

Message from the Chairman of the Board

**I will spur Sojitz forward in evolving to accomplish the goals of Medium-Term Management Plan 2023 in order to improve corporate value.**

Two years have passed since I became chairman of the Board of Directors. In the year ended March 31, 2021, a great amount of time at meetings of the Board of Directors was devoted to discussion regarding the formulation of Medium-Term Management Plan 2023. A major topic of discussion in the year ended March 31, 2022, meanwhile, was contributions to the accomplishment of the goals of the plan. The Board of Directors prepared a basic schedule for Board meetings over the next year, in June 2021. This schedule set clear guidelines for the amount of time that would be devoted to each topic. I, as chairman, thereby sought to facilitate more effective proceedings to ensure we could devote enough time to meaningful discussion.

I was also able to welcome Mr. Ungyong Shu as a new outside director. His wealth of knowledge regarding M&A strategies and capital policies gained from his work experience at financial institutions has been a great catalyst for discussion at Board meetings. In June 2022, we were joined by yet another new outside director, Ms. Haruko Kokue. I look forward to her providing advice from perspectives that differ from those of other outside directors based on her insight into engagement with various stakeholders, supply chain management, and the environment.

Looking back at the discussions at meetings of the Board of Directors over the past year, I am reminded of the large number of investment projects we talked about. This high representation of investment projects may, in part, be due to the Company's policy of accelerating the advancement of the measures described in Medium-Term Management Plan 2023. We received reports on the progress of projects from the respective business divisions, and we then swapped opinions on ways to pursue improvements with regard to projects for which progress was not particularly good. I have high praise for how to the point our discussions were. As such, I feel confident saying that the Board more than fulfilled its role in contributing to the accomplishment of the goals of the Medium-Term Management Plan 2023 in its first year. Despite these strong contributions, the price-to-book ratio (PBR), for which the plan sets a target of 1.0 times or above, had only reached 0.64 times as of March 31, 2022. We must therefore recognize that the road toward accomplishing the target of the plan is still long, and there is a lot that remains for the Board to do.



**Norio Otsuka**  
Outside Director  
Chairman of the Board of Directors

I believe that the role of outside directors is to help improve corporate value by supporting the president and other members of the executive team so that they can focus on running the business, and to sometimes spur them forward to boldly take on challenges. For this reason, it is important to establish an appropriate governance system. This is something I think that shareholders and capital markets expect as well. Having a team of outside officers with diverse backgrounds grants the executive team the opportunity to gain the input from a variety of standpoints and make new discoveries based on said input.

Sojitz has recently been branching out from its more or less conventional trading business by increasingly engaging in capital participation in operating companies, after which it proceeds to raise their value. It has also become more common for the Company to acquire manufacturers. I, personally, have been involved in the management of manufacturers for a number of years, and I will thus continue to proactively take part in discussions while utilizing the experience and insight I have gained through this background. Meanwhile, since becoming chairman, I have continued working to foster an atmosphere at Board meetings that makes everyone feel comfortable voicing their opinions. I definitely feel that we have successfully built a relationship with President Fujimoto and other members of management that is conducive to openness in discussions. I look forward to helping maximize the corporate value of Sojitz through lively discussions going forward.



Roundtable Discussion Between Outside Directors

The following is a discussion between outside directors Naoko Saiki and Ungyong Shu in which they discuss our accomplishments in the first year of Medium-Term Management Plan 2023 and the issues that must be addressed going forward from both financial and non-financial perspectives.

**Naoko Saiki**  
Outside Director



**Ungyong Shu**  
Outside Director

**Saiki** ♦ Profit for the year (attributable to owners of the Company) amounted to ¥82.3 billion in the year ended March 31, 2022, due to the large impact of market conditions, such as rising energy prices. This profit was accompanied by strong cash flows, as indicated by core operating cash flow doubling from the previous fiscal year, to come to ¥128.7 billion. Sojitz's accomplishments extended beyond quantitative indicators; I also have high praise for the Company's qualitative performance, including the steady generation of earnings from investments conducted under the previous medium-term management plan. Mr. Shu, what is your opinion regarding Sojitz's accomplishments during the first year of Medium-Term Management Plan 2023?

**Shu** ♦ I have a similar opinion to you, Ms. Saiki. I believe that Sojitz produced satisfactory results in the first year of the plan. Not only did the Company achieve record-breaking

earnings, there were qualitative improvements to the nature of those earnings, as they comprised a larger amount of profit from non-resource fields. Moreover, Sojitz was able to take part in numerous business investments that will lay the groundwork for future growth. These investments were made possible by the Company using its network and collaborating proactively, as prescribed by the medium-term management plan, with investees and partners centered on essential infrastructure and retail fields. Going forward, it will be important to ensure that such investments steadily produce earnings in order to further build upon Sojitz's track record of success.

**Saiki** ♦ I totally agree with you about the importance of ensuring proper progress when it comes to new investments. If I were to make another suggestion for Sojitz, it would be that the Company is in need of a drastic overhaul to the earnings structures of its existing businesses.



As for non-financial results, Medium-Term Management Plan 2023 outlines Sojitz's vision for 2030 as becoming a general trading company that constantly cultivates new businesses and human capital. The plan also states that this vision should be pursued through adopting local market-oriented initiatives, collaborating proactively, and striving for speed. An understanding of these aspects of the plan is gradually spreading throughout the Company, but it is still unclear whether this understanding is translating to increased earnings power. Meanwhile, we have recently seen a move to reframe the prior perceived opposition between financial and non-financial factors through the concept of "pre-financial" factors. This concept positions non-financial activities as measures for creating future financial value. Moreover, it is important for ideas put forth to express the future vision of a company or how to realize this vision to go beyond mere catchphrases. Employees must have an ingrained understanding of these ideas, and organizations need frameworks for entrenching these ideas.

I also want to stress the fact that there is no resource more important to reinforcing management foundations than human capital. Networks are also of similar importance to human resources. Sojitz is not a company that creates products from scratch through research and development and manufacturing. Rather, it needs to be a company that uses its discerning eye to connect promising outside technologies, businesses, and partners and to thereby create new business models. This approach will

become increasingly more important to the ongoing growth of Sojitz as we advance in the future.

**Shu** ♦ One of the targets of Medium-Term Management Plan 2023 is a PBR of 1.0 times or above. Sojitz has been ramping up its disclosure of non-financial information with the goal of reducing cost of capital in pursuit of this target. However, just as you stated, it is important for these efforts to translate to earnings power and improved performance. For this reason, the financial and non-financial aspects of a company should not be viewed as detached from one another. I am also in agreement with you in regard to how human resources are of paramount importance to Sojitz's non-financial initiatives. Sojitz is moving forward with measures based on the human resource strategies described in Medium-Term Management Plan 2023. I sometimes have the opportunity to take part in internal meetings at the Company. These meetings demonstrate the open corporate culture at Sojitz and the rising degree of independence of junior employees. I have thus seen the benefits of human resource strategies manifesting in various areas of the Company. Next, it will be important to ensure that these benefits appear in performance over the medium to long term.

**Saiki** ♦ President Fujimoto is personally leading the implementation of human resource strategies at Sojitz, and all parties involved in these strategies are united in their approach, a fact that is very reassuring. I believe that an organization cannot grow if its employees do not, and also that the growth of organizations unlocks new possibilities for the growth of employees.

I mentioned human capital a moment ago. Returning to this subject, it is, of course, important to bolster training and other human resource development programs. However, it is equally important to promote diversity and inclusion by empowering female employees, stepping up hiring of mid-career individuals, and utilizing non-Japanese employees. Moreover, organizations must be transformed to provide frameworks that encourage employees to boldly chase their ambitions in order to more effectively capitalize on the potential of employees. Sojitz is developing frameworks for encouraging such ambition, as shown in the establishment of the Hassojitz Project and Sojitz Professional Share Co., Ltd. I look forward to seeing its future endeavors on this front. Based on my personal experience, the key to successful human resource strategies is evaluation systems. It is crucial that a company implement fair evaluation systems founded on clear standards that also include provisions for addressing employee grievances. It is then important to take action, including conducting relocations in accordance with the aptitudes

and desires of employees based on evaluations. I think that Sojitz's human resource systems are already quite effective, but human resource policy is an area in which companies can never afford to stop evolving. Accordingly, the Company must continue to quantitatively assess the benefits and penetration of its human resource measures and to flexibly adjust these measures as warranted by their results and changes in the operating environment. Moreover, this approach should be complemented by ongoing strategic human resource investments.

At the Nomination Committee, which I chair, we have been diving deep into the subject of succession plans and their standards. Succession planning is another important aspect of strengthening human capital. I am therefore committed to fulfilling my responsibilities as chairperson to contribute to this area.

**Shu** ♦ I hope that, in the future, we will see the generation of virtuous cycles through Sojitz's measures based on its human resource strategies and its corporate culture supporting ambition. Specifically, I want to see a cycle in which the empowerment of employees leads them to succeed in important ventures and thereby be rewarded with larger roles within the organization, sparking further empowerment.

**Saiki** ♦ For its non-financial initiatives, Sojitz has put forth the goals of contributing to a decarbonized society by halving its thermal coal interests by 2025 and completely eliminating such interests by 2030. Progress toward these goals is moving ahead faster than planned, as indicated by the fact that Sojitz has already halved its thermal coal interests. The road to a carbon-neutral society will be a difficult one for Sojitz, but it should also present great business opportunities. To underscore this outlook, Medium-Term Management Plan 2023 puts forth growth strategies founded on the market needs and social issues anticipated based on current megatrends, and one of the plan's areas of focus is the field of materials and circular economies. Sojitz's 3R business forays in this field have just gotten started and more concrete efforts are yet to come, but I have high hopes in this regard.

**Shu** ♦ The price of coal is skyrocketing as a result of the war in Ukraine and various other operating environment factors. Accordingly, were a company to look only at short-term earnings, it would seem prudent to hold onto thermal coal interests for the time being. Sojitz, meanwhile, has not slowed the pace of its reforms toward its lofty goals, even amid these trends, and it remains steady on its course while striking a balance with the need for sound business rationality. I have to praise the Company

for this commitment to a medium- to long-term perspective.

**Saiki** ♦ Environmental and human rights issues are other areas Sojitz needs to address if it is to contribute to the realization of a sustainable society. Sojitz has a keen awareness of these issues, and it has begun rolling out engagement activities for spreading understanding with regard to these issues and its related policies throughout the Group. This diligence is something that is worthy of praise. I hope to see Sojitz working toward even greater frontline understanding in the future.

**Shu** ♦ Earlier, I mentioned that a major target of Medium-Term Management Plan 2023 was a PBR of 1.0 times or above. As of March 31, 2022, this ratio was just over 0.6 times. This is indeed an improvement, but it still is quite a way removed from the target. This low ratio was seen despite the Company posting record-breaking earnings together with return on equity of 12.2%. This outcome is likely a reflection of the fact that a large portion of Sojitz's earnings is tied to market prices and that investors do not see that the current level of earnings is sustainable as a result.

For Sojitz, the first step to improving its PBR will thus need to be generating earnings that surpass cost of capital through business investment. Producing steady earnings from investments thus far will no doubt be a source of trust with regard to the Company's future growth.



At the same time, when an investment is judged to lack the potential to generate the anticipated earnings, it is important to be swift in making the call to withdraw. Accurate judgments in this regard require an intimate involvement in the management of investees. The majority of Sojitz's investments to date have been taking the form of minority capital participation, which has meant that the Company's involvement in the management of investees has been limited. Even when forming business alliances, Sojitz has not become so involved as to actually have authority for steering management in most cases. I therefore think it is important for the Company to look at the possibility of conducting business investments entailing a more involved role in order to bolster its ability to respond quickly to operating environment changes and thereby create results.

**Saiki** ♦ It is exactly as you say. Improving PBR requires that a company inspire the market to hold a sense of anticipation toward its future while constructing an earnings platform that is both stable and boasts high growth potential. As was mentioned, Sojitz is proactively enhancing its disclosure of non-financial information. Part of these efforts has included proactive disclosure of information regarding human capital, a subject garnering increasing attention from investors as of late. Among the specific matters disclosed have been information on the Company's dynamic key performance indicators related to the empowerment of female employees, digital-proficient human resources, non-Japanese employees, and the challenge-taking index. Such disclosure is garnering a positive response. Clearly illustrating the Company's progress and explaining how this progress translates to financial value is an effective means of fostering a sense of anticipation among the market.

Also, this may go without saying, but fostering such a sense of anticipation requires that the narrative put forth by the Company be convincing and backed with performance and other data. Accordingly, building its track record is currently an important task for Sojitz.

**Shu** ♦ Encouraging the capital markets to trust the stability of Sojitz's earnings foundations will require the Company to expand its portfolio of successful projects, no matter how small, and thereby demonstrate that it has the ability to generate reproducible earnings. A broader portfolio of successful projects will make the market more apt to believe in Sojitz's potential to reliably generate earnings and to continue growing. Convincing the market that Sojitz has developed the necessary organizational capabilities to produce reliable earnings will bring it closer to its target of a PBR of 1.0 times or above.

**Saiki** ♦ There is still a lot more that I want to talk about, but, as we are running out of time, how about we close out today's discussion by talking about how we plan to contribute to Sojitz in the future? I will go first.

Over the past two years, I have worked to contribute to the ongoing growth and medium- to long-term improvement of the corporate value of Sojitz in my capacity as an outside director. This has, of course, included taking part in discussions at meetings of the Board of Directors. However, I have also gone further by actively pointing out issues and offering advice to management on a variety of other occasions. These interactions have given me a lot of faith in the breadth of perspective, the judgment, and the speed of Sojitz's management team. I also seek to fulfill my role of overseeing executive management as an outside director. As such, I endeavor to take rigorous looks at the Company from my outside perspective to determine if there are any issues with its corporate governance systems or any risks that it might not have noticed. This is something that I will continue to do going forward. I will also seek to deepen my understanding of Sojitz and its corporate culture while performing my duty of providing management with fresh outlooks. Moreover, I will faithfully exercise the obligations with which I have been entrusted by shareholders to help Sojitz accomplish the goals of Medium-Term Management Plan 2023 and subsequently realize its vision for 2030.

**Shu** ♦ Only a year has passed since I became an outside director. Nevertheless, Sojitz has more than demonstrated the passion it has toward its evolution through the energized atmosphere I see at internal meetings. As an outside director, I believe that my role is to contribute to highly viable discussions and decision-making that reflect an objective standpoint. I also have the duty of supporting appropriate effort by the executive management team. Based on this understanding, I am committed, in all sincerity, to contributing to improved corporate value for Sojitz together with you and the other outside directors.

Message from the New Outside Director

I hope to contribute to improvements to the corporate value of Sojitz from a unique perspective founded on my experience thus far.

A large portion of my career was spent at a general chemical manufacturer, where I was involved in areas like sales, supply chain management, public relations, and investor relations. I hope to contribute to improvements to the corporate value of Sojitz founded on my experience thus far.

In recent years, we have seen an ever-changing and broadening range of risks and ways of perceiving these risks. One thing that is clear against this backdrop is the need to guarantee the quality, safety, and reliability of a company's products and services. To this end, a company must view its supply chain, including its partners and investees, from an overarching perspective, looking at things like potential risks, safety, and, in particular, the impacts they might have on emerging countries and regions. Based on this perspective, it is important to identify areas in which a company might be failing to fulfill its social responsibilities. With my perspective fostered at a manufacturer, I aim to help Sojitz make new discoveries in this regard.

Sojitz is focused on empowering its female employees. However, if you look at the representation of women in the upper echelons of management, it is clear that there is still some work to do in this area. Based on my experience at a Japanese company, where it is still rare for women to hold such positions, I understand that women can sometimes feel hesitant to undergo promotions or perhaps have concerns about becoming a leader in their workplace. I therefore think I have a role to play in encouraging such employees to take a step forward.

When viewing Sojitz from the outside, I was impressed by how it was quick to expand overseas and how it is constantly exploring new businesses and markets. In the roughly nine months before I became an outside director, I participated in meetings of the Management Committee and the Finance & Investment Deliberation Council as well as in the Company's intensive summer discussion session. In this manner, I have been provided with numerous opportunities to learn about Sojitz's corporate culture of ambition, which is characterized by swift decision-making and employee autonomy.

I was amazed by the brisk discussions that take place at meetings of the Finance & Investment Deliberation Council. At meetings, you can feel the passion of presenters while also hearing to-the-point criticism of any assumptions deemed to be undercooked. I thus witnessed firsthand the process of enhancing plans for investment projects based on rigorous standards and swiftly determining the decisions that need to be made. At the intensive summer discussion session,

meanwhile, discussions on established themes among division heads took place, and information was shared on projects that were not yet being formally approved. These discussions made it apparent how cross-divisional synergies were leading to proactive collaboration within the Company.

Medium-Term Management Plan 2023, Sojitz's current plan, takes an incredibly balanced approach toward management with the targets it sets for both financial and non-financial indicators. We often receive reports on the results of human resource systems and employee engagement surveys at meetings of the Management Committee. Management has a high level of interest and agreement when it comes to human resources, who are at the heart of the medium-term management plan, and this is something that warrants mention. Future efforts on this front should include ongoing confirmation of how this focus on human resources is being exercised. Specifically, we must look at whether the Company's targets and measures, such as its proactive implementation of timely recurrent education programs and the Hassojitz Project, have truly become entrenched among employees and whether these programs are being instituted uniformly on a global scale. This will be one area that I focus on as I fulfill my role as an outside director by monitoring the effectiveness of the Company's measures and offering advice to ensure that Sojitz can become a distinctive company that cultivates and mobilizes ambitious people.



Haruko Kokue  
Outside Director