

Ongoing Strides Toward Our Next Stage

Framing of Global Changes as Opportunities for Transformation

A devastating blow struck the global economy with the COVID-19 pandemic in early 2020. The pandemic also had a massive impact on people's values and lifestyles, which rapidly accelerated changes in the operating environment. In the last year's integrated report, I likened the period of great transformation we are in today to the historic Meiji Restoration that fundamentally changed Japan.

A year has passed since we issued that report, and over that year we have seen a gradual dissipation to the impacts of the COVID-19 pandemic along with the alleviation of restrictions on the movement of people and goods. These trends have spurred recovery in various industries. Nevertheless, several recent developments are threatening to undermine the assumptions on which we based our business strategies. These developments include rising interest rates and commodity prices, fluctuations in foreign exchange rates, and, of course, the growing geopolitical risks stemming from Russia's invasion of Ukraine. There seems to be no end to the areas impacted by such changes. I therefore think that no one can deny the fact that we are in an era of great and global transformation.

Given these changes, one question that comes to mind is whether there is a need for Sojitz to change its course going forward. Sojitz announced Medium-Term Management Plan 2023—Start of the Next Decade in April 2021 along with its vision for 2030 of becoming a general trading company that constantly cultivates new businesses and human capital. This vision was formulated based on exhaustive discussion within the organization about the type of company that Sojitz should aspire to become over the next decade. Transformation was one of the fundamental assumptions on which we based this vision. The global environment is growing increasingly more opaque, and it can be expected that the emerging megatrends will have an ever-growing impact on corporate activities. Examples of these megatrends include the accelerated pace of digitalization; the rising awareness regarding environmental, social, and governance (ESG)



Masayoshi Fujimoto

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issues; and the diversification of people’s values and needs. These changes will make it difficult to predict the course of the next decade. Surviving this era of great transformation will require that Sojitz transform itself. Based on this recognition, we saw a need to reflect on our point of origin as a general trading company. Through this reflection, we came to recognize the importance of increasing corporate value by creating businesses and human capital that respond to market needs and social issues through the fulfillment of our mission as a general trading company: delivering goods and services where necessary. Earlier, I spoke of the great changes seen over the past year. Despite these changes, let me assure you that there will be no change to the course for Sojitz.

[Nichimen Corporation and Nissho Iwai Corporation, Sojitz predecessors, trace their roots back to the time of the Meiji Restoration](#) ^A. Both companies were diligent in their efforts to adapt to the changes seen in Japan after their founding. This was done by investing in numerous new businesses to fulfill their mission of delivering goods and services where necessary in the market of Japan. Through such investment, our predecessors transformed their business models and achieved ongoing growth. This is the point of origin for Sojitz of today. In the current era of great transformation, Sojitz is pressed to frame the changes in Japan and around the world as opportunities. To capitalize on these opportunities and move us toward our vision, we have defined the four priorities of adopt local market-oriented initiatives, collaborate proactively, strive for speed, and aim for corporate and employee transformation. Adopting local market-oriented initiatives is imperative to fulfilling our mission of delivering goods and services where necessary. If we become trapped in a product-oriented mindset centered on Japan, we will be unable to deliver goods and services where necessary in other areas of the world. Accordingly, it is crucial for us to develop an intimate understanding of the sensibilities of people across the globe in order to identify the goods and services of which they are in need and to pinpoint the true issues faced in various regions.

One example of our efforts in this regard can be seen in Sojitz’s entry into the convenience store business in Vietnam. If we had just exported Japanese convenience stores to Vietnam, they would not have resonated with the people in this market. This is because the necessary goods and services differ by market. When we first entered this market, we were locked into a product-

oriented mindset based on our experience in Japan. This mindset shaped how we stock our stores and made for an approach that proved to be unsuccessful. Today, however, we are turning an intent eye to the goods and services that consumers in Vietnam truly need. As a result, our convenience stores now feature lineups of the fresh foods in demand in this country alongside Japanese-style rice balls, prepared meals, and boxed lunches, making for stores that are more tailored to local preferences and communities.

When it comes time to conduct a new business investment, I try to actually visit the site whenever possible. This is because speaking directly with customers and partners and getting a sense from within the market grants insights that cannot be viewed from the outside. I am confident in our ability to become a general trading company that constantly cultivates new businesses and human capital by framing global changes as opportunities and using these opportunities to transform and grow in this manner.



Resumption of direct exchanges with overseas business sites amid dissipating impacts of COVID-19 pandemic
Nike Inc. founder Phil Knight (right) with President Fujimoto

President Fujimoto visiting major Vietnamese papermaker Saigon Paper Corporation (acquired in 2018)

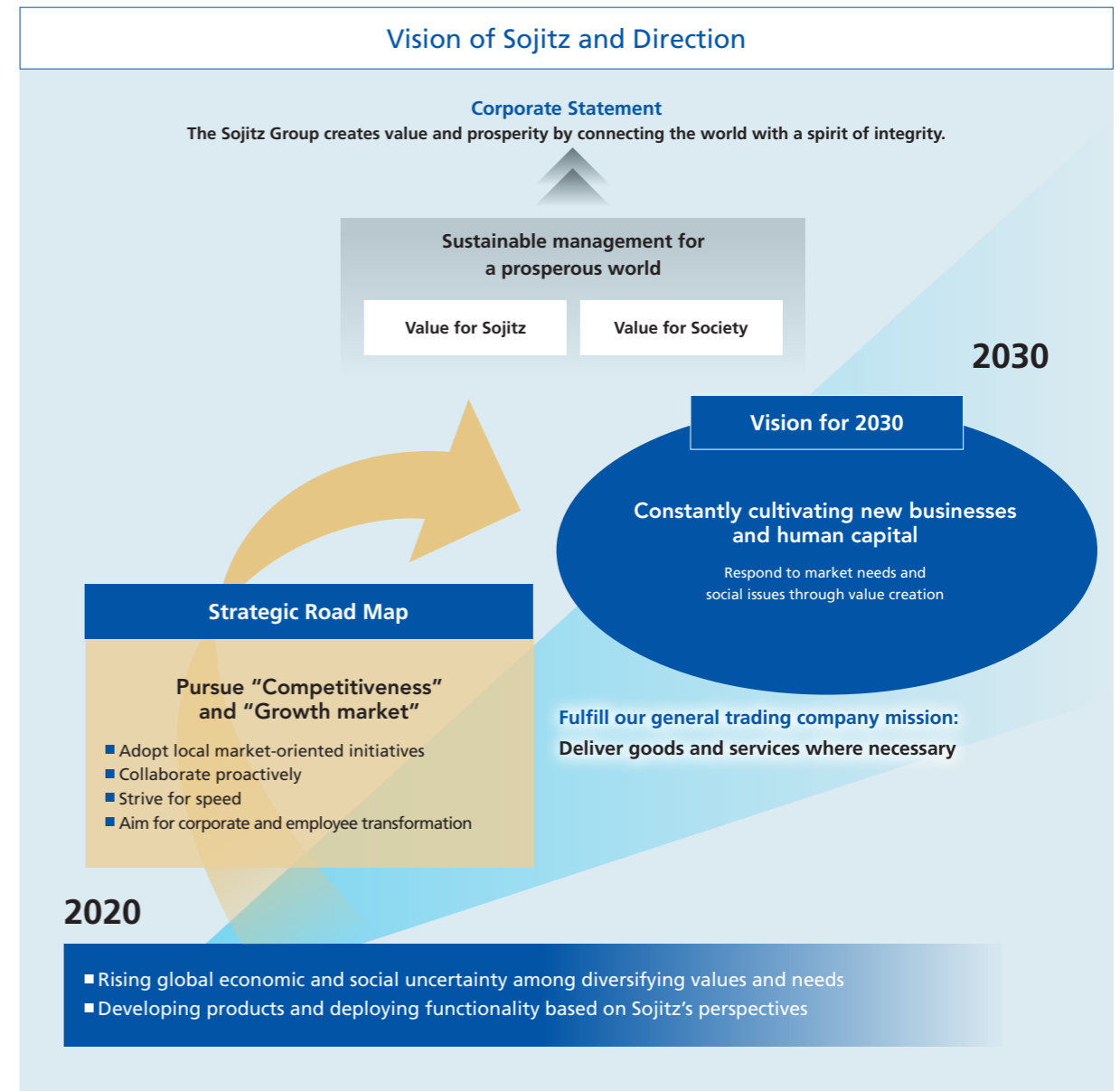
Highest Level of Profit for the Year Since Sojitz’s Inception

When formulating Medium-Term Management Plan 2023, we placed emphasis on ensuring that we could effectively communicate Sojitz’s vision and strategies for accomplishing this vision to investors and other stakeholders in order to gain their understanding for these strategies. Our communication efforts have been highly regarded. Specifically, *Integrated Report 2021* has won the grand prize in the 1st NIKKEI Integrated Report Award program. I am thankful for this honor as well as for the positive evaluation of our communication efforts by external stakeholders that it represents. As our next step, it will be important for us to walk the path toward our vision together with stakeholders while making sure that we effectively communicate how far we are along this path. In explaining our progress,

I would like to begin by explaining our [quantitative performance](#) ^B in the year ended March 31, 2022, the first year of Medium-Term Management Plan 2023.

From the perspective of creation of shareholder value, we have set quantitative targets for the three-year averages of return on equity (ROE), profit for the year (attributable to owners of the Company), core operating cash flow,* and dividend payout ratio over the period of Medium-Term Management Plan 2023. In the year ended March 31, 2022, we posted profit for the year

(attributable to owners of the Company) of ¥82.3 billion, our highest level since our inception in 2004. This feat was accomplished thanks to the beneficial environment created by strong commodity prices and the rebound from prior declines in demand seen in material-related businesses in the previous fiscal year as a result of the COVID-19 pandemic. In addition, ROE and core operating cash flow both exceeded the levels targeted by the plan while dividends not only surpassed our target but also rose to a record high.



^B For more information, please refer to page 21.
Information on progress toward quantitative targets

^A For more information, please refer to page 4.
Information on the business creation efforts of Nichimen Corporation and Nissho Iwai Corporation

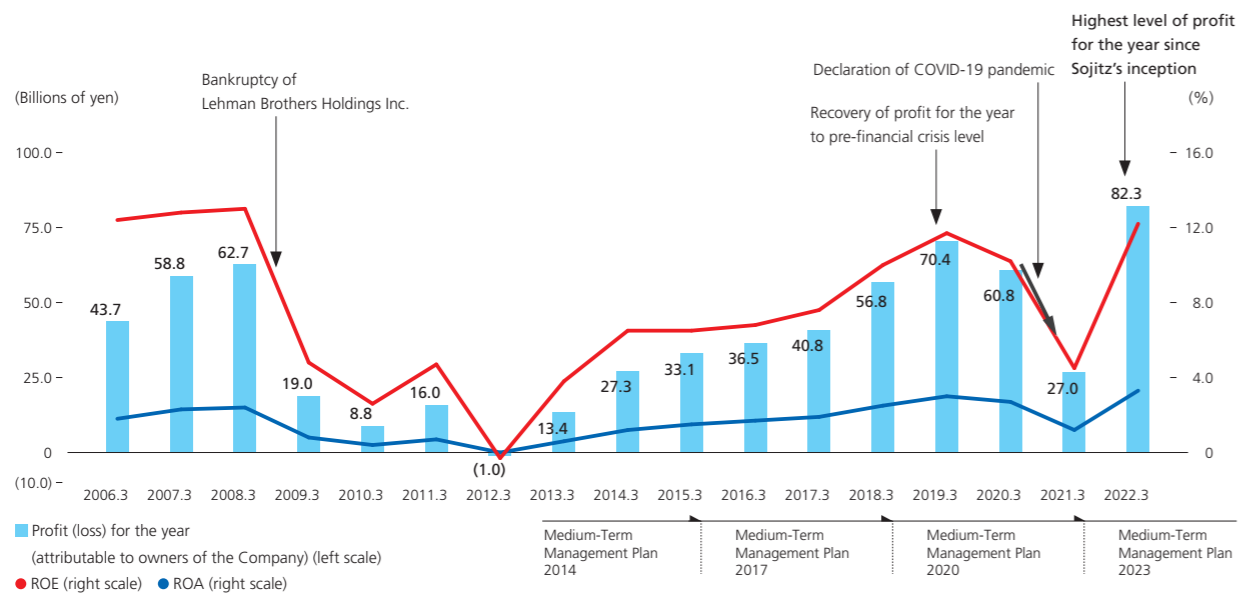
When I think about it, the greatest challenges Sojitz faced at the time of its inception were restoring the strength of its financial base and restructuring management. We tackled these challenges by practicing the selection and concentration of business while downsizing assets and liabilities and otherwise working to restructure management. We were thereby able to achieve net income in excess of ¥60.0 billion in the year ended March 31, 2008. However, the ensuing 2008 global financial crisis suppressed the revenue of our resource-related businesses, which had been the driver behind revenue growth up until that point, triggering a downturn in performance. Sojitz thus moved on to a stage of reinforcing foundations and engaging in new undertakings to spur future growth. This stage saw us practicing asset replacement to improve the quality of our asset portfolio and creating and expanding new revenue-generating businesses in order to heighten our resilience to market changes. After reinforcing its foundations during this stage, Sojitz went on to post higher profits for seven consecutive years beginning with the year ended March 31, 2013. Our history has not always been an easy one. There have been times when changes in the operating environment have presented us with adversity. However, Sojitz has continued to overcome this adversity by transforming itself in response to such changes. It is true that profit for the year declined in the year ended March 31, 2021, as a result of the COVID-19 pandemic. Nevertheless, we were able to quickly bounce back to post record-breaking earnings in the year ended

March 31, 2022, as I mentioned earlier. Moreover, this feat was achieved in a year rife with uncertainty, such as that resulting from Russia's invasion of Ukraine late in the fiscal year. Our ability to succeed even in the face of adversity is a product of the management foundation we have continued to reinforce through self-transformation since Sojitz's founding. Last year, I spoke about how there is no need to remain attached to businesses and product lines that are no longer "in season" and have thus ceased to have meaning for the Company. To add to this point, if we become complacent with our current status, then we cannot hope to keep growing. This belief has continued to guide my management approach ever since I became president in 2017. As such, I have decisively called for the reorganization of and withdrawal from no-longer-relevant businesses while also promoting aggressive investment in new businesses. Maintaining this momentum, we strive to furnish effective responses to social changes and to use these changes as opportunities to start new businesses and offer new products that will be coming "in season" in pursuit of future growth.

* Core operating cash flow = Net cash provided by (used in) operating activities (as calculated for accounting purposes) – Changes in working capital

Aggressive Growth Investments Centered on Focus Areas

Growth and financial discipline is another perspective based on which we have set quantitative targets. From



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this perspective, we have gotten off to a strong start with performance surpassing our initial expectations.

Specifically, I refer to the target of investing ¥330.0 billion, including ¥30.0 billion in non-financial investments, over the three-year period of the medium-term management plan. In line with the plan, we conducted investments over the past year totaling ¥150.0 billion, including ¥10.0 billion in non-financial investments, which represents roughly half of the targeted amount. I would now like to explain these targets in accordance with the focus areas defined by Medium-Term Management Plan 2023.

The first of these **focus areas is the infrastructure and healthcare field, where we work with essential infrastructure** [C]. In this field, we have invested in an energy service company in the United States to furnish the foundations for the transition to a decarbonized society. We also commenced capital participation in an electricity and gas retail company in Spain. To support ongoing growth in emerging countries, meanwhile, Sojitz conducted investments in a natural gas-fired independent power producer and desalination project in the Middle East as well as in a gas retail company in Nigeria. As a general trading company, I believe our goal in the energy business should be to offer a reliable supply of energy. Accomplishing this goal will require us to extend our involvement beyond upstream power generation businesses to include the supply of the generated power to users in need. The investments made in the year ended March 31, 2022, namely those in a U.S. energy service company, an electricity and gas retail company in Spain, and a gas retail company in Nigeria, will allow Sojitz to

branch out from generating the necessary power to develop operations that encompass sales. We are thus now able to directly gain information on the issues faced by the market. This expansion of our business domain has also poised us to create new value based on a market-oriented perspective in infrastructure businesses.

The next area is growth markets, which will be approached through market-oriented initiatives. In this area, we concluded a capital and business alliance with Royal Holding Co., Ltd., a major domestic player in the food service industry, in February 2021. Through this alliance, Sojitz aims to expand this company's restaurant business as well as the in-flight catering business of Sojitz Royal In-flight Catering Co., Ltd., into Southeast Asian and other emerging countries.

Other investments in this area include the acquisition of all shares of marine food product processing company The Marine Foods Corporation in February 2022 as well as the completion of a tender offer bid for shares of JALUX Inc., which operates stores in airports as well as duty-free shops, in March. The latter was a joint undertaking with Japan Airlines Co., Ltd. In the past, it has been rare for Sojitz to take part in business-to-consumer operations in the domestic retail market. However, we have acquired the functions necessary developing such operations with a focus on market needs through these investments. For example, Marine Foods has a leading share in the domestic market for sushi ingredients backed by a network of more than 40 sales offices and a customer base of over 4,000 companies across Japan. I see significant potential for synergies with this company that could allow us to

[C] For more information, please refer to page 28.

Information on essential infrastructure businesses



A video of President Fujimoto's visit to the marine food product processing site of Marine Foods subsidiary Kushiro Marusui Co., Ltd., can be found on the following website. https://www.sojitz.com/en/ir/reports/ceo_video/

diversify production bases, approach new ingredient suppliers, and expand our sales channels to overseas markets. The United States is one market that we intend to target. Diets are growing more diverse in this market, and the accompanying rise in health consciousness is stimulating a strong interest in Japanese culinary culture. Sojitz looks to deliver Japanese cuisine to dinner tables in the United States in order to cater to the demand generated by this trend. In doing so, we will take advantage of the sushi ingredient and processed marine food products of Marine Foods as well as the tuna farming operations Sojitz has been developing for some time. This is just one example of how we can combine the functions of partner companies with Sojitz's global network. Going forward, this approach will be used to accelerate our efforts in the retail fields of Vietnam, where Sojitz already has an established value chain for food products, and of other growing ASEAN markets.

The last of the three focus areas is the material and circular economy field. Unfortunately, we were unable to build our asset portfolio in this field. Competition is intensifying in this field, making investments more expensive. Accordingly, we are currently at a stage in which we need to carefully assess potential investment projects to determine how Sojitz will be able to best exercise its strengths in this field. At the same time, we are actively laying the groundwork for businesses that will contribute to future revenues as well as to the trend toward a circular economy, which has been gaining steam as of late.

Our business model as a general trading company is in the process of shifting from upstream areas to

downstream areas in all value chains. This is a statement that also applies to fields outside of the aforementioned focus areas. When thinking about the smiling curve business management theory, a common topic of discussion is whether trading companies should focus on upstream areas, which mainly mean resource areas, or downstream areas, like retail and other areas that directly impact consumers. I, however, think that we should invest in developing a presence in both upstream and downstream areas. Sojitz is committed to advancing market-oriented initiatives. These initiatives will be founded on an up-to-date understanding of trends and changes in the global society and will target fields and regions in which we can capitalize on our strengths. Through this approach, Sojitz will continue to transform its business portfolio.

Human Resources as Most Important Form of Capital for General Trading Companies

Medium-Term Management Plan 2023 places emphasis on non-financial initiatives for the purpose of reinforcing the foundations that support our ongoing creation of value. Human resources, an area of focus when it comes to non-financial initiatives, are central to Sojitz's value creation efforts. A glance at [Sojitz's value creation model](#) ^D should make this clear. Today, a lot of attention is being directed toward the importance of management emphasizing human capital. There is no denying that human resources are the most important form of management capital for the business models of general trading

companies like Sojitz. We have defined the vision for our [human resource strategies](#) ^E as to develop a team of diverse, autonomous individuals, and we have put forth key performance indicators (KPIs) for human resources based on this vision. As we move ahead with data-driven management emphasizing human capital, we will also employ dynamic and flexible KPIs that can be revised based on changes in the operating environment trends and in the degree of dissemination of human resource measures. KPIs are monitored based on this approach of flexibility. We thereby aim to develop frameworks that stimulate the growth of all employees and tie this individual growth to the growth of the Company.

One factor I am paying particular attention to in our human resource strategies is the empowerment of female employees. When you break down Sojitz's employee base by demographic, you will see that more than 30% of our employees are over 50. We have in place a system for rehiring employees who have passed the mandatory retirement age of 60 based on Japan's Act on Stabilization of Employment of Elderly Persons. Nevertheless, this does not change the fact that many of our employees will end their careers at some point over the next decade. Meanwhile, Sojitz has set the goal of raising its ratio of female employees to around 50% by the 2030s. If, despite our efforts, a large number of female employees currently in their 20s, those recruited through aggressive hiring drives, choose to temporarily halt or end their careers due to life events, Sojitz will obviously find itself with a lack of human resources, its most important form of capital. Sojitz will, of course, maintain its focus on empowering its female employees based on the recognition that a workplace which is comfortable for women is also comfortable for men and for all other employees. However, this is an issue that Sojitz cannot fully address on its own; a fundamental resolution cannot be found if society itself does not become more receptive toward diversity. For this reason, I think that tracking our progress on this front through KPIs and communicating our efforts and the progress of our KPIs to a wide range of stakeholders will send a meaningful message with regard to Japan's human resource strategies.

Another area we are focused on when it comes to human resources is the utilization of locally hired employees. We are actively encouraging involvement in management by talented local hires exhibiting excellence in their respective countries in order to ensure that Sojitz is effectively equipped to promote market-oriented initiatives

around the world. We have been gradually seeing the results of these efforts in forms such as a rise in the representation of local hires among the management of overseas subsidiaries. However, as we have just gotten started with these initiatives, there is a need for ongoing perseverance.

Sustainability Initiatives for Seizing Future Growth Opportunities

[Sustainability initiatives](#) ^F are among the top priorities for corporate management. In accordance with its philosophy of creating two types of value—value for Sojitz and value for society—Sojitz has formulated the Sustainability Challenge, its long-term vision for 2050, based on its Key Sustainability Issues (Materiality). In addition, Medium-Term Management Plan 2023 is guiding the implementation of measures based on the overarching themes of helping achieve a decarbonized society and promoting respect for human rights. We thus focused on measuring and tracking climate change response measures in the year ended March 31, 2022. Particular attention was paid toward Scope 3 emissions as we sought to develop an understanding of the decarbonization-related risks faced across our supply chain. Qualitative assessments of our business sectors were conducted toward this end, and we also commenced quantitative measurements of our operations in the power generation sector. In addition, the Company plans to expand the scope of measurement and tracking activities to include Scope 4 emissions, or avoided emissions. We also took steps to verify the measures for responding to human rights risks in place at business sites as part of our efforts to ensure that human rights are protected across the Sojitz Group's wide-ranging supply chains as a general trading company. This process confirmed that no major human rights issues have occurred.

Coal interests are currently a pillar of Sojitz's earnings. Regardless of their importance to our earnings, in the Sustainability Challenge we have defined our goals of reducing thermal coal interests by half by 2025, a goal that we have already achieved, and of completely eliminating these holdings by 2030. The base year for this goal is the year ended March 31, 2019, and targets are based on the book values of interest assets. The Sustainability Challenge also puts forth the goal of reducing coking coal interests to zero by 2050. If you look just at our earnings from coal interests, it might seem as if we had to make some difficult management decisions in order to work



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^D For more information, please refer to page 1.

Information on Sojitz's value creation model

^E For more information, please refer to page 56.

Information on human resource strategies

^F For more information, please refer to page 48.

Information on sustainability initiatives


toward these targets. However, this is not the case. Sojitz views social changes as opportunities, and we therefore believe that creating new businesses that contribute to the reduction of CO₂ emissions is a critical part of working toward a decarbonized society.

Transition to Next Stage

In the first year of Medium-Term Management Plan 2023, we took a large stride toward our vision for 2030. Unfortunately, though, we still have yet to achieve our target for the price-to-book ratio (PBR) of 1.0 times or above, despite our stock price rising from ¥1,560 per share on April 1, 2021, to more than ¥2,000 per share on March 31, 2022. There are a number of reasons behind this development. However, one of the major reasons is likely that we have been unable to inspire trust in our ability to generate stable earnings among investors. This situation is further compounded by the large degree of volatility in performance that Sojitz has historically exhibited. In addressing this issue, it will be important for us to continue stepping up disclosure of financial and non-financial information while achieving solid results.

I mentioned earlier that there will be no significant changes to our policies in the second year of Medium-Term Management Plan 2023. Rather, we will be moving further forward on our defined course. In the year ending March 31, 2023, we project that our second consecutive year of record-breaking profit for the year, and the accomplishment of the plan's target for profit for the year (attributable to owners of the Company), is already within reach. Moreover, we expect strong progress with regard to our other quantitative targets. For forward-looking investments, it is important to exercise apt caution with regard to foreign exchange rate fluctuations, inflation, and other changes currently seen in the operating environment to determine which investments should be conducted now and which should be tabled for the moment. Even as we exercise such caution, we will continue to accelerate our timetable for investment in areas including the focus area of the material and circular economy field, where we are facing challenges, in preparation for the period after Medium-Term Management Plan 2023.

Nearly two decades have passed since the birth of Sojitz. When I look back to the start of the Company, I remember how rough things were initially. Our road has not been a smooth one up until today, but we have finally reached a point at which we are beginning to generate

stable performance. We are therefore now poised to conduct strategic investments based both on a short-term and medium- to long-term perspective. At the same time, the financial base we have built thus far enables us to conduct several large-scale investments of the size of over ¥10.0 billion each year. Looking ahead, I think that **digital transformation initiatives**  will be critical to Sojitz's future growth. We have secured the capacity to implement these initiatives by recruiting Tomomi Arakawa, the first chief digital officer of IBM Japan, Ltd. Sojitz is now armed to accelerate the implementation of digital technologies that will facilitate the creation of new businesses and the transformation of existing business models. We have also been making headway in enhancing our corporate governance systems. Outside Director and Chairman of the Board of Directors Norio Otsuka is diligent in his efforts, helping us move forward with the delegation of authority to the executive branch, with the enhancement of the effectiveness of the Board of Directors as the highest management decision-making body of the Company, and with other measures for reinforcing our management foundations. A level of profit for the period of ¥100.0 billion is now within reach, and Sojitz is preparing for its transition to the next stage. The second year of Medium-Term Management Plan 2023 will be a time for us to begin crafting our vision for Sojitz to be seen in the next stage. Accordingly, we will continue to make powerful strides toward this stage.

Evolution into a Global Trading Company in Name and Substance through a Frontline Business and Market-Oriented Perspective

When I was still in school, I read Ryotaro Shiba's *Ryoma Goes His Way*, a historical novel about Ryoma Sakamoto. It was this book that made me want to work overseas. At the same, there were not many industries that offered the opportunities for work abroad. This is why I chose to join Sojitz's predecessor Nissho Iwai; I was attracted by its open culture of offering opportunities to new employees.

Upon joining this company, I was placed in a sales position in the machinery transportation division, where I was involved in arranging deliveries of automotive parts to the United States. As I went about my daily work, I proceeded to read anything I could to learn more about automotive parts. However, I wasn't able to make any progress in learning English, which was imperative to working

overseas. Nevertheless, I received my opportunity to go on assignment to the United States in my fifth year at Nissho Iwai. I was somehow able to pick up English while I was there. Later, I went on to work in automobile-related businesses in Japan and in Poland. It was in 2000 that I received notice of my transfer to the corporate planning department. There, I was tasked with finding ways to work out funding for Nissho Iwai, which had fallen on hard times. During the day, I would contact the relevant divisions and ask about their numbers and the progress of their business activities. At night, I would prepare profit and loss statements and balance sheets. Eventually, we got over these hard times, and, in 2003, we were able to cut a fresh start as Sojitz. In 2009, I was once again sent on overseas assignment, this time to Venezuela, where I was appointed to the position of president of an automobile production subsidiary that conducted the assembly and sales of automobiles with a workforce of 1,500. One day, seemingly out of nowhere, the subsidiary's radical labor union seized our automobile factory. It took a year of discussion between the local government authorities and the heads of the labor union to regain control of the factory, but the memory of that struggle is still fresh in my mind. I have experienced a lot over the years, and these experiences have taught me the importance of doing everything you can to overcome the trials you face so that you can move on to the next trial. You have to do your best and leave the rest up to fate.

Each of these experiences has become a building block of the person I am today. In the same way, the new businesses Sojitz has created since its founding have allowed it to acquire the functions and networks it needs to develop its next business and broaden its business scope.




President Fujimoto just before taking up position as president of automobile manufacturing and sales company in Venezuela (2008)

In planning our next step, it is important to reflect on our mission as a general trading company of delivering goods and services where necessary. At a glance, it might appear as though there is nothing that Japan needs. However, a closer look will reveal energy and food issues as well as diminished regional economies. These issues point to various areas in which we can contribute by fulfilling our mission. The same can be said when viewing the world as a whole. There are still numerous opportunities for us to contribute to society with the functions and networks we have developed thus far and with the Sojitz Group's workforce of passionate individuals who produce unfettered ideas. Moreover, the open organization and culture of speed that have been strengths of Sojitz throughout its history will allow us to capitalize on these opportunities even faster.

By catering to the needs of markets around the world, Sojitz will look to evolve from a Japanese trading company to become a global trading company in name and substance. At the same time, we will work toward our vision for 2030 by framing the changes seen across the globe as opportunities and pursuing ongoing self-transformation accordingly. Engagement with investors and other stakeholders will be a constant focus throughout this process as we seek to inspire a sense of anticipation with regard to Sojitz and, of course, to then live up to this anticipation. I hope we can look forward to our stakeholders' ongoing understanding and support as we walk down this path.

September 2022

Masayoshi Fujimoto
Representative Director, President & CEO

 For more information, please refer to page 64.

Information on digital transformation initiatives