Q&A from Financial Statements Briefing for Closing Accounts of Year Ended December 31, 2018

<Date and Time> February 14, 10:00-11:30

<Speakers> President and Representative Director Masaki Oga, Director of Corporate Finance and Business Management Department Shinichi Soya, and President of Sapporo Breweries Ltd. Hideya Takashima

■General management

Q. Sapporo Group has said that it will modify its business segments under its 2019 management objective of structural reform. However, could you please detail what exactly will change?

A. (Oga) Under our previous system of five business segments, Sapporo International supervised both sides of our international business: international alcoholic beverages and international food and soft drinks. However, we have decided to rearrange the focal points of our businesses by changing the current segments. We intend to use structural reforms to clarify matters concerning responsibilities, authority, and task assignments.

Q. Regarding Sapporo Group's thoughts on future M&A possibilities, in what areas do you hypothesize M&A transactions?

A. (Oga) Our M&A priorities are, in terms of business sectors, in the alcoholic beverages business and, in terms of region, in the US. We are proud that we have achieved continuous growth in Canada after our 2006 acquisition of Sleeman Breweries. This experience has made us aware that an essential factor in our success is our unified operation of raw materials sourcing, production, logistics, sales, and branding. There are exciting expansion possibilities in the Japanese food business, but we intend to move forward with sectors that have synergy with our existing businesses. Regarding M&A possibilities, in light of our reflection on Anchor Brewing's current losses, we need to reassess our PMI targets, how we handle governance and the roles of directors, and other matters. We also need to build a management structure through which we can rapidly address problems once we have discovered them.

■By business segment

Q. Does your 2019 Japanese alcoholic beverages business plan account for setting aside profits during H1 to prepare for the October consumption tax hike?

A. (Soya) Because we manage performance by fiscal year, I would like to refrain from discussing H1 targets for the alcoholic beverages business. In H1 2018, operating profits were down by ¥2.3 billion in the Japanese alcoholic beverages business, with a particularly noteworthy loss of ¥3.1 billion in Q1. The cause of this loss was that we could not recoup our upfront investments in promotional expenses for our Mugi to Hop update and our second-year sales of Yebisu Hanamiyabi. We continued to recover throughout the year, with operating profit of ¥1.8 billion in Q3 and ¥6.7 billion at year-end.

On a year-over-year basis, we expect our 2019 Japanese alcoholic beverages business to approach the BEP in H1 and to experience a decline in profits in H2. Our year-end target is an increase in profits of approximately ¥600 million.

[Note: In FY2019, we have changed our business segments, and the profit growth target for the entire alcoholic beverages business (including North American alcoholic beverages and restaurants and Asian alcoholic beverages) is ¥5.8 billion.]

(Takashima) It is crucial that we set aside profits in H1 2019. Currently, Yebisu beer is performing well, and on February 26, our Yebisu brand will launch a new product, Yebisu Premium Ale. Our pre-order numbers are steady, and we expect the new product to contribute to H1 profits.

Q. What kind of changes in consumption trends for alcoholic beverages do you expect after the consumption tax hike?

A. (Takashima) After the consumption tax hike, I believe the shift to preferences for low prices will continue. However, in October 2020, the revised liquor taxes will lower the tax on beer and raise the tax on *happoshu*, which could be a boon for beer.

Q. Sales of Sapporo Chuhai 99.99 (Four-Nines) in the RTD market have been robust. To what do you attribute this result?

A. (Takashima) This product has received praise for tasting like something the consumer could get at a real bar, and its strength as an RTD product is that consumers can savor the alcohol. The refined design is also receiving acclaim.

Q. What direction could you take to experience high growth in Japanese soft drinks?

A. (Soya) The most significant struggle in the Japanese soft drinks business is the vending machine business. The crucial question is how do we leverage our assets. In the traditional vending machine business, we needed to provide a full lineup of products. However, we are aiming for growth in the sectors of lemon soft drinks—one of our strengths—distinctive tea-based soft drinks, and instant soups. We are formulating a strategy to refine our product range so that it predominantly focuses on these growth sectors, which should serve as the turning point for our profitability in this segment. We want to accelerate the pace at which we achieve this goal. We are looking at a timeline that puts 2020 as a critical juncture. We also have another plan to see growth in our soy yogurt products. In March, we will build a new production line for soy yogurt that includes equipment for extracting raw soy milk, and we intend to create new demand and actively expand this business.

End.