quantification. All of these tasks are incredibly important, and these management issues are discussed by the Board of Directors accordingly. Sojitz is also taking steps to track risk exposure while using the stock prices of other companies as a benchmark. I believe that this approach is objective and appropriately matched to market. Nevertheless, the risks a company must account for are varied, and there is no defined best approach toward assessing the correlation between these risks. For this reason, there is a need for ongoing research and effort regarding the technical and other aspects of risk management.

### **Q. How do outside directors maintain an understanding of Sojitz's business activities?**

A. Naito:

Keeping up-to-date with Sojitz's business activities is no easy task given the diversity of these activities, in terms of both business and geographical areas. Luckily, we are provided with various opportunities to gain information on the status of budget execution and of business activities. Such opportunities include status reports from divisions at meetings of the Board of

Directors as well as our own attendance at meetings of the Finance & Investment Deliberation Council. Furthermore, we were able to visit the business sites of Sojitz Tuna Farm Takashima Co., Ltd., and Daiichibo Co., Ltd., in the year ended March 31, 2021. Such opportunities are currently restricted as a result of the COVID-19 pandemic. Despite these restrictions, Sojitz is taking steps to maintain an understanding of its businesses through virtual audits and surveys by local experts, and the findings of these activities are reported to outside directors.

#### **Comments from Attendees**

- ✓ These ongoing forums for direct communication with outside directors are incredibly valuable.
- ✓ The meeting made it apparent how committed each outside director is to fulfilling their respective missions.
- ✓ The insights of outside directors made it apparent just how effective Sojitz's Board of Directors is.
- ✓ The narrower scope of topics made it easier to focus discussions on areas in which I have a strong interest. In addition to helping me gain a better understanding of these topics, I was also made aware of the outside directors' high levels of commitment to their goal and missions.
- ✓ I have to praise how the increased number of outside directors helped enhance the discussions at Board of Directors' meetings and how these enhanced discussions contributed to improvements in Sojitz's MTP and integrated report.