

Message from the President

Building stable earnings foundations and a solid financial base with the management capabilities that we have cultivated, Sojitz will demonstrate our creativity and resilience in continuing to take on the challenge of value creation.



Masayoshi Fujimoto
Representative Director,
President and CEO

I express my sorrow at the loss of life and offer my heartfelt condolences to the families who have lost their loved ones due to COVID-19, and pray for the earliest possible recovery for those who have fallen ill or are facing difficult circumstances.

I also wish to convey my deep respect and gratitude to all the healthcare workers who are facing this pandemic on the medical front lines.

To fulfill the role of a general trading company

The cornerstone of our business is to deliver what people need, where they need it, when they need it. The disruption to the flow of people and goods that is a consequence of the corona crisis has caused the economy to stagnate. In these circumstances, we feel it is more important than ever to fulfill our role as a general trading company, ensuring that business continues and does not come to a stop. I believe our top priority in this role is to protect the safety and health of our employees, customers, and business partners.

With the recent spread of infection, our first move as upper management was to protect our employees from infection by taking the lead in enacting precautionary measures with the necessary care and speed.

More specifically, we effected a strengthened flextime system even before the WHO's declaration of a pandemic in order to

have employees avoid congestion on public transportation, and then from March we instructed all of our Tokyo HQ employees to telework as a general rule. Later, based on the government's plan of action and requests to businesses, we implemented a policy to ensure that the number of people working in the office was at 20% or lower.* Under the declared state of emergency, we encouraged employees who could not send their children to daycare or telework comfortably due to family responsibilities to take paid leave as necessary. We also established "Coronavirus Special Leave" as a new leave system to ensure employees would have enough paid leave at the end of the fiscal year.

We strive to take the initiative in creating new workstyles and environments that enable our employees to safely perform at their best. In the current situation with coronavirus, we are combining telework with in-office work that incorporates social distancing practices.

In addition, we have instructed the COOs of our business divisions on the front lines to keep in close contact with our customers and partners both in Japan and overseas, and to consider the impact of this illness individually and respond in a flexible manner.

* As of end of July 2020, we are operating with up to 50% of our employees working in-office.

Through our business

Making contributions to prevent the spread of infection and enhance medical care

We have also been carrying out initiatives to prevent the spread of infection and to enhance medical care both in Japan and overseas through our Group's businesses.

There was a period when masks were almost impossible to acquire as the outbreak of infections escalated. This mask shortage is undoubtedly still fresh in people's minds. At the time, Sojitz received an urgent request from its daycare business regarding a shortage of protective face masks for daycare workers. In response, we worked with Daiichibo Co., Ltd., a Sojitz Group company, to manufacture masks to prevent the spread of infection, as well as further our Group business. Daiichibo had already made preparations to allocate fabric used for other products towards mask production, and we were able to distribute masks not just to the front lines of our daycare business, but also to all Sojitz Group employees.

In addition, in May 2020, we opened the Basaksehir Çam & Sakura City Hospital, a public-private partnership hospital management project in Istanbul, Turkey. This hospital was opened and became fully operational four months earlier

Basaksehir Çam & Sakura City Hospital

Number of beds: 2,682

Total project cost: Approx. ¥200.0 billion

Investments and loans from Sojitz: Approx. ¥30.0 billion



The exterior of the hospital



The management and control center



Hospital room

than its planned completion date in order to take in as many COVID-19 patients as possible, as the virus spread in Turkey.

There have been many people infected in this global pandemic, and I am proud that Sojitz can support medical frontliners who are struggling with limited personnel and suppliers. As a company that is engaged in medical care industry, we are driven by a great sense of responsibility.

A look back at FY2019:

Meeting generally our forecast of real profits

FY2019 was the second year of Medium-term Management Plan 2020 (hereinafter referred to as "MTP2020"), and saw a difficult business environment with the world economy decelerating due to trade frictions between China and the U.S. For Sojitz, all businesses involved in raw materials—such as chemicals, iron, and steel—experienced a slowdown, and our automotive and fertilizer businesses struggled. In addition, a sluggish market meant that we revised our performance target for the financial year downwards, from ¥72.0 billion to ¥66.0 billion, when we announced our financial results from the third quarter. As planned, we focused on thorough cost reduction and asset replacement mainly in the power generation business. As a result, we were able to reach our revised target of ¥66.0 billion in real profits. However, we did suffer losses at the end of the year due to the sudden fall in oil and gas prices. Additionally, we faced increased tax costs due to a decrease in projected income from the effects of the pandemic in FY2020, which was reflected in our final profit for the year of ¥60.8 billion.

Consequently, in terms of profitability, our ROA was 2.7% and our ROE was 10.2%; the ROE exceeded our MTP 2020 target of more than 10%, but the ROA fell slightly short of our 3% target. We predict that this difficult business environment caused by the corona crisis will continue in the future, but improving the profitability of each of our business divisions will lead to an improved ROE.

Commitments on the measurements of non-financial issues

In addition, FY2019 was also a year in which we steadily carried out initiatives on the non-financial front.

Sojitz is working towards achieving our long-term vision for 2050, the Sustainability Challenge. In order to do so, we are holding dialogues between each business division and outside experts, as well as continuing to deeply discuss the risks and

opportunities associated with decarbonization. In terms of decarbonization initiatives, we announced policies in May 2019 relating to the coal interests business and the coal-fired power generation business: 1. Reducing the assets of our thermal coal interests to half or less by 2030; 2. In principle, not acquiring new thermal coal interests; and 3. Not undertaking new initiatives in the coal-fired power generation business. We have been progressing with these policies, and we sold one of our thermal coal interests in Australia in March 2020.

We are also concentrating on our initiatives to reinforce corporate governance. Following the General Shareholders' Meeting in June 2020, we have added an outside director. This means that outside directors now make up over 40% of the Board of Directors. We have also appointed Mr. Norio Otsuka, an outside director, as Chairman of the Board of Directors. Each of our outside directors offers objective opinions and level-headed counsel, and moving forward I wish for us to create a Board that is unencumbered by conventional constraints. We hold daily discussions on the status of the Nomination Committee and the Remuneration Committee, and strive to further strengthen our supervisory function and ensure transparency in our management.

These initiatives are evaluated by global ESG assessment organizations. In the future, we will raise awareness together as a company and continue with these initiatives, making them a driving force to further increase our corporate value.

Heading into FY2020:

Unwavering perseverance in a difficult environment to achieve growth through investments and loans

While the difficult management environment of FY2019 is behind us, FY2020 is going to be even tougher. The automotive, retail, and raw material (steel, and chemicals) fields are experiencing a partial suspension and slowdown of business activities due to the impact of lockdown restrictions and suspended and slowed operations worldwide. In particular, we expect that in the future there will be restrained purchasing of vehicles, houses and condominiums among other durable goods. Performance is expected to be impacted by a declining demand in the steel industry, which includes the automotive industry. Considering these conditions, when we calculated the initial full-year forecast for the year at the beginning of FY2020, we assumed there would be a reduction of ¥23.0 billion due to the impact of the COVID-19 pandemic. Moreover, in anticipation of business sales

and alliances, structural reform expenses of ¥5.0 billion were incorporated into forecasts as a restructuring fund to strengthen our earnings foundation and finances, and so our initial full-year forecast of profit is ¥40.0 billion. Three months on from the start of the year, we have seen many of our major business activities generally progress in the way we assumed they would at the start of the year. However, we expect that there will be a drop in demand and slow recovery in the iron and steel industry (including the automotive industry), which will impact our performance. Therefore, to my great regret, we have revised our forecast of profit for the year to be ¥30.0 billion, based on our financial results in the first quarter of FY2020.

That being said, even in this pandemic, we will maintain our policy to pursue profit growth through earnings contributions from investments and loans, which have driven of growth up until now.

In the three years of MTP 2020, Sojitz has come to focus our efforts on making investments and loans of around ¥300.0 billion. Now, as the second year has ended, we have invested and loaned ¥170.0 billion, and expect to invest around ¥100.0 billion in the remaining year; we still have sufficient strength to

accomplish this aim. Of course, the timing of any monetization may be slightly delayed as a result of changes in the external environment, but we can see projects that will start operations and monetize within one or two years. It is precisely because we are in a difficult environment that I feel we are correct in the measures that we have continually carried out thus far.

Proving our resilience by enhancing our growth foundation

As we face the rampant spread of COVID-19 around the world, I have been prompted to reflect back on Sojitz at the time of the financial crisis in 2008 that shook the global economy more than 10 years ago.

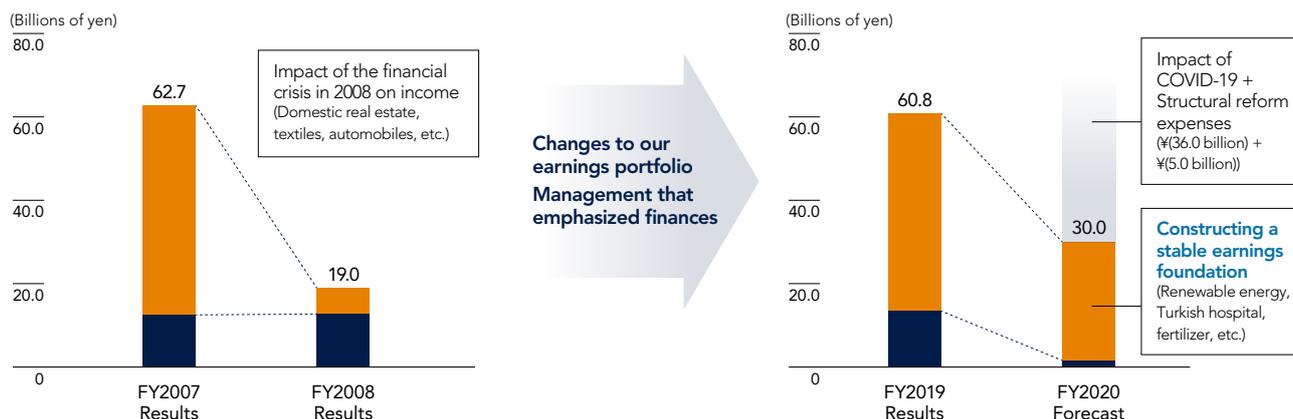
The Sojitz Group now is very different to what it was in the past.

First, for nearly ten years we have continued management that emphasized cash flow as part of our financial strategy. As a result, even during the corona crisis, we see that our financial foundation remains unshaken. In addition, generations of executives—myself included—have shifted the focus of our business portfolio from resource to non-resource

Changes to Sojitz's earnings and profit structure Example: Financial crisis in 2008 → Spread of COVID-19 (FY2020)

Profit for the year (Billions of Yen)

■ Resource business ■ Non-resource business



Risks presented due to the financial crisis in 2008

- Inventory risk: Loss of retained inventory accompanying sudden decline in demand
- Exchange risk: Exchange losses accompanying sudden depreciation of currencies in emerging countries

Sojitz's response to risks after the financial crisis in 2008

- Implemented a thorough risk management system for inventory and exchange risks
- Emphasized financial foundation management

Strengthening our non-resource businesses

- Constructing a stable earnings foundation (with around 70–80% of our income from non-resource businesses)
- Continuing our existing businesses, including our aircraft and fertilizer businesses, in addition to growth investments in the Turkish hospital business and the renewable energy business, etc

Reviewing our resource businesses

- Promoting reviews of upstream energy interests
- Selling Australian thermal coal interests and strengthening our coking coal business from a sustainability standpoint



businesses, such as renewable energy and hospital management. Through this shift we aimed to construct a stable earnings foundation, focusing our efforts on building up our earnings capacity in non-resource fields. At the same time, we sold assets not only from projects with low asset efficiency, but also from projects where asset value had increased, all the while simultaneously accumulating quality assets.

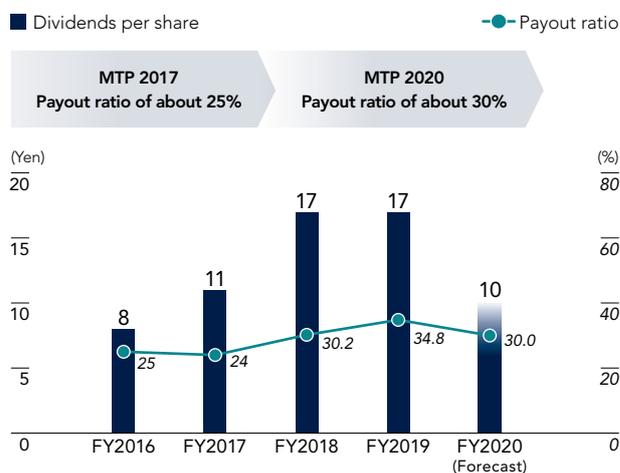
Looking at our stable earnings foundation and strong financial foundation today, we can see how our past efforts have come to fruition. These achievements are proof of Sojitz's resilience. We plan to continue our basic policy to make carefully-selected investments and loans, accumulating quality assets with speed by unifying management and on-site frontline workers in order to continue to drive the improvement of the quality of our assets.

Paying stable dividends on an ongoing basis in accordance with our basic policy

Finally, with regard to shareholder returns, the yearly dividend for FY2019 was ¥17.0 per share, and the consolidated payout ratio was 34.8%. We also acquired 30 million shares of treasury stock, a first for Sojitz. Similarly, in FY2020, we aim to make stable, ongoing payouts to our shareholders at a consolidated payout ratio of around 30% in accordance with the basic policy of MTP 2020. The effects of COVID-19 are still unclear in some areas, but

in August 2020, the dividend forecast for FY2020 was ¥10.0 per share. The consolidated payout ratio will be 40%. Sojitz maintains its basic policy of paying stable dividends on an ongoing basis, and this ratio takes into consideration the idea that performance levels affected by COVID-19 will not be permanent, combined with the fact that we predicted a profit of ¥40.0 billion for the full fiscal year, based on guidance from the start of the year. We will continue to increase revenue as we have before, even during the corona crisis, ensuring that we stay on track with the speed of our growth cycle and increase our corporate value, which I hope will lead to rising share prices and dividends.

Dividends per Share/Payout Ratio



“Two types of value” in the post-corona era

People's values will continue to change significantly post-corona. The evolution of supply chains and distribution systems will accelerate even more, and the Fourth Industrial Revolution will become a reality. In the past, we have seen Japanese companies pursue “optimal production” by setting up overseas supply chains to cut production costs, consequently concentrating production to specific regions. This is an issue in Japanese industry as a whole that has come to light during this corona crisis, and I believe that we must quickly rethink this model of production. To a certain extent, it may even be necessary to return to domestic production in Japan. Alongside a review of our supply system, I believe that it is important to focus our efforts both on assessing quality goods even at a higher price, and on correctly conveying their value.

As we move towards a post-corona era in this final year of MTP 2020, we are considering

investments in fields related to healthcare and infrastructure, including electrical power. In addition, we plan to expand our retail business even further, focusing on Southeast Asia, as we work towards stable monetization.

In this context, I am focusing my attention on strengthening primary industry, namely agriculture. During the recent corona crisis, the movement of people and goods across national borders has slowed considerably, and the inclination towards national protection has become stronger. As part of this, I think that improving the food self-sufficiency rate is likely to be an urgent issue.

My aim is also to create employment in rural areas. The Japanese economy is heavily concentrated in urban areas, and depopulation has become a major issue in rural areas. Local industry is gradually disappearing, and jobs are vanishing. This creates further regional disparity. I believe that our general trading company must lead efforts to stop this negative spiral, creating an economy that is rooted in local communities together with a variety of stakeholders.

This may be idealistic, but I think it would be beneficial to build a structure that could change the current agricultural system in Japan by enabling “agricultural corporations” to make general public offerings. If we were to manage the risks of abundant harvests and failed harvests as a business while generating good profits, this would lead to an increase in the number of people employed at “agricultural corporations,” increasing the active population in local areas.

For example, it’s known that in Vietnam there is a large percentage of tenant farmers among the farming population. In February 2020, Sojitz invested in an agricultural start-up to support “industrialization” that will carry out data-driven farming, without relying on farming experience. Our partner offers environmentally-friendly solutions that can improve productivity, from developing IoT and AI service software in the agricultural field to creating hardware devices. In addition to promoting smart agriculture in Vietnam, Sojitz will utilize its long-cultivated network in the food and agricultural sectors in Vietnam and other regions, to accelerate the development of a high added-value food and retail businesses. Through these added-value businesses, I would like to contribute to the creation of employment in local areas and to stimulate the economy.

These are also activities that are directly linked to the 17 goals of the SDGs. We will pursue value for our various stakeholders as we build up the profits of our company through our business activities. A general trading company’s mission is to achieve both these

aims, and this is also the ideal form of “prosperity” set out in the Sojitz Group Statement.

While the corona crisis has highlighted the power of the digital world, we have also been reminded of the importance of human interaction and face-to-face communication. As a general trading company that is close to and deeply rooted in people’s daily lives, we will continue to strengthen our unique trading company know-how, networks, and functions. In doing so, I wish to pursue the “prosperity” envisioned by Sojitz.

Training talent who will create new value

In April 2019, I made a visit to observe a Chinese automobile manufacturer. In fact, I visited this same factory around 15 years ago when I was the general manager of the Automotive Division. It was very surprising to see the remarkable progress in vehicle efficiency and factory equipment. What Japan had worked on for around 50 years had been accomplished in just 15 years. I felt firsthand the rapid speed of industrial progress.

In this age, human resources are the driving force that will create new value. It is critical that our employees carefully discern the quality of goods without being bound by preconceived notions of the past. In FY2019, we started an initiative called the “Hassojitz Project,” which brings together young employees so they can freely exchange business ideas and transcend the boundaries of their departments. The project aims to identify the strategies and issues we should focus on in the present by first envisaging the social environment of 2050 and then backcasting from this time.

As we encounter the drastic changes of our time, we expect our employees to make fresh discoveries with a youthful perspective, and to take responsibility



Visiting an overseas operating company and cultivating “Genba-ryoku” through exchanges between on-site employees.



with readiness to achieve these ideas. We look to our employees to consider which networks can be used to address familiar needs, and to think about how to change our social structures. In addition to demonstrating self-reliance and inquisitive thought, our employees must have the ability to take a backcasting approach—to think about the ideal future and then work backwards. To cultivate such talent, we are introducing a system that encourages growth by providing opportunities for overseas experience and education programs that transcend the boundaries between business divisions. Additionally, we offer on-site management experience at businesses in Japan and overseas from early on in an employee's career. My mission is to foster young employees in an open organization with speedy decision-making, and to create an environment that will cultivate truly global "Genba-ryoku*" unique to Sojitz.

* 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 in other places of work around the world.

Looking towards a new era

Sojitz has continued to respond to rapidly changing times. Cultivating our function as a general trading company by assessing the needs of the market and generating new ideas, we have built a relationship of trust with all of our many stakeholders through our diverse businesses. It is no exaggeration to say that our growth strategy has been supported by these unique functions and our strong business foundation.

In the future, we will further reinforce our business foundation and our functions by finding opportunities in change and continuing to take on challenges with new ideas. We will also pursue ways of contributing to the development of our stakeholders. In the coming era, we will keep generating "two types of value" and achieve sustainable growth so that Sojitz Group can continue creating prosperity for all of our stakeholders.