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

Q. While the sales volume in Japan decreased in Q3(Jul.-Sep.), what were the factors to realize YoY profit increase?

A. We continued to increase sales of products with high value-added and more profitable format. Although sales volume of large formats including 2L declined by about 10% YoY, sales of 500ml PET bottle products were almost flat and 190g canned products exceeded last year. Our efforts towards growing sales of high value-added products also led to efficient use of sales promotion cost. We also worked on more efficient investment in advertising.

Q. How do you see the market environment in Japan after consumption tax hike?

A. It is difficult to distinguish the impact from tax hike and unseasonable weather, but it is true that we are seeing tendency towards saving in consumption. RSP for 2L PET bottle products is declining, but price reductions do not always lead to sales increase. We see consumer behavior of buying essential goods but buying other things later, so we need to watch the market trend carefully.

Q. Annual forecast of operating profit in Japan was revised down by 1 billion yen. Considering the results up to Q3, it seems that previous annual forecast is still achievable.

A. Operating profit for Q3(Jul.-Sep.) was short by about 1 billion yen against our plan. There may be views that previous annual forecast is achievable by cutting advertising cost by 1 billion yen in Q4. However, cutting advertising in the midst of difficult business environment will weaken the presence of brand and this will become an issue. We decided that investment in Q4 is important in light of next fiscal year and onwards.

Q. In terms of consolidated operating profit, can we expect higher level than the annual forecast of 85 billion yen?

A. As for Q4, we forecast an operating profit of around 20 billion yen, which is almost flat from previous year. Regarding business in Japan, while we expect cost push factors such as yen depreciation and price increase in coffee beans, we plan to increase advertising on core brands and high value-added products. Investment on marketing will also be carried out in Europe in order to strengthen the brands. For the full year, we will continue our efforts to exceed our forecast of 85 billion yen.

Q. Please explain the breakdown of segment profit for Europe.

A. Of the 32.3 billion yen of Europe's segment profit, Lucozade Ribena Suntory accounted for approx. 8 billion yen. As for Orangina Schweppes Group, its profit increased YoY on currency neutral basis, due to cost reduction in manufacturing and promotional activities with more focus on profit. Sales were almost the same level as previous year and we recognize this as our challenge.

Q. It seems that business status in Asia differ by area. Please explain each business.

A. Although there are ups and downs by month, sales at Cerebos are trending upwards. We are increasing efficiency on marketing expenditure by focusing on its mainstay *BRAND'S Essence of Chicken* and the profit level is nearing our target. In terms of Indonesia, we were expecting the beverage market to grow by double digits, but due to its recent slowdown, our current estimate is high single-digit growth. We are working to enhance our business there, centered on *MYTEA Oolong Tea*. In Vietnam, our business is growing strong at a much higher level than the market growth. From the second half of this year, our monthly results have been above our target. We are reinforcing our production facilities in Vietnam for further growth.

Q. While market condition becomes more competitive, what is your strategy for next year?

A. In Japan, we cannot expect as much profit increase from cost reduction as last year or this year. We will work to increase profit by sales expansion of high value-added products. Our basic strategy is to repeat a positive cycle of earning profit through cost reduction and expansion of high value-added products, and using the profit earned to invest on marketing to further strengthen brand equity.