Condensed Transcript of Q&A Session Regarding Results Briefing for the Nine-Month Period Ended December 31, 2017 (February 2, 2018)

Performance and Forecasts for the Year Ending March 31, 2018

Q. The negative free cash flow is projected to move toward the positive end of the spectrum during the fourth quarter. Is it safe to assume that this trend is congruent with the target for the three-year period of the current medium-term management plan?

A. We still intend to work toward breaking even in terms of three-year free cash flow. However, we also plan to conduct new investments and loans to totaling between ¥10.0 billion and ¥20.0 billion during the fourth quarter, and we cannot deny that these expenditures will push us beyond our budget. Nonetheless, we forecast that core operating cash flow will amount to ¥70.0 billion on a full-year basis, and we therefore feel that there is no need for concern with regard to these investments and loans.

Q. I suspect that an upward trend in leverage should be appearing given the overlapped timing of tobacco transactions and new investments and loans. What are your policies for improving cash flows, including by recovering working capital, and addressing leverage needs?

A. Plans for improving operating cash flows during the fourth quarter will primarily be centered around liquidizing assets to address increases in the amount of funds used for tobacco transactions. In addition, we are looking to cut back on transactions with low profitability. We also plan to maintain sufficient tobacco inventories and therefore do not anticipate that inventory levels will decline by any significant degree. Accordingly, our efforts for increasing operating cash flows will be oriented around steps that can be taken with regard to accounts payable.

Q. To what extent were one-time income movements seen during the third quarter? I understand that Sojitz plans to sell interests during the fourth quarter. Around what amount of one-time income movements do you anticipate in the fourth quarter?

A. In the nine-month period ended December 31, 2017, the combined effect of one-time income movements was a net loss of ¥1.2 billion when considering tax expenses recorded as nonrecurring income. As you know, the Energy Division posted loss for the period of ¥2.7 billion in the nine-month period ended December 31, 2017, and is projected to record loss for the year of ¥4.0 billion on a full-year basis. If the difference of ¥1.3 billion is considered to be a one-time loss attributable to asset replacement in the fourth quarter, full-year one-time income movements should make for a net loss of between ¥2.0 billion and ¥2.5 billion.

Q. In the past, Sojitz has explained that the earnings contributions to be reaped from new investments and loans will equate to ¥5.0 billion in the year ending March 31, 2018, and between ¥12.0 billion and ¥15.0 billion in the following years. Have there been any changes to this outlook?

A. We currently anticipate earnings contributions from new investments and loans to amount to around ¥6.0 billon in the year ending March 31, 2018. In addition, we project that the ¥300.0 billion worth of investments and loans conducted over the three-year period of the current medium-term management plan will contribute approximately ¥12.0 billion to earnings in the final year of the next medium-term management plan. Over the years ending March 31, 2019 to 2021, we will be working to recover the principals of these investments and loans.

Next Medium-Term Management Plan

Q. Under the current medium-term management plan, a stance was adopted that entailed a rapid increase in investment, which resulted in free cash flow dropping into the negatives. Will a similar stance toward investment be maintained during the year ending March 31, 2019, which will be the first year of the next medium-term management plan, or will a more conservative approach toward cash use be adopted? In other words, what will be your policies toward future growth investments?

A. We are still in the process of formulating our investment and loan plan for the year ending March 31, 2019. However, there will be no fundamental change to our basic policy of conducting new investments and loans within the scope of core operating cash flow and the funds that can be recovered through asset replacement. It is true that new investments and loans have been concentrated in the year ending March 31, 2018, exceeding the amount budgeted of ¥150.0 billion. However, not all these investments and loans were projects commenced during this fiscal year. Rather, some were projects that began in the year ended March 31, 2017, or prior for which the actual expenditures ended up being disbursed in this fiscal year. Although it may be ideal to manage cash flows on a single-year basis, we plan to adopt an approach of balancing cash flows over the three-year period of the next medium-term management plan in order to seize upside risks pertaining to earnings while also managing cash flows. As the current medium-term management is aimed at returning to the growth track, it represents a period during which we need to accumulate assets. Still, we have no intention of prioritizing asset accumulation to the point of sacrificing cash flows.

Q. The upward revision to performance forecasts has brought a double-digit figure for return on equity into sight. What will be your policies for issuing shareholder returns as the Company boosts return on equity in the year ending March 31, 2019, and beyond?

A. Improving return on equity, and similarly return on assets, is an effective way to build foundations for the next medium-term management plan. However, we have not yet determined the shareholder returns policies that will instituted to this end. Shareholder returns policies will be a matter discussed over the course of formulating the next medium-term management plan. In principle, we plan to continue the current policy of maintaining the present level for the payout ratio while increasing profit for the year, the numerator used when calculating return on equity.

Business Segments

Q. It is my understanding that Sojitz's automotive operations are performing well. Will this strong performance continue through to the year ending March 31, 2019? Also, it was mentioned that these operations are being impacted by hurricanes. What is your outlook with regard to these impacts going forward?

A. Overall demand is anticipated to increase in Russia, Thailand, and the Philippines in tandem with population growth in these countries. Meanwhile, operations in the United States will be impacted slightly by the interest rate hike. However, we do expect this impact not to be significant as we will be striving to develop a business structure in dealership operations that is not dependent on new vehicle sales but rather generates its earnings primarily from workshops.

Q. There has been no change to the Company's assumptions for resource prices. However, the current forecasts project that LNG Japan Corporation will be generating profits during the fourth quarter. In addition, coal prices are high at the moment. Given these conditions, what was the reasoning behind the decision not to revise forecasts? Is there some risk of possible losses, such as from sales of interests in the Energy Division, or have you simply taken a conservative stance and thus chosen not to revise forecasts?

A. Loss for the period in the Energy Division amounted to ¥2.7 billion in the nine-month period ended December 31, 2017, and there has been no change to our full-year forecast for this division of loss for the year of ¥4.0 billion. We are currently examining the possibility of replacing certain assets in this division, and this possibility is being considered with regard to forecasts. In addition, we have already hedged for more than 90% of the recent rise in the crude oil price through factors including our share of profit in LNG Japan, and we therefore do not expect this rise to have a significant impact on performance. We have also revised our assumption for the price of thermal coal in the fourth quarter to US$100 per ton, which may seem low in comparison to the current price US$108 to US$109 per ton.

Q. Is the strong performance of Metal One Corporation primarily a result of operations in Japan or overseas?

A. A major factor behind the strong performance of Metal One was the tight global supply and demand balance for steel that was a result of regulations imposed by the Chinese government. In Japan, meanwhile, steel prices are rising in conjunction with increased demand related to preparations for the 2020 Tokyo Olympic and Paralympic Games. Accordingly, favorable trends are being seen in the prices and supply and demand balances for steel both in Japan and overseas.

Q. In regard to overall profit trends in non-resource businesses, it was explained that the Automotive Division, for example, will be seeing growth centered on emerging countries in the year ending March 31, 2019. Are there currently any risky projects experiencing downward trends in profits?

A. We do not have any specific concerns with regard to major non-resource businesses, such as those in the Automotive Division or the Chemical Division. The only area where we have concerns is the real estate business. In condominium operations, specifically, we have not been developing many projects in light of the soaring prices of land in urban areas and the massive increases in the prices of building materials. These conditions are expected to continue after April 2018. Compensating for this stagnancy in condominium operations by further developing overseas industrial park operations will require time and will thus represent a challenge needing to be tackled going forward.

Q. Gross profit was down year on year in the Retail & Lifestyle Business Division, despite the earnings growth in tobacco operations resulted from favorable performance. What are the reasons behind this outcome?

A. In the previous fiscal year, we recorded a gain on the sale of a shopping center. Accordingly, the year-on-year decrease in gross profit was due to the absence of this gain as opposed to projects presenting cause for concern.