Financial Strategy

> We will steadily implement financial measures to realize the key policy of "Strengthening business foundation" set forth in Reborn 2024 and practice management with an awareness of the cost of capital.

Tomoki Matsumoto

Director and
Senior Executive Officer,
Chief Financial Officer (CFO)

Financial Strategy under the New Mid-Term Management Plan Reborn 2024

In our previous mid-term management plan, "Towards a Further Leap 2020," announced in February 2017, we planned for 6% profit growth (which exceeded the global GDP rate) through organic growth and new businesses. Taking advantage of our solid financial base, we made the decision to acquire Blommer Chocolate Company in January 2019, executing the largest investment in the Group's history at ¥65.0 billion, under our plan of using all cash flow from operating activities for capital expenditures and M&A. On the other hand, in the last five years, we went forward with stock transfers of five of our consolidated subsidiaries and the reduction of cross-shareholdings as measures to improve capital efficiency.

The Group received a major shock in the souvenir and food service markets due to the constrained movement of people caused by COVID-19 pandemic lockdowns and other factors. Raw material prices began to rise due to expectations of economic recovery, and the rise in crude oil prices coincided with higher demand for soybean oil and palm oil as biomass energy. Furthermore, there have been concerns of pressure on raw material supply and demand due to Russia's invasion of Ukraine, causing raw material prices to remain at all-time highs since the beginning of 2022.

Under these circumstances, the Group was compelled to revise its initial fiscal 2021 plans with a decrease in profits of ¥3.0 billion due to price revisions not keeping pace with raw material prices as well as problems in the U.S. labor market and logistics disruptions. Higher raw material prices led to increased working capital, especially inventory value, resulting in a cash conversion cycle (CCC) of 115 days at the end of fiscal 2021, eight days worse than the previous year-end. Moreover, interest-bearing debt increased significantly from the previous year-end, to ¥148.8 billion, amid rising interest rates worldwide.

Our financial strategy under the new mid-term management plan rests on the pillars of "improving financial governance," "improving capital efficiency," and "strengthening financial monitoring." We aim to reduce interest-bearing debt and ensure steady redemption of subordinated debt. In an unstable environment where looking ahead into the future can be difficult, we believe it is important to restore the original basic earnings of each of our businesses and to use the cash flow generated to improve our financial position. In addition, in a rapidly changing environment, a digital strategy that maximizes the use of data is essential to operate on a cross-area business axis, which requires speed-focused management.

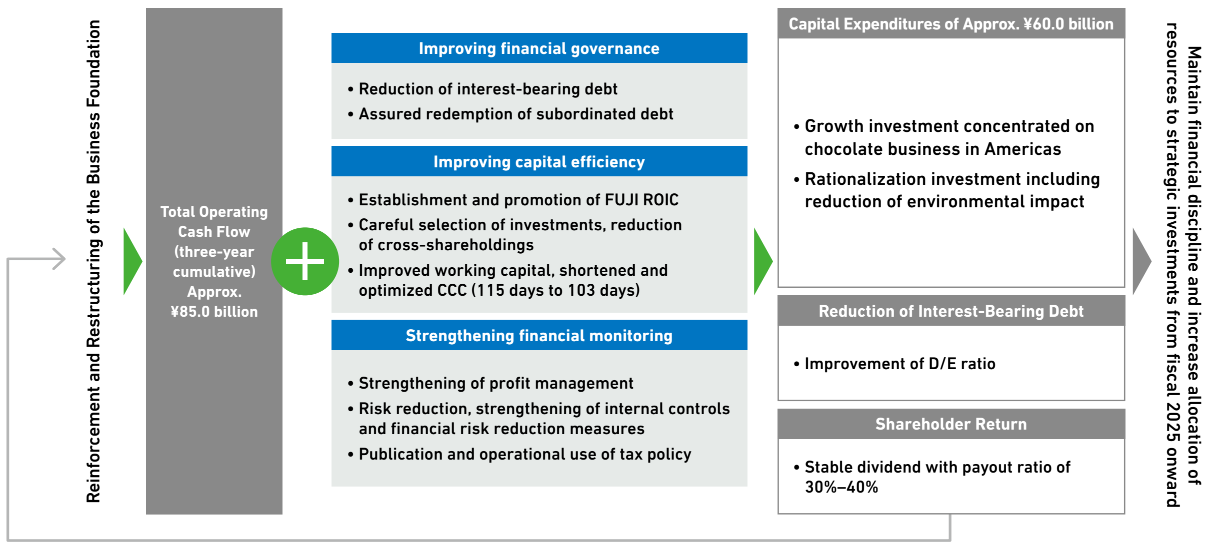
To advance business management, it is necessary to develop global human resources focused on finance and accounting. We will create an environment in which employees can grow through an educational system that enhances each person's expertise and through a rotation of talent that includes national staff. These efforts will also help us to promote diversity and strengthen our organization.

Last but not least, I believe that my most important role as CFO is to envision what Fuji Oil Holdings should be from a financial perspective, set goals that clearly define the direction of the entire Group, and work hand in hand with the Group's business strategy to take on the challenge of realizing these goals and enhance corporate value. With limited resources, it is essential to identify what investments are truly necessary for Fuji Oil Holdings, and this also means rethinking the Fuji Oil Group's mission.

Fuji Oil was founded on the spirit of not imitating others but using unique technology to engage in challenges and reforms that contribute to global food culture. We will continue to invest in human resources, intellectual property, and innovative new products that carry on the spirit of our founding. I believe that this is the root source of Fuji Oil's value.

We will continue to strive to improve our corporate value by ensuring that our stakeholders understand the current state of the Group, our growth strategy, and the mid-term management plan and by reflecting in our management their opinions and suggestions regarding their expectations of the Group.

Increase Capital Efficiency to Improve Financial Structure



Introduction of ROIC

While the Group has traditionally used ROE, which expresses capital efficiency, as an external management indicator for Group management in addition to operating profits, we will be newly introducing ROIC as a management indicator to promote the key policies of the new mid-term management plan.

Due to a historical surge in raw material prices, the Group's working capital deteriorated significantly with worsened capital efficiency in fiscal 2021. In order to achieve sustainable growth and realize the highly profitable portfolio that we aim to achieve in our Vision for 2030 even under such a drastically changing business environment, management that pursues capital efficiency and appropriate business portfolio management are necessary. To these ends, the new mid-term management plan will actively incorporate ROIC as an indicator that enables us to understand and manage capital efficiency by business and management unit.

As the components of ROIC are broken down into KPIs for each department, the many frontline initiatives involved in the business can improve ROIC. By linking the measures from each management unit, such as improving the productivity of existing assets, improving labor efficiency, implementing thorough cost reduction, and optimizing CCC, the entire Group will have greater awareness of ROIC and regularly monitor and evaluate its performance. It is also expected that ROIC will be used as a criterion for making decisions on how to allocate resources to highly profitable businesses and carefully select investments that exceed the cost of capital, given limited resources.

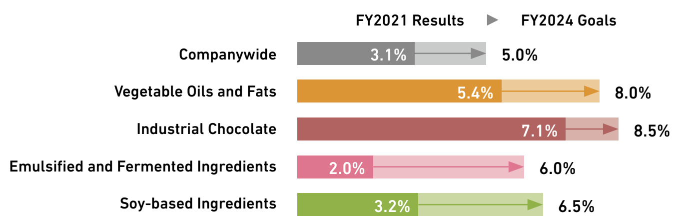
Adopted FUJI ROIC as a Tool to Promote Business Portfolio Management

$$\text{FUJI ROIC} = \frac{\text{Operating profit after tax}}{\text{Working capital + Fixed assets}}$$

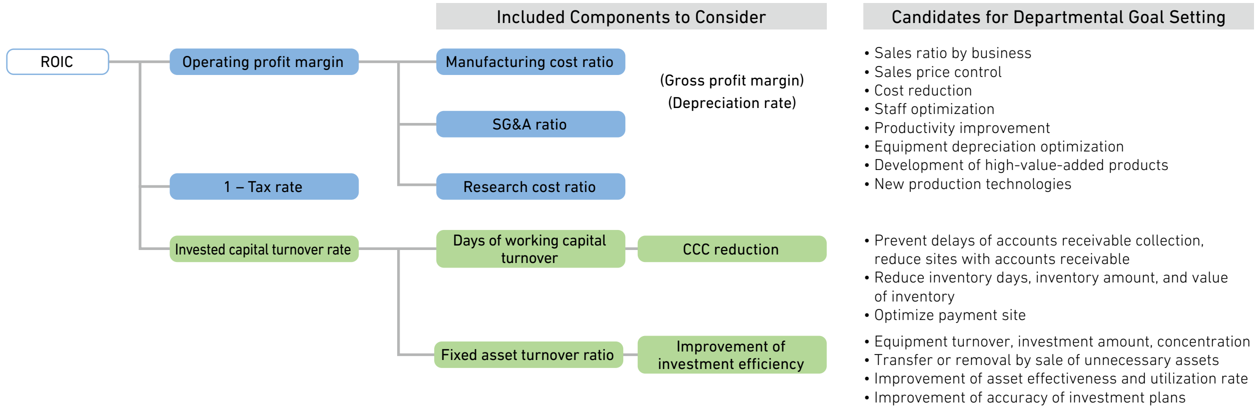
FY2024

Companywide ROIC
Achieve assumed weighted average cost of capital (WACC) (5%) during mid-term management plan period

ROIC of each business unit
Allocate management resources in business units to achieve assumed cost of capital (6%)



Through such business management, each business unit will work to allocate resources and improve efficiency with an awareness of the cost of capital, allowing each of them to achieve their own ROIC goals. And by strengthening our business portfolio, we aim to achieve a Companywide ROIC of 5.0% in fiscal 2024, the final year of our mid-term management plan.



Introduction of FUJI ROIC with the Aim of Improving Management Efficiency

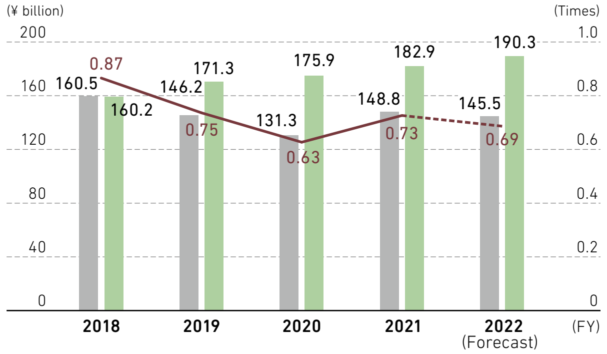
ROIC is a measure of business efficiency using invested capital and operating profit after tax, where invested capital generally uses interest-bearing debt and shareholders' equity. As these items are not assigned to individual management units such as companies and businesses, it was difficult to measure the management efficiency of these units.

Therefore, working capital and fixed assets that can be attributed to each management unit will be used as a pseudo-type of invested capital, and this will be introduced as FUJI ROIC and adopted as a KPI in the new mid-term management plan. Each management unit will identify and analyze its own FUJI ROIC and work on efficiency-oriented improvement measures to further enhance corporate value for the Company as a whole.

Promotion of Interest-Bearing Debt Reduction

Although we have made good progress in reducing interest-bearing debt, which increased as a result of the Blommer acquisition, interest-bearing debt began to increase in fiscal 2021 mainly due to a rise in working capital. We aim to establish an optimal capital structure that will allow us to steadily increase earnings while appropriately managing cash flow and promoting aggressive growth investments.

Net D/E Ratio*

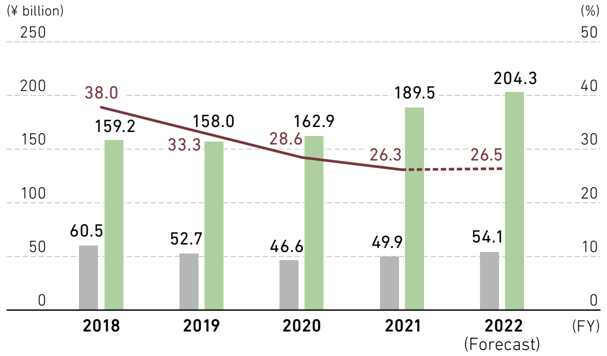


Interest-bearing debt (left scale) Shareholders' equity (left scale)
Net D/E ratio* (right scale)
* Net D/E ratio = Net interest-bearing debt ÷ Shareholders' equity

Improvement of Our Ratio of Goodwill to Net Assets

With the acquisition of Blommer, our goodwill amounted to ¥60.5 billion at the end of fiscal 2018 and our ratio of goodwill to net assets escalated to 38%. While our ratio of goodwill to net assets improved to 26% at the end of fiscal 2021 due to amortization of goodwill and other factors, we feel that it is still too high. In addition, the goodwill balance is expected to increase in fiscal 2022 as a result of reorganizing the North American Oils and Fats Business. We recognize the importance of building a stable financial infrastructure through an increase in profits by aiming to strengthen our business foundation, especially in acquired subsidiaries and restructured companies.

Ratio of Goodwill* to Net Assets



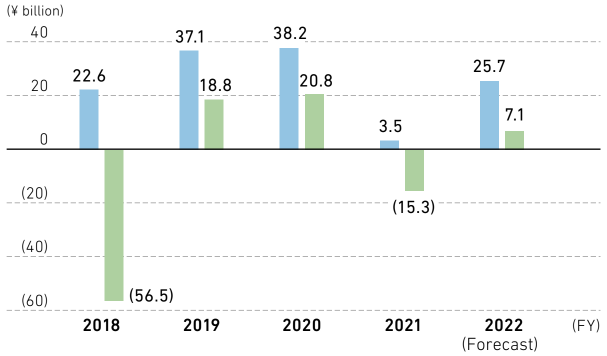
Goodwill* (left scale) Net assets (left scale) Ratio of goodwill to net assets (right scale)
* Utilization of goodwill

Control of Cash Flow

Cash flow from operating activities is targeted to reach ¥85.0 billion for the three-year cumulative period of the new mid-term management plan. In fiscal 2021, our CCC worsened by eight days from the previous year-end due to higher working capital requirements resulting from increased sales volume and higher raw material prices, leading to a significant decline in cash flow from operating activities. Although we were able to curb cash flow from investing activities, free cash flow became negative.

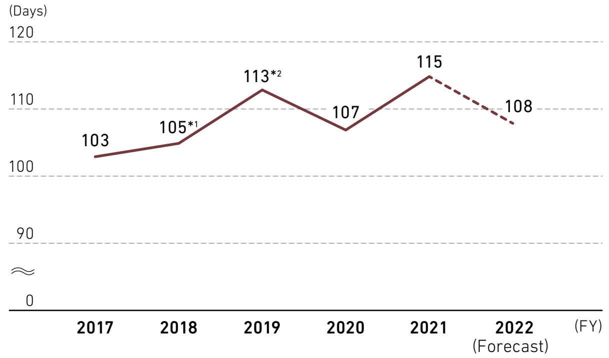
To maintain and improve financial discipline, our top priority is to generate free cash flow of ¥10.0 billion or more annually through steady profit growth and by shortening the CCC. We will keep capital expenditures down by careful examination of projects, while controlling cash flow by reviewing our business portfolio to take a thorough look at our businesses and further reducing cross-shareholdings.

Cash Flow



Cash flow from operating activities Free cash flow

Cash Conversion Cycle



*1 The impact of the consolidation of Blommer's balance sheet is not reflected in the figure for fiscal 2018.
*2 The figure for fiscal 2019 has been calculated based on 12 months of results for Group companies that changed their accounting period.

State of Capital Investment

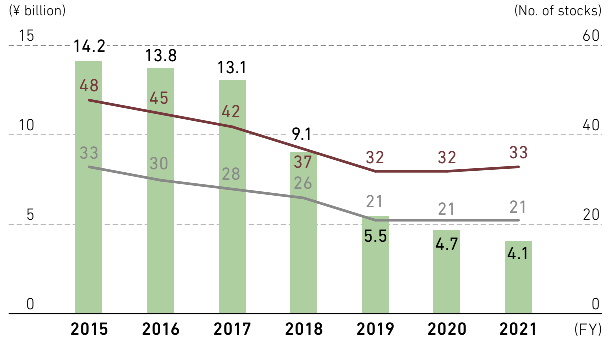
Business investments made to establish new locations and increase production capacity are scheduled to be sequentially put into operation, and we will use the funds for further growth investments by recovering the investment through early return to profitability. We will also invest management resources in improving production efficiency, particularly in Blommer, and focus on strengthening our business foundation.

	Company Name	Region	Core Products	2021	2022	2023	2024
NEW	Fuji Oil New Orleans, LLC	Americas	Vegetable oils and fats	UP			
NEW	Fuji Brandenburg GmbH	Europe	Soluble pea polysaccharides		UP		
Expansion	Harald Indústria e Comércio de Alimentos Ltda, second plant	Americas	Chocolate			UP	
Expansion	Fuji Oil (Zhaoqing) Co., Ltd.	China	Whipping cream			UP	

Reduction of Cross-Shareholdings

The Group has been working to reduce its cross-shareholdings since fiscal 2015, when the Corporate Governance Code became effective. As of the end of fiscal 2021, compared with the end of fiscal 2015, approximately 70% of the total acquired value of shares that we had owned have been sold, and we completely sold all of our holdings in 12 listed stocks. We will continue to examine our holdings in comparison with the cost of capital and reduce the types of stocks even those we judge to be reasonable to hold in order to improve capital efficiency and financial strength.

Cross-Shareholdings



Amount (left scale) Number of cross-held stocks (right scale)
Number of listed stocks, included in cross-held stocks (right scale)

Tax Governance

The need to strengthen the tax governance of multinational corporate groups is growing globally, and external disclosure of corporate tax policies is becoming a global standard. In 2022, the Fuji Oil Group formulated the "FUJI OIL GROUP Tax Policy" to indicate its basic approach to taxation and to define the tax governance structure that the Group should pursue. The Group is committed to fully understanding and complying with its tax principles principles and to properly maintaining and operating its governance structure in order to sustainably improve its corporate value.

FUJI OIL GROUP Tax Policy (Excerpts)

Our Tax Principles

• Groupwide Compliance with Laws and Regulations

In accordance with the Fuji Oil Group Management Philosophy, we will comply with the tax laws and regulations of society and continue to maintain high ethical standards. We will also engage in corporate activities rooted in our communities, actively contribute to society through payment of taxes, and disclose accurate tax information to our shareholders in an appropriate and timely manner.

• Governance Controls and Risk Management

Our tax strategy is to implement governance controls and risk management to ensure that the above principles are understood and adhered to within the Group. Governance, internal controls, and risk management, which constitute the tax strategy, are managed by Fuji Oil Holdings, Inc. The CFO of Fuji Oil Holdings Inc. is ultimately responsible for them.

• Tax Cost Optimization

Based on the above principles, the Group will strive to optimize tax payments by making appropriate use of tax incentives in line with business purposes and the objectives of the laws of each country, eliminating double taxation through the use of tax treaties, and selecting consolidated tax payment systems, thereby minimizing excessive tax payments and leading to sound maintenance and improvement of corporate value.

FUJI OIL GROUP Tax Policy
https://www.fujioilholdings.com/pdf/en/sustainability/policy/tax_policy220331.pdf

Financial Risk Management

As the global economy attempts to recover from the COVID-19 pandemic, interest rates and exchange rates remain unstable due to changes in monetary policy in various countries with concerns over inflation. In addition, as country risks such as Russia's invasion of Ukraine have become apparent, the environment surrounding the Group has become highly unpredictable. We are reducing the financial risk of fluctuating interest rates and foreign exchange by fixing interest rates and utilizing foreign exchange forward contracts. We will strengthen financial monitoring by enhancing profit management and upgrading internal controls through close cooperation with regional headquarters.

Shareholder Return Policy

Our management target for dividends during the new mid-term management plan period is a dividend payout ratio of 30%–40%, which is in line with our policy of providing stable, consistent dividends. Based on this policy, we plan to pay an annual dividend of ¥52 per share in fiscal 2022, which is the same amount as the fiscal year prior.

We had increased our dividends year-on-year for eight consecutive years through fiscal 2019. However, with the onslaught of the COVID-19 pandemic, the current challenge at hand is to keep a sturdy financial foundation in order to prepare for any unforeseen circumstances. To ensure optimal capital allocation moving forward, we will continue to consider shareholder return based on growth investments necessary for future business development, profit levels, dividend payout ratios, and other factors.

Dividends per Share / Payout Ratio