

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

[Japan]

Q. Can you share how the product mix contributed and sales performance by package in Q2?

A. In Q2, the product mix had positive effects on profit as FOSHU drinks and Foods with Function Claims grew and canned coffee performed at the same level as previous year.

Sales performance by package in the same period is as follows:

Large PET bottle products were down by upper single digit % year on year while estimated market negative growth is about 10%.

500ml PET bottle products grew year on year at a lower level than estimated market growth of 3-4%.

Our canned coffee remained almost flat year on year, which is better than estimated market decline by mid-single digit %.

Q. In COGS, cost saving activities and product mix brought 1.9 billion yen positive effects in the first half, of which 1.6 billion yen came from Q1. It appears as if cost saving progress has slowed down in Q2. Are cost saving activities going well?

A. 1.6 billion yen in Q1 mostly came from cost saving activities. We are making steady progress in cost saving activities that Q2 scored the cost saving effects close to that of Q1.

However, positive effects from cost saving activities and product mix stood at 0.2 billion yen in Q2. This is due to increased average cost ratio caused by sales volume decline in large formats whose cost ratio are low.

Q. Sales promotion and advertising made 2.8 billion yen contribution to profit increase. Expenditure timing shifts were mentioned in the presentation, but can you give the breakdown between savings through your own efforts and timing shifts?

A. In terms of our efforts, we constantly are focused on making the efficient use of limited resources. Regarding timing shifts, the amount carried over from the first half basically will be spent in the second half. The height of summer has come in August that we will activate sales promotions going forward.

Q. Some people are saying that beverage companies have excess inventories as the market situation has worsened due to July weather factors. Is there concern about price wars to clear inventories?

A. We controlled production in July by taking weather into consideration. We anticipate smooth inventory clearance going forward as long as the good weather in August continues. We will not go for price cut as we have just raised price for large formats recently. We assume that other companies share the same thoughts with us.

[Europe]

Q. In France, costs increased due to supply chain issues last year. It is reported that July was extremely hot in France this year which can lead to significant growth in sales volume. However, is there concern about the supply chain?

A. We cannot give you a concrete answer until after the peak season, but French supply chain has largely improved.

[Asia]

Q. Why the beverage business is performing well?

A. In Vietnam, we successfully leveraged our strong portfolio to outperform the market growth where energy drink and non-carbonated drink category including tea and water kept on expanding. Thailand made a rebound from slow market condition in the first half of last year and the market also expanded with other tailwinds such as local events prior to the election and government initiatives to stimulate local economy. We successfully caught the wave of market growth and expanded our distribution network in regional areas, resulting in significant growth.

Q. How is the situation for the health supplement business and what are your strategies going forward?

A. Core brands *Essence of Chicken* and *Bird's Nest* are facing difficulties due to distribution issues for traditional channel. We are carrying out reviews on distribution strategy to improve the situation.

[Overall]

Q. In the presentation, there was an explanation on growth acceleration through sharing and incorporating excellent know-how from different parts of the world in a flexible manner. Can you explain how it leads to topline growth?

A. We think it is better to standardize operational functions in each country wherever possible. We have already taken on such actions in some part of Asia and are planning to roll out the same on a global scale. We also have an idea to set up a "center of excellence" in a suitable country to follow up on other regions that are facing challenges in a centralized manner.

Q. Thailand is raising its sugar tax in this autumn. Demand decline for sugared beverages or tighter regulations are anticipated on a global scale going forward. Considering that, your overseas portfolio does not seem to be fully aligned with the trend. What are your strategies in strengthening the low and non-sugar category?

A. We newly launched *MayTea* in Europe and are strengthening low sugar products of existing brands such as *Lucozade Energy* in the UK. In Asia, we are working on sales area expansion for *goodmood*. Competitors are also showing interest in the low and non-sugar category and it is the

area we should invest more. We need to proceed with existing brands innovation and new brands launch in a balanced manner under effective governance with return on investment in mind. For instance, we need to stop selling as soon as we understand our products are not well-accepted, while we need to consider investing more if the products are well-accepted by consumers.