Condensed Transcript of Q&A Session Regarding Results Briefing for the Year Ended March 31, 2019 (May 9, 2019)

First Questioner

Q. The forecast for the Metals & Mineral Resources Division in the year ending March 31, 2020, projects a thermal coal price of US$80 per ton and a ¥5.5 billion decline in profit for year. Meanwhile, I suspect that earnings contributions from coking coal will be seen. How much will profit from thermal coal decline and how much will profit from coking coal increase?

A. As shown on slide 8 of the presentation materials, we anticipate a ¥7.5 billion decrease in profit for the year stemming from market fluctuations. Of this decrease, ¥6.0 billion will be associated with coal while the remaining ¥1.5 billion will relate to ferroalloys. The operations of the newly acquired coking coal businesses will commence in the year ending March 31, 2020. The performance of these businesses has therefore not been included in forecasts.

Q. In relation to coking coal production plans, are earnings contributions expected to be started during the latter half of the year ending March 31, 2020?

A. Yes. We are currently in the process of upgrading equipment, and we expect to begin shipping coal on October 1, 2019.

Q. Could you please provide a breakdown of the ¥6.0 billion worth of earnings contributions anticipated to be generated from investments and loans during the year ending March 31, 2020?

A. Earnings contributions from investments and loans conducted under Medium-Term Management Plan 2017 are forecast to amount to ¥2.0 billion, which will primarily be attributable to the recovery of profits from the European chemical distributor and marketing company and to higher profits from the public private partnership hospital operation project in Turkey. Earnings contributions from Medium-Term Management Plan 2020 investments and loans are projected to come to ¥4.0 billion. The main contributors will include coking coal interests, independent power producer (IPP) projects in the United States, and the paper manufacturer in Vietnam.

Second Questioner

Q. With regard to forecasts for the year ending March 31, 2020, could you please explain the factors projected to drive profit increases in the Chemicals Division, the Foods & Agriculture Business Division, and the Retail & Lifestyle Business Division?

A. Provisions for losses on transactions, mainly overseas transactions, of ¥1.0 billion were recorded in the Chemicals Division in the year ended March 31, 2019. Under normal circumstances, we believe that this division has an earnings capacity of around ¥10.0 billion. In the Foods & Agriculture Business Division, fertilizer operations in Thailand are being impacted by a reluctance to purchase fertilizer stemming from price controls and a lack of funds on the part of farmers. We are responding to this situation by shifting away from our previous focus on rice fertilizers to expand sales of fruit fertilizers as well as sales to Myanmar and other overseas markets. However, we have received reports that the period of the price controls will be extended to end in August 2019 as opposed to May. The extent to which profits can be recovered will thus be a point of focus going forward. The Retail & Lifestyle Business Division, meanwhile, is enjoying strong performance. We expect that this business will achieve solid performance as we raise the value of commercial facilities and accumulate and improve earnings from food subsidiaries.

Q. In the year ending March 31, 2021, earnings contributions from investments and loans are projected to total ¥22.0 billion, ¥12.0 billion from investments and loans conducted under Medium-Term Management Plan 2017 and ¥10.0 billion from those conducted under Medium-Term Management Plan 2020. What is the likelihood that these figures will be accomplished?

A. In regard to investments and loans conducted under Medium-Term Management Plan 2017, we expect contributions from the European chemical distributor and marketing company and from automotive dealerships. Certain IPP projects in Indonesia will also begin producing profits. Investments and loans executed during the period of Medium-Term Management Plan 2020 include those made in the automotive field and in IPP projects. In the year ending March 31, 2020, we plan to commence operations at IPP projects in the United States and these will generate profits throughout the year ending March 31, 2021, as well as paper manufacturer in Vietnam. Coupled with the new power generation projects and the LNG receiving terminal in Spain, these investments and loans will account for around 70% of the projected earnings contributions. The sources of the remaining 30% will be identified going forward.

Third Questioner

Q. What factors do you expect will contribute to or detract from the likelihood that the forecast for profit for the year of ¥72.0 billion in the year ending March 31, 2020, will be achieved?

A. It is possible that profit from fertilizer operations in Thailand may fall below our forecast by a few hundred million yen. Conversely, the price of thermal coal is currently around US$84 per ton, higher than our assumption of US$80 per ton. The benefits of this higher price will counterbalance the lower profits in fertilizer operations. We are committed to accomplishing the forecast of ¥72.0 billion for profit for the year.

Q. Core cash flow is a positive ¥63.0 billion and the net debt equity ratio is at the lowest it has been in 15 years. Will interest-bearing debt be decreased further? Also, how will surplus cash flows be allocated?

A. At the moment, we have no plans to pursue further reductions in the net debt equity ratio, and we intend to deliver dividends consistently based on a consolidated payout ratio of 30% policy. We will allocate any surplus cash flows to investment and loans rather than to share buybacks for the time being.

Q. Is it correct that to say that you intend to refrain from share buybacks since you plan to prioritize growth of earnings during the period of the current medium-term management plan?

A. That is correct. We recognize the need to consider share buybacks in the future. The positive core cash flow of ¥63.0 billion posted in the year ended March 31, 2019, was a result of extraordinary factors this year. These factors included higher resource prices and the ahead-of-schedule recovery of loans conducted under Medium-Term Management Plan 2017, a factor that affected other non-current assets on the consolidated statement of financial position. Core cash flow over the remaining two years of the medium-term management plan will continue to benefit from the higher resource prices and will primarily be used to conduct the ¥300.0 billion worth of investment and loans targeted under the plan. There is no need to lower leverage any further, and we will therefore be moving forward as is.

Fourth Questioner

Q. In the year ending March 31, 2020, the Metals & Mineral Resources Division is projected to see a ¥5.5 billion decline in profit for the year. Given that market fluctuations are expected to reduce profit by ¥7.5 billion, is it correct to assume that the difference of ¥2.0 billion will be a result of profits from Australian coking coal operations?

A. The difference of ¥2.0 billion will be the result of changes in the profits of Metal One Corporation, lower profits following reduced ferroalloy transactions volumes, and the commencement of production in Australia coking coal operations.

Q. Earnings contributions from investments and loans of ¥8.0 billion are projected in the year ending March 31, 2021. If the forecast for profit for the year of ¥72.0 billion in the year ending March 31, 2020, is achieved, is it safe to assume that Sojitz will be positioned to target profit for the year of ¥78.0 billion in the year ending March 31, 2021?

A. As shown on slide 6 of the presentation materials, if ¥8.0 billion is added to the forecast for profit for the year in the year ending March 31, 2021, excluding the impacts of market fluctuations of ¥68.0 billion, the resulting figure will be ¥76.0 billion. In this manner, we anticipate that profit for the year will exceed ¥75.0 billion in the year ending March 31, 2021.

Fifth Questioner

Q. In the Automotive Division, growth in profit for the year has been flat for two years and is forecast to decline in the year ending March 31, 2020. What is your outlook for this division in later fiscal years? Also, I understand that investments and loans only totaled ¥5.0 billion, compared with the budget of ¥30.0 billion. Was there any change in your investment and loan plan?

A. The decline in profit in the Automotive Division will be a result of the impact of the sale of equity held in an automobile manufacturing and sales business in the Philippines. As for investments and loans, there are certain projects for which investment decisions have been finalized but disbursement has been delayed. Meanwhile, we intend to continue truck sales operations in the Philippines, and we are examining the possibility of taking part in new financing and distribution businesses. We therefore anticipate that profits in the Automotive Division will return to the normal level in the year ending March 31, 2021, and that we will be able to poise this division to target profit for the year of ¥7.0 billion or ¥8.0 billion in the period of the next medium-term management plan.

Q. In methanol operations, PT. Kaltim Methanol Industri posted profit for the year of ¥4.8 billion. I understand that the methanol market has peaked. What are your assumptions for this market in the year ending March 31, 2020?

A. A price of US$390 per megaton of methanol was seen in the year ended March 31, 2019, whereas we project a price of US$315 per megaton in the year ending March 31, 2020. Meanwhile, sales volumes will likely be around the same level as the 1.9 million tons seen in the year ended March 31, 2019. Profit is not determined solely by market price fluctuations, rather being a result of various intertwining factors, such as raw material prices and the timing of production for storage purposes. Nevertheless, we are still forecast a slight decline in profit based on the current market price. Meanwhile, we plan to increase domestic sales in Indonesia, where the prices are relatively high, in light of this country’s government policy. We are not, however, sure of the extent to which we will be able to absorb the impact of lower market prices through this approach. The forecasts for the Chemicals Division incorporate the projected downturn in the performance of methanol operations.

Sixth Questioner

Q. What is your medium- to long-term outlook for coal sales volumes in the year ending March 31, 2020, and beyond after the Gregory Crinum coking coal mine has started making contributions?

A. We project a coal sales volume of between 7.1 million and 7.2 million tons in the year ending March 31, 2020, essentially the same as the sales volume of 7.1 million tons achieved in the year ended March 31, 2019. To break this amount down, the sales volume for thermal coal will decrease by 1.0 million tons due to the sale of interests in Indonesia and reduced excavation volumes in Australia while the coking coal sales volume will increase by 1.0 million tons. Over the medium to long term, sales volumes for thermal coal will decrease as we cease to acquire new interests, dropping to half the current volume by 2030. Conversely, we will be targeting a coking coal production volume of 3.0 million tons two years from now.

Q. What scale of earnings do you anticipate from Sojitz Hospital PPP Investment B.V. over the medium to long term?

A. Deliveries of equipment and medical devices from Japan are scheduled for the years ending March 31, 2020 and 2021, and we expect earnings of around ¥2.0 billion following the opening of the hospital, which will take place sometime between March 2020 and March 2021.

Seventh Questioner

Q. What is your outlook for surface mounter and bearing operations in the Machinery & Medical Infrastructure Division?

A. Both businesses are generating consistent profits. Bearing operations have been slightly impacted by economic conditions in China, but we look to compensate for these impacts by supplying new products to Europe. Sales of surface mounters to China are also down. However, this decline has been offset by sales to strong-performing India and other parts of Asia, meaning that the overall impact has not been particularly large. In addition, there have been some impacts from delays. Meanwhile, we anticipate earnings from plants.