

Condensed Transcript of Q&A Session Regarding Results Briefing for the Year Ended March 31, 2022 (May 2, 2022)

Presenters

Masayoshi Fujimoto, Representative Director, President & CEO

Seichi Tanaka, Representative Director, Executive Vice President, CFO

First Questioner

Q. It was stated that Sojitz is targeting record-high earnings and increased dividends in the year ending March 31, 2023. What changes have been seen since the time of the establishment of the medium-term management plan and what factors will be behind this upturn in performance? Also, what are your thoughts with regard to the earnings forecast for the year ending March 31, 2023?

A. Fujimoto, CEO:

One major factor that has differed from the assumptions we had at the time of the establishment of Medium-Term Management Plan 2023 has been the large impact on performance from the rising prices of coal and other commodities. Based on the commodity prices seen when formulating the medium-term management plan, we project that earnings will amount to ¥64.0 billion in the year ending March 31, 2023. This is ¥1.0 billion less than initially expected, a downturn that will be a result of the impacts of higher raw material prices on our three fertilizer businesses in Southeast Asia. Under Medium-Term Management Plan 2023, we had originally targeted earnings of ¥53.0 billion in the year ended March 31, 2022; ¥65.0 billion in the year ending March 31, 2023; and ¥77.0 billion in the year ending March 31, 2024. These forecasts were based on the projected increase in assets when disregarding commodity prices. Accordingly, I feel confident in saying that we have indeed achieved the targeted increases in earning power.

Q. You mentioned that, in the year ending March 31, 2023, the Metals, Mineral Resources & Recycling Division will see earnings that are relatively unchanged from, or only slightly higher than, the previous fiscal year when excluding the impacts of one-time factors. How does this outlook account for earnings from coal interests and from Metal One Corporation? Also, on what assumptions have you based your forecast for coal sales volumes. I understand that Sojitz is recording impairment losses on its thermal coal interests as part of its proactive decarbonization initiatives. How is progress in the negotiations for selling these interests? The Company also apparently sold a non-ferrous metal company. What policy regarding your metal and mineral resource portfolio prompted the decision to conduct this sale?

A. Fujimoto, CEO:

Our market outlook for the coal businesses of the Metals, Mineral Resources & Recycling Division was arrived at by applying stress via a forward curve after calculating the shipments that have already been decided, specifically

those for up until midway through the six-month period ended September 30, 2022, based on current commodity prices. In regard to Metal One, there was a rise in the price of steel in the United States during the first half of the year ended March 31, 2022, but prices returned to normal levels in the second half of the fiscal year. We therefore expect that prices will be relatively unchanged year on year in the year ending March 31, 2023. Meanwhile, we project that transaction volumes of Russian coal will decline, however we produce 2.0 million tons of coal through open-cut mining at the Gregory Crinum coal mine along with about 0.5 million tons through underground mining. The underground mining production volume outlook is lower than the previously projected 1.0 million tons as a result of a small delay in the resumption of underground mining operations. At the same time, we will be looking to sure up the negotiations for selling thermal coal interests that are currently underway during the year ending March 31, 2023. As for our policy for selling non-ferrous metal interests, we are moving ahead with a transition from resource businesses to non-resource businesses by disposing of existing interests at the ideal timing.

Second Questioner

Q. You mentioned that the forecast for the year ending March 31, 2023, incorporates a ¥6.0 billion reduction to earnings that will result from the conflict between Russia and Ukraine. I understand that it will primarily be automotive and coal businesses that are impacted by this conflict. Will the impacts be temporary, or will the conflict have a lasting impact that fundamentally detracts from the earning power of these businesses? I would appreciate any details you can offer with this regard. Also, Sojitz's risk exposure in Russia has been measured at ¥22.8 billion. Are there any risks of impairment at the moment?

A. Fujimoto, CEO:

The ¥6.0 billion reduction to earnings from the conflict between Russia and Ukraine will primarily be a result of the impacts on our automotive businesses in Russia and on transactions of Russian coal. Our inability to deliver new vehicles in the year ending March 31, 2023, will likely prevent us from conducting automotive sales in Russia. When combining this factor with the projected impact on coal trading in Russia, we project a ¥6.0 billion reduction to earnings. This figure represents the estimated impact on performance, and not a forecast amount of impairment. As for our risk exposure in Russia, we have ¥12.0 billion in investment-related exposure in automotive businesses as well as ¥10.0 billion in exposure associated with other accounts receivable. These accounts receivable include advance payments in Russian coal businesses. We therefore intend to collect the owed amounts. The ¥12.0 billion in investment-related exposure primarily relates to projects in automotive dealership businesses. As we are currently unable to conduct sales of new vehicles in these businesses, we are focusing on supplying parts and maintenance services to consumers in Russia. We see no need to recognize impairment at the moment.

Q. The forecast of ¥9.0 billion for earnings contributions from new investments

in the Infrastructure & Healthcare Division in the year ending March 31, 2023, seems quite high. It was stated that performance in this fiscal year will benefit from investments conducted under the previous medium-term management plan. Could you please offer some details on the earnings contributions to be generated by investment projects in the Infrastructure & Healthcare Division that have been incorporated into the forecast for the year ending March 31, 2023?

- A. Fujimoto, CEO:
In the year ending March 31, 2023, earnings contributions for the Infrastructure & Healthcare Division are expected to be generated by investments in energy conservation businesses in the United States as well as in Nexus Energia S.A., an electricity retailer in Spain and other businesses. Our U.S. energy conservation businesses have been recording smooth increases in orders, and we therefore have high expectations for the growth of these businesses. As for Nexus Energia, performance has been favorable, and we anticipate that this company will be making earnings contributions through new investments going forward.

Third Questioner

- Q. In the year ending March 31, 2023, a decrease in earnings is anticipated in fertilizer businesses in Thailand. However, it seems like the actual decrease in earnings should be larger than that forecast by Sojitz when taking into account the rise in raw material prices and the fertilizer selling price controls instituted by the Thai government. What are your thoughts regarding the outlook for these businesses in the year ending March 31, 2023, and the price of fertilizer in Thailand?

- A. Fujimoto, CEO:
Raw material prices are rising in Thailand, and the price controls instituted by the Thai government are impeding our ability to transfer this rise in prices to selling prices. Nevertheless, the Thai government is, of course, aware of the rise in raw material prices, and we therefore are waiting for the government to adjust its price controls.

Fourth Questioner

- Q. Slide 10 of the presentation materials details projected earnings contributions of ¥5.0 billion to be generated in the year ending March 31, 2023, from investments conducted under Medium-Term Management Plan 2023. Could you please offer some details on from where these contributions will come? When combined with the earnings contributions generated in the year ended March 31, 2022, these earnings contributions will amount to around ¥7.0 billion. Meanwhile, the forecast for three-year earnings contributions during the period of Medium-Term Management Plan 2023 is ¥22.0 billion, which itself is a reduction of ¥3.0 billion from the forecast put forth at the time of the plan's announcement. Accordingly, an additional ¥15.0 billion in earnings contributions will be required to reach the three-year forecast. Can we expect steady progress toward this forecast in the year ending March 31, 2024?

- A. Fujimoto, CEO:

The earnings contribution forecast for the year ending March 31, 2023, incorporates projected contributions from independent power producer businesses in the Middle East, an electricity retail business in Spain, energy conservation businesses in the United States, and other investments conducted in the year ended March 31, 2023. In this manner, the groundwork for steady growth in earnings contributions is in place. We also have a good idea of some of the projects in which we will be investing during the year ending March 31, 2023. The remaining ¥15.0 billion in earnings contributions required in order to reach the three-year target you speak of will need to be generated by these projects and by those that we will undertake in the future. Nevertheless, I feel highly confident in our ability to reach this level. In addition, we still have yet to see earnings contributions from such investments under Medium-Term Management Plan 2023 as those in Royal Holdings Co., Ltd.; The Marine Foods Corporation; and the in-flight catering business. We expect that we will begin to see contributions from Marine Foods in the year ending March 31, 2023, and from Royal Holdings in the same year or in the year ending March 31, 2024. If we add to these contributions those anticipated from the automotive field and other investments scheduled for the future, I believe that we are entirely capable of reaching the figure of ¥15.0 billion for earnings contributions in the year ending March 31, 2024. This, of course, is not a guarantee.

Q. What are your cash flow targets for the year ending March 31, 2023? The three-year targets of Medium-Term Management Plan 2023 have not changed since the announcement of the plan. However, one year has passed since the plan's announcement, and the current market environment seems to suggest that Sojitz should be able to achieve figures that surpass its targets. Could you please provide an update on your cash flow policies?

Also, given the recent inflation and other rapid market fluctuations, has there been any changes to Sojitz's management policies regarding investments or asset replacement?

A. Fujimoto, CEO:

Even amid the inflation trend, we see no issues requiring our immediate attention. There has also been no change to our policies regarding asset replacement.

Tanaka, CFO:

In the year ending March 31, 2023, we project a positive core operating cash flow of between ¥110.0 billion and ¥120.0 billion, around the same level as in the previous fiscal year, which should mean that we will be able to nearly reach the level of between ¥240.0 billion and ¥250.0 billion targeted on a three-year aggregate basis under Medium-Term Management Plan 2023 within the first two years of the plan. As for investing cash flows, we plan to conduct ¥150.0 billion worth of new investments during the year ending March 31, 2023. When accounting for the inflows from asset replacement, this should make for net cash used in investing activities of between ¥100.0 billion and ¥110.0 billion. Meanwhile, we will continue to adhere to our basic policy of targeting a consolidated dividend payout ratio of around 30% for shareholder returns,

which will result in an outflow of around ¥30.0 billion on the core cash flow level in the year ending March 31, 2023. If these trends progress as anticipated, a positive core cash flow of between ¥35.0 billion and ¥36.0 billion will be posted in the year ending March 31, 2023. I therefore believe that we have been practicing cash flow management in a manner that secures sufficient leeway toward achieving the target of a positive core cash flow over the six years encompassing the periods of Medium-Term Management Plan 2020 and Medium-Term Management Plan 2023 that is described in the current plan. The decision as to whether the resulting surplus cash flows will be directed toward growth investments or shareholder returns will be decided around the time of the conclusion of Medium-Term Management Plan 2023.

Fifth Questioner

Q. What types of new investments are being conducted in the Retail & Consumer Service Division and what degree of earnings contributions are these investments expected to generate?

A. Fujimoto, CEO:

Up until now, investments in the Retail & Consumer Service Division have included the business and capital alliance with Royal Holdings, the acquisition of an in-flight catering business, and the conversion of JALUX Inc. into a subsidiary. With regard to air travel, the domain of these projects, we are currently witnessing a recovery in domestic flights, but we still have yet to see a recovery in international flights. At Royal Holdings, earnings from domestic restaurant and other operations are recovering. However, some time will still likely be required for recovery in hotel and in-flight catering operations, which will probably not be seen until the COVID-19 pandemic subsides. The same applies to JALUX. However, if these businesses are able to achieve a full recovery going forward, they should generate earnings contributions of between ¥4.0 billion and ¥5.0 billion.

Q. I understand that the Chemicals Division has grown into a division that generates earnings of a scale surpassed only by the Metals, Mineral Resources & Recycling Division. What are your thoughts regarding the future growth potential of the Chemicals Division?

A. Fujimoto, CEO:

In the Chemicals Division, we are currently moving forward with negotiations with new investees in the life science field. In this field, we are looking to develop methanol and ammonia businesses, but we acknowledge that some time will be required to reach this stage. As such, we do not anticipate earnings contributions from such projects during the period of Medium-Term Management Plan 2023. Nonetheless, we recognize the need for ongoing investment in the Chemicals Division. Some of our focuses in this division going forward will thus be improving earning power through asset replacement and developing earnings sources through new investments.

Q. Could you please offer some details on the Vietnamese operations of the Retail & Consumer Service Division?

A. Fujimoto, CEO:

In the year ended March 31, 2022, profits were generated by all businesses in

the Retail & Consumer Service Division, with the exception of the Ministop business, and this is also the only business in this division not expected to turn a profit in the year ending March 31, 2023. However, the Ministop business did benefit from the start of sales of fresh foods at convenience stores following the closure of outdoor markets due to the lockdowns instituted in response to the COVID-19 pandemic. Ministop is currently implementing trial initiatives, including stocking fresh foods, based on a concept similar to that of My Basket CO., LTD. These initiatives are helping reduce costs in this business. If possible, we hope to break even in this business in the year ending March 31, 2023.

Sixth Questioner

Q. In the third quarter of the year ended March 31, 2022, it was mentioned that underground mining operations at the coking coal mine in Australia will be resumed in May or June 2022. At this point in time, what is your outlook for the resumption of underground mining operations? Are there any factors that might cause a delay in the resumption of operations?

A. Fujimoto, CEO:

We had previously stated that underground mining operations would be resumed at the end of May 2022. At the moment, however, we believe that the resumption of operations will more likely be in July. This is because cave-ins have caused delays in construction. The extent of these cave-ins was larger than initially thought, and it will therefore take one month more than was first estimated to address this cave-ins.

Q. I understand that the sales volumes of coking coal in the year ending March 31, 2023, are forecast to be 1.0 million tons higher than in the previous fiscal year. On what factors is this outlook based? Also, will there be any decreases in the sales of Russian coal?

A. Tanaka, CFO:

The increase in sales volumes for coking coal will continue to be primarily driven by the Gregory Crinum coal mine, the Lake Vermont Coal Mine, and Jellinbah Group Pty Ltd. Our forecasts for sales volumes in the year ending March 31, 2023, are based on factors such as the impacts of and recovery from the cave-ins. Russian coal has been excluded from forecasts for the year ending March 31, 2023.