

[Key Q&A] Conference Call on Financial Results for the Third Quarter of FY2017

[General]

Q. The growth rate of sales and profit results up to Q3 are not as satisfying. How would you describe the current situation?

A. The results for Q3 (Jul-Sep) is also unsatisfying for us. This year many temporary environmental changes occurred. We had recognized issues in each of them, and will continue to resolve the issues. We will continue to work on building up a structure that can boost sales and profit growth in each area.

Q. In order to achieve your FY operating income target of 98 billion yen, you need to have 2.1 billion yen of profit growth in Q4 (Oct-Dec). Which area would be the driver for this achievement?

A. Europe and Asia. We especially have good prospect for France, which just solved its SCM issue, and Vietnam, which is on track to recovery.

[Japan]

Q. In Q3 (Jul-Sep), while sales increased by 2%, profit only increased by 0.1 billion yen. Why is that?

A. The new products boosted our sales, but also increased production cost due to outsourcing. We often outsource production for new products. We will expand in-house production in the future to increase profitability.

Q. For Tokucha, it seems like there is an increase in competing products. Does it still have room to grow?

A. This year many new products of Foods with Function Claims were introduced to the market causing consumer shift that leads to deceleration of FOSHU market. Although it is hard to forecast a strong growth as we did in the past, we will continue to capture demands by appealing functions that only Tokucha can provide. In the future, we would continue to strengthen our position as the No.1 product in FOSHU category.

Q. Bottle-shaped canned coffee market also seems to be growing. From which package of coffee market does Craft Boss acquire share from?

A. Craft Boss is not necessarily acquiring existing can-coffee users. Many consumers for Craft Boss are those that were used to buy water or tea products, and non-core can-coffee users. The demand mainly comes from young people, including not only males, but also a lot of females.

[Europe]

Q. How is your progress on recipe change for products other than *Lucozade Energy* in the UK?

A. We were planning to introduce new low-sugar recipe for *Ribena* in the H2 of the year, but have postponed the plan to Q1 (Jan-Mar) next year. For this year, we will focus on penetrating *Lucozade Energy* with low-sugar recipe to consumers.

[Asia]

Q. What is your purpose for the joint venture with PepsiCo in Thailand?

A. The beverage market in Thailand is 800 billion yen, which is the second biggest market in Asia, right after Indonesia. PepsiCo owns roughly 10% of the market share within this market, and has been recently growing by mid-single digit every year. Also, with PepsiCo's strong distribution network, we would like to introduce new products from categories that we have strength in, such as water, tea, and coffee, to aim for further sales and profit growth in Thai market.

[Oceania]

Q. What is the reason of profit decrease up to Q3 (Jan-Sep)?

A. The biggest issue for Oceania profit is the Juice category's sales decrease in New Zealand. Due to the trend of avoiding sugar intake, Juice category, which contains a lot of sugar, has been experiencing a big market shrink these years. Our strategy towards competitors was also not as effective. Currently, the market shrink finally seems to calm down, and we will reinforce our activities in the coming peak season and aim to recover our sales and profits.

[Americas]

Q. What is the reason of profit decrease up to Q3 (Jan-Sep)?

A. Factors include rising price for raw materials such as aluminum, increase of wages for personnel such as truck drivers. Also, neither PepsiCo's core carbonated beverages nor new products were performing well, resulting in weak sales that lead to profit decrease. Currently, we forecast that the condition would also be tough in Q4 (Oct-Dec).