[Key Q&A] Analysts Meeting on Financial Results for the Fiscal Year Ending December 31, 2015

[General]

Q. Why is the operating income forecasted to decline YoY in FY2016?

A. It is true that business environment in Japan and in Europe is competitive, we aim to secure profit on currency-neutral basis. The main reason for the forecasted profit decline is due to the profit decline in the overseas segment. We are forecasting a negative FX impact of approx. 6 billion yen, leading to decrease of 4.5 billion yen in the overseas segment. In addition, we are assuming another negative impact from increase in raw material costs by approx. 2 billion yen. In terms of real business, we are forecasting a profit growth of around 3 billion yen.

[Japan Segment]

Q. Do you expect that Japanese soft drink market can exit from deflation?

A. Each company in the Japanese soft drink market has been seeking to achieve economies of scale. However, while the volume growth in the market is flat or in a decline, cutting sales prices are not leading to volume growth as expected, and only leading to downward pressure on profit. We think this is why soft drink companies are focusing on profitability instead of sales volume this year. We set a strategy to exit from deflation three years ago, and have been pursuing our initiatives based on “high added value strategy”, to offer products that bring new value to consumers, and “non-price sales and marketing”, to communicate the value of each product and not to depend on price reduction. By continuing this strategy, we aim to improve our profit margin.

Q. Sales promotion and advertising costs increased significantly in 2015. Are you able to control this cost in 2016?

A. We are intending to firmly manage sales promotion cost. Our forecast for 2016 is to increase the sales promotion and advertising costs further by 1.2 billion yen, and we will invest mainly in advertising and promotion for high value-added products such as *Blood Orangina*. We want to spend these costs in a qualitatively different way from last year.

Q. What do you mean by the new business model, “offering office soft drink services”?

A. By combining our product and vending machine development capability, we will further evolve the full-line beverage service, which include not only vending machines for can and PET bottle but also cup-type vending machines, tea servers and coffee machines.

We will offer new services to office workers and stimulate demand.

Q. What is the synergy expected with Japan Beverage?

A. In 2016, we are expecting a cost reduction effect of more than 1 billion yen through ways such as improving efficiency in route sales and reducing costs related to vending machines. We have established Suntory Beverage Solutions in January and conducted a company split for vending machines business, fountain business and water dispenser business. We will work to expedite decision making and seek to create synergy.

[Overseas Segment]

Q. What is the strategy in 2016 for each business area in Europe?

A. In France, the business environment remains very competitive, but we will continue our initiatives that are focused on core brands, such as *Orangina*. In the UK and Ireland, we are expecting a recovery and growth in sales volume from a decline in 2015, caused by supply issues of packaging materials, and by launching new flavors from Lucozade. In Iberia, we will continue to reinforce our initiatives in the on-premise channel.

Q. It seems that the sales growth rate in Asia on currency-neutral basis will slow down from 10.4% in 2015 to 8.1% in 2016. Please explain the reason.

A. Sales growth rate in 2015 was 10.4%, but when excluding the reclassification impact of recording sales of Lucozade and Ribena in Asia which were included in Europe in 2014, the sales growth rate was 7.1%. By considering factors such as the sales growth in Indonesia, we are expecting continuous growth in Asia.