Sojitz IR Day

Machinery Division Investors Meeting (December 18, 2013)

Condensed Transcript of Q&A Session

Q: What are Sojitz's strengths in the independent power producer (IPP) business?
A: One of our policies is to select projects for which we have a high probability of winning the order, rather than bidding indiscriminately, and to coordinate with outstanding partners.

Q: What is your reason for setting the target for equity share of total generation capacity at 1,700 MW?
A: While we consider factors such as the scale of assets and capital employed, it takes about three years to close a project agreement, so we are thinking of a scale in the order of 500 MW over the three years of the next medium-term plan, in addition to the current 1,200 MW.

Q: What is your thinking on Sojitz's equity stakes in IPP projects?
A: In projects up to 2007 in particular, our equity stakes were as low as the 5 to 6% at Phu My 3 in Vietnam. But our stakes in projects in Oman and Saudi Arabia, which started commercial production in the current fiscal year, are 15 to 20%. For future projects, we will target stakes of around 20%.

Q: What are your plans in the completely built-up vehicle business?
A: We will focus on the distributor and wholesale businesses through sales companies in Russia, where we are currently operating, or in other countries such as the Philippines and Thailand. In addition to making efforts to increase market share, we are looking to further develop business in partnership with auto manufacturers, in Asia and Latin America, for example.

Q: What about the automotive components business?
A: We sell electronic components, engine components and other parts in the European motorcycle market, and provide simple assembly and distribution services for brake components, antennas and other components for four-wheel vehicles in Thailand. We are also involved in the export and logistics of presses and other equipment needed by manufacturers that are setting up overseas operations. In the component business, winning an order for one model leads to steady orders for four to five years, so this is a business where we can expect stable earnings.

Q: How large do you expect the order backlog to grow in the plant business?
A: Assuming a period of three to four years from order receipt to project completion, we want to maintain new orders at 100 to 150 billion yen per year.

Q: What is the current situation regarding asset replacement in the Machinery Division, and what are your plans for asset accumulation?
A: We are replacing assets based on their profitability, mainly items such as automobiles and ships that make up the bulk of our asset portfolio. Going forward, we will combine new funds and funds generated by asset replacement to make investments centered on business focus areas such as the overseas IPP business.

Q: What is the current status of and outlook for the automotive business in Venezuela?
A: Performance was strong in the first half of this fiscal year, but after the change in the country’s president, factors including political instability, inflation and foreign currency controls have greatly increased the severity of the operating environment, so we need to monitor the situation more closely.

Q: How are conditions in the Hyundai sales business recently?
A: Due to a labor dispute in South Korea and other issues, supply shortages in the Hyundai sales business in Thailand, Argentina and Puerto Rico in the first half of the fiscal year continued slightly longer than we had originally anticipated. However, supplies have now largely been restored by using Hyundai's overseas production bases to cover shortfalls.

Q: I would like to know about the capacity expansion plans for Mitsubishi Motors Philippines Corporation.
A: We are confident that with rising demand in the Philippines and the strength of the Mitsubishi Motors brand, the cars will sell if we increase production, so we are planning a capacity expansion.

Q: In the Infrastructure Project & Industrial Machinery Unit, what was the breakdown of net profit among the IPP, plant and industrial machinery businesses?
A: The overseas IPP business, essentially a business focus area, made up 50 to 60% of the unit's net profit, engineering, procurement and construction (EPC) business 20 to 25%, and industrial machinery, bearings and other businesses about 20%.