What is your assessment of how the year’s financial and capital strategies played out?

We successfully made new investments and loans totaling roughly ¥300.0 billion, while maintaining good control over our free cash flow.

In MTP 2017, we established two main goals: keeping our free cash flow positive over the plan’s three-year period and making investments and loans with a total value of more than ¥300.0 billion. Successfully completing both of those objectives is, to me, an important step toward solid growth in the next medium term plan.

Another success was our net DER, which ended up at 1.03 times—a solid level that fell within our MTP 2017 target of 1.5 times or lower.

We are also expanding our global cash management system, which enables centralized funding management for our domestic and overseas Group companies, and secure long-term funding in foreign currencies via our financial subsidiaries. As a result, we have been able to improve our funding efficiency on a Group-wide basis and fortify our operations against the impact of rapid changes in the business environment, fluctuations in currency rates and interest rates, and other market risks.

What are the balance sheet (BS) and cash flow (CF) management goals in Medium-Term Management Plan 2020?

Our goal is to maintain a positive cumulative three-year core cash flow.

MTP 2020 sets a target to post a positive cumulative core cash flow¹ over the plan’s three-year period, which runs through the fiscal year ending March 31, 2021. That goal sends a clear message to both the Sojitz community and outside observers: we place real importance on managing our investments within the limits of our generated cash, which means that we focus on profits accompanied by the recovery of cash. Our efforts to maintain solid control over our free cash flow will also remain a priority.

Although I doubt that keeping our core cash flow positive will prompt increases in leverage, we will work to maintain a net DER of under 1.5 times—like we did under MTP 2017—even amidst the market volatility of potential spikes in the yen and falling stock prices.

Note 1: Core cash flow = Core operating cash flow (excluding changes in working capital from operating cash flow) + Investing cash flow (including asset replacement) - Dividends paid
Quality assets

Asset replacement

Interest-bearing debt

Net DER: 1.5 times or lower

Profit: ¥75.0 billion or more

Total equity

BS/CF Management

Quality assets

Asset replacement

Asset and business value increases

Goodwill control, etc.

Increased resilience to interest and foreign exchange rate fluctuations

Net DER control

[BS/CF Management]

Basic Approach

• Improve ROA through ongoing asset replacement and accumulation of quality assets
• Expand total equity and improve ROE
• Keep net DER to below 1.5 times
• Improve ratings to enhance funding quality

[BS/CF Management]

[BS/CF Management]

Notes:
1. Abbreviation of “Post Merger Integration.” This refers to the integration process used to maximize the initial integration effects following a planned M&A. The scope of integration includes all related processes, including management, administration, and corporate culture.
2. Note on post-merger integration: This refers to the integration process used to maximize the initial integration effects following a planned M&A. The scope of integration includes all related processes, including management, administration, and corporate culture.

Q: What is the most important message you wish to convey to your readers?

A: We are going to maintain a sustainable growth cycle by continuing to accumulate quality assets and by making our financial discipline stronger than ever.

Given the diversity of potential investment projects, deciding which projects to pursue can pose a challenge. At Sojitz, we take a common-sense approach to that process: we examine each application, check all the details to see if the content is suitable, and make our decisions accordingly. Every step is a careful, measured part of our evaluation. I believe this approach is a proven, surefire way to accumulate quality assets.

To keep that investment process going strong, we also need to recover cash from those quality assets so that we can secure a solid foundation of capital for shareholder returns and new investments.

As we continue to gather quality assets and enhance our financial discipline, the positive growth cycle will go on turning—and help sustain Sojitz’s growth into the future.

Q: What kinds of things do you want to focus on as Sojitz continues to make growth investments?

A: We are aiming to ensure that the investments we made under MTP 2017 turn profitable and to enhance the quality of our new investments to an even higher level.

Under MTP 2020, one key focus will be making the investments from the previous MTP profitable, and further enhancing the quality of our new investments. We have always monitored our investments closely, but we want to do an even better job of ensuring investments are successful. Through our new M&A Management Office, we will be able to consolidate our PMI and post-merger value enhancement functions, as well as share information more easily with management—a new part of our organizational system that will help drive Sojitz’s success rates upward.

In terms of our future investments, we will work to set up projects and due-diligence frameworks as early as possible so that we can focus our management resources on high-quality investment initiatives.

Keeping a careful eye on the scope of our goodwill, we also want to build a strong, balanced portfolio with an effective mix of low-volatility assets and assets with high potential returns.
Sojitz has always made disciplined investments and loans, and simultaneously accumulated and replaced prime assets through appropriate PMI and monitoring afterwards. In MTP 2020, we will strengthen business model verification and risk identification at the project conceptualization stage, in addition to developing a structure for continuously improving business value by ensuring steady earnings from investments.

**Investment Process**

Corporate departments support business divisions in the entire process, from generating proposals, making investments to managing businesses. The entire company participates in the process, including deliberations by the Finance & Investment Deliberation Council and supervision by the Board of Directors.

**1. Project Creation**
- Considering project creation opportunities in line with strategies
- Identifying risks

**2. Investment Decision**
- Making investments decisions based on quantitative and qualitative analysis*

**3. Investment**
- PMI (management integration)
- Building and improving business management structures

**4. Business Management & Monitoring**
- Monitoring performance and status of measures for value-addition
- Grasping issues and implementing countermeasures
- Deciding to continue with or withdraw from businesses
- Continuous asset replacement

* Sets internal rate of return (IRR) hurdles in order to select projects that can be expected to produce returns commensurate with the risks and evaluate business feasibility

**Investment Policy in MTP 2020**

1. Acquire, expand, and utilize functions
2. Expand, enter, and create markets
3. Broaden range of new fields to create more robust division boundaries

Disciplined investments and loans
Maintaining a positive three-year core cash flow for the entire Company

Projects Eligible for Investments and Loans

- Businesses in line with the company’s concept of sustainability
- Investments and loans based on company-wide and Division strategies, businesses whose investment objective is clear
- Business with potential to implement investment objective and add value
- Businesses that allow Sojitz to exit at own discretion

Multidimensional examination of business models from the conceptualization stage

- Competitive Advantage
- Scale
- Profitability
- Stability
- Safety
- Expandability
- Feasibility
- Timeline
- Creativity
- Liquidity
Measures for Improving Success Rate of Investments

Structure Enhancement
We are developing a support structure to maximize investment effect by screening projects to prevent loss of opportunities and steadily implementing projects that promise future earnings. Apart from establishing an M&A Management Office in April 2018, we have also set up an organization necessary for strengthening project portfolio and closing power of each division to improve the success rate of investments.

The role of the M&A Management Office
- Providing specialized support for promoting business investments and M&A
- Detecting and resolving major issues early by participating from initial stages of project development
- Accumulating know-how for executing PMI and providing appropriate advice and instructions for formulating PMI plans for individual projects

Organization for strengthening project portfolio and closing power of each business division (major example)
- Overseas Project Development Office (started in April 2016)
- Project Development Office (started in April 2018, Chemicals Division)

PMI/PMI Support
Business divisions carry out PMI after executing M&A to bring about synergy after executing investments and maximizing project growth. Apart from the M&A Management Office, each corporate department supports PMI by the business divisions by developing post-investment management and personnel structures even before purchase agreements are concluded.

Strengthening Business Management Support through Periodic Monitoring
We periodically monitor the management of operating companies after investment to strengthen business competitiveness and profitability as well as increase business value.

Implemented as required
Flexible review of plans and implementation of countermeasures after investment, centered around the COO
Examples
- Establishing regulations
- Preparing a structure for consolidating financial results and supporting settlement of accounts
- Effectively using funds within Sojitz Group
- Managing credit exposure
- Managing budget and performance
- Building personnel structure

Implemented annually
Corporate Departments review all investment proposals, forming improvement policies and reconsidering business policies (if an investment proposal conflicts with exit rules, the Finance & Investment Deliberation Council decides whether the business should be continued, or the investment should be discontinued).

Continued Asset Replacement for Accumulating Quality Assets
We will accumulate period earnings and continuously replace assets regardless of conflicts with exit rules to create funds for accumulating quality assets with a view to sustainably boost growth and earnings. To replace assets, we will withdraw assets from projects with no potential for future growth and reinvest in high profitability projects while striking a balance between the timeline and profitability. In MTP 2017, we reduced assets by ¥151.0 billion and invested ¥315.0 billion. We will continue striving to accumulate quality assets and replace assets to maintain a positive core CF in the three years of MTP 2020 as well.

Replacement of Investments and Loans

Cumulative Results for the Three Years of MTP 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Reduction of assets</th>
<th>Investments and loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>158.0</td>
<td>315.0 billion</td>
</tr>
<tr>
<td>2016</td>
<td>60.0</td>
<td>151.0 billion</td>
</tr>
<tr>
<td>2015</td>
<td>60.0</td>
<td>150.0 billion</td>
</tr>
<tr>
<td>2014</td>
<td>43.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Investments and loans: ¥315.0 billion
Asset reduction: ¥151.0 billion

Estimates for MTP 2020
Positive core CF over the three-year period
Investments and loans: Approximately ¥300.0 billion
Asset reduction: Approximately ¥150.0 billion