

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

[Japan]

Q. You mentioned that you aim to recover Tokucha(FOSHU) in Second Half, how is it doing right now?

A. In Jul-Sep, Tokucha's trend was the same as Jan-Jun, decreasing by about 20% v.s. last year. We have started a new lifestyle support service "Tokucha Program Start" in September, and thanks to this promotion, we are able to see recovery of sell-out at each channel. We expect to see this trend to start reflecting in sell-in in Q4, and will continue working on it. We also announced "100-Year-Life Project" on September 3. In order to become a company that provides health to people through beverages, a specialized team was established. We are also working on new products that have efficacy that is not weight-loss related, and are considering launching the product next year. We will continue our effort on marketing for FOSHU including Tokucha.

Q. How are 185g can coffee, bottle-shaped can coffee, and Craft Boss doing in Jan-Sep? What are your outlooks for them by package?

A. We estimated 185g can market declined by over 10%, while we kept our decline to 10%, slightly better than the market. For bottle-shaped can, the market is estimated to have a decline of 10%, and ours was about a 20% decline. For Craft Boss(PET bottle), we achieved 20 million cases in Jan-Sep, and have revised up our full-year forecast to 26 million cases. While RTD coffee market is declining, Boss was able to amend the decrease of 185g can with Craft Boss, and the whole brand increased by 9% in Jan-Sep. As a result, the brand's profit amount increased v.s. last year. We will continue working on both 185g can, which has many heavy users, and Craft Boss.

Q. What is the composition of COGS' -159 billion yen in Jan-Sep? What is the image in Oct-Dec?

A. (Jan-Sep)

-15.9 billion yen consists of

-11.0 billion yen due to "increased sales volume"

-2.2 billion yen due to "SC activities & product mix, etc."

-2.7 billion yen due to "FX and raw material price"

Please note that "SC activities & product mix" is +0.4 billion yen in Jul-Sep. This is because the positive effect from cost reduction was offset by deterioration of product mix and increased logistics cost from natural disasters and heat wave, diminishing the positive effect.

(Oct-Dec)

We expect COGS to be -0.8 billion yen. Although resin's price will continue to rise, with continuous cost reduction effort, adverse product mix and increased outsourcing cost also happened in the Second Half last year, diminishing the decrease v.s. last year.

[Europe]

Q. With profit decrease in Jul-Sep, and the plan of flat profit v.s. last year in Oct-Dec, please tell us the situation by country. Also, what is your forecast for next year?

A. (Jul-Sep)

In France, while revenue increased due to good sales of *Orangina*, *Oasis*, and *MayTea*, profit decreased due to increased SC cost.

In the UK, *Lucozade Energy* starts recovering, both revenue and profit increased.

In Spain, downtrend continues in the market, both revenue and profit decreased.

(Oct-Dec)

We expect Spain will continue to struggle, but will be covered by France and the UK, making the profit flat v.s. last year. Although each country will have the same trend as Jul-Sep, France's negative effect from logistics turmoil in summer will disappear, and profit will be better than Jul-Sep.

(Next Year)

For Spain, the market recovery seems to take longer, and we expect the same trend next year.

On the other hand, in the First Half of this year, each country had revenue decrease due to bad weather, so we expect a revenue increase especially for France and UK. Next year, we will work on 3 things: 1. Reinforcing core brands, 2. Expanding healthy portfolio such as *MayTea*, which takes time but critical in order to go back to growing trend and, 3. Supply chain reform in France, which we believe will make cost increase in France to be less than this year.

[Asia]

Q. It seems like you expect profit increase on organic basis in Oct-Dec, why is that?

A. First please allow me to explain the components of profit in Oct-Dec. Last year we booked part of gain on sale of food and instant coffee business of about 2.0 billion yen in Oct-Dec, making the overall profit in Asia to decrease this year v.s. last year. On organic basis, this negative effect is excluded, and we expect a profit increase of 1.3 billion with currency effect, and 1.4 billion yen on currency neutral basis. We expect profit increase for both Health Supplement and Beverage Business.

(Health Supplement Business)

In Jan-Sep we struggled a little, but in our major market, Thailand, we expect recovery with the structural change of marketing strategy and sales team. Additionally, Essence of Chicken's year-end gift season sell-out was September last year, but this year it is scheduled to be in October. With above factors, we believe that both revenue and profit increase are possible.

(Beverage Business)

In addition to good sales in Vietnam and Indonesia in First Half, the new JV in Thailand that started operation in March is also doing as planned. The expanding revenue and profit will continue their trends in Oct-Dec.

[General]

Q. With the earnings release this time, would you finally say this is the bottom? What is your outlook for next year?

A. At the Earnings Release of Second Quarter, our CEO, Kogo, mentioned that “we will set three years as a period for structure reform, and not take a conservative approach based on a short-term perspective, but view the global change as a great opportunity and further accelerate the structure reform.” Next year is the timing to actually proceed on this.

With medium-term reform proceeding in Japan, we see overseas, especially Asia, as driver, and aim for growth.

We are still deliberating the number for next year, but at least looking at increase in both revenue and profit on organic basis.

Q. While you decrease your operating income forecast by 9.0 billion yen, you maintain your net income forecast. Why is the decreased amount of your tax compared to your initial forecast so big? Can we expect the tax rate next year to be about the same as this year?

A. For the revised forecast, the tax decreased by about 7.4 billion yen compared to our initial forecast because of factors such as the decrease of profit before tax, the increase of gain on sale of food and instant coffee business, and tax reform in the US. For next year, the effect of tax reform in the US will persist, but other factors will not take effect.