

Condensed Transcript of Q&A Session Regarding Results Briefing for the Nine-Month Period Ended December 31, 2021 (February 2, 2022)

Presenters

Seichi Tanaka, Representative Director, Executive Vice President, CFO

First Questioner

- Q. The impact of coal prices on earnings was lower than expected in the third quarter. What factors should we consider when analyzing Sojitz's earnings?
- A. Tanaka, CFO:
The selling prices for coal reflect the average coal prices from the previous month or quarter. Accordingly, there tends to be a slight delay before changes in coal prices translate to changes in performance. Third-quarter earnings were thus influenced by the average price of coal seen in the second quarter. Accordingly, performance in the third-quarter of the year ending March 31, 2022, was founded on prices for thermal coal and coking coal that fall below U.S.\$170 and U.S.\$300, respectively, and these prices are lower than the prices we are seeing at the moment. Other factors that impacted performance in the third quarter included an increase in royalty payments, the flooding seen in Australia in November 2021, and the halt to mine operations resulted from a ceiling collapse that occurred as we prepared to commence pit mining. In total, earnings in the nine-month period ended December 31, 2021, were between ¥7.0 billion and ¥8.0 billion lower than projected due to deductions associated with sales volumes and costs. As a result, performance in our coal businesses may appear weak in comparison to the rise in coal prices.
- Q. Structural reform expenses associated with the trend toward decarbonization are expected to be recorded in the Others segment during the year ending March 31, 2022. It has been stated that these structural reform expenses will be associated with provisions related to thermal coal assets and interests. What type of structural reforms will be carried out in the year ending March 31, 2022, and beyond?
- A. Tanaka, CFO:
We are accelerating our committed pursuit of decarbonization, and we have thus decided to record provisions to ensure that we are able to effectively enact our policy of eliminating thermal coal assets by 2030. These provisions will be recorded as structural reform expenses. We cannot offer any details with this regard at the moment as we are still in the process of negotiation with partners and transaction counterparties. Structural reforms will target coal interests as well as other assets that are not generating sufficient cash flows.
- Q. Am I correct in assuming that the decision to record structural reform expenses related to decarbonization in the year ending March 31, 2022, was made to address the necessary assets ahead of schedule and prevent such expenses from being incurred in subsequent fiscal years?
- A. Tanaka, CFO:

The thermal coal interests we will be addressing through structural reforms in the year ending March 31, 2022, will be among our largest thermal coal interests. The effects of these structural reforms will not carry over to subsequent fiscal years.

Second Questioner

- Q. It was mentioned that contracts have already been concluded for all of the coal sales to be made in the fourth quarter of the year ending March 31, 2022, on a sales volume basis and for 80% of sales on a selling price basis. Does this mean that prices have been decided for 80% of the sales to be conducted in the fourth quarter, or is it that prices are set for 80% of sales on a full-year basis?
- A. Tanaka, CFO:
Prices have been decided for 80% of the sales contracts concluded for the fourth quarter.
- Q. The fact that prices had already been decided for 80% of fourth-quarter sales as of January 31, 2022, seems to imply that, in the current tight market, a large number of users have been concluding contracts stipulating not only purchase volumes but also purchase prices. Is it safe to assume that Sojitz is making smooth progress in securing contracts for sales to be recorded in the year ending March 31, 2023?
- A. Tanaka, CFO:
We do not yet have a clear picture of the sales and contract trends that will shape performance in the year ending March 31, 2023. We will go into this matter in more detail at a later date.
- Q. Sojitz raised its full-year forecast for profit for the year from ¥70.0 billion to ¥80.0 billion. Given this strong performance in the first year of Medium-Term Management Plan 2023, what details can you offer regarding earnings growth, dividend increases, and other aspects of the general outlook for future fiscal years?
- A. The prices of coal and other resources are currently at a level surpassing the actual value of these commodities. This situation seems to be more a result of factors such as Indonesia's export restrictions and the halts to mining operations following flooding in Australian and Canada than it is a result of the supply and demand balance. In regard to coking coal, meanwhile, prices are being shaped by the opaque outlook for conditions in Russia. Accordingly, prices will not be the product of an equilibrium between supply and demand, and this situation is making it difficult to forecast what type of performance we will see in resource-related businesses and consequently our overall business performance in the year ending March 31, 2023. Nevertheless, we look to account for factors such as our ability to compensate for the production declines resulted from floods and other occurrences as well as the degree to which we are able to move forward with pit mining at the Gregory Crinum coal mine in the year ending March 31, 2023, and beyond. Overall, I can say that the earnings contributions from new investments and loans are currently insufficient. Contributions from investments and loans conducted under the periods for Medium-Term Management Plan 2017 and Medium-Term Management Plan 2020 are presently exceeding our prior projections of ¥12.0

billion a year. The portion of contributions that exceeds these projections is predominately attributable to resource interests. We therefore recognize that it will be imperative to devote efforts to developing operations in the retail field going forward.

Third Questioner

- Q. You mentioned that a post-tax loss of ¥2.7 billion was incurred as a result of one-time factors in the nine-month period ended December 31, 2021. What is the extend of the losses that will be recorded in the year ending March 31, 2022, when combined with the structural reform expenses to be recorded under other expenses in the fourth quarter? It was also stated that no additional losses will be incurred in the year ending March 31, 2023, in relation to environmental, social, and governance initiatives. What level of other income and expenses is projected on a full-year basis in the year ending March 31, 2023, when accounting for the rebound from prior losses?
- A. We expect these factors to lower profit by between ¥4.5 billion and ¥5.0 billion. This outlook is based on a comprehensive evaluation accounting for the positive turns anticipated under other income and expenses in the fourth quarter, among other considerations.
- Q. In the newly released full-year forecasts, the projected amount for net other income and expenses seems to have been reduced by ¥11.0 billion in comparison to prior forecasts. Does this forecast account for the entire fiscal year?
- A. We do have some idea of the projects and applications for which we will incur structural reform expenses. However, we cannot comment on specific amounts as we are still in the process of negotiating with partners and transaction counterparties.
- Q. What factors are likely to contribute to higher earnings in the year ending March 31, 2023? You mentioned that returns from new investments are currently insufficient. However, I also understand that there has been no change to Sojitz's policy of investing ¥150.0 billion on a full-year basis. What current investment projects do you believe will create returns that will drive earnings growth with a high degree of certainty?
- A. Whether or not earnings contributions from new investments will be generated as initially expected will be dependent on the timing at which the COVID-19 pandemic subsides. However, I can say that we have high anticipations for growth from our alliance with Royal Holdings Co., Ltd., with which we have commenced a capital tie-up, and from the catering company that was converted into a consolidated subsidiary after being acquired from Royal Holdings. We also expect to see earnings rise as a result of the delisting of JALUX Inc. As for Saigon Paper Corporation, operating ratios will continue to be low in the fourth quarter as a result of the COVID-19 pandemic, but we still have strong expectations for this company as it is currently breaking even on a single-month basis. Meanwhile, we have received reports that pit mining will resume at the Gregory Crinum coal mine in May or June 2022. We therefore look to raise the level of production at this mine, which was zero during the year ending March 31, 2022, to nearly 1 million tons in the year ending March 31, 2023.

Fourth Questioner

- Q. Third-quarter performance in the Chemicals Division was strong, even in areas other than methanol. What were the reasons behind this strong performance?
- A. Tanaka, CFO:
The area that saw the strongest performance in the Chemicals Division was methanol. We also generated favorable profits in all of our overseas plastic resin businesses.
- Q. The Chemicals Division is projected to post profit for the period of ¥0.8 billion in the fourth quarter. This figure seems quite low. What is the basis for this forecast?
- A. Tanaka, CFO:
Profit for the period in the fourth quarter is expected to be down in comparison to the third quarter because of regular repair work at the factory of methanol producer Kaltim Methanol Industri. Normally, the factory would be shut down for repairs in the third quarter, but, this year, these repairs will take place in the fourth quarter. We also anticipate that the previously strong sales of raw materials for plastic resin in China and Southeast Asia will be impacted by factors like semiconductor shortages as well as production adjustments during the period of the Beijing 2022 Winter Olympics. We are not sure of the exact impacts of these factors, but we have chosen to put forth a conservative forecast nonetheless.
- Q. The presentation materials list one-time factors affecting third-quarter performance that include a loss on restructuring of a non-ferrous smelting and refining company. Will this loss be attributed to the Metals, Mineral Resources & Recycling Division or to the Others segment?
- A. Tanaka, CFO:
The loss on restructuring of a non-ferrous smelting and refining company will be attributed to the Metals, Mineral Resources & Recycling Division.
- Q. The profits of the Metals, Mineral Resources & Recycling Division appear to be low. Is this because the aforementioned loss on restructuring of a non-ferrous smelting and refining company is dragging down profits together with the previously described costs of between ¥7.0 billion and ¥8.0 billion associated with sales volumes?
- A. Tanaka, CFO:
Progress toward our revised full-year forecast for profit for the year was 64% on December 31, 2021. If we were to exclude the impacts of the loss on restructuring of a non-ferrous smelting and refining company, this figure would be closer to 70%. One-time losses in the third quarter of the year ending March 31, 2022, amounted to ¥2.7 billion on a post-tax basis. The loss on restructuring of a non-ferrous smelting and refining company was only one of the multiple factors contributing to this loss.

Fifth Questioner

- Q. Why is the Consumer Industry & Agriculture Business Division projected to post a loss in the fourth quarter?

- A. The major reasons behind this loss will be the fact that the fourth quarter is a low-demand period for chemical fertilizers and that raw material prices are currently soaring. In our chemical fertilizer business in Thailand, we have transferred the increased costs to selling prices to the greatest degree allowed by the price ceiling. However, we expect difficult conditions nonetheless, and we therefore project that earnings will not be in line with previous years. Saigon Paper is breaking even on a single-month basis, but it is likely that this company will have to halt or scale back its operations in the fourth quarter as a result of the COVID-19 pandemic. This possibility has been incorporated into forecasts. We have also taken a conservative outlook toward lumber and building materials.
- Q. What is the current situation at Metal One Corporation and what is your outlook for this company going forward?
- A. Metal One is in the process of restructuring its business. The North American steel market was quite bearish leading up to the second quarter, due in part to the increased presence of overseas steel materials, which previously had only a limited presence in the U.S. market. Conditions in the fourth quarter are thus expected to be slightly weaker than those seen in the three previous quarters.