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

Q. What is the reason for the downward revision of the sales and profits?
How do you plan to reflect the initiatives in the next fiscal year?

A. Despite the aggressive target, we believed this would be achievable. That said, we are very sorry for not attaining the target in this first fiscal year since our IPO.
On sales volume basis, we had 11% year-on-year growth for 500 ml products, which did not achieve our plan of 15% growth or higher. However, we were able to achieve higher growth than planned for products such as *GREEN DAKARA* and *Suntory Minami-Alps Natural Mineral Water Sparkling*, so that is a certain amount of success in terms of brand strengthening.
The main cause for us not achieving our plan for 500 ml products was that we did not achieve targets for *Pepsi* products and new products such as carbonated drink *Trotta* and flavored water *Yasasui*. Not being able to sufficiently reap benefits from the proactive marketing investments during the 3rd quarter has had an impact as well.
Heading into the next fiscal year, we will be considering a way to proceed in the summer season to create solid profit. In Europe, the economic condition was much worse than expected, but we will implement dramatic reforms now under consideration and structure a profit model to correspond to the instable market.

Q. Looking at store fronts now, it seems that current product mix in terms of package sizes and price competition will continue. What are your strategies on packaging and pricing?

A. In regards to large size products such as 2 liters, we understand their importance in terms of getting consumers to drink more frequently, but we are not thinking of continuously expanding its business scale. Instead we are thinking of maintaining stable sales to heighten the factories' capacity utilization. While we will continue to focus on reinforcing our core brands, we will also strengthen brand equity of products which have received high reputation from consumers, such as *Iyemon Tokucha* and similar FOSHU (Food for Specified Health Uses) products, as well as our unique, highly profitable products, in order to increase the small size products.

Q. It seems that cost reduction was implemented more than planned in the Japan segment. What is the outlook for the next fiscal year?

A. For this fiscal year, we expect we can achieve greater cost-reduction than planned by, for example, reducing PET bottle weight, redesigning carton cases for resource saving and improving productivity at factories. In regards to the next year as well, the weak yen and high cost of raw materials is expected to increase costs, but in efforts to overcome that, we will accelerate initiatives on cost reduction.

Q. 2 liter bottles of *Suntory Natural Mineral Water* are sold at a low price at convenience stores. What is the effect on profit?
A. There was a cost increase for conducting the sales promotion, but we have made greater gains in profit through increased sales volume and capacity utilization. Consequently, the large size products are contributing to profit.

Q. In regards to the breakdown of increase/decrease in Japan segment profit, what is the breakdown of the 4.1 billion yen under the "Increase in other expenses" ?
A. Factors in this item include increases from installing vending machines and their depreciation. Note that with our stock listing, we bolstered our organization and overhead, and all these are accounted for as planned.

Q. What is the projected sales volume of *Iyemon Tokucha* in the next 3 months?
A. The initial sales of the product in the first month were good. In October alone we shipped around 0.7 million cases. The total from product launch in September is around 1.6 million cases. We are expecting the positive trend to continue for the remainder of the year.

Q. Forecasts for operating income and net income for the full year are both revised downward with similar amount. What is the reason behind this?
A. The forecast of operating income was revised downward by 4.5 billion yen, but we expect non-operating income/loss to improve the financial account balance, leading to the ordinary income revised downward by 3.5 billion yen. The level of corporate tax is as planned, as the burden is expected to drop domestically while increase at our overseas subsidiaries. The extraordinary income/loss is as planned as well, but since the minority interests will increase, the net income was revised downward by 4 billion yen.

Q. Any thoughts on dividends?
A. We target a payout ratio of 30% or more of net income before amortization of goodwill. For the year-end dividend, we plan to pay 58 yen per share, which was calculated based on the initial forecast of 59 billion yen. The payout ratio against the revised forecast of net income before amortization of goodwill (55 billion yen) is 32.5%.