

We have achieved 7 years of rising profits. Without letting up on this speed of growth, focus on maximizing our “two types of value,” and further increase Sojitz’s industry presence.

Masayoshi Fujimoto

Representative Director,
President and CEO



A look back at FY2018:

7 years of rising profits Moving towards steady growth

We have now finished the first fiscal year of Medium-Term Management Plan 2020 (“MTP 2020”), which started in April 2018. Our net profit for the year was ¥70.4 billion, far above the ¥63.0 billion target we set at the start of the year. This is the highest revenue Sojitz has earned since its founding and our 7th consecutive year of profit growth since FY2012. Our 3.0% ROA and 11.7% ROE also saw us meet our MTP 2020 financial targets of “ROA of 3.0% or above and ROE of 10% or above.”

Although these results were due in part to high market prices for resources, particularly coal, our having achieved our best results ever is clear evidence that we have acquired the capacity for steady earnings, and I feel that we have arrived at the point where we can seriously aim for sustained growth.

We are aiming for ¥75.0 billion or more in profit for the final year of MTP 2020, achieved through 10% year-on-year growth independent of rises in resource prices. I pledge to ensure continued growth for the company as we strive to meet our targets for the final year of MTP 2020 and head towards even further growth beyond.

We increased our dividend forecast for FY2018 from the initial estimate of ¥15.0 to ¥17.0 per share, resulting from the upward adjustment made to our net profit forecast at the start of the year (from ¥63.0 billion to ¥70.0 billion). This brought our payout ratio to 30.2%.

In accordance with our dividend policy for MTP 2020, we will aim for stable and continuous payouts and maintain a payout ratio of around 30% going forward.

Results for FY2018:

Improving the quality of our assets led to a rise in ROA and ROE

I am personally moved that we were able to fulfill our ROA and ROE targets during the first fiscal year of MTP 2020. As the person in charge of corporate planning during the former Medium-term Management Plan (“MTP 2017”), I was involved in formulating MTP 2020. When I compare our portfolio now to our portfolio at the time, I must say that the quality of our assets has improved more rapidly than we had expected.

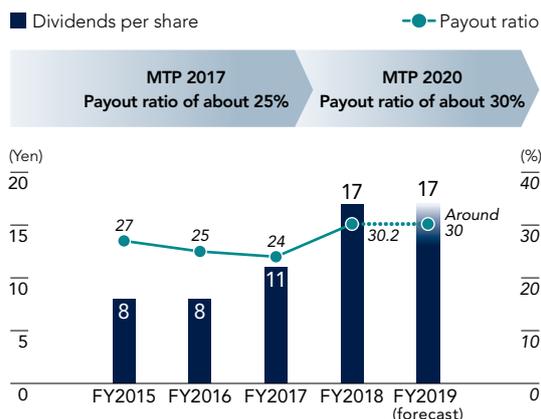
This is thanks to our making ¥300.0 billion worth of new investments and loans in mainly non-resource businesses to steadily grow the company, based on a management policy focused on cash flow and profit efficiency. [▶ P. 28](#)

Since MTP 2017, around 80% of our new investments and loans have been in non-resource fields. In addition to areas in which Sojitz already holds a competitive edge—such as steel, fertilizer, and methanol—we have also made new investments and loans in aircraft-related businesses, renewable energy businesses, and retail businesses in the ASEAN region, all of which are beginning to show stable growth. At the same time, our development projects and management/operation businesses, such as the IPP businesses and hospital business, are also

Results for the Year Ended March 31, 2019

	FY2017 Results	FY2018 Results	Year-on-year Fluctuation
Profit for the year (attributable to owners of the company)	¥56.8 billion	¥70.4 billion	+¥13.6 billion
ROA	2.5%	3.0%	+0.5%
ROE	10.0%	11.7%	+1.7%
Total assets	¥2,350.4 trillion	¥2,297.1 trillion	(¥53.3 billion)
Total equity	¥586.4 billion	¥618.2 billion	+¥31.8 billion
Net DER (times)	1.03	0.95	(0.08)
Investments and loans	¥158.0 billion	¥91.0 billion	—
Dividends per share	¥11.00	¥17.00	+¥6.00

Dividends per Share/Payout Ratio





helping to raise our profitability.

When replacing assets, we reviewed our portfolio, focusing mainly on assets with low efficiency and so we are able to minimize any one-time loss in the immediate future. We started with our non-resource businesses, quickly disposing of any assets that were both oversized and unprofitable. In terms of resource-based businesses, we not only continued to gradually sell off assets related to our petroleum gas

interests; we also obtained agreement from our partner on our thermal coal interests in Indonesia to sell off part of our holdings, in an effort to support sustainability. Meanwhile, we acquired new coking coal interests in Australia. As the only trading company to operate its own coal mine, we are using that function to make this coking coal business into a huge source of profits in the future. [▶ P. 30](#)

Overall, we made firm progress in improving the quality of our assets by narrowing our focus to resource businesses in fields where Sojitz can make full use of its functions while actively strengthening and expanding our non-resource businesses. As a result, we managed to improve both our ROA and ROE.

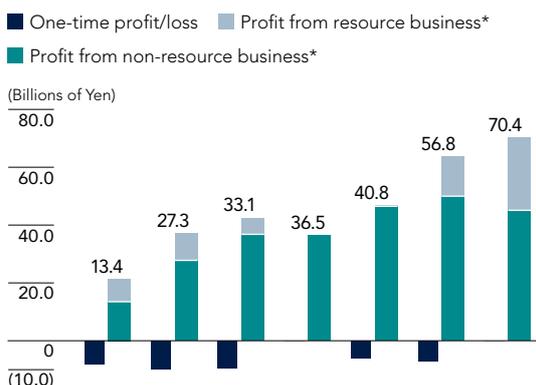
Heading into FY2019:

Each division will endeavor to expand its earning capabilities.

The business environment surrounding the Sojitz Group grows increasingly opaque. In light of this, we set our expected profit for FY2019 at ¥72.0 billion, an increase of ¥1.6 billion over the previous year. Although factoring in market conditions for coal and other materials in the second half of the year led us to set a rather conservative figure, in striving for the “steady growth” named in MTP 2020, we also incorporated earnings contributions from investments and loans that are marking steady progress and the growth of our existing businesses into our plans. If you take the market conditions we expected when we first formulated MTP 2020 and replace those with this growth, it should come to around 10% growth in profits over the previous year.

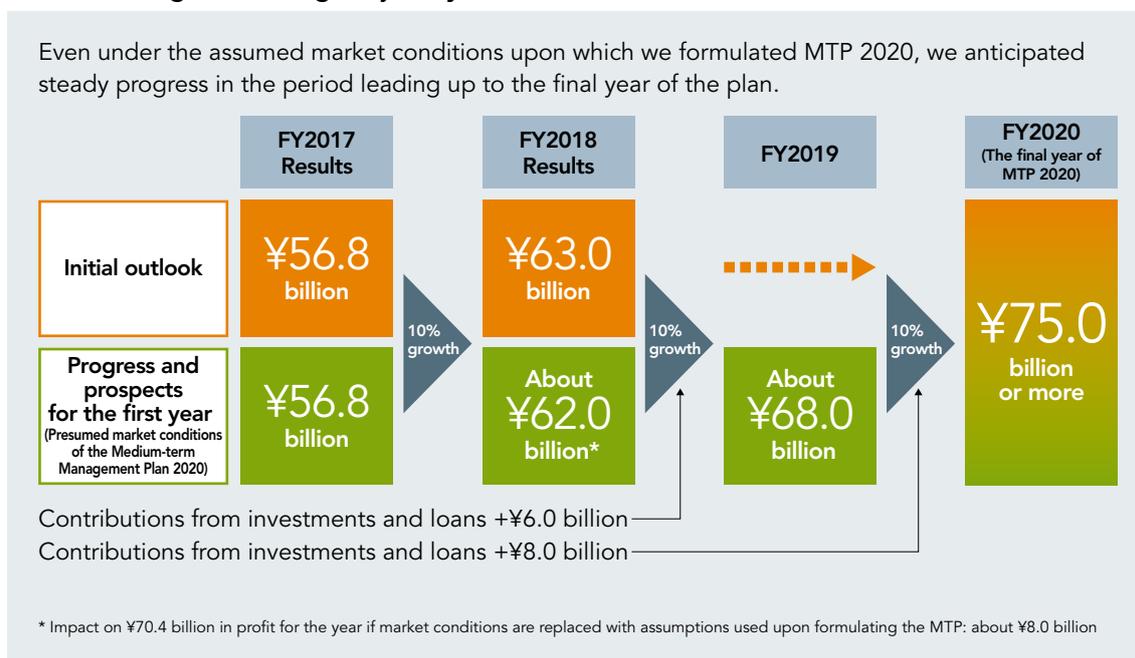
Our growth is driven by investments and loans, and in order to carry those out according to plan, every division will need to analyze the business environment in minute detail and maintain speedy decision-making while distinguishing between risks and opportunities. For divisions that have yet to show their full potential, the rest of the upper management and I will work to steadily raise their earning power over the remaining two years of MTP 2020, in close discussion with the COOs of the business divisions. [▶ P. 64](#)

Changes in Breakdown of Profit for the Year



* excludes one-time profit/loss

MTP 2020 Progress (Earnings Trajectory)



Preparing for the post-MTP 2020 period:

Displaying our full strength and driving further growth by taking on new business areas

MTP 2020 also serves as a time to prepare for the next Medium-term Management Plan, where we will aim to earn a net profit of ¥100.0 billion a year. We believe that expanding the company's functions, further strengthening the company's businesses, and transcending divisional and organizational boundaries to rally the combined strengths of our 9 divisions will lead to the creation of new functions that will help expand our earnings. There have been several projects brought to closing thanks to the complementary functions of the multiple business divisions involved, and we intend to continue to promote and enhance that aspect of our business.

We also regard the changes to business models brought about by the digital revolution and new technologies as new business opportunities, and we work to respond accordingly. As part of that effort, we set up the Business Innovation Office last year to collect and share information about innovation with the management in a timely fashion, in order to lay the groundwork for increased productivity and support our forays into new areas through

cutting-edge technology.

Furthermore, during FY2018, we set up new frameworks for innovation-related loans and investments, established a corporate venture capital in the U.S. to invest in start-up businesses all over the world, and invested in a venture fund in India, which has become a hub for some of the most prominent startups worldwide. We subsequently opened a liaison office in Bengaluru—a hotbed of IT professionals and young entrepreneurs—which we regard as the world's most important hub for innovation after San Jose in the U.S. We plan to leverage this office in Bengaluru to take the business creation know-how we have cultivated over the years and demonstrate this expertise in Asia, a region with plenty of room for development.

At the same time, it is important that we innovate the ways in which we work in order to increase productivity. We plan to expand the scope of the Robotic Process Automation (RPA) systems currently utilized by some of our divisions to improve the quality and efficiency of routine tasks. This way, employees will have more time to devote to creative activities, providing them with an environment that allows them to focus on realizing new concepts.

Sojitz's mission:**Existing in harmony with the natural environment while maximizing our "two types of value"**

At Sojitz, we always strive to create two types of value. Our mission is to maximize "value for Sojitz" and "value for society" and create a prosperous future.

I believe that trading companies were originally born from the desire to bring happiness to everyone in the supply chain by delivering the things people need. Making money from our trading activities must not come at the expense of the global environment or the interests of society. I am convinced that as the head of a general trading company, my mission is to make the best choices for all stakeholders.

I felt that more strongly than ever when I attended the opening ceremony for Shimojishima Airport in Miyakojima, Okinawa, an airport we have been managing since July 2018. Increasing our earnings from management and operation of the airport requires that we bring in as many tourists as possible. Although this will bolster the local economy, it will also bring increased environmental risks, such as the risk that tourists will pollute the island's beautiful ocean waters and require further urban development to accommodate them. How do you balance earnings with the risk of environmental damage? In my opinion, it is in precisely at times like this that we can demonstrate our value to society as a general trading company, in our ability to turn a variety of risks into long-term growth opportunities for stakeholders using our various functions, know-how, and personal networks.

And what about the growing global population? I believe we should pursue not only technology that harvests farm produce and aquaculture products for sale, but also aids in their production. This means the industrialization of fishing and agriculture, two fields where yields are heavily influenced by climate, region, and experience. We are taking on some new challenges where, if we are able to turn our daily operations and our past knowledge into big data and use AI and the IoT to carry out systematic manufacturing and shipping just as we do for industrial goods, I believe we can streamline the

whole supply chain and maximize stakeholder returns.

In recent years, a lot of people have wondered how corporations can help achieve the United Nation's Sustainable Development Goals (SDGs). I strongly believe that the core strength of general trading companies—i.e. their ability to turn risks into opportunities, which they then transform into long-term businesses—is directly related to the 17 SDGs. Sojitz's place in society is none other than to increase revenue through each of our businesses while maximizing value for all stakeholders and creating "two types of value."

Sustainability for Sojitz and society:**Announcing our endorsement of the TCFD and pursuing our long-term vision leading up to 2050**

As an evolution of the sustainability initiatives the company has pursued so far, last year Sojitz announced the "promotion of Sustainability Challenge," its long-term vision aimed at 2050. To fulfill that vision, we have defined "promotion of sustainability management" as one of the pillars of MTP 2020. I personally took up the post of Chairman of the Sustainability Committee and endeavored to spread understanding of this concept throughout the company, devise strategies to meet this vision, and share related information.

For example, when the business divisions are drawing up a business plan, I hold a meeting with all the COOs of business division to carefully examine the risks and opportunities in each field and then discuss strategy based on our findings. Meanwhile, when deliberating investments and loans for the whole company, I instruct the deliberating departments to thoroughly discuss and report profitability in terms of the sustainability of the business.

In other news, as part of our response to climate change, we adopted the proposals of the Task Force on Climate-Related Financial Disclosures (TCFD) in August 2018. We have since started to disclose the effects climate change has on our earnings and develop concrete plans to overcome these impacts. When it came to our developing a policy regarding

acquisition of thermal coal interests, the disclosure of which was requested by many investors, we discussed the issue repeatedly and determined that not only would we not obtain new interests in thermal coal, we would also reduce those assets by half or more by 2030. [▶ P. 40](#)

We at Sojitz intend to expand our “two types of value” to stakeholders all over the world by extending the scope of such ongoing activities. These sustainability measures are steadily receiving greater recognition from the market.

The Sojitz of the future:

Tackling new concepts and honing the “Sojitz Identity”

We live in an age of rapid transformation. For a trading company like us, this makes developing people with leadership ability a matter of utmost importance. Sojitz is working on formulating succession plans that will develop personnel into the next generation of management.

At the same time, we are also training young employees to make accurate decisions on the business frontlines. In recent years, we have hired hundreds of new graduates and are gradually erasing our stuffy and staid image. An important part of the process of turning these new hires into capable staff is allowing them to gain experience at our work locations in Japan and abroad.

The work of a trading company is dynamic, spanning the globe. But in a sense, it is also tough work that involves balancing the interests of a wide range of stakeholders. I am confident that our new members will gain the ability to manage people on the ground by approaching their work with the guts to change the world and accumulating a variety of experiences.

Fortunately, Sojitz has long had the kind of corporate culture that proactively provides new employees with opportunities to test themselves. Since young people rarely cause significant damage to the company’s results when they fail, I want them to take self-responsibility—that is, to have the autonomy and resolve to take responsibility for their decisions, wherever they may lead. Instead of being bound by past business models and viewpoints, I want them to use new ideas to create new value. That desire is

one of the reasons behind the current “Hassojitz” project, where we have young employees gather to discuss what they want Sojitz to look like in 2050.

The “Sojitz Identity” is defined by the company’s flat hierarchy, youth, speed, and *genba-ryoku**. As we move on, we will strive to create our “two types of value” and try new ideas without settling for the status quo.

* *Genba-ryoku*:

Refers to the combined capabilities of Sojitz Group members working on the ground—in offices, at project sites, in meetings with customers and clients, and other places of work around the world.

