[Key Q&A] Briefing on the Financial Results for the First Quarter of Fiscal Year Ending December 31, 2014

Q. In Japan, it seems that the product mix in terms of package sizes is better controlled in Q1. Please explain the specific initiatives taken to achieve this.

A. In March, large-size PET bottle products sold more than we had expected. As for the 500ml PET bottle products, sales volume increased by double digits in both March and April, as per the product mix we have planned.

We have been working on various initiatives to increase sales of 500ml PET and canned products. For example, we have proposed in-store promotions with more focus on 500ml PET products than large-size PET products at supermarkets. We also proposed bundle sales of twelve 500ml PET bottles, which is a half of the conventional single case (24 bottles). When a new product is launched, we always place 500ml PET bottles of existing product next to it in order to build a store front to remind the existing product.

Q. How is the progress of cost reduction plan in Japan?

A. We plan to secure a profit of 1.5 billion yen from cost reduction for this year and we achieved a positive impact of 1.3 billion yen for Q1. Although we forecast more cost-push factors such as yen depreciation and price hike in coffee beans for Q2 onwards, we will work to achieve the annual target by pursuing with cost reduction initiatives that will absorb these factors.

Q. Sales promotion and advertising costs in Japan increased by 4.9 billion yen in Q1, which almost accounts for the full-year forecast amount (increase of 5.5 billion yen). Will these costs increase further in Q2 and onwards?

A. Although we do not expect significant amount of sales promotion and advertising costs in Q2, the total amount is expected to increase YoY. For Q3 onwards, based on the lessons and reflections from the previous year, we will conduct marketing activities that are cost-effective.

Q. While the unit price in Japan business for the full year is forecasted to be flat YoY, unit price in Q1 has declined. How do you expect to raise the unit price in Q2 and onwards?

A. Unit price in Q1 decreased due to increased sales of large-size PET products triggered by the demand surge before the consumption tax hike. For the four-month period of January to April, sales growth of 500ml PET products was higher than large-size PET products by around 10% and this trend is in line with the product mix that we aim for. Large-size PET products tend to sell well in summer season, but we would like to maintain this balance by contriving sales activities.

Q. We hear that price increases in vending machines are taking time for some companies. Can we expect that price change of products will proceed smoothly?
A. Since March and April are busy season for vending machine operators as they require lot of work in switching some SKUs from hot drinks to cold drinks, and also taking into account the negotiations with landowners of installation site, the price change process as a whole is taking time. We will work to accelerate the speed of the process.

Q. Is the customer base of FOSHU (a Food for Specified Health Uses) **drinks expanding?**
A. Regarding FOSHU drinks, we are aggressively implementing measures to expand the market, such as providing free samples and cross-brand sales campaigns among FOSHU products. These products are selling well and are on track towards achieving the annual sales target of 50% growth YoY.

Q. How was the business status in France and Spain for Q1?
A. While the soft drink market in France is estimated to have increased sales volume and decreased unit price in Q1, sales of Orangina Schweppes Group (OSG) were almost flat in volume and grew in value YoY by pursuing a strategy to avoid price competition. In Spain, likewise the market trend, sales volume of OSG decreased slightly but sales value was flat YoY. We see that the initiatives of downsizing format and raising the price per liter are gradually showing results. Since weather is also an important factor for the region, we will operate the business by watch the sales trend carefully.

Q. Operating profit growth was lower than the sales growth in Q1. How do you plan to secure profit in Q2?
A. In Japan, product mix is expected to improve and we aim for profit growth by controlling the marketing costs. As for Lucozade and Ribena business in Europe, since around half of the one-off cost expected for the full year was recorded in Q1, higher profit is expected from Q2 onwards due to lower one-off cost. In Asia, although we expect some impact from unstable economic environment in Thailand to remain, we will work to secure profit by keeping good control of costs.