Financial Strategy: Message from the CFO

We are undertaking an aggressive financial strategy to realize sustainable, global growth

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Financial Strategy for Increasing Corporate Value

Towards a level of management capable of competing globally

The shift to a holding company structure in October 2015 was a major turning point for the Fuji Oil Group in its progress toward sustainable, global growth. In our Mid-Term Management Plan "Towards a Further Leap 2020," we plan to build a Group management structure by 2020, strengthen financial governance to enable our financial strategy to take on global competition, generate cash flow and maximize capital efficiency.

Corporate value is not only evaluated quantitatively, such as through profits and cash flow but also through qualitative aspects such as ESG. By explaining how our efforts in both the financial and non-financial spheres are closely related in improving our corporate value, we believe we can earn the trust of our stakeholders.

In addition, to further enhance our corporate value, increasing capital efficiency is important and improving ROE is crucial. We plan to create free cash flow by improving profitability, shortening our cash conversion cycle (CCC), and establishing stricter standards for investment.

Overview of Financial Strategy

A significant shift towards cash flow management

We recognize that shifting to cash flow management is essential in order to take on strong competitors globally. For this reason, by generating cash flow through sustained profit growth, improving capital efficiency and strengthening financial governance, we hope to contribute to improving the corporate value of the entire group from a financial point of view. Therefore, through sweeping initiatives, including financial governance, we are promoting a shift in our mindset from what is best for each Group company to what is best for the Group as a whole. Since numbers are a globally shared language of comparison, we are considering unification of our account settlement periods and our accounting standards.

There are four main points to our financial strategy.

The first point is the generation and effective utilization of cash flow. Looking ahead, cash flow will be the most important element for implementing new strategic investment, including M&A. In addition to pushing forward with the improvement of CCC, we will maximize our cash flow, improve capital efficiency and carry out fund procurement by

making maximum use of cash on hand through means such as in-Group financing and cash pooling.

The second point is cost reduction and improving profitability. We will promote the reduction of administrative costs by standardizing work practices and accumulate the know-how from that process. Currently, our operating profit margin is in the range of 6%, but through cost reductions and the expansion of high-value-added businesses through new investment, we can raise it to 8%, thereby boosting ROE. From a financial point of view, we have made improving profitability through a better operating profit margin a key pillar of our strategy.

Mid-Term Financial Strategy Progress

	Financial Management Policy			FY 2017 Progress	
1	Sustainable profit growth	• Consolidated operating profit CAGR: 6% or higher • EPS growth rate CAGR: 8% or higher • CCC 10 days shorter	Create and distribute cash flow Generate ¥100 billion in cash flow from operating activities over four years	(1) Operating cash flow	FY 2017 28.2 billion (+11.7 billion YoY)
				(2) CCC	FY 2017 103 days (-7 days YoY)
2	Maintain healthy financial status	• Evaluate business characteristics and risks to maintain a stable financial structure	Balance sheet management in line with risks and return	(1) Reduce interest-bearing liabilities	Interest-bearing loans ¥56.6 billion (-¥9.0 billion YoY)
				(2) Improve D/E ratio	0.35 times (-0.08 YoY)
				(3) Equity ratio	58.9% (+3.5 pts. YoY)
3	Improve capital efficiency	• Match level of competing global companies and elevate ourselves to level necessary for sustainable growth	Improve ROE to 10%	(1) Improve total asset turnover	113.1% (+5.6 pts. YoY)
				(2) Unprofitable business assets	Decreased due to sale of assets
				(3) Capital investment	Carefully inspected capital expenditures
4	Enhance financial governance	• Promote standardization, financial risk reduction, business optimization • Enable global comparative validation	Group financial benchmarks and standards	(1) Global CMS*	Started implementation
				(2) Unification of core system	Started development at U.S. companies/kickoff at Chinese companies
				(3) Unification of accounting period and early settlement of accounts	Hired consultant and strengthened partnerships with each company

* Cash management system

The third point is financial standardization and optimization. We will vigorously promote the unification of financial management so that we can easily compare various financial indicators globally. To cultivate an environment enabling us to instantly grasp the financial situation across the entire Group, we will unify account settlement periods and accounting standards, renovate our core systems, and build a global cash management system.

The fourth point is risk management and the strengthening of governance. When shifting our focus to global competition, financial risk naturally increases and its influence on management cannot be ignored. Therefore, effective financial governance is important. In addition to taking measures against foreign exchange risks, interest rate risks, and liquidity risks, the holding company will provide steady leadership and management through measures such as introducing Group policies and strengthening monitoring.

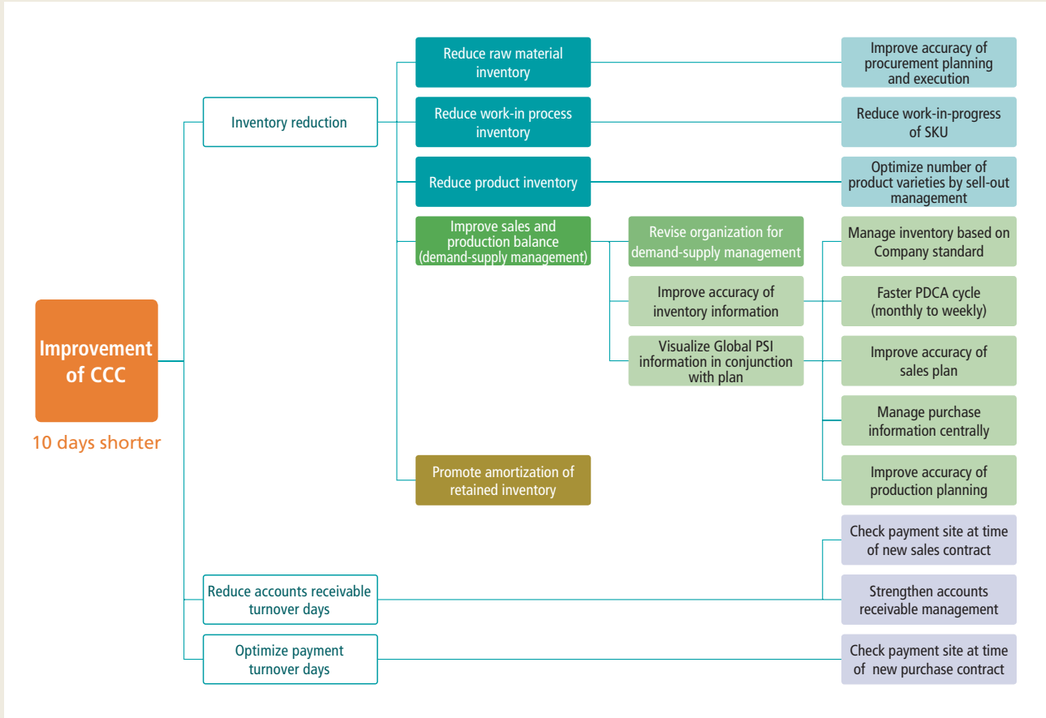
Specific Measures for Raising Corporate Value

Improving CCC by furthering inventory optimization

In fiscal 2017, the first year of the mid-term management plan, we began various measures to achieve sustained profit growth. To improve CCC, we broke down management indicators and set up KPIs that are easier for each workplace to concentrate on. We are working to reduce our inventories of raw materials, work in progress and finished products, and are progressing toward achieving the CCC and operating cash flow targets of the plan.

Improvement of CCC is a matter of rigorously collecting accounts receivable and optimizing inventories. Strategic responses at the workplace level are crucial, such as setting

Improvement of CCC



standards for optimum turnover rate and inventory levels, taking into consideration not only product characteristics but also the characteristics of customers and their businesses. The Group is promoting efforts to visualize KPI trees at each layer of management from chief officers on down by introducing core systems to unify data. In this way, we can fully verify our inventory status, since we will be able to set indicators to measure every detail on a monthly basis, including the rate of defective products. We believe that by unifying the core system, we can compare the indices of each company and each business side-by-side, which we expect to have a considerable positive effect on our CCC.

Our Future Capital Policy

Further accelerating strategic investment such as M&A

We recognize that the business environment will become increasingly globalized and competition will intensify. In addition, overseas enterprises are gradually advancing into Japan, which was previously an isolated and uncharted market for them. Even in the food industry in Japan, restructuring will be ongoing for a considerable time to come, and Company strengths and weaknesses will become clear. Global competition seems set to create a situation in which only companies capable of differentiating themselves by leveraging their strengths and securing market share will survive.

In this environment of intensified competition, we need to focus on our areas of strength. In addition to ensuring we capture organic growth in each region, we believe that M&A will become an even greater part of our permanent growth strategy. The Group has also set aside ¥50 billion for investment in M&A as part of our mid-term management plan, and is strategically considering options.

The Group is in the process of introducing global investment standards and withdrawal standards in order to accurately evaluate the profitability of investment, but going forward it will be crucial to recognize the importance of conducting management with an awareness of the need to set capital cost country-by-country. Also, by introducing withdrawal criteria, existing businesses will be required to annually verify their ability to continue as going concerns.

Shareholder returns that consider investment in strategies for future growth

We consciously position our shareholder returns and dividend policy as one of the most important issues for management. In the mid-term management plan, we set a dividend policy of a payout ratio of 30% to 40%, stable and continuous dividends, and dynamic evaluation of treasury share acquisition. Furthermore, we made raising the payout ratio a management objective. We have established a range for the dividend payout ratio based on consideration of investment in future growth, with an appropriate return ratio of 30% to 40%. We intend to determine dividends based on consolidated business performance, business cash flow and other factors and in accordance with our dividend policy.

We will utilize retained earnings to invest in growth strategies such as investment in production facilities, new businesses and R&D in order to improve our corporate value.

Initiatives for the Future

Promoting global integration and the fostering of global human resources

Until now, the Group has been growing in an optimal fashion, but since it is crucial to shift to overall optimization and standardize business processes in order to compete globally, we are vigorously promoting global integration centered on the holding company. Currently, we are in the process of shifting our mindset toward global integration, but one significant issue is balancing the decision-making authority of the holding company based on the Group governance policy with the delegation of authority to various local areas. Therefore, an urgent task is training global human resources capable of understanding management policy and acting professionally with a broad view of what is optimal overall. Therefore, we will adopt a medium-to-long-term perspective and dynamically develop key individuals capable of building bridges between local areas and the holding company. We will introduce a scheduled rotation program in Japan and overseas, and a learning program that includes consideration of career paths.

Finally, I would like to emphasize our dialogue with investors and analysts. This dialogue offers valuable external perspectives, rich with suggestions for the Group's management. Instead of unilaterally speaking from a single point of view, we intend to build layers of engagement through dialogue, and in order to gain a reasonable evaluation of our stock price, far from mere modesty or lip service, we intend to engage fully in dialogue concerning the strengths and weaknesses of the Fuji Oil Group. Although we have completed the first year of the mid-term management plan, in order to become a truly global company we are determined to accomplish global integration and complete our holding company system. The systems and foundations we establish leading up to 2020 will surely produce rewards from 2021 onward. In order to make those results a reality, we will continue to push ahead with our reforms.

Global Integration