Condensed Transcript of Q&A Session Regarding Results Briefing for the Year Ended March 31, 2018 (May 1, 2018)

Performance in the Year Ended March 31, 2018, and Forecasts for the Year Ending March 31, 2019

Q. It would appear that fourth-quarter performance in the Automotive Division was a bit sluggish when compared to the third quarter. What are the reasons behind this situation?

A. The appearance of faltering performance during the fourth quarter was due in part to the fact that, in automotive operations in the Philippines, we conducted production and sales activities that would generally take place during the fourth quarter in the third quarter or prior. This move was taken in light of a demand rush projected to proceed the increase in taxes on parts that was scheduled for January 2018. In addition, we recorded expenses in relation to new investments and loans during the fourth quarter, which was an extraordinary factor.

Q. The Aerospace & Transportation Project Division is forecast to see profit growth in the year ending March 31, 2019. Could you please elaborate on this forecast? Specifically, what will be the greatest driver of profit growth?

A. In the year ending March 31, 2019, the greatest driver of profit growth in the Aerospace & Transportation Project Division will be the freight railway line in India, which will begin making full-fledged earnings contributions during this fiscal year. At the moment, we still have yet to secure between ¥270.0 billion and ¥280.0 billion of the total amount of ¥350.0 billion forecasts for orders in the year ending March 31, 2019. In addition, we believe that accomplishing our earnings forecast in the Aerospace & Transportation Project Division will require us to bolster the medium-to-long-term performance of core operating companies in this division, namely Sojitz Marine & Engineering Corporation and Sojitz Aerospace Corporation.

Q. One-time losses associated with oil and gas interests in the Energy Division were larger than expected during the fourth quarter. What were the reasons behind these losses? Also, it was explained that Sojitz will be shifting from upstream interests to midstream and downstream assets. Is there any chance that this transition could result in such losses occurring in the year ending March 31, 2019, or beyond?

A. In regard to the impairment losses on oil and gas interests, as was explained during the second quarter, we are still in the process of negotiating sales of these interests. It became necessary to revise future production plans during the course of these negotiations, forcing us to record additional impairment losses during the fourth quarter. We have also revised future production plans for other mining areas and recorded related provisions, which was another factor that increased fourth-quarter impairment losses on oil and gas interests. The Company is still in possession of some oil and gas interests, and we intend to move ahead with the sale of these interests going forward. Accordingly, we cannot guarantee that no impairment losses will be recorded in the future. However, we can say that the scale of any future losses will likely not be large enough to have a significant impact on our forecasts or results.

Q. Loss for the year attributable to owners of the Company in the prior Energy Division was ¥6.1 billion in the year ended March 31, 2018, and the new Energy & Social Infrastructure Division is forecast to see profit for the year of ¥4.5 billion in the year ending March 31, 2019. What portion of the improvement this change represents is expected to be generated by earnings from domestic and overseas power generation operations when excluding extraordinary factors?

A. We are currently in the process of constructing domestic solar power generation facilities. Accordingly, we anticipate that our total share of renewable energy generation capacity on March 31, 2019, will be roughly double the level of 210 MW seen on March 31, 2018. This increase in generation capacity will be the primary reason behind earnings growth in the Energy & Social Infrastructure Division.

Q. Higher coal sales volumes were stated as one of the reasons for differences between the disclosed forecasts and actual performance for the year ended March 31, 2018. Could you please offer some more details with this regard?

A. The upward revisions to forecasts announced along with financial results for the nine-month period ended December 31, 2017, left the assumption for coal sales volumes at the initially forecast level of 6.3 million tons. However, actual full-year coal sales volumes exceeded 6.5 million tons. In addition, profit growth at Metal One Corporation and higher prices for copper and aluminum also contributed to earnings.

Q. Profit for the year in the Chemicals Division was ¥8.7 billion in the year ended March 31, 2018 and is forecast to reach ¥10.5 billion in the year ending March 31, 2019. What will be the reasons behind this profit growth?

A. We expect that prices for methanol and naphtha will relatively unchanged year on year, but we do anticipate that sales volumes will expand to a certain degree given the robust demand. However, the most significant factor behind profit growth will be the rebound from the recording of provisions for overseas operations that took place during the year ended March 31, 2018.

Q. The number of overseas industrial parks turned over in the year ending March 31, 2019, is expected to decline year on year. Will this be a temporary decline? In your response, could you please also touch on recent inquiry trends?

A. All lots have been sold at one of our two industrial parks in Vietnam while 90% of the developed area at the other park has been sold. Future growth in overseas industrial park operations will therefore be dependent on the timings of additional development at Deltamas City in Indonesia and of the sales of the industrial park currently being developed in India. Accordingly, these operations will be in somewhat of a preparation period for the foreseeable future, and we do not anticipate any significant growth to be seen in the year ending March 31, 2019, or beyond.

Q. The forecasts for the year ending March 31, 2019, assume a foreign exchange rate of ¥105 to US$1 and a price of thermal coal of US$85 per ton. Have the forecasts for any businesses incorporated other disadvantageous assumptions? Also, have any buffers been included under eliminations and corporate?

A. Medium-term Management Plan 2017 incorporated asset replacement cost buffers into its forecasts for each fiscal year, but no such buffers have been employed in Medium-Term Management Plan 2020. This approach was taken in light of our conservative outlook for earnings in individual businesses and for commodity prices. Based on this outlook, we expect to be able to absorb the impacts of any impairment losses that do occur. In more concrete terms, we anticipate that foreign exchange influences will place downward pressure on profits to the extent of ¥3.0 billion while the combined impact of prices for coal, aluminum, copper, and other resources will reduce profits by ¥4.0 billion. This outlook for commodity prices assumes prices that are lower than those currently seen. Furthermore, we project a reduction in gross profit of approximately ¥5.0 billion to result from the rebound from one-time factors that buoyed profit in the year ended March 31, 2018. Specifically, these one-time factors include earnings from social infrastructure development projects as well as gains on the partial transference of equity in projects. Based on these considerations, we feel no need for buffers over the period Medium-Term Management Plan 2020.

Q. In regard to one-time income movements in the year ended March 31, 2018, for which were tax benefits utilized and for which were these benefits not utilized?

A. We have not categorized one-time income movements based on whether or not tax benefits were utilized. However, we expect that post-tax one-time losses will amount ¥10.0 billion on a full-year when the impacts of other income and expenses are excluded. Accordingly, we anticipate that one-time income movements will amount to a net loss of ¥7.0 billion when taking into account a one-time gain of approximately ¥3.0 billion from large-scale social infrastructure projects and the partial transference of equity in solar power generation projects.

Q. I understand that more than ¥100.0 billion worth of working capital was recovered during the year ended March 31, 2018. In what manner was this capital recovered? Also, will the rebound from this recovery be felt during the year ending March 31, 2019?

A. A major factor behind the improvement in net cash provided by operating activities was an increase of approximately ¥20.0 billion in core cash flow, which is primarily comprised of income factors. The rest of the improvement can be attributed to changes in working capital. I must refrain from offering details on this matter, but what I can say is that a main factor was an increase in liquified funds following higher tobacco transactions.

Q. What portion of the ¥158.0 billion worth of investments conducted in the year ended March 31, 2018, is categorized as working capital?

A. The amount of cash flows of an investment nature included under operating cash flows is approximately ¥36.0 billion. If this amount were transferred to investing cash flows, net cash used in investing activities would have come to ¥120.0 billion.

Q. I understand that a conservative outlook has been adopted with regard individual businesses in the year ending March 31, 2019, and that performance in individual businesses will suffer the rebound from a one-time income gain of ¥5.0 billion recorded in the year ended March 31, 2018. Could you please offer some more details on these matters?

A. As examples of the conservative outlook taken with regard to individual businesses, we do not anticipate significant growth in automobile sales in certain regions and heat-not-burn cigarette transaction volumes in Japan are expected to become stagnant as the domestic smoker population declines. In addition, overseas fertilizer businesses will be impacted by the implementation of safety precautions regarding imported phosphorus, market entries by competitors, and tight finances among rice farmers. Furthermore, the division forecasts for the year ending March 31, 2019, have incorporated factors such as the rebound from the one-time increase in gross profit of ¥5.0 billion associated with infrastructure-related products as well as a ¥4.0 billion declines in profit in the Metals & Mineral Resources Division to result from lower commodity prices.

Medium-Term Management Plan 2020

Q. Sojitz raised its target for the consolidated payout ratio to 30%. What is the significance of this level from a financial perspective, what were the reasons this decision was made, and what amount of leeway does this level indicate?

A. The decision to raise the target for the consolidated payout ratio to 30% was prefaced on our intention to maintain stable earnings of a certain scale. Profit for the year amounted to ¥56.8 billion in the year ended March 31, 2018, and we are projecting profit for the year of ¥63.0 billion in the year ending March 31, 2019. We thus judged that we would be able to generate sufficient funds to target a consolidated payout ratio of 30% while still accumulating internal reserves and increasing total equity to facilitate future growth investments. From a financial perspective, we view maintaining a positive free cash flow over a given period as one goal of financial discipline. Under Medium-Term Management Plan 2020, we have chosen to also focus on securing a positive post-dividend core cash flow while effectively managing cash flows pertaining to dividends.

Q. Forecasts seem to be incorporating earnings contributions from investments and loans to be conducted during the period of the new medium-term management plan. Are there any investments and loans for which execution has already been finalized and from which the effects will be immediately reflected in earnings?

A. There are several new investments and loans to be conducted under Medium-Term Management Plan 2020 that were finalized in-house prior to March 31, 2018, and that we are currently working toward closing. Some of these investments and loans will be in projects that have already been partially developed and therefore promise to begin making earnings contributions immediately after closing.

Business Segments

Q. The Energy Division posted an impairment loss in the fourth quarter of the year ended March 31, 2018. What strategies and holding policies will be adopted with regard to energy interests going forward?

A. We have previously explained our intention to adopt an energy field policy that entails gradually pulling out of highly volatile upstream interests to shift toward midstream and downstream areas, and this plan remains unchanged. The prior Energy Division was recently merged with our social infrastructure operations, which entail power generation projects, among others. This reorganization consolidated within the resulting Energy & Social Infrastructure Division the functions for providing services in areas ranging from power supply to generation. We are also making progress in our LNG operations, which are centered on LNG Japan Corporation. The Energy & Social Infrastructure Division will thus be developing and expanding operations spanning from energy supply to power generation.