

The following is a discussion between outside directors Norio Otsuka, Haruko Kokue, and Tsuyoshi Kameoka in which they examine Sojitz’s initiatives under Medium-Term Management Plan 2023 and talk about their hopes for the next medium-term management plan and what challenges they perceive.



Norio Otsuka
Outside Director
Chairman of the Board
of Directors

Haruko Kokue
Outside Director

Tsuyoshi Kameoka
Outside Director

Otsuka ♦ Five years ago, when I first became an outside director at Sojitz, I felt that Sojitz had a tendency to be overly cautious when it came to investment. This was likely due to the strong sense of discipline that can be attributed to the Company’s past experience overcoming financial difficulties. I found this reality a little frustrating at the time. Today, however, Sojitz is clearly at a new stage in its development. It continues to exercise discipline when it comes to its finances, but it is also proactive in terms of investment.

Each year, we have discussed matters pertaining to the ideal approach toward corporate governance at Sojitz,

and I have seen the Company’s governance systems continue to evolve. The decision, for example, to appoint an outside director to the position of chairman of the Board of Directors, a position previously filled by the chairman, who did not have the right of representation, was not insignificant, and we can see the strength of the commitment of President Fujimoto and other members of management toward good governance in these decisions. The number of outside directors is growing gradually. Upon welcoming Mr. Kameoka in June 2023, outside directors came to represent a majority of the Board of Directors. Meanwhile, Ms. Kokue, who joined us in June 2022,

always voices very grounded opinions on matters such as market needs, the importance of the perspective of the front lines, and safety and quality. I believe these opinions to be a product of her experience at manufacturers. A large number of the operating companies Sojitz acquires through its proactive investments are manufacturers. Accordingly, Ms. Kokue’s experience in supply chain management and overseas operations at manufacturers is crucial to Sojitz at its current stage.

Kokue ♦ Since joining Sojitz, I have always tried to point out issues I noticed from the perspective of a manufacturer. This is also true when it comes to acquisitions. We cannot just look at the economic rationale of an acquisition. Instead, we must consider the perspective of the acquisition candidate while examining the entire supply chain and also thinking about the standpoints of private investors and various other stakeholders. This is a fact that I have made sure to state.

It is common for there to be issues with information gaps between outside and internal directors. At Sojitz, however, we are provided with a breadth of materials from various bodies to help us understand and judge agenda items. It is therefore easy to jump into discussions. We are also provided with opportunities to engage with employees. For example, I have been asked to take part in a career discussion forum for women arranged by the Corporate Sustainability Department. This forum saw participation by approximately 130 employees, including online participants, and many asked about my career. I hope I will have opportunities to be of assistance to Sojitz in such manners in the future as well.



Kokue at a career discussion forum for women

Otsuka ♦ I have known Mr. Kameoka since my time as an outside director at Showa Shell Sekiyu as he was serving as the group CEO at this time. He led this company during its merger with Idemitsu Kosan. I suspect that the post-merger process of aligning various people with completely different backgrounds and roles was incredibly challenging. Moreover, Shell Sekiyu, the predecessor of Showa Shell Sekiyu, was a foreign company. As such, this company had a unique, let’s say British, approach toward business, governance, and internal control as well as toward the processes of evaluating and assigning responsibility to employees. I felt that there was a lot that I could learn from this highly rational approach. In this distinctive environment, I remember seeing employees and officers going about their work in a carefree manner. I hope that Mr. Kameoka will use the

instincts and insight honed during his time at this company for the benefit of Sojitz.

Kameoka ♦ You mentioned the merger between Idemitsu Kosan and Showa Shell Sekiyu. As you can imagine, as people with different values and approaches toward work were made to work together, people naturally began to form sides based on which company they came from. I suspect that this probably occurred, at least a little, when Sojitz was born out of the merger between Nissho Iwai and Nichimen. However, unlike this sense of tribalism, Sojitz had a history of mutual respect and stimulation between Nissho Iwai and Nichimen, both companies with business creation imprinted on their very DNA. This relationship allowed the merged Sojitz to produce an even more refined corporate culture.

In my position as an outside director, I try to emphasize an overarching perspective. Companies exist because people need them. Accordingly, companies need to base their activities on contributions to society. The Sojitz Group Statement professes, “The Sojitz Group creates value and prosperity by connecting the world with a spirit of integrity.” I believe that “connecting the world with a spirit of integrity” means building trusting relationships with various stakeholders around the world. I plan to examine Sojitz from an overarching perspective to determine whether it can truly connect the world in this manner and to explore the new value and prosperity it can create. I therefore hope to help Sojitz make ongoing contributions to society.

Otsuka ♦ Sojitz accomplished almost all of the targets of Medium-Term Management Plan 2023 a year ahead of schedule, in the plan’s second year. I have high praise for the Company’s ability to create numerical results, despite the impacts of high resource prices and other external factors. Investments are also advancing faster than projected, and this aggressive progress is proving beneficial.

However, we cannot deny the fact that a large portion of Sojitz’s earnings is from investments conducted during the period of Medium-Term Management Plan 2017 or earlier. In this manner, Sojitz has yet to sufficiently reap the returns from investments executed under Medium-Term Management Plan 2020 and Medium-Term Management Plan 2023. It goes without saying that it takes a lot of time and effort to reap the benefits of the seeds one sows. This is why it is so important to continuously sow seeds. Opportunities cannot be found everywhere, and Sojitz still has some challenges it needs to overcome in terms of its ability to identify the limited opportunities that do exist. Would you both be willing to share your opinions on this matter?

Kokue ♦ Sojitz broke past earnings records for the second consecutive year in the year ended March 31, 2023. I am truly happy for these impressive results, which are no doubt a source of pride for employees. In particular, the increase in core operating cash flow is something that deserves praise, especially considering how this extra cash will allow for even more aggressive investments.

I also believe that the new indicator of cash return on invested capital (CROIC), adopted in Medium-Term Management Plan 2023, is proving very functional as the idea that this indicator is to be used to determine desired value creation levels, as opposed to a metric merely to be measured, has become entrenched within the Company.

In terms of sustainability, Sojitz is involved in a multifaceted business as a general trading company. It is therefore crucial of the Company to be able to examine developments and changes that could represent risks or opportunities from a variety of angles. Under the leadership of President Fujimoto, Sojitz has developed a sustainability governance system centered on the Sustainability Committee, through which it is making steady progress in efforts to help achieve a decarbonized society and to respond to human rights issues, including those within its supply chains. Moreover, the stakeholder dialogues held each year provide an opportunity for management to receive input from experts in various fields, which is then utilized to formulate and implement strategies. In addition, sustainability factors have been incorporated into the screening criteria used by the Finance & Investment Deliberation Council, further underscoring



how sustainability awareness has permeated all areas of Sojitz's business. Meanwhile, Group think tank Sojitz Research Institute, Ltd., is utilized to analyze geopolitical and social trends as well as megatrends, and this information is then used to adopt a backcasting approach. I believe that this approach is lending an extra element of foresight to the Company's business. At the same time, attention is being directed toward methods of quantifying the benefits of environmental, social, and governance (ESG) initiatives to estimate and disclose their financial impact. I therefore think

there is a need for Sojitz to examine how it handles this matter with consideration paid to concerns like impartiality and understandability.

As for the environment, Sojitz has already conducted scenario analyses for Scope 1, Scope 2, and Scope 3 emissions and is working to measure Scope 4 emissions using its own unique method. This is no easy task, and these efforts show the degree to which Sojitz is disclosing sustainability-related information.

Kameoka ♦ Decarbonization initiatives are designed to combat climate change, or, in other words, to protect the lives and lifestyles of the people of the future. However, it is important that these initiatives be advanced while also protecting the lives and lifestyles of the people of today. Japan is an island nation plagued by frequent natural disasters. There is thus a need for Japan to plot a course toward decarbonization that allows it to maintain its unique frameworks for ensuring a reliable energy supply. This is something, I think, that Sojitz should examine as a general trading company with the express mission of delivering goods and services where necessary. It will be people who guide these efforts. I often hear discussions about human resource strategies at meetings of the Management Committee and other occasions. This makes it apparent just how scrupulous Sojitz is in its initiatives targeting its people, its greatest resource. I even see the Company carefully considering and executing human resource investments as a part of Medium-Term Management Plan 2023.

Otsuka ♦ I completely agree. There can be no doubt that people are the most important asset for a general trading company. Sojitz is incredibly aggressive when it comes to investing in human resources. Management is also very passionate toward matters related to human resources, and you can see this passion in the investment conducted in this area. Sojitz's human resource strategies include the target of raising the ratio of chief officer positions at overseas Group companies filled by locally hired employees. Progress is being made in this regard, but I think there is a need to increase the diversity of even higher ranked positions. Such diversity would help Sojitz transform itself further and move on to a new stage in its development.

Kameoka ♦ When I was at Showa Shell Sekiyu, diversity was already a well-entrenched consideration. This was even before the word became commonplace in Japan. Research on diversity has revealed that, while homogeneous organizations are able to produce good results on average, it is diverse organizations that generate truly spectacular results. If Sojitz is to create distinctive and

refined business and deliver new value to customers and the greater society, it will need to embrace diversity. The reason why diversity is so important is that it allows a company to assemble people with diverse values to discuss how to develop businesses that contribute to society. Sojitz is achieving increases in the ratio of chief officer positions at overseas Group companies filled by locally hired employees and the ratio of women in management positions. However, we cannot forget that improving these ratios is just a means through which the Company is to promote diversity.



Otsuka ♦ One major challenge Sojitz needs to overcome is achieving its target of a price-to-book ratio (PBR) of 1.0 times or above. PBR is not something that a company can control. There was a lot of discussion regarding the decision to set this target during the process of formulating the medium-term management plan, but I think Sojitz deserves praise for its decision to display its commitment in this manner. Moreover, this target is not far off.

Sojitz is making steady progress in its sustainability initiatives, as Ms. Kokue mentioned, as well as in its efforts to reduce cost of capital through information disclosure and proactive engagement with the market. Accordingly, the biggest task needing to be tackled to accomplish this target will be to continue boosting earnings power. Business investments will be an essential part of addressing this task. Sojitz already has the foundation for generating profit for the year of ¥100 billion, but this is still not sufficient when you look at other major general trading companies.

Sojitz thus needs to really think about to where it allocates its capital, people, and other limited resources. The Company has augmented the asset portfolio it has built throughout its history. In addition, by investing around ¥100 billion in each of the past three or four years, Sojitz has established the position to exercise its strengths in certain fields. We should thus look at how the benefits of these investments can be combined to create even greater synergies. It will be important for this to be

considered as part of doing business during the period of the next medium-term management plan. It is not as though Sojitz has been haphazard in the investments it has carried out thus far, but I think that the Company will need to further concentrate its capital and people on fields in which it excels going forward.

Kokue ♦ At Sojitz, people often talk about branching out by leveraging the Company's strengths to advance into new fields. Given the wealth of expertise that has been accumulated to date, I have no doubt that there exist fields in which Sojitz can utilize its strengths to branch out from its current businesses to engage in new businesses that are necessitated by changes to social structures. I am sure there are businesses that can only be developed with Sojitz's current size, businesses in which it can utilize its speed. I therefore hope that Sojitz will be able to find these businesses before its rivals and carefully cultivate them to generate earnings.

Kameoka ♦ At the risk of repeating myself, people are of utmost importance. It is people who identify unmet needs and use the functions a company has developed to meet these needs with new ideas, and it is people who will allow Sojitz to create the new value and prosperity talked about in the Sojitz Group Statement. If we look back at Sojitz's history, we will see that the Company was always driven by talented and passionate people. If such people are to succeed, they need an environment in which they are safe to fail as part of the process toward succeeding in creating something new. As Sojitz works toward its vision of becoming a general trading company that constantly cultivates new businesses and human capital, I hope that it will continue to foster such talented people.



I will keep striving to contribute to improved corporate value at Sojitz as it continues to make progress in its non-financial initiatives toward its vision of becoming a general trading company that constantly cultivates new businesses and human capital.

It has been three years since I became an outside director at Sojitz. I am grateful for this opportunity to talk to you about Sojitz's major non-financial initiatives.

One of the most important things Sojitz needs to do to improve corporate value is to strengthen its corporate governance systems. In 2020, I joined the prior two outside directors to become Sojitz's third outside director. We were joined by another outside director the following year and by yet another in the year after that. As a result, the Company now has five outside directors, and we represent a majority on the Board of Directors. Moreover, the outside director team is diverse, with members having a variety of experience, expertise, genders, and ages. The Board of Directors has made the decision to look at the possibility of revising the Company's corporate governance system, which may include transitioning to the Company with Audit and Supervisory Committee structure as described in the Companies Act of Japan. I intend to play an active role in this process.

We are currently facing a number of complicated social and environmental issues, including climate change and issues related to water resources and human rights. Sojitz's ability to achieve sustainable growth will hinge on the degree to which it can address these issues. The Company is making strides in this regard. It has accomplished certain decarbonization targets ahead of schedule and is now looking to further accelerate the timetable for its targets. I am also paying attention to how Sojitz is seriously examining biodiversity issues, which are sure to be the subject of increased discussion both inside and outside of the organization going forward.

I would next like to talk about digital transformation. Sojitz was chosen for inclusion in the Ministry of Economy, Trade and Industry's Digital Transformation Stock Selection 2023 program. I am overjoyed that Sojitz's forward-looking efforts have earned such recognition. Digital transformation is not merely about using data and technologies. Rather, it is the process of fundamentally transforming business models and creating new businesses by utilizing data and technologies. For Sojitz, I think that digital transformation should involve using a strongly market-oriented focus to identify issues that not even customers themselves have noticed and to provide solutions to said issues.



Naoko Saiki
Outside Director
Chairperson, Nomination Committee

A number of business initiatives for this purpose are already underway. I intend to provide support in these business initiatives to help steadily grow the businesses to possess substantive earnings capacity.

Lastly, I would like to stress the importance of human capital. Human resources are among the most important forms of capital for all companies. For Sojitz, which looks to become a general trading company that constantly cultivates new businesses and human capital, this importance cannot be overstated. I chair the Nomination Committee, and I place incredible emphasis in this role and direct discussions accordingly. I, of course, offer input, and sometimes even harsh criticism, regarding the policies of the executive team from a variety of perspectives. Management is receptive toward such input and responds quickly, flexibly, and in an earnest manner, which gives me great hope for Sojitz's future. Fostering diverse and autonomous human resources is a long and involved process. Nevertheless, I am committed to continuously examining how Sojitz can practice management emphasizing human capital together with the relevant members in order to steer the Company in the right direction.

As an advocate entrusted with the interests of shareholders, I will continue to give my all to help drive the ongoing growth of Sojitz and the improvement of its corporate value in order to maximize value for Sojitz and value for society.

I will support Sojitz in developing a workplace environment in which an uncompromising approach is taken toward change.

Sojitz delivered a record-breaking performance in the year ended March 31, 2023, despite external detractors like high resource prices, and thereby made steady progress in improving its corporate value. I have particularly high praise for the Company's ability to grow earnings in fields that are resilient to the market fluctuations, specifically by investing and developing businesses in the retail and automotive fields. This success is no doubt a product of management's dedicated efforts to bolster Sojitz's earnings power.

At Sojitz, outside directors participate as observers in meetings of the Finance & Investment Deliberation Council, which is responsible for screening and approving investment candidates. At these meetings, we see discussions taking place from a variety of perspectives with a level of discipline that is not bound by established norms. In terms of post-merger integration, Sojitz has become more proficient at assessing and analyzing challenges in a timely and effective manner, although there is still some room for improvement in this regard. These highly effective initiatives are what has enabled Sojitz to improve its performance, when excluding external factors. Medium-Term Management Plan 2023 prescribes amounts of new investments and asset replacement that are roughly double those of the previous plan, making for a more dynamic approach toward value creation.

In regard to Sojitz's quest to improve PBR, I believe it is necessary for the Company to steadily generate earnings from investments and business activities in various sectors. There is currently a bit of disparity between the earnings power and growth potential of different business divisions and Sojitz's businesses in different fields. Accordingly, Sojitz will need to achieve high earnings growth in a wider range of sectors. This will be no easy task; it will require Sojitz to identify fields in which it has or can obtain a competitive edge. If such an edge cannot be secured, the Company must be able to be decisive in pulling out. This will be crucial if Sojitz is to move on to the next stage of its development. However, if Sojitz can fully capitalize on its strengths, I am confident that it will be presented with exciting prospects and opportunities for growth that will allow it to carve out a unique position and develop businesses that its rivals cannot mimic. If Sojitz can achieve an unparalleled position in a given field, the kind of position



Ungyong Shu
Outside Director
Chairperson, Remuneration Committee

that makes it synonymous with that field, it will certainly contribute to higher motivation among employees. The Company should thus seek to give the best possible people the best possible opportunities and then demand that they deliver the best possible performance. Then, when employees realize that this stance creates a workplace environment in which they can take pride in their work, it will generate a positive evaluation from people both inside and outside of the organization. I believe that this is the ideal path for Sojitz to take.

Executive remuneration systems are also an important topic of discussion. Over the past year, the Remuneration Committee has proceeded to assess the Company's current remuneration systems, which were formulated together with Medium-Term Management Plan 2023. Matters to be examined going forward include the ideal level of performance-linked remuneration and how to prioritize the key performance indicators used to determine performance-linked remuneration. The most common reason for raising the ratio of performance-linked remuneration is to align the interests of management with those of shareholders. However, given that performance is not yet sufficiently reflected in the Company's stock price, there is also an argument to be made for increasing the influence of indicators related to stock prices, which are directly linked to shareholder interests.

I am committed to supporting Sojitz in developing an atmosphere and workplace environment in which lofty targets are set, the reality of the Company is assessed objectively, and an uncompromising approach is taken toward change. This is how I seek to contribute to the improvement of Sojitz's corporate value.