Condensed Transcript of Explanations by President Fujimoto and CFO Tanaka and Q&A Session Regarding Briefing on Medium-Term Management Plan 2020 (May 2, 2018)

Targets and Policies

Q. Were the numeric targets of Medium-Term Management Plan 2020 formulated to serve as a promise to accomplish these targets? What is the Company's commitment toward these targets?

A. Although Medium-term Management Plan 2017 put forth the target for profit for the year attributable to owners of the Company of ¥60.0 billion for its final year, the actual figure for this item was ¥56.8 billion. The inability to achieve our target was largely due to delays in investments stemming from poor market conditions during the first and second years of the plan. During the period of Medium-Term Management Plan 2020, we aim to show the market that we can link the ¥300.0 billion worth of investments and loans conducted under the previous plan to improved earnings. Medium-Term Management Plan 2020 is a plan that incorporates very strong aspects of our operations, and we therefore feel that the target for profit for the year of ¥75.0 billion or more is a bit conservative.

Q. What are the plan's assumptions for the price of coal?

A. Medium-Term Management Plan 2020 assumes coal prices of US$85 per ton in the year ending March 31, 2019; US$78 per ton in the year ending March 31, 2020; and US$73 per ton in the year ending March 31, 2021.

Q. I suspect that Sojitz will continue to withdraw from unprofitable and low-margin businesses while revising business portfolios. Will Medium-Term Management Plan 2020 entail any changes to this approach from Medium-term Management Plan 2017? For example, will the standards for unprofitable businesses under monitoring be made more rigorous or will the hurdle rates for replacing assets associated with low-margin businesses be heightened? In other words, I want to know if the pace of withdrawals and revisions will be accelerated under Medium-Term Management Plan 2020 or if there will be any change in focus.

A. There have been no changes to the indicators used for cutting back on unprofitable businesses. Steady progress was made in reducing the number of unprofitable and low-margin businesses companies under Medium-term Management Plan 2017. We are still encumbered by some unprofitable and low-margin businesses, such as the operations of equity-method associates and other businesses that we cannot withdraw from unilaterally or that require difficult negotiations. Effectively addressing such businesses will be of extreme importance. We have also begun disclosing the number of unprofitable companies on a by-division basis.

Q. Will there be any changes in Sojitz's approach toward risk management? For example, will new measures be implemented to address the previously seen large fluctuations in Sojitz's equity resulted from foreign exchange movements?

A. Multi-currency borrowing facility agreements have been concluded with financial institutions to secure sufficient amounts of funds. With these agreements, we can use multi-currency borrowing facilities to meet funding requirements that would normally be addressed on a yen basis. Furthermore, we consolidated the cash management systems of overseas subsidiaries and major operating companies during the year ended March 31, 2018, to establish a global cash management system. This system will enable us to utilize the foreign currency available throughout the Group for back-to-back financing of investments, including those spearheaded by the head office, and thereby mitigate the risks of total equity being impacted by foreign exchange rate movements.

Q. A large portion of Sojitz's earnings comes from coal businesses, which seems contrary to the concept of sustainability. How will Sojitz be addressing this concept?

A. Coal businesses make up a significant portion of our portfolio, and we have no intention of withdrawing from all of these businesses at the moment. However, we also recognize that the global society is looking to move away from coal leading up to 2050. As alternative energy sources emerge, Sojitz will seek to contribute to the realization of a low-carbon society and eventually a carbon-free society through means such as refraining from engaging in coal-fired thermal power generation projects while increasing the presence of renewable energy and LNG in its portfolio. This approach will be taken even as we continue to develop our coal businesses. Moreover, business feasibility and profitability will not be the only yardsticks used when making investments; we will also consider contemporary social issues and the effects that any given investment would have on those issues.

Statements of Profit or Loss and Balance Sheets

Q. Sojitz has presented a scenario in which earnings growth is achieved by collecting returns from investments and loans, and a timetable has been provided with this regard. What, specifically, is the link between profits and cash returns?

A. We chose to include a positive core cash flow among our goals out of recognition of the importance of profits accompanied by the recovery of cash. The Company's stance is to not be blindly accepting of profits that are not accompanied by the recovery of cash through share of profit of investments accounted for using the equity method, unrealized gains, or some other means as we seek generate profits on a consolidated basis. In principle, our earnings are to come primarily from consolidated subsidiaries with earnings from share of profit of investments accounted for using the equity method being an exception made from project finance, independent power producer projects, and other large projects.

Q. I will like to inquire into the likelihood of earnings contributions being generated from the ¥300.0 billion worth of investments and loans to be conducted under Medium-Term Management Plan 2020. Is the situation that, for example, as 80% of this amount is tied to projects that have already been approved, earnings will be generated from these projects? Or is it that the majority of the ¥300.0 billion worth of investments and loans have not been incorporated into earnings forecasts and that these forecasts are based on a conservative outlook only accounting for those projects from which earnings contributions can be calculated at this point in time?

A. We anticipate that earnings contributions from investments and loans will amount to approximately ¥10.0 billion in the final year of Medium-Term Management Plan 2020. Around 60% of this amount is expected to achieved if we are able to carry out our plans with regard to investments and loans that have already been approved. However, the amount of earnings contributions projected for the final year of Medium-Term Management Plan 2020 only includes the earnings from new investments and loans that have already been approved in-house. This amount does not include earnings from potential investments and loans that may be conducted in the years ending March 31, 2020 and 2021.

Q. Looking at the Company’s forecasts for return on assets, or ROA, by division, what are the factors that are projected to lead to deteriorations or improvements in division ROA?

A. In divisions that are expected to see slight year-on-year declines ROA in the year ending March 31, 2019, these declines will be the result of one-time factors. The Metals & Mineral Resources Division will suffer a particularly large decrease in ROA. This decrease will result from the sales price for thermal coal, which is projected to drop from the current US$94 per ton to US$73 per ton in the final year of Medium-Term Management Plan 2020. Accordingly, we see the decrease in ROA in this division as being unavoidable. A more modest decline in ROA is expected in the Industrial Infrastructure & Urban Development Division. Factors behind this decline include the fact that we have already sold around 90% of the space in our overseas industrial parks and that earnings contributions from industrial parks in Indonesia as well as parks currently under development in India will likely not occur until the period of the next medium-term management plan. In these manners, the changes in ROA on the division level will be the result of situations surrounding business progress and changes in market conditions.

Q. Sojitz has put forth the target of achieving profit for the year of more than ¥100.0 billion after the conclusion of Medium-Term Management Plan 2020. What is the significance of this figure? Also, how do you foresee earnings being generated by specific divisions?

A. Under Medium-Term Management Plan 2017, we targeted profit for the year of ¥5.0 billion from each division and ¥50.0 billion on a consolidated basis. We will determine how to grow earnings in all divisions during the three-year period of Medium-Term Management Plan 2020 and implement initiatives accordingly with the aim of achieving profit for the year of ¥10.0 billion in each division after the conclusion of the plan’s period.

Q. Earnings contributions for the expansion of existing businesses is described as one factor behind profit growth leading up to the final year of the medium-term management plan. Could you please breakdown these earnings contributions?

A. We anticipate growth in trading operations. For example, the acquisition of a European chemical distributor and marketing company will serve to expand the sales channels and product lineups of the Chemicals Division. In addition, the Automotive Division will benefit from a rise in automotive sales volumes stimulated by the recovery of the Russian automobile market as well as strong progress by core operating companies.

Cash Flows and Investments and Loans

Q. What will be your approach toward investments over the three-year period of Medium-Term Management Plan 2020? I understand that approximately ¥100.0 billion worth of investments have already been approved in-house for the year ending March 31, 2019, and that procedures are moving forward with regard to these projects. Will these investments entail disbursements during the first half of the new medium-term management plan's period, which would be different from the trend seen during the period of Medium-Term Management Plan 2017? In addition, is there any chance that profit for the year might climb above the amount of ¥75.0 billion projected for the year ending March 31, 2021?

A. The execution of investments under Medium-Term Management Plan 2017 was indeed concentrated in the second half of the plan's period. Under Medium-Term Management Plan 2020, however, we will pursue a policy of ongoing investment, and we therefore do not expect investments to be overly concentrated in the second half of the period of this plan. There are several investments approved during the final year of Medium-term Management Plan 2017 that will undergo closing and thus be finally kicked off during the year ending March 31, 2019. In addition, we aim to improve profitability by increasing the value of projects in which investment has already been commenced. We hope that these efforts will lead to the creation of additional profits.

Q. It seems as though a great deal of investment under Medium-Term Management Plan 2020 will be conducted in infrastructure fields. Does this mean that investments will continue to be focused on fields in which infrastructure investments will generate steady profits, as was the case under Medium-Term Management Plan 2017?

A. A large portion of investments will be conducted in the infrastructure, urban transportation, and automotive fields. Under Medium-Term Management Plan 2017, investments in these fields amounted to between ¥20.0 billion and ¥40.0 billion and represented around 50% to 60% of total investments. During the period of Medium-Term Management Plan 2020, meanwhile, we hope to increase investments in fields in which investment has previously been lacking, such as the Foods & Agriculture Business Division and the Chemicals Division. We will therefore be creating support organizations and conducting investments with consideration paid to our business portfolio.

Q. What approach was used when dividing investment amounts by division? For example, was an approach of determining investment amounts based on the perspective of profitability indicators, such as ROA and return on investment, or ROI, adopted?

A. In principle, we make investment decisions through the Finance & Investment Deliberation Council while considering investment hurdle rates and ROA. Specific target fields for investments will include the retail, food, and agriculture fields. Developing operations in these fields will require a bit of time, but we are committed to nurturing such businesses nonetheless. This approach will be adopted in part to contribute to the realization of a recycling-oriented society characterized by manufacturing and sales in order to take advantage of growth in Southeast Asia.

Q. ROI of 7.5% from investments and loans conducted during the period of Medium-Term Management Plan 2017 is projected in the year ending March 31, 2021, while investments and loans executed under Medium-Term Management Plan 2020 are expected to produce ROI of more than 8% in the year ending March 31, 2023. When compared to prior investments, will investments to be carried out under Medium-Term Management Plan 2020 be more profitable or will there be no change in profitability?

A. In regard to ROI, under Medium-Term Management Plan 2017, we pursued stable returns. For example, we focused on investing in independent power producer projects in which we could secure 20-year power purchase agreements. We have no intention of abandoning our focus on stable returns going forward. However, given that we have accumulated higher total equity, we do look to invest in businesses that may entail a certain degree of risks but that also present the possibility of higher returns, such as providing investment support in deregulated power markets. In this manner, we aim to achieve ongoing growth in ROI after the period of Medium-Term Management Plan 2020 by building a portfolio that contains both such higher-risk, higher-return projects and projects that initially have low returns but promise future earnings growth. The ROI projection of 8% is based on portfolio with such a structure. It is not indicative of an intent to pursue high-risk, high-return projects.

Q. The Company has announced its intent to achieve a positive post-dividend core cash flow. I suspect that this will entail preventing increases in interest-bearing debt while boosting equity to lower the net debt equity ratio. The fact that, contrary to this assumption, the target for the net debt equity ratio is set at 1.5 times seems to imply that the Company will be upping leverage in comparison to the current level, which is characterized by a ratio of 1.0 times. With this regard, what are your policies for cash flows and finances?

A. If we achieve a positive post-dividend core cash flow and prevent increases in interest-bearing debt, the net debt equity ratio should drop below 1.0 times. However, in the past, we have seen cases in which large fluctuations in foreign exchange rates have greatly impacted the net debt equity ratio. It is also possible that temporary increases in working capital or inventories could drive this ratio up. The net debt equity ratio target of 1.5 times represents our commitment to keeping this ratio below this level even given the risks I have just mentioned. We do not intend to increase this ratio through higher leverage.

Q. Sojitz plans to target a positive post-dividend core cash flow while conducting

¥300.0 billion worth of investments and loans over the three-year period of Medium-Term Management Plan 2020, as was the case in the previous medium-term management plan. To what extent does this plan incorporate sales of assets? Such sales amounted to ¥150.0 billion over the period of the previous medium-term management plan. What is the amount projected for the period of Medium-Term Management Plan 2020?

A. In the year ended March 31, 2018, core operating cash flow exceeded ¥80.0 billion. Although we believe that this level was a bit exceptional, being buoyed by higher prices of coal and other resources, we nonetheless recognize that Sojitz is currently capable of consistently generating core operating cash flow of between ¥65.0 billion and ¥70.0 billion. If core operating cash flow were to come to around ¥200.0 billion, achieving a positive post-dividend core cash flow would require asset replacements amounting to between ¥150.0 billion and ¥160.0 billion. Fortunately, we expect to be able to secure this amount through a combination of asset recycling and the recovery of investments that have become due.