FY2017 Earnings Conference: Major Q&A

-Date/time: May 11, 2017 (Thurs.) 10:00am -11:30am	
-Location: Daiwa Securities Sky Hall	
-Attendees:	
President and CEO (Chief Executive Officer)	Hiroshi Shimizu
CSO (Chief Strategy Officer)	Mikio Sakai
CFO (Chief Financial Officer)	Tomoki Matsumoto
President of FUJI OIL Co., Ltd.	Tatsuji Omori

<Soy Business>

Q. What in the soy business has outperformed your plan at the beginning of the year? Also, can you provide some details on structural reform?

A. Raw materials where a bright spot in the soy business for the following two reasons:

- the Sakai Plant's closure in FY2017
- more contract manufacturers in China

In addition, water soluble soybean polysaccharide experienced growth in Japan due to awareness of the health benefits from lactic acid bacteria. While production capacity for water soluble soybean polysaccharide was full, during FY2018 we will increase production in Japan and China and expand sales. As for structural reform, the restructuring of our business in China is proceeding. One issue we can cite for the soy business is a lack of production capacity for protein ingredients. We believe the price of soybeans will rise as the market's health consciousness grows stronger. Fuji Oil has been receiving many inquiries thanks to our combination of health and flavor-related technology.

<Mid-Term Targets: Operating Income CAGR>

Q. Why are you not meeting the mid-term target of 6% for operating income CAGR in FY2018? Also, will you increase income by expanding sales in FY2018?

A. We will increase operating income and achieve 6% CAGR in 2019 and 2020 by taking the following action:

- starting up a second plant in China in late FY2018 and expanding sales beyond the coastal region to the interior

- growing exports to Malaysia, principally with molded chocolate
- utilizing UNIFUJI, our new location in Malaysia, to expand sales of sustainable palm oil
- furthering the Japanese soybean business' transition to the health market
- spreading sales of polysaccharides with functional high added value beyond Japan and China to other areas

<Relations with Major Shareholders>

Q. In your relationship with ITOCHU Corporation, ITOCHU has acquired more shares of your company. How will this affect Fuji Oil in terms of operations and capital?

A. Following the transition to a holding company, we believe the most important matter is people. At the same time as we develop our personnel, we pursue interpersonal exchanges with ITOCHU Corporation. Meanwhile, we are also hiring staff from other companies. We want to continue building a good relationship while keeping in mind our administrative independence.

<Expanding Chocolate Sales>

Q. How will you seek growth in chocolate in FY2018?

A. In Japan, we will proceed with a transition to high value-added products such as molded chocolate. Although we reduced volume in Brazil due to a focus on profitability, we will market new products with the newfound spare capacity. Currently, the group's production capacity is nearly full, but we are considering M&A deals to increase it in the future.

<Stronger Sales Network>

Q. How will you strengthen your sales network in each area?

A. Japan: Fuji Oil Japan will take over sales to Western confectionery stores and bakeries in cities from the group's sales company.
North America: We will add salespeople and sales engineers, and we will create a supervisory company to delegate authority to North America.
Brazil: We will strengthen sales capabilities by bolstering the marketing

department's organization.
Asia: We will hire locally for top R&D staff and strengthen communication with local companies.
China: We will also hire locally for top staff at new locations.

<East Asia / Confectionary and Bakery Ingredients >
Q. In China and Southeast Asian countries, what is the revenue situation and what is the positive/negative impact on the food ingredients business?

A. Income increased significantly in Southeast Asia in FY2017, and the majority was from the food ingredients business. Furthermore, while income fell in China, the causes included higher dairy prices and inter-segment fixed cost adjustments.

Our forecast for 2018 calls for lower income in Southeast Asia and somewhat higher income in China. Although in the previous period the food ingredients business experienced a reaction that drove income significantly lower in Southeast Asia, we forecast higher income from products such as chocolate, margarine and cream. The overall prediction calls for lower income. In China, despite higher amortization and sales promotion costs, we project higher income due to a calmer dairy products market and expanded sales.

<State of the Palm Oil Market>
Q. I believe palm oil prices are low at present. How much are inexpensive raw materials factoring into your business planning?

A. They are certainly low at present, but sale prices of oils and fats are often determined by market rates, so despite the short-term impact of market rates, palm oil prices are following those rates with a delayed effect of two to three months. Demand for sustainable palm oil is growing, and the supply and demand balance for that product will be an issue moving forward. In addition, due to the correlation with soybean oil prices, we will also pay attention to fluctuations in those prices.

<Group Management Expenses>
Q. This year you have begun disclosing how much group management costs, but how much do you expect that to grow in the future?

A. When we factor in growing expenses from global integration and other costs associated with integrating backbone systems, we forecast that costs will rise by around 400 million yen a year until FY2020. In addition, the higher cost of recruiting global talent plays a part. However, from FY2021 onward, we see the gains from cost reduction efforts—such as by building systems to standardize business processes—outweighing the cost of investment.