[Key Q&A] Briefing on the Financial Results for the Second Quarter of Fiscal Year Ending December 31, 2013

Q. Please tell me about year-on-year change in operating income in Japan as it pertains to the actual result for the first half of this fiscal year as well as to the prospects for the full year.

A. For the first half of this fiscal year under review, Suntory Beverage & Food Limited and its consolidated companies ("the SBF Group" or "we") could improve operating income by 4.1 billion yen from the previous fiscal year, due mainly to the reduction of manufacturing and distribution costs as well as increased sales, while marketing costs, including brand investments, increased over the previous fiscal year.

For the second half of this fiscal year, the SBF Group will work hard to improve sales by 5% over the previous fiscal year as we accelerate the cost reduction with the aim of achieving the projected profits for the full year.

Q. Seemingly, the SBF Group already achieved the cost reduction of 5 billion yen in the Japanese operations during the first half of this fiscal year, out of the projected quota of 7 billion yen for the full year. Is there any likelihood that better performance can be achieved over the full year? Additionally, I anticipate that the SBF Group will address the cost reduction in the overseas operations from the second half of this fiscal year. Please give us an overall picture of your cost-reduction approach, including the overseas operations, for the next fiscal year and the year after that.

A. We don't anticipate that the SBF Group will easily accomplish another 5 billion yen for the second half of this fiscal year and end up with 10 billion yen for the full year, because certain outside factors could potentially push up costs in the second half. However, we believe it is possible to accomplish the cost reduction of 7 billion yen or more for the full year.

Regarding the cost-reduction approach in overseas operations, we have already commenced in our European business bases. We believe our Asian business bases have plenty of room for further improvement in terms of production efficiency.

Currently, we're reviewing specific cost-reduction targets for the next fiscal year and beyond.

Q. You mentioned that sales volume of BOSS (canned coffee) for the first half remained flat from the previous fiscal year. Was this in accordance with the plan?

A. Indeed, sales volume for the first quarter fell a bit short of the projection, due mainly to the decrease in the number of brand items ready for sale to consumers. However, during the second quarter we enhanced the flagship brands and accelerated the distribution of brands ready for sale. Consequently, we were able to achieve a sales volume that exceeded the projection as well as the year-on-year target in the second quarter. Following the brisk sales volume of July, we'll continue to market strong brands and create new value in August and beyond. In that way we will accomplish our goal of improving the sales volume by 3% or more annually.

Q. Could you explain the result of your business in Europe for the first half of this fiscal year? Also, please tell us about the prospects for the second half.

A. In our analysis, the largest cause of the poor result in our European operations was attributable to abnormal weather during the period of May to June. In fact, in July, once we had recovered from the abnormal weather, the performance data also recovered significantly. Without the abnormal weather, we believe our operation in France will continue to satisfy the projection. In order to solve our problem in Spain, where the market is slow for on-premise and off-premise, we will fully concentrate on core brands as we review the container and pricing strategies for the improvement of business operations.

Q. Please give us your outlook for the 2014 fiscal year. What is a key driver for improved operating income?

A. Specific targets for the 2014 fiscal year are currently under review in each area on the basis of the Mid-Term Plan, which was formulated at the end of the last year.

As for the Japanese operations, we will continue to work on the enhancement of core brands that have already been addressed. Further, we will develop our approach to the reduction of costs. We are also internally discussing how to address the planned increase in the consumption tax.

As for the overseas operations, we will concentrate on core brands in Europe and accelerate sales in Asia, which has steady growth, with the aim of improving our profitability.

Q. What do you expect the impact of the consumption tax hike on your business performance to be?

A. Generally, there is a concern that a rise in the consumption tax could dampen consumer spending. However, we expect the demand for beverages to grow by one to two percent per year in the future--even after the further hike in the consumption tax--due to sweltering summer heat, increased health consciousness and so forth. There may be a temporary setback in consumption as the consumption tax increase goes into effect, but we want to consistently market valuable, useful products in order to minimize any drop in sales that occurs.