[Key Q&A] Conference Call on Financial Results for the First Quarter of Fiscal Year Ending December 31, 2017

[Japan Segment]

(Segment profit bridge)

Q. Please explain the reason for worsened product mix in Q1. How do you plan to improve it from Q2 onwards?

A. First reason for the deterioration in product mix was that our sales volumes of large-size PET bottle products for the core brands, such as *Suntory Tennensui*, *Iyemon* and *Green DAKARA Yasashii Mugicha*, increased in Q1, when price competition in this format were moderate in Q1. Second reason is the impact from initial sales of *Blood Orangina*, which was launched in the same period last year and had a higher unit price. From Q2 onwards, we will improve the product mix through product renewal and launch of new products from our core brands.

Q. What is the background of positive results from reduction in manufacturing costs in Q1? Is there a possibility that the impact on profit from cost reduction will outperform the annual forecast?

A. In addition to steady progress in cost reduction activities in packaging and raw material costs, market condition of raw materials were better than we expected. Although we will continue our cost reduction initiatives, we are seeing market fluctuation risks in foreign currency and raw materials.

Q. Please explain the reason for less sales promotion and advertising expense in Q1 year-on-year. Can we expect this trend to continue in Q2 and onwards?

A. In Q1, we focused on efficient marketing execution and avoided excessive price competition in large-size PET bottle products. We have not changed the strategy for this year to carry out marketing investment to our core brands and are in line with our plan.

[Overseas Segment]

(Europe)

Q. What is the background of sales increase in France and sales decline in Spain?

A. In France, we have concluded negotiations with major retailers by the end of February and could execute storefront activities successfully. We will continue to strengthen our brands, as well as sales activities that are not dependent on price promotion. We are also expanding our product portfolio by launching health-conscious products such as *May Tea*, which was introduced last year.

In Spain, sales in Horeca channel declined impacted by adverse weather, but sales are recovering recently.

(Asia)

Q. Please explain the reason for high progress in segment profit in comparison to the full year forecast.

A. We were expecting more difficult conditions in Thailand and Vietnam for the first half of this year, but market recovery was faster than we had expected. In addition, half of the sales increase in Health Supplement business is due to the shipments for the Thai New Year's festival, moved forward from April last year to March this year. As the result, the progress in Q1 is high in relation to our annual forecast.

[General]

Q. Why is the annual forecast of operating income not revised?

A. We will make investment and increase sales of our core brands in order to achieve sales growth that outperform market growth in each region. We operate business in various regions with various risks in our mind, and will aim to achieve the operating income of 98 billion yen for 2017.