

## Message from our Executive Officer for Accounting



### Generate free cash flow to implement financial strategies that support sustainable growth and development

FY2018, the second year of the 8th medium-term management plan, will focus on generating free cash flow by implementing investment strategies focused on strengthening profitability and capital costs. We will implement financial strategies that support sustainable growth and development.

**Osamu Ishii**  
Senior Executive Officer

During FY2018, the second year of the 8th medium-term management plan, we will focus on our core policies of promoting the efficient management of operating capital, stabilizing cash flow management, solidifying our financial structure, and promoting consolidated management (strengthen governance of affiliate companies). We will accomplish this by establishing investment standards with a focus on capital costs, strengthening operations, and improving our cash conversion cycle (CCC). Furthermore, we will implement various policies aimed at fulfilling our goal of achieving a total asset turnover ratio of 1.0 and higher. To achieve an ROE of 8% in FY2019, we will create free cash flow by further strengthening profitability and improving our asset efficiency to implement financial strategies that support sustainable growth and development.

To strengthen our financial platform, we will focus on expanding our operating cash flow and using generated free cash flow to invest in growth sectors, issue shareholder returns, and allocate funds towards reducing interest-bearing loans.

We recognize our weight average capital costs (WACC) as approximately 5%. For investment decisions, we apply the judgment criteria of whether or not the investment produce returns exceeding capital costs. After conducting investments, we monitoring each investment to validate and evaluate investment efficacy

in order to improve our investment efficiency.

As of the end of FY2017, we reduced interest-bearing debts by 1.2 billion yen from 35.0 billion yen to 33.7 billion yen. During FY2018, we plan to respond to firm demand by temporarily increasing capital investments and operating capital. However, moving forward, we will promote financial leverage efficiency with a focus on maintaining a D/E ratio of 0.9 or lower.

For equity, we will maintain balance between our financial structure and debt while continuing to lower interest-bearing debts by generating free cash flow and implementing investments that link to future growth. We will increase profitability while enhancing capital with the aim of quickly returning to a goal equity ratio of 50%.

This fiscal year, we will strengthen management functions in China via our Hong Kong subsidiary to improve capital efficiency and asset efficiency in the region, which will lead to improved management efficiency. We will continue to pursue the efficient management of management assets in order to further improve operating efficiency.

Nippon Chemi-Con will continue to implement business structure reforms and aggressively invest in growth sectors. At the same time, we will maintain capital to debt balance while implementing stable and continuous shareholder returns and working to improve long-term shareholder value.