

[Key Q&A] Conference Call on Financial Results for the Third Quarter of 2019

[Japan]

Q. What were the effects of the price increase for large formats?

A. Due to the price increase implemented in May, profit was improved up by approximately 1 billion yen to date in September. We expect nearly 2 billion yen improvement in profit in total for FY2019.

Q. Q3 profit was almost flat year on year. A comparative improvement from the temporary cost in Q3 last year, bad weather in this year, and other factors must have been involved. Can you give the breakdown of Q3 profit?

A. Revenue decreased despite positive effects brought by the trend improvement of FOSHU drinks and Foods with Functional Claims as well as the price increase, because of the significant impact from the volume decrease caused by the bad weather. In COGS, there were positive factors such as sales volume decrease effects, steady progress in cost saving activities, and a comparative improvement from about 1 billion yen temporary cost incurred last year due to distribution disruptions caused by natural disasters. On the other hand, there also were negative factors in COGS such as several cost increases including storage costs under the bad weather and sales volume decrease in large formats with low COGS ratio. All in all, despite the decrease in sales volume, we managed to minimize negative impacts to gross profit from both revenue and COGS. We also carried out strategic reviews on the expenditure timing of promotion and advertising costs. As a result, Q3 profit increased slightly.

Q. According to the forecast, a major profit decrease is anticipated in Q4. Can you give the background for it? In particular, does the plan to increase brand investments mean changes in the policy for promotion and advertising costs going forward? How do you see the unit price improvement in the future?

A. We anticipate a comparative fall in sales from last year when the weather was favourable both in terms of our performance and the market total. A round of activities for high value added products such as FOSHU drinks and Foods with Functional Claims will conclude and the degree of improvement may not be as large as before. In addition, there is concern for further deterioration in the environment surrounding the vending machine business. Our gross profit forecast is an increase by COGS reduction, but we expect a decrease in segment profit as a result of considering factors such as strengthening of brand investments and difficulties in the vending machine business environment. As for brand investments, we are planning to make optimal investments for the future in categories such as water, coffee, FOSHU drinks and Foods with Functional Claims based on the strategic timing reviews. There is no change to our stance to maintain discipline to invest

appropriately. As for the unit price, the positive effects from the price increase for large formats will continue until May. Regarding product mix improvement, it may be difficult to achieve the same degree of growth to date, but we will continue our steady efforts.

[Europe]

Q. Can you share the situations in Europe by country?

A. Q3 results on a currency neutral basis were a revenue and profit increase for France and the UK, and a revenue and profit decrease for Spain. The proportion of each country to the total segment profit in Europe was approximately 40% France, 30% the UK, 10% Spain and 20% others. France observed positive outcomes from solid investments in core brands such as Oasis and Orangina. In addition, improved SCM cost, lower commodity prices, strategic marketing spend among other things contributed to the recovery of France to profit growth. In the UK, Lucozade continued to perform well. Although a round of positive effects from the introduction of sugar tax in April last year has settled down, Lucozade continues to grow strongly. In Spain, sluggishness lingers on in the on-premise market, our main field, but we are aiming to turn this situation around through our sales activities and portfolio reviews.

[Asia]

Q. The health supplement business improved its Q3 revenue to the same level as last year, as a result of strengthening distribution. Can you tell what specifically worked well? Can we expect the recovery trend to continue into the future?

A. To be specific, sales action reviews for general retailers and strengthened activities for suburban areas led to the positive outcome. We are making progress in our efforts not for short term, but for mid-term continuous improvement.

Q. In regard to the sugar tax hike in Thailand, how much of your portfolio was subject to price increases? What was the degree of price increases and the sales trend after price increases?

A. A large portion, or about 80%, of our Thai portfolio is still accounted for by Pepsi Cola. Low calorie and zero calorie Pepsi Cola are also included in our portfolio. Price increases on average were roughly 10%. During the period from July to August when price increases were introduced, the sales trend was moderately weak, but we think that the trend is stabilizing now. Although Q4 growth will not be as fast as the first half of the year, we continue to sustain our growth plan for our Thai beverage business.