1H/FY2017 Earnings Conference - Main Q&A

-Date: November 10, 2017 (Fri.) 1:00pm - 2:30pm

-Location: Daiwa Securities Conference Hall

-Attendees:

President and CEO	Chief Executive Officer	CEO	Hiroshi Shimizu
Director and Managing Executive Officer	Chief Technology Officer	CTO	Hirokazu Maeda
Director and Managing Executive Officer	Chief Strategy Officer	CSO	Mikio Sakai
Director and Managing Executive Officer	Chief Financial Officer	CFO	Tomoki Matsumoto
Director and Executive Officer	Chief Operations Officer	COO	Tatsuji Omori
Director and Executive Officer	Chief Marketing Officer	CMO	Takehiko Sumiya

<About the Soy Business>

Q. In what fields and to what extend do water soluble soy polysaccharides and products based on the USS manufacturing method have the potential to grow?

A. About water soluble soy polysaccharides

Water soluble soybean polysaccharide is a high value-added product created from soy pulp and mainly used in acidic milk drinks as well as the rice balls and noodles sold at convenience stores.

Due to capacity issues, for a time we were unable to expand sales despite growing demand in China and other parts of Asia. However, with enhancements to production capacity in Japan and China, we will establish a system for responding to demand. We also will evaluate other countries and areas with promising demand.

A. About USS

The USS manufacturing method is a technology that uses centrifugal separation to separate soybeans into low-fat soy milk and cream. This cream can then be processed into substitutes for foods that traditionally use milk or eggs as raw materials, such as cheese and mayonnaise.

On the domestic market, sales of products such as soy milk noodles, which offer a delicious taste not possible with conventional soy milk, and cheese made from soy milk.

Q. This fiscal year, income increased during the first half so why are you expected income to decrease during the second half?

A. We anticipate the following three factors will result in a second half lull for the Japanese Soy Business, and have incorporated these points into our forecast.

-Due to investments to upgrade factory facilities, we are planning on a shutdown of operations at certain factories.

-While sales of water soluble soy polysaccharides are favorable now, the majority of sales are to beverage manufacturers. Income from beverage sales is stronger in the spring and summer than the autumn and winter.

-Income from soy protein foods should be strong during the autumn and winter but our Group company is forecasting weak sales performance.

<About Brazil>

Q. Why did volume decline during Q2?
Also, if demand remains sluggish next fiscal year, what business management strategies will you employ to increase income?

A. Harald products largely classify as products for instant cereal (major confectionary manufacturers) and products sold to stores like commercial supermarkets.
Last year, the company was a full capacity so they focused sales on markets where they have experience in order to maximize profitability.
However, an overall cool-off in the chocolate market resulted in a decline in total sales.

Amid such conditions, 1Q resulted in a major bump in income due to the convergence of the following two favorable conditions.

- Existing low-cost inventory of certain fat and oil raw materials
- Favorable transition in currency markets created favorable environment for procuring raw materials such as sugar.

However, actual market consumption was down, which led to increased inventory for the products we sold and resulted in lag in shipments from distributors to storefronts.

We view the management of Harald and PMI control as major operating issues.
There is no point in bringing them on as a member of the Fuji Group if we are unable to generate synergy.
Regarding the recovery of sales volume, we actually will look to shift towards high value-added products instead of continuing with their existing business model.

<About confectionery / breadmaking ingredients in Japan>

Q. Income from confectionery & breadmaking ingredients in Japan is down despite you having identified this as key driver of income in your strategy to enhance core competence.
Why is income down?

A. About the domestic market during the first half of the fiscal year
Changes in consumer preferences are resulting in lower demand for chilled confectionery products using whipped cream.
On the other hand, the frozen confectioneries market is growing annually and sales of chocolate for frozen confectioneries are growing.
However, bad weather during the end of the first half resulted in lower sales of chocolate for frozen confectioneries.

The rise in dairy product prices is due to a global supply shortage. Amid such conditions, we will create a new genre that focuses on soy beans and other plant-based raw materials. We also have expectations for the food and beverage market, which for Fuji Oil still holds much business development promise.

Q. When will you see an increase in profitability linked to SKU reduction?

A. SKU optimization will also reduce CCC and we expect to see the benefits of these initiatives by next fiscal year.

<About confectionery / breadmaking ingredients in China>

Q. Why is income declining despite increased sales volume?

A. Amid rising dairy prices, we are implementing pricing strategies based on considerations of competitor trends.
We also are prioritizing expanding sales in Southern China, which means a decline in profitability due to higher transport and outsourcing costs.
This will be resolved with the startup of our new factory.

Q. Amid changing dynamism for the China business, will you be able to maintain this strong rate of growth?

A. Demand has increased mainly along the highly populated shoreline areas and market share is increasing significantly.
Moving forward, we will aim to capture demand in the inland areas, which has a lower population but is expected to see future demand growth.
As such, although growth will slow down from the current rate, we still are forecasting double-digit growth.

<About hard butters for chocolate>

Q. This is one of the product groups you identify for core competence but growth does not seem to be ideal.
How are you evaluating this in terms of progress relative to your Medium-Term Management Plan?

A. Our policy is to evaluate the state of competition and not forcefully seek to increase volume for low profitability products. Various grades of hard butters for chocolate are beginning to see widespread use so not all growth is reflected in volume calculations.

In Japan, there is no change in our position as the market leader for hard butters for chocolate but high cacao chocolate, which does not use hard butters for chocolate, is selling well so shipments are down slightly.

We view the chocolate market as a combination of both chocolate and hard butters for chocolate.
What is important is how we apply our strength of being a provider of both products.

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