[Key Q&A] Conference Call on Financial Results for the First Quarter of 2018

[General]

Q. How do you compare Q1 profit with your expectation?

A. The overall profit is within our expectation except that the gain on sale of food and instant coffee business is around +2B yen than originally expected in Asia. By segment, while the bad weather in Europe was unexpected, others are within the forecasted range.

[Japan]

Q. While Q1 segment profit is within expectation, what is the reason for 3-billion-yen decrease?

A. The decrease is due to

- Product mix from continuous sales decrease of FOSHU and canned coffee
- COGS from increased outsourcing costs and inventory building for peak-season preparation
- Proactive marketing investments.

However, these factors are within our expectation, and the result is within the projected range.

Q. Can you give me the quantitative composition of COGS decrease (-4.3B yen) in your profit bridge? It seems to me that inventory building for peak-season preparation does not happen only in this year. Why is it impactful this time?

A. The composition of COGS -4.3B yen decrease is as follow:

- Production cost management (-2.7B yen)
  - Activities (-1.5B yen)
    Regardless of cost-cut activities, minus due to inventory building and outsourcing costs
  - Raw materials & FX (-1.2B yen)
    Impact mainly came from price increase of raw materials, such as resin for PET bottles
- COGS & others (-1.6B yen)
  - Worsening product mix
  - COGS increase due to sale increase

While it is true that inventory building is not an occurrence specific to this year, since second-half of last year, the gap between our production capacity and sales volume of aseptic products has been increasing, impacting our COGS. Inventory building will continue in Q2, but the impact would start evening out in second-half of the year. We will continue working on cost management through our continuing initiatives including trimming packaging and increasing production efficiency. Additionally, investment in Ujigawa Factory for new line is proceeding. The new facility will start operation in summer, 2019, with the expectation of increasing cost efficiency after operation.

[Europe]

<u>Q. Please tell me the current condition of *Ribena*.</u>

A. Following *Lucozade Energy*, we launched the lower-sugar version of *Ribena* in February. Currently the sales is within our expectation.

<u>Q. In your presentation, it states that Spain has "increased competition," can you elaborate on that?</u>

A. In order to compete with our core brand, *Schweppes*, competitors had launched new products last year along with aggressive price competition. Although our sales remained stable, we had to respond to this competition and thus influenced our revenue and profit.

<u>Q. Comparing to the annual forecast of -0.6B yen, segment profit of Europe is -1.2B yen in Q1. Profit increase in and beyond Q2 is necessary to achieve your annual forecast, how would you do so?</u>

A. Fully executing marketing investment on *MayTea* as planned. To do so, in and beyond Q2 we would like to work on increasing margin by increasing the sales of profitable products in our 3 major markets (France, UK, and Spain), especially the recovery of *Lucozade Energy* in UK. In addition to these, we will also work on initiatives on cost management that we did last year.

[Asia]

<u>Q. In Asia, excluding gain on sales of food and instant coffee business, profit actually decreased organically, why is that?</u>

A. In the health supplement business, the temporary revenue and profit increase due to the change in distributor last year was the biggest profit decrease factor for Q1. Also, *BRAND's Essence of Chicken* faced headwind. Vietnam, same as Japan, was also influenced by resin's price increase, and profit decreased.

<u>Q. I believe you explained at the beginning of the year that the gain on sale of food and instant coffee business is about 6~7B yen?</u>

A. The sale of food and instant coffee business was done step by step, and in Q4, 2017 we booked a gain on sale of around 2B yen. With that in mind, we explained that the gain on sale would be around 6~7B yen more than last year because we estimated the gain on sale booked to be around 9B yen in Q1, but after the final valuation, the actual amount became 11.6B yen.