CFO Message

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Reinforcement of Management Foundations to Support Ambition

Performance Exceeding Expectations in the First Year of Medium-Term Management Plan 2023

Medium-Term Management Plan 2023 puts forth quantitative targets from the two perspectives of creation of shareholder value and growth and financial discipline. In the year ended March 31, 2022, the first year of the plan, we saw substantial earnings growth. This growth can be attributed to reversals to the demand declines that occurred amid the COVID-19 pandemic in the year ended March 31, 2021. These reversals took the form of higher prices for steel, coal, and other resources as well as increased sales of automobiles. We were thus able to absorb the impacts of semiconductor shortages and the war in Ukraine. As a result, profit for the year (attributable to owners of the Company) came to ¥82.3 billion in the year ended March 31, 2022, more than three times higher than in the year ended March 31, 2021, and the highest figure we have posted since Sojitz was established in 2004.

This strong performance was not limited to profit for the year (attributable to owners of the Company); we also surpassed our targets for return on equity (ROE) and three-year average core operating cash flow. The targets for all three of these items were set from the perspective of shareholder value creation. We also raised annual dividend payments to ¥106 per share, a year-on-year increase of ¥56, which made for a consolidated payout ratio of 30.1% and allowed us to accomplish our target of approximately 30%.

From the perspective of growth and financial discipline, meanwhile, we have set the target of

Cash Flow Management

Target positive core cash flow over six-year period encompassing periods of Medium-Term Management Plan 2020 and Medium-Term Management Plan 2023

	MTP2020 3-year cumulative results (FY2018–FY2020)	FY2021 results	MTP2023 3-year cumulative forecast (FY2021–FY2023)
Core operating cash flow*1	¥219.0 billion	¥129.0 billion	¥240.0–¥250.0 billion
Asset replacement (Investment recovery)	¥170.0 billion	¥62.0 billion	Approx. ¥100.0 billion
New investments and loans / other	¥(262.0) billion	¥(148.5) billion	Approx. ¥(330.0) billion
Shareholder returns*2	¥(71.0) billion	¥(32.0) billion	Approx. ¥(70.0) billion
Core cash flow*3	¥56.0 billion	¥10.5 billion	Positive (MTP2020 and MTP2023 6-year period)
Free cash flow	¥108.0 billion	¥(74.0) billion	

*1 Core operating cash flow = Net cash provided by (used in) operating activities (as calculated for accounting purposes) – Changes in working capital
*2 Includes acquisition of treasury stock
*3 Core cash flow = Core operating cash flow + Post-adjustment net cash provided by (used in) investing activities – Dividends paid – Purchase of treasury stock
(Post-adjustment net cash provided by (used in) investing activities is net cash provided by (used in) investing activities after adjustment for changes in long-term operating assets, etc.)

investing an aggregate total of ¥330.0 billion, including ¥30.0 billion in non-financial investments, over the three-year period of the medium-term management plan. Smooth progress is being made toward this target, as we have already conducted new investments totaling ¥150.0 billion. This aggressive stance toward new investment will be maintained going forward. As we conduct such aggressive investments, I am turning a cautious eye toward the stability of our financial foundation, which will support these investments, in my capacity as CFO. My fundamental stance is to secure a positive core cash flow over a predefined period. Of course, a positive core cash flow was posted in the year ended March 31, 2022. Moreover, our acceleration of our investment timetable was expected to cause the net debt equity ratio (DER) to rise to 1.2 times, but our strong performance helped limit this ratio to 1.1 times. In addition, return on assets (ROA) climbed to 3.3%, reaching the level targeted in the final year of the plan. In this manner, we got off to a strong start in the medium-term management plan with quantitative performance surpassing our initial expectations.

For more information, please see "Medium-Term Management Plan 2023—'Start of the Next Decade'" on page 20.

Pursuit of CROIC Surpassing Value Creation Guideline Figures in All Business Divisions

Under Medium-Term Management Plan 2023, we will achieve ROE of 10% or above based on consideration of the level of approximately 8% for shareholders' equity costs in order to gauge and assess our value creation efforts. In addition, we have introduced cash return on invested capital (CROIC)* as a new management indicator. CROIC measures returns on a cash basis in order to ensure that the aforementioned ROE target is fully incorporated into business division management. Each division has set targets for the minimum level of three-year average CROIC as "value creation guideline figures" for the period of Medium-Term Management Plan 2023. These value creation guideline figures have been formulated in a manner that will ensure the accomplishment of our Companywide ROE target of 10% or above, if each division is able to achieve CROIC that exceeds its guideline figure.

In the year ended March 31, 2022, the Metals, Mineral Resources & Recycling Division and the Chemicals Division generated CROIC that surpassed their value creation guideline figures amid favorable market conditions. Conversely, CROIC in the Infrastructure & Healthcare Division and the Retail & Consumer Service Division, both focus areas for growth investments, fell below these levels. This is because new investments in these divisions require time before they can begin creating earnings contributions. The ¥150.0 billion in new investments conducted in the year ended March 31, 2022, were largely directed toward the focus area of the infrastructure and healthcare field as well as toward Royal Holdings Co., Ltd., and JALUX Inc., partners with which we seek to approach growth markets through market-oriented initiatives. In this manner, investments targeted areas that were heavily impacted by the COVID-19 pandemic. We had accounted for these impacts in our targets to a certain degree. Looking ahead, we will work to quickly raise CROIC in divisions that are not clearing their value creation guideline figures to a level that surpasses these figures by advancing post-merger integration with investees and improving their value through a joint effort between business and corporate divisions.

* CROIC = Core operating cash flow ÷ Invested capital

Development of Frameworks for Large-Scale Investments

In the year ended March 31, 2022, we conducted several large investments of the scale in increments of ¥10.0 billion per project. This is a massive change in approach for Sojitz. Over the years, we have proceeded to reinforce our financial foundation, raising net assets to a level of more than ¥700.0 billion, and improvements to our financial position are beginning to generate results. This situation has increased our capacity to shoulder the risks associated with large investments. Moreover, our past investing experience has granted us a greater degree of investment literacy, and we have also developed the investment standards and organizational structures necessary for conducting such investments. These are also factors that contributed to this change. For example, we sought to bolster our responsiveness to changes in the investment environment by simplifying our hurdle rate standards for the initial screening of new investments to look at two factors: cost of capital based on the functional currency of the investment candidate and country risk premium. The new standards guide us in making investment decisions based on whether the project in question will contribute to improved corporate value. Meanwhile, the Financial Solutions Department has been established as a one-stop organization for all steps of investing, starting from screening and ending with post-merger integration.

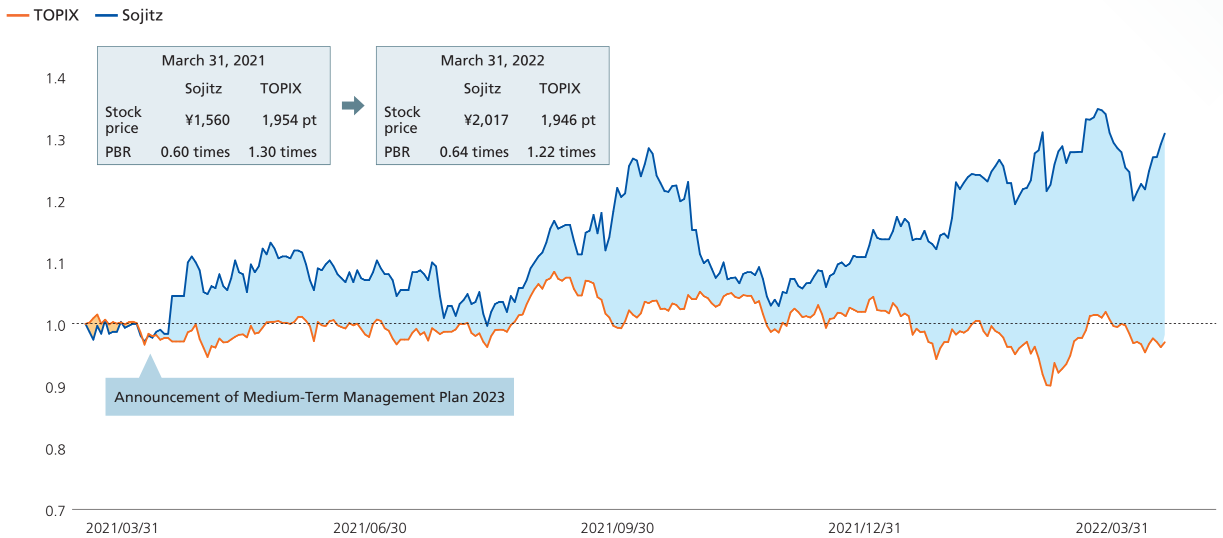
This is how we have gained the insight and developed the frameworks for capitalizing on the opportunities presented by large-scale investment projects. However, even as we seize their opportunities, it is important that we do not abandon our financial discipline. Even a small indiscretion can shatter everything we have built thus far. I can speak to this from personal experience as I have seen this happen prior to the birth of Sojitz. It is important to ensure that we never again find ourselves in a situation in which financing has to be our main management priority, and we must maintain strict financial discipline with an emphasis on cash flows for this purpose. Accordingly, while the scale of individual investments may be an important factor considered, it will never be our top priority. One point that I have always tried to hammer home within the Company, even when I was chairperson of the Finance & Investment Deliberation Council, is the need to formulate business plans based on objective hypotheses with as little bias as possible. It is crucial that we are careful to only pull the trigger on investments when we have a sufficient amount of rational information for decision-making to allow us to hold the utmost confidence that the acquisition price for a business is appropriate.

Of course, we cannot guarantee the future, and there will be times when an investment fails to meet our initial expectations. Sojitz measures whether the return on invested capital (ROIC) and the CROIC levels of each investment exceed their levels of weighted average cost of capital (WACC), and the minimum level of value to be generated by each investment is defined based on these measurements. If a project fails to generate the minimum expected level of value, despite our best efforts, we will, in principle, withdraw.

PBR Target of 1.0 Times or Above to Be Achieved by Raising Faith in Future Earnings

Looking back at the year ended March 31, 2022, performance exceeded our initial forecasts, despite the impacts of the COVID-19 pandemic, due to our efforts to raise income, boost profitability, increase cash flows, and conduct new investments. Regardless of these efforts, our price-to-book ratio (PBR), which is an indicator of the capital market's assessments of the Company,

Stock Prices



Note: Closing prices on March 31, 2021, indexed to 1 remains at the low level of 0.6 times.

One reason I can imagine for this situation is that the market has low faith in our ability to generate future cash flows. The other day, I held my first on-site meeting with investors in the United States in around two years. Speaking directly with investors, I was able to gain some insight on how we could accomplish our PBR target of 1.0 times or above. Specifically, they suggested that this target could be accomplished by explaining to the market how Sojitz is evolving its unique strengths, where it is going, and how it will need to change to accomplish its goals. During the first year of Medium-Term Management Plan 2023, I have taken care to be thorough and concise in my explanations of our quantitative and qualitative goals leading up to 2030. Based on these comments from investors, I will continue to engage in an active dialogue on how Sojitz will change as we advance toward 2030. At the same time, I will seek to alleviate information gaps by bolstering disclosure of financial and non-financial information in order to reduce capital costs. Another priority will be expanding our equity spread through improvements to ROE.

The rising uncertainty with regard to changes in the operating environment is likely to drive up risk premiums. It will therefore be important for us to place increased emphasis on improving earnings per share (EPS), by growing medium- to long-term business earnings, and on maximizing capital efficiency. To accomplish these goals, we will need to advance strategies that incorporate Sojitz's competitive edge while developing a clearer picture of profit drivers and investment returns.

Moreover, we will need to remain constantly mindful of how best to allocate cash flows with a sense of dedication toward steadily generating cash flows. We also must reach out to the capital markets to ask for their frank and earnest opinions regarding where Sojitz is lacking and what is expected of the Company. The understanding gained from this engagement should be used to help us respond to the expectations of the market. If we can present our response to market expectations in a clear form, it should move us closer to increasing the market's faith in our ability to generate future earnings.

In the future, I hope to continue to speak with investors around the world and to issue stable and ongoing shareholder returns.

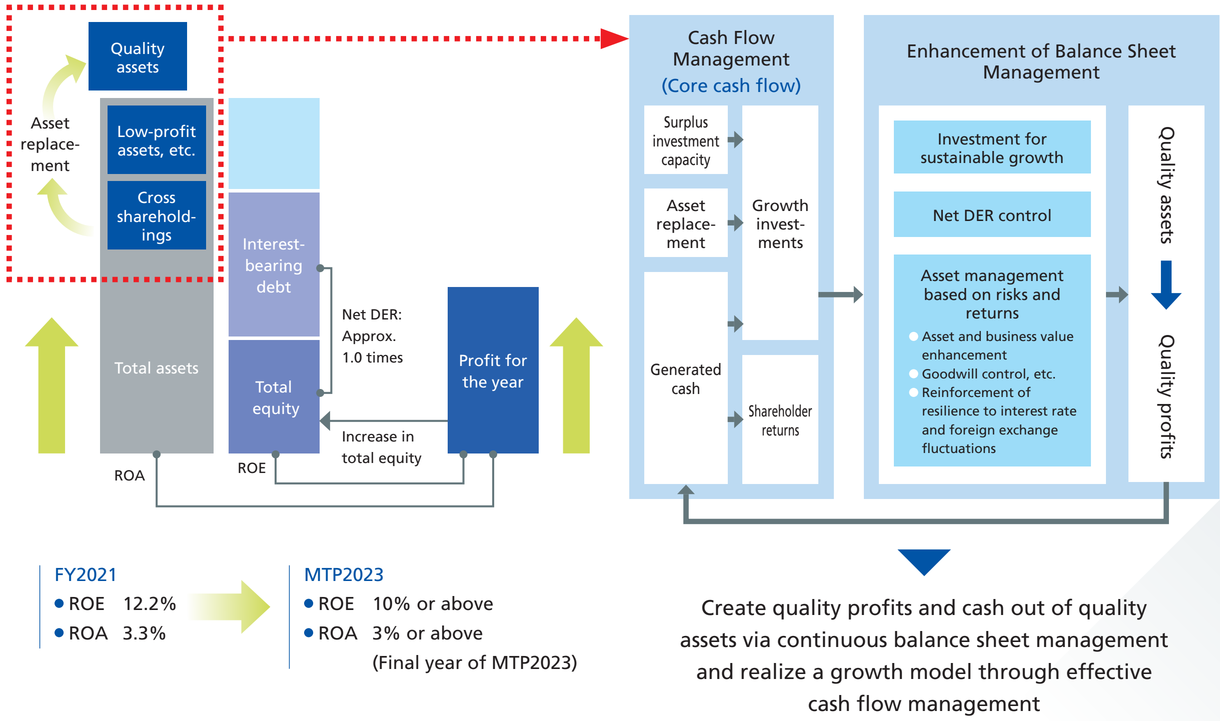
Alignment of Employees and the Company Toward a Common Goal

In the year ending March 31, 2023, we expect to set a new record for profit for the year (attributable to owners of the Company) for the second consecutive year with a figure of ¥85.0 billion. In setting this target, we have accounted for the highly opaque operating environment created by factors like the war in Ukraine and rapid inflation. Our targets for profit for the year (attributable to owners of the Company) and core operating cash flow are within reach, but I recognize that simply accomplishing our quantitative targets for a single fiscal year will not inspire investors to have greater faith in our future prospects. We must never become complacent with our current situation, and we should instead continue to persevere and thereby reinforce our financial foundation. The cash generated in this manner should be used to fuel growth during the period of the next medium-term management plan. At the same time, we will need to be even more sensitive to factors like the flows of people, goods, and funds given the mounting uncertainty. Aggressive action is not the only way to go; we may sometimes be required to halt our progress, assess the situation, and maybe even make the management decision to withdraw from a business without hesitation.

Such management decisions can be perceived as obstacles to ambition. However, when we think about things from the perspective of improving corporate value, we realize that we cannot allow for investments that are not based on objective rationale as these investments have a significant likelihood of damaging corporate value. Last year, I spoke of my desire for Sojitz to always be a company that is aligned with its employees toward a common goal. Members of management, myself included, speak on behalf of the goals of the Company. If the Company does not have a clear goal, it will be impossible for the employees to be aligned toward this goal. If I had to sum up the goal of the Company in the simplest terms, it would be the improvement of corporate value. This does not just mean increasing net asset value. Rather, improving corporate value involves growing Sojitz into an entity that is deemed to have greater value by society. When I realized this, it became clear that I must be careful to never make statements, take actions, or issue management decisions that undermine my role as CFO, this role being to improve our financial health, ensure investment discipline, and identify the risks to be taken.

I recognize that, when employees are able to go about their work with a feeling of self-actualization and fulfillment, they will contribute to improving corporate value. Moreover, this situation will necessarily mean that the employees and the Company are aligned toward a common goal. Creating such an environment is top priority for management. I therefore understand that my mission is to fulfill my aforementioned role as CFO toward addressing this priority. Sojitz defines its vision for 2030 as becoming a general trading company that constantly cultivates new businesses and human capital. The ambitions of employees will play an indispensable part in realizing this vision. However, we cannot support employees in chasing their ambitions if we do not have a solid management foundation. I remain committed to constantly reinforcing our management foundation to ensure that I do not fail in my role as CFO and that Sojitz does not lose the trust of society. This is how I will work to build the foundations for supporting employee ambitions and making Sojitz into a company that is aligned with its employees toward a common goal.

Disciplined Balance Sheet and Cash Flow Management



Business Investment Monitoring for Accelerating Value Creation

Investment Policies for Creating Value

Under Medium-Term Management Plan 2023, Sojitz will work to improve corporate value through growth achieved by conducting ongoing new investments and drastic reforms in the earnings structure of existing businesses. Our growth strategies for this plan will be executed with a sense of speed prefaced on the enhancement of strategies to heighten competitiveness and growth potential in order to create value. At the same time, we will manage cash flows based on a disciplined stance as we invest a total of ¥330.0 billion (including ¥30.0 billion in non-financial investments in human resources and organizational reforms) in growth strategies and new fields based on megatrends over the three-year period of the plan with the goal of achieving steady improvements in corporate value.

Investment Process

1 Project Creation
- Examination of project creation opportunities in line with strategies
- Identification of risks

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

3 Investment
- Post-merger integration (management integration)
- Development and improvement of management structures

4 Business Management & Monitoring
- Monitoring of performance and status of measures for adding value
- Fostering of understanding of issues and implementation of countermeasures
- Decision of whether to continue with or withdraw from businesses
- Continuous asset replacement

Post-Merger Integration Support

Enhanced Verification Processes
- Clear definition of minimum level for value creation based on cost of capital and risks
- Effective planning and evaluation of business plans and quantitative and other assessments of appropriateness of risk–return balance
- Simplification of hurdle rate used for initial screening of potential new investments to look at cost of capital based on functional currency of investment candidate and country risk premium

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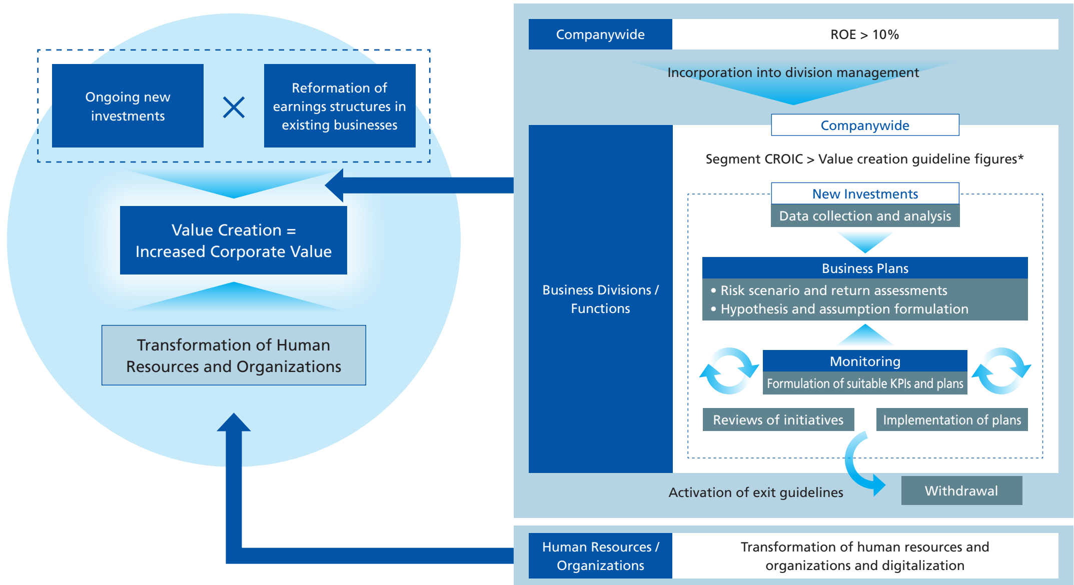
Reinforced Monitoring
- Formulation of business plan progress monitoring guidelines
- Establishment of suitable KPIs, action plans, and frameworks for flexible response to risk scenarios
- Confirmation of whether minimal level of value is being created (ROIC/CROIC ≥ 5%)

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

Frameworks for Monitoring and Assessing Value Creation

An ROE target of 10% or above has been set based on estimated shareholders' equity cost of 8% in order to gauge improvements in corporate value. In addition, we have introduced CROIC as a management indicator and set targets for business divisions in Medium-Term Management Plan 2023 in order to facilitate the accomplishment of the ROE target. We will pursue the aforementioned ROE target by having all divisions shape their activities based on the CROIC value creation guideline figures.



* **Value creation guideline figures**
Minimum level of CROIC that should be achieved by each division on a three-year average basis over the period of Medium-Term Management Plan 2023

$$\text{CROIC} = \frac{\text{Core operating cash flow}}{\text{Invested capital}}$$

◆ Investment for Growth Strategy and Focus Areas (FY2021)

Focus Area under Medium-Term Management Plan 2023	Investments in FY2021	Major Investments
Maintain steady growth **Infrastructure & Healthcare** Develop essential infrastructure and provide services as a social issue	¥70.0 billion	Energy service companies in the United States; natural gas-fired power and desalination projects in the Middle East; gas retail business in Nigeria; electricity retail business in Spain; solar power business in Australia; hospital project in Australia; telecommunications tower business in the Philippines; office building development project in Manila, the Philippines
Capture growth from growing markets **Growth Markets to Be Approached through Market-Oriented Initiatives** Strengthen efforts in retail areas in growth markets such as ASEAN and India	¥62.0 billion	Acquisition of full ownership of marine food processing company Marine Foods; collaboration with the Vinamilk Group, a major Vietnamese dairy product manufacturer (establishment of beef product sales company); joint initiatives with Royal Holdings; tender offer for shares of JALUX; establishment of new joint venture for developing operations for adding value to rental housing with the Goldman Sachs Group
Reform conventional business model **Materials & Circular Economy** Build upon 3R and other cyclical businesses	No investments	Agreement reached to establish joint venture with Braskem of Brazil for purpose of creating plastic materials entirely from biomass; development of competitive businesses matched to social needs in conjunction with chemical recycling initiatives in Japan

◆ Earnings Contributions from Investments under Medium-Term Management Plan 2017, Medium-Term Management Plan 2020, and Medium-Term Management Plan 2023

Return on investment (ROI) used as indicator for judging investment efficiency in all businesses

Medium-Term Management Plan 2017

Investments	FY2020	FY2021	FY2022 (Forecast)	Three-Year Earnings Contributions
Aggregate investments Approx. ¥315.0 billion Outstanding investments at start of plan Approx. ¥125.0 billion Initial forecast for three-year ROI Approx. 7%	Earnings contributions: Approx. ¥9.0 billion	ROI: Approx. 10% Earnings contributions: Approx. ¥12.0 billion	Earnings contributions: Approx. ¥10.0 billion	Approx. ¥30.0 billion (¥23.5 billion projected at time of plan announcement)

Major projects: Hospital project in Turkey; renewable energy businesses; coal, steel, and chemical distribution and marketing companies; etc.

Medium-Term Management Plan 2020

Investments	FY2020	FY2021	FY2022 (Forecast)	Three-Year Earnings Contributions
Aggregate investments Approx. ¥260.0 billion Outstanding investments at start of plan Approx. ¥140.0 billion Initial forecast for three-year ROI Approx. 7%	Earnings contributions: Approx. ¥2.0 billion	ROI: Approx. 10% Earnings contributions: Approx. ¥14.0 billion	Earnings contributions: Approx. ¥25.0 billion	Approx. ¥53.0 billion (¥28.5 billion projected at time of plan announcement)

Major projects: Coking coal businesses in Australia, natural gas-fired thermal IPP businesses in the United States, automobile dealership businesses, etc.

Medium-Term Management Plan 2023

Investments	FY2020	FY2021	FY2022 (Forecast)	Three-Year Earnings Contributions
Three-year investment target Approx. ¥300.0 billion (+ ¥30.0 billion in non-financial investments) Initial forecast for three-year ROI Approx. 4%	Earnings contributions: —	ROI: 1.6% Earnings contributions: Approx. ¥2.0 billion	Earnings contributions: Approx. ¥5.0 billion	Approx. ¥22.0 billion (¥25.0 billion projected at time of plan announcement)

Major projects: Natural gas-fired power and desalination projects in the Middle East, electricity retail business in Spain, etc.

◆ Value Creation Guideline Figures of Medium-Term Management Plan 2023 (Three-Year Average CROIC)

Value creation guideline figures have been set under Medium-Term Management Plan 2023 indicating the minimum level of the three-year average CROIC that each division needs to achieve in order for us to accomplish our Companywide target of ROE of 10% or above. These figures account for the business characteristics of each division as well as the current levels of capital efficiency. In principle, divisions exposed to significant levels of volatility have relatively high value creation guideline figures, whereas relatively low figures have been set for divisions on which investment will be concentrated during the period of the plan or those divisions that are implementing substantial changes to their business portfolios.

Division	CROIC in FY2021	Value Creation Guideline Figures of Medium-Term Management Plan 2023	Average CROIC over Medium-Term Management Plan 2020 Period
Automotive Division	9.7%	7.0%	7.6%
Aerospace & Transportation Project Division	4.6%	5.0%	5.1%
Infrastructure & Healthcare Division	2.9%	3.0%	3.2%
Metals, Mineral Resources & Recycling Division	10.1%	5.0%	4.8%
Chemicals Division	9.1%	7.5%	5.7%
Consumer Industry & Agriculture Business Division	9.5%	6.0%	5.1%
Retail & Consumer Service Division	2.8%	5.0%	3.3%