



SAPPORO HOLDINGS LTD.

Sapporo Holdings Limited

Q1 Financial Results Briefing for the Fiscal Year Ending December 2022

May 13, 2022

Event Summary

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[Time]	14:00 – 14:47 (Total: 47 minutes, Presentation: 19 minutes, Q&A: 23 minutes)	
[Venue]	Dial-in	
[Number of Speakers]	1	
	Yoshitada Matsude	Managing Director
[Analyst Names]*	Satoshi Fujiwara Manabu Sumoge Hiroshi Saji	Nomura Securities Co., Ltd. Okasan Securities Co., Ltd. Mizuho Securities Co., Ltd.

Presentation

Moderator: Good afternoon. Thank you very much for joining us today for the Q1 financial results briefing for the fiscal year ending December 2022 of Sapporo Holdings Limited. We will start the meeting now.

Managing Director, Yoshitada Matsude is present today. Please have at hand the summary of financial results, supplementary information to the financial results, and presentation material.


Mr. Matsude will begin with an overview of the first quarter financial results for approximately 30 minutes based on the PowerPoint presentation material, followed by a question-and-answer session. The entire meeting is scheduled to last approximately one hour.

We will now begin the conference call.

I will hand over to Mr. Matsude. Thank you.

Financial Highlights

- Despite the impact from the resurgence of COVID-19 infections, restaurant demand recovered to some degree. Steady growth for RTD and alcoholic beverages in overseas contributed to **an increase in revenue**.
- Core **operating profit improved** thanks to the effect of revenue increase and cost structure reforms in the restaurant business
- Operating profit progressed largely as planned



(billions of yen)	2021 Q1 Result	2022 Q1 Result	YoY changes (amount)	YoY changes (%)
Revenue	89.9	93.2	3.4	3.7%
Revenue (Excluding liquor tax)	68.5	72.0	3.5	5.2%
Overseas revenue	14.9	18.3	3.4	22.5%
EBITDA	(1.7)	(1.4)	0.3	—
Core operating profit	(6.9)	(6.4)	0.5	—
Core operating profit margin	(7.6%)	(6.9%)	—	—
Operating profit	(6.2)	(4.5)	1.7	—
Profit attributable to owners of parent	(5.2)	(4.0)	1.2	—
D/E ratio (times) ※Net	1.6	1.2	(0.4)	—

The balance of debt excludes the balance of lease obligations.

	2021 1Q	2022 1Q	YoY changes (amount)
Revenue by Segment	89.9	93.2	3.4
Alcoholic Beverages	56.6	60.6	3.9
Japanese	44.7	46.1	1.5
Overseas	10.2	12.1	1.9
Restaurants	1.8	2.3	0.5
Food & Soft Drinks	27.6	27.7	0.1
Real Estate	5.6	5.0	(0.7)
Other	0.0	0.0	(0.0)

	2021 1Q	2022 1Q	YoY changes (amount)
Core Operating Profit by Segment	(6.9)	(6.4)	0.5
Alcoholic Beverages	(5.0)	(3.9)	1.1
Japanese	(3.0)	(2.8)	0.2
Overseas	(0.3)	(0.1)	0.2
Restaurants	(1.7)	(1.0)	0.8
Food & Soft Drinks	(1.1)	(1.0)	0.1
Real Estate	0.7	0.1	(0.6)
Other - General corporate and intercompany eliminations	(1.5)	(1.6)	(0.1)

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Matsude: My name is Matsude from Sapporo Holdings. Thank you. Thank you very much for joining us today.

I will now explain the financial results of Sapporo Holdings for the first quarter of FY2022 based on the materials.

Please refer to page four of the PowerPoint presentation material.

Here you see the financial highlights of the first quarter.

Revenue was JPY93.2 billion, up JPY3.4 billion or 4% from the same period of the previous year. Amid a gradual recovery in demand for restaurant business, domestic RTD and overseas alcoholic beverages contributed to steady growth.

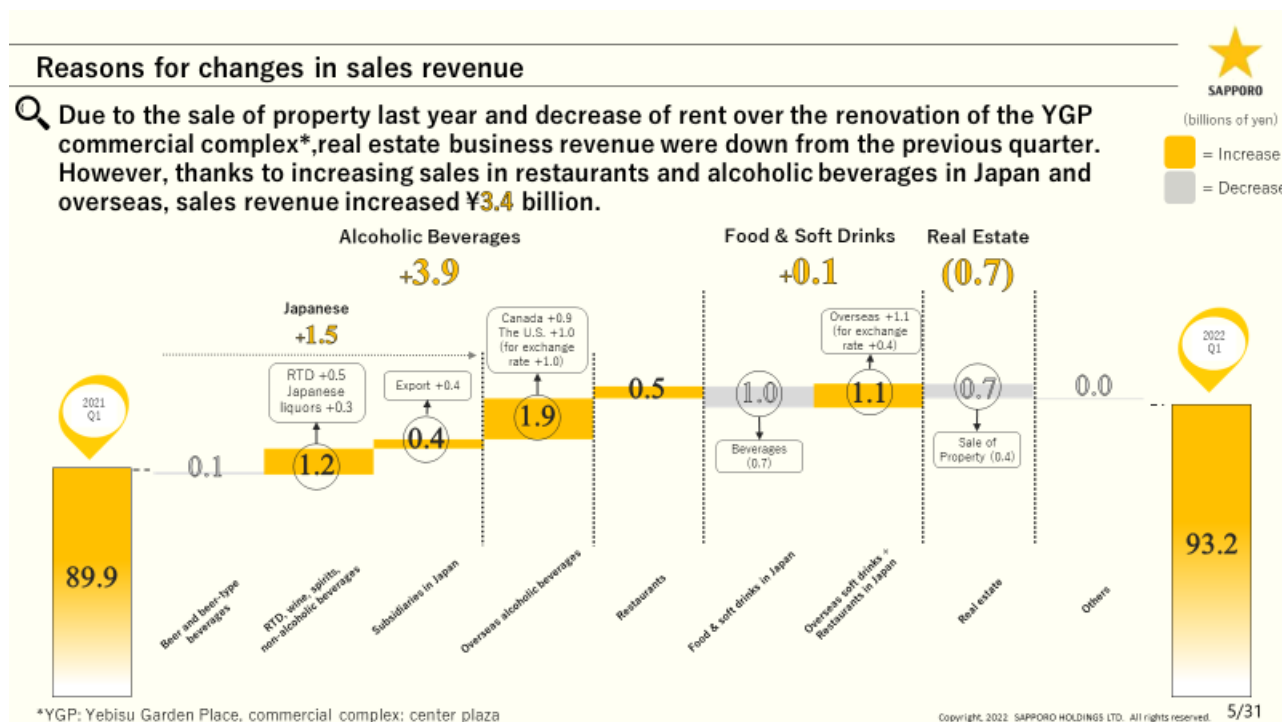
Core operating loss was JPY6.4 billion, a JPY0.5 billion improvement from the previous year. In addition to the effect of increased revenue, the effect of structural reforms in the restaurant business also contributed.

Operating loss was JPY4.5 billion, an improvement of JPY1.7 billion from the previous year. In addition to the effect of improved core operating profit, gain on sales of fixed assets, etc. have been added.

The net loss was JPY4 billion, an improvement of JPY1.2 billion.

This is the summary.

In comparison with the Company plan, our profit plan is on par with the plan.



Next, I will explain the factors behind the increase and decrease in revenue.

Please refer to page five.

The decrease in real estate revenue was offset by the alcoholic beverages business, resulting in a JPY3.4 billion increase in revenue.

Domestic alcoholic beverages sales increased by JPY1.5 billion. First, I would like to report on beer sales volume. In the first quarter, while total demand was roughly on par with the previous quarter, our sales volume was down 2% from the previous year. Sales of beer were up 0.4%, and sales of new genres were down 5%, resulting in a slight decrease in revenue.

Beer keg shipments were up 6% in the first quarter compared to the previous quarter. Compared to the 2019 result, we are at a level of over 40%, but the situation is gradually recovering with over 50% in March and over 60% in April.

As for the contents of the revenue increase, RTD spirits and other products increased by JPY1.2 billion. As for RTDs, strong sales of Koime no lemon sours, which have been strong since last year, contributed to the strong performance. In addition, exports, especially to Europe and South Korea, grew, resulting in a JPY400 million

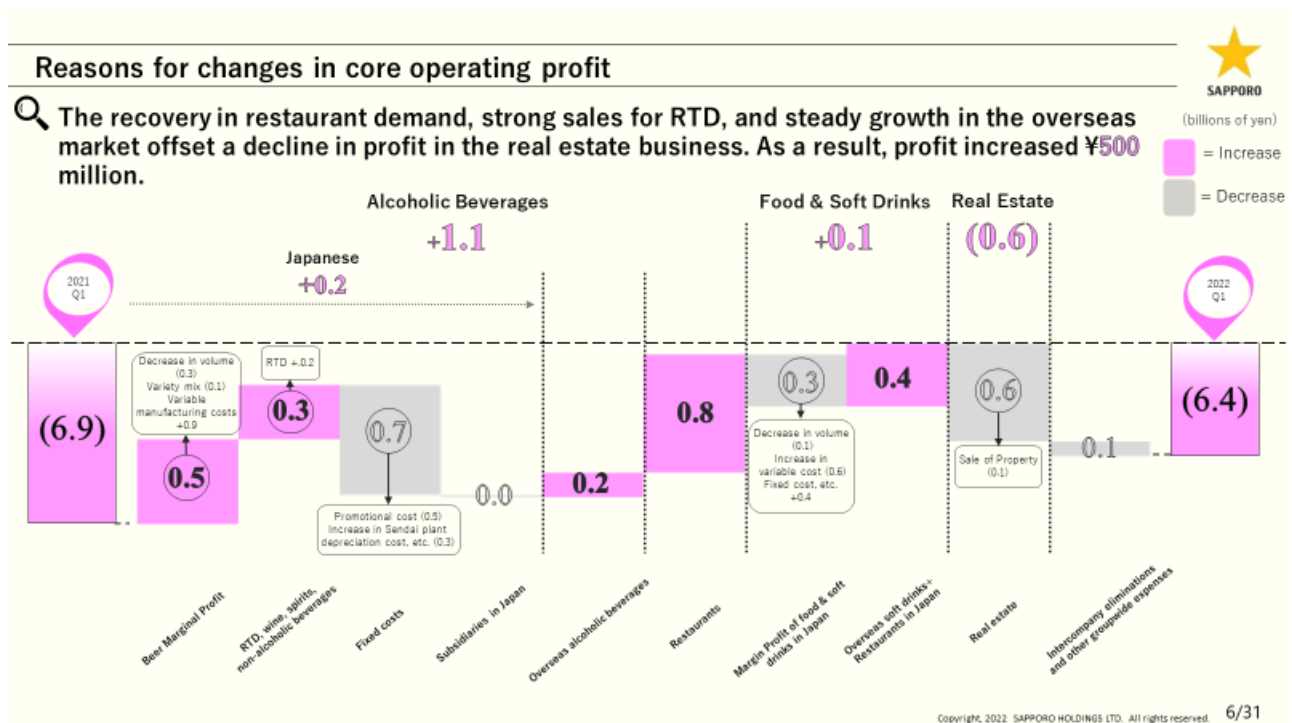
increase in revenue.

Overseas sales of alcoholic beverages contributed to a revenue increase of JPY1.9 billion. Foreign exchange effects accounted for JPY1 billion of this amount. The increase in local-currency-denominated sales in Canada and the US was JPY0.1 billion and JPY0.8 billion, respectively. The increase in sales volume of the Sapporo brand in the US contributed significantly to the increase.

As you are aware, the restaurant sales increased by JPY500 million, due in part to the relaxation of action regulations from the previous year.

In the food and soft drinks business, the negative impact of domestic food and beverage sales was offset by an increase in overseas beverage sales, resulting in a JPY0.1 billion increase in revenue.

The real estate business saw a JPY700 million decrease in revenue, of which JPY400 million was due to the sale of properties last year. In addition, there was an impact of renovation work on the Yebisu Garden Place commercial building.



Next, I will explain the analysis of core operating profit.

Please refer to page six.

Core operating loss improved by JPY0.5 billion, as the decrease in the real estate business was offset by the effect of structural reforms in the restaurant business, in addition to the effect of increased revenue from the domestic and overseas alcoholic beverage businesses.

The domestic alcoholic beverages business improved by JPY200 million. The increase in fixed costs, such as up-front investment in sales promotion expenses and an increase in depreciation associated with the conversion of the Sendai plant to RTD, was offset by the effect of increased sales of RTD and improved marginal profit of beer. As for marginal profit of beer and other products, lower volume and product mix had a negative impact of JPY0.4 billion. Conversely, variable costs had a positive impact of JPY0.9 billion. Of which, higher cost of sales had a negative impact of JPY150 million, and the positive impact was due to a decrease in

rebates and a reduction in disposal.

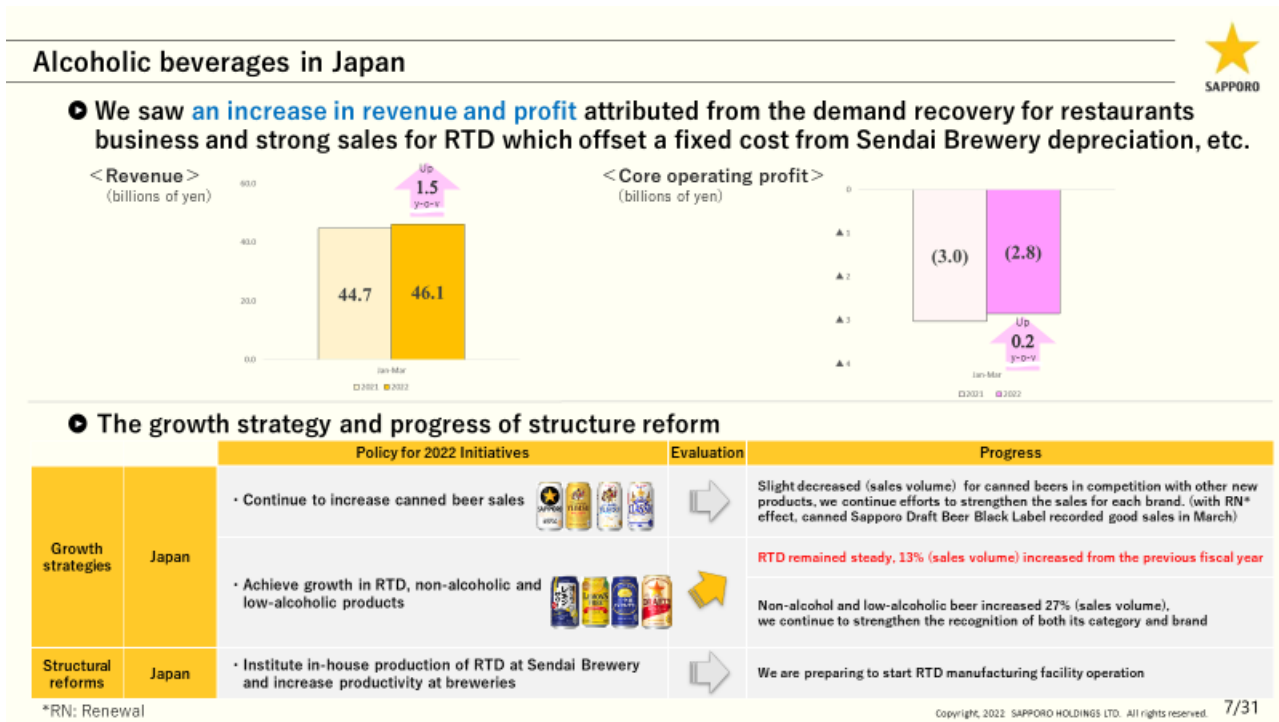
In the overseas alcoholic beverages business, there was a JPY200 million increase in income due to the effect of increased sales. The worsening cost of sales was offset by the price increases.

The restaurant business has contributed to an increase of JPY0.8 billion, thanks to higher sales and the effects of structural reforms. In total, operating profit of the alcoholic beverages business improved by JPY1.1 billion.

In the food and soft drinks business, overseas and domestic subsidiaries covered the negative impact of the domestic food and soft drinks business, resulting in a JPY0.1 billion improvement. Of the negative JPY0.3 billion in domestic food and soft drinks, JPY0.6 billion was due to an increase in variable costs. Of this amount, the cost of goods sold had a negative impact of JPY200 million.

Fixed costs, etc. had a positive impact of JPY400 million due to a reduction in vending machine costs, which was offset by a decrease in sales volume, mainly from vending machines.

In the real estate business, in addition to the impact from the sale of properties in the previous year, there was a decrease in rent due to the partial renovation of Yebisu Garden Place, as mentioned earlier, and an increase in primary costs, resulting in a JPY600 million decrease in profit.



I would like to continue with supplementary information for each business, focusing in particular on the progress of growth strategies and structural reforms.

The first is the domestic alcoholic beverages business. Please refer to page seven.

Our growth strategy is to strengthen our canned beer.

For the first quarter, canned beer was down 2% to 3% YoY due to the impact of a temporary shift of customers to new products of other companies. We will continue to strengthen our standard brands and propose derivative and limited-edition products to achieve the plan for canned beer as a whole.

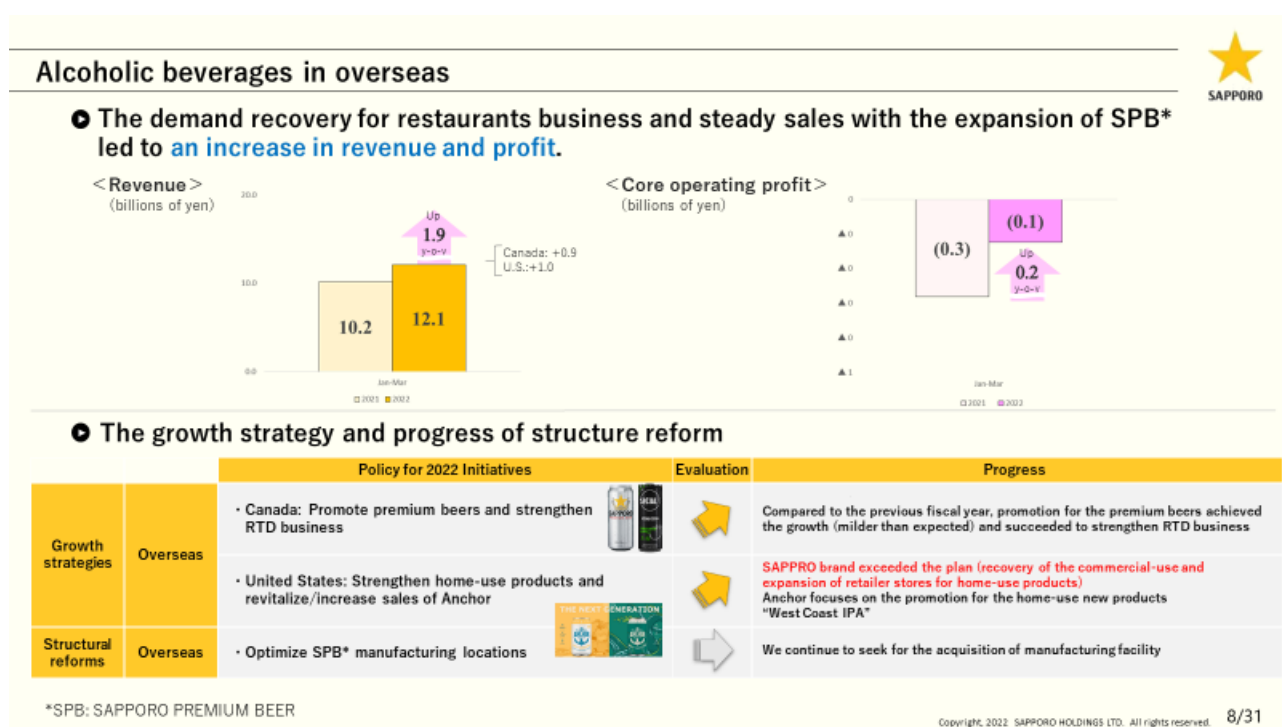
The can of Black Label was renewed in March, and even after the renewal, the total sales for the months of March and April were over the previous year's level.

In addition, RTD sales remained strong, up 13% from the previous year.

As for structural reforms, we are promoting productivity improvement by converting the Sendai Plant to RTD.

This year, we expect an increase in depreciation burden of about JPY1.5 billion. However, we expect that this burden will be eliminated in the following year and that the effect of increased productivity will be JPY1.0 billion or more. We are pleased to report that we are making good progress toward the start of operations next October.

As already announced, we have decided to raise the prices of some wine, shochu, and spirits products. The internal impact of the July implementation on the full year result is expected to be about JPY150 million.



Next is the overseas alcoholic beverages business. Please refer to page eight.

Regarding overseas, I would like to include an explanation of market conditions in Canada and the US.

First, Canada.

We estimate that total demand in Canada declined by about 8% YoY in the first quarter. Under these circumstances, our sales volume dropped only 3%. Net sales increased due in part to the effect of price hikes.

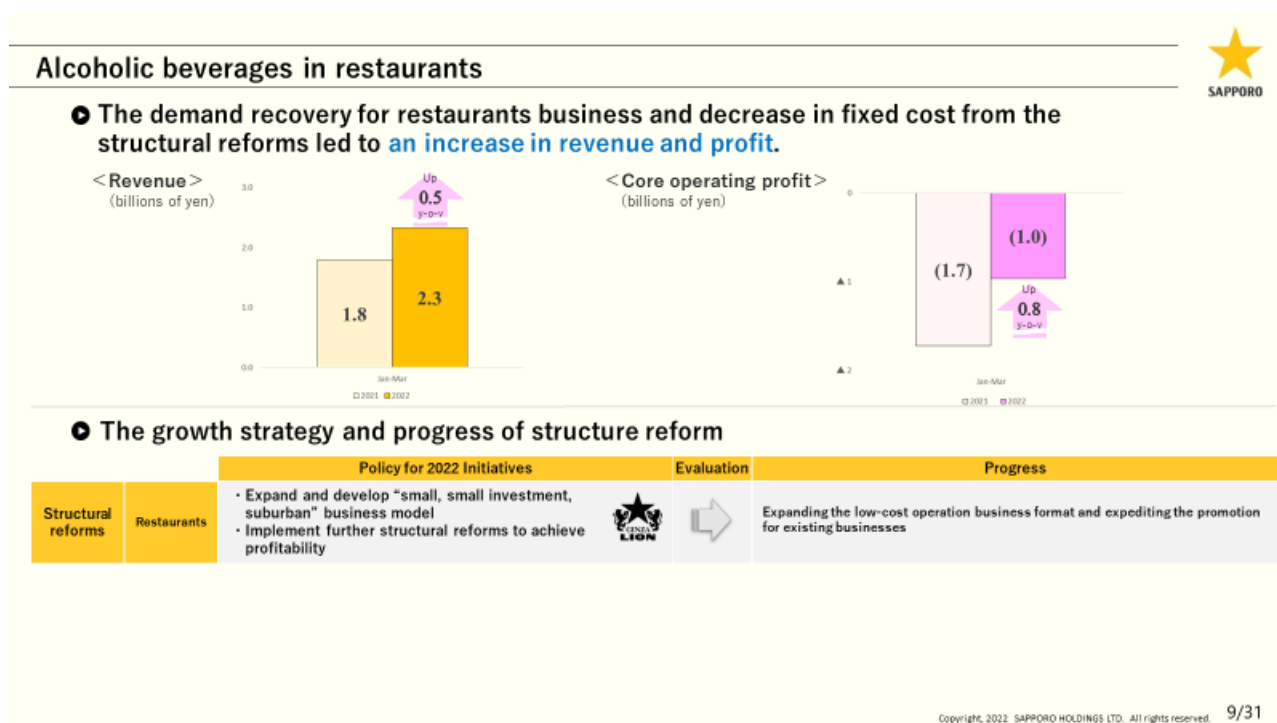
As for the premiumization of beer and improvement of the beer mix, which was set forth in the growth strategy, sales in the premium zone exceeded the previous year's level, and RTD sales remained steady. As for total demand in Canada, it bottomed out in January and is gradually recovering.

Next is the United States.

Total demand in the US is estimated to have declined 3% YoY in the first quarter. Amid this situation, we were

able to significantly increase the sales volume of the Sapporo brand by 57% over the previous year.

In addition to a recovery in the commercial market, expansion in the home-use market also made a significant contribution. In North America, we believe we are responding flexibly to soaring raw material and logistics costs through our pricing policy.



Next, let's look at the restaurant business. Please refer to page nine.

In the restaurant business, we continue to promote structural reforms. As I mentioned earlier, revenue increased by JPY500 million compared to the previous fiscal year.

Compared to 2019, revenue in March was over 40% of the 2019 level, and in April it recovered to just under 60%. This figure includes the impact of closing loss-making stores, which accounted for about 20% of the total, implemented as part of structural reforms. Excluding those stores, revenue on a like-for-like basis has recovered to about 70% of the 2019 level.

Food & Soft Drinks



- With the effect of series of renewal, Lemon beverages on its course in Japan. **Increased revenue and profit** contributed by CNY* sales in Singapore



- The growth strategy and progress of structure reform

		Policy for 2022 Initiatives	Evaluation	Progress
Growth strategies	Food & Soft Drinks	Expand the sales for all lemon (lemon beverage + lemon food)	➡	Strong sales of lemon beverages led to 5% increase (sales amount) from the previous fiscal year
Structural reforms	Food & Soft Drinks	Undertake structural reforms for optimization of business portfolio (Reorganization of vending machine operator subsidiaries, transfer of cafe business, reorganization of Shinsyu-ichi Miso production sites)	➡	Cafe business transferred in April, and the production sites of Shinsyu-ichi Miso sold Planning the liquidation for PVS* in June in terms of reorganizing the vending machine operator subsidiaries

PVS*: Public Vending Service company

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Next, let's look at the food and soft drinks business. Please turn to page 10.

The expansion of lemon-based products sales, which is part of our growth strategy, continues to be strong. In the first quarter, lemon beverages in particular led the way, growing 5% over the previous quarter.

With regard to structural reforms, we are making steady progress with the strategic measures we announced at the beginning of the year, and the transfer of Café de Crié shares was completed in April. As for CAFÉ de CRIÉ, last year's results showed sales of approximately JPY7 billion and a core operating loss of JPY800 million. We have also completed the sale of the land for the reorganization of the production sites of Shinsyuichi Miso Co., Ltd.

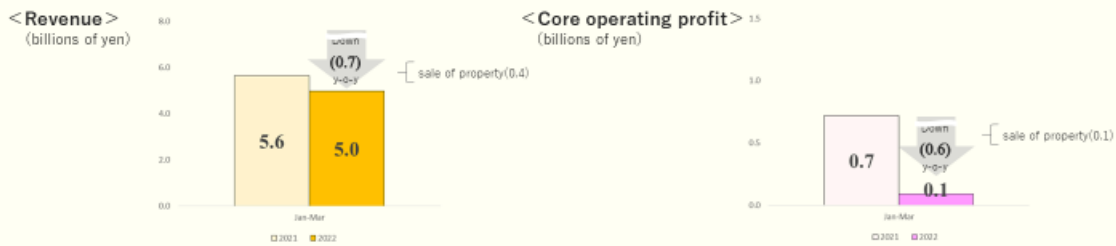
In terms of the restructuring of our vending subsidiary, Public Vending Service, Ltd. is scheduled to be liquidated in June as planned. In the previous fiscal year, Public Vending Services reported sales of JPY3.0 billion and an operating loss of JPY0.7 billion.

In the food and soft drinks business, we have decided to raise the price of lemon food products as a response to the high cost of sales. We estimate that the impact of this revision during the year will be a positive JPY200 million, since the revision is effective from August 1. We expect the full-year amount to be around JPY700 million.

Real Estate business



- The sales of Yebisu First Square last year and decrease of rent over the renovation for YGP commercial complex* led to **decrease in revenue and profit.**



- The growth strategy and progress of structure reform

		Policy for 2022 Initiatives	Evaluation	Progress
Growth strategies	Real Estate	• Promote initiatives aimed at improving value of YGP* properties	⇒	*Foodies Garden" a second basement floor for food and daily living sundries opened on April 15 YGP commercial complex is being renovated for grand opening in fall
		• Grow profits of new businesses using equity investments, etc.	⇒	One equity investment implemented

*YGP: Yebisu Garden Place, commercial complex: center plaza

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Next, let's look at the real estate business. Please refer to page 11.

As for our growth strategy, we are currently promoting the renewal of the commercial area to enhance the value of Yebisu Garden Place. There are four floors, one of which, the second basement floor, opened on April 15. This is a merchandising area, mainly for groceries, and we call it Foodies' Garden. This got off to a good start.

The rental income from the new tenants will be posted from the second quarter onward.

The remaining areas are under renovation at this time but are being prepared for a November opening. Leasing is also almost in sight.

Please refer to the following pages later.

I would like to add a few points.

First, I would like to discuss the outlook for the full year. There is no material for this.

No change has been made to the full-year forecast. However, the current risk of cost escalation is even greater than we had assumed at the beginning of the year.

Specifically, at the beginning of the year, we estimated the impact of the high cost of sales to be JPY3.0 billion, but we now expect it to be JPY4.8 billion.

Of the JPY1.8 billion increase, JPY1 billion is assumed to be for Japan and JPY0.8 billion for the rest of the world. We will basically respond to the risk of worsening profitability by adopting a pricing policy for overseas operations, and we will also try to recover by reducing overall costs and freezing risk-response expenses, which were set aside at the beginning of the year.

The Group Topics for DX promotion

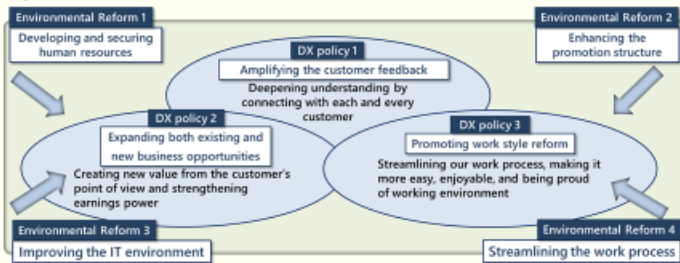


● The growth strategy and progress of structure reform

		Policy for 2022 Initiatives	Evaluation	Progress
Structural reforms	Common	<ul style="list-style-type: none"> Promote DX in earnest 		<p>"The Sapporo Group's DX policies" released on March 22 https://www.sapporoholdings.jp/news/dit?id=8912</p> <p>Promoting "DX for all employees" with DX/IT human resource development program https://www.sapporoholdings.jp/news/dit/?id=8913</p>

● The Sapporo Group's DX policies

While promoting the strategy "the Sapporo Group's 3 DX policies" based on "the 4 DX business environmental reform," we continually grow with all stakeholders who have relation to the Sapporo Group's business and aim for the maximization of corporate value with customers.



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I would like to report on a few topics.

On page 16, you will find Group topics on the promotion of DX.

One of our strategies is to actively promote DX, and this page shows how we have begun to expand customer contact points, expand existing and new businesses, and reform the way we work.

Appendix: Initiatives for Sustainability Management



With the earth, in harmony with society, from the start, to bring smiles to people.

The Sapporo Group will address global environmental and social issues to make people happy. The earth, the source of nature's bounty, is our most important partner. We will strive to collaborate and prosper together with our stakeholders who share our value to provide products sustainable in the entire lifecycle from the development of products and services to the delivery to customers. We will value our founding philosophy and think hard about creating sustainable value, and bring a smile to the face of people. We will try to bring smiles to people all over the world, with our commitment to professional manufacturing, development of regionally oriented communities, and with our vows "Be a pioneer of people's smiles in the world."

Sustainability management strategy

Sustainable Smile Plan

- Promote 1: Contribute to Creating, Enriching and Rewarding Lifetimes Through Alcoholic Beverages, Food, and Soft drinks**
 - Safety, reliability and quality
 - Creating new value
 - Providing education on responsible drinking and perpetuating the culture of beer
- Promote 2: Promote Coexistence with Society**
 - Supporting local communities
 - Sustainable procurement
- Promote 3: Environmental Conservation**
 - Preventing global warming
 - Promoting the 3Rs
 - Harmonizing with nature
- Promote 4: Cultivate Highly Unique Employees**
 - Health and productivity management
 - Diversity & Inclusion and human rights
 - Human resource development and training

Main topics for Q1 in FY 2022

Release date	Contents	Related Priority Issues
2/10	Initiatives for further strengthening value of Yebisu Garden Place https://www.sapporo-re.jp/pdf/sapporere/store/storage/cname_20220210092350.pdf	<ul style="list-style-type: none"> ● Preventing global warming ● Promoting the 3Rs ● Harmonizing with nature
2/17	Commenced the joint transportation for Sapporo beer and Nissin cup-noodles. https://www.sapporoholdings.jp/news/dit/?id=8894	<ul style="list-style-type: none"> ● Preventing global warming ● Promoting the 3Rs ● Harmonizing with nature
3/9	5 companies of the Sapporo Group selected "2022 Certified Health and Productivity Management Organization Program" https://www.sapporoholdings.jp/csr/news/dit/?id=8910	<ul style="list-style-type: none"> ● Health and productivity management ● Diversity & Inclusion and human rights ● Human resource development and training



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Page 18, the first page of the reference material, contains updated information on the first quarter of the year in terms of sustainability management initiatives.

We have shifted the entire electricity used for Yebisu Garden Place to renewable energy from April 1st. In addition, we started a cooperative transport with Nisshin Food Products Co., Ltd. on March 2nd. Furthermore, Sapporo Breweries Limited and Sapporo Holdings have been certified as a 2022 Health & Productivity Management Outstanding Organization for the sixth year in a row.

That is all from me.

Question & Answer

Moderator [M]: Thank you. We will now begin the question-and-answer session.

When it is your turn and the moderator calls your name, please mention your company name and your name, followed by your question.

Please ask them in a question-and-answer format.

In order to answer questions from as many people as possible, please limit the number of questions to two per person.

Mr. Saji of Mizuho Securities, please.

Saji [Q]: Thank you very much. I have two questions. First, I would like to ask about the domestic market for beer.

You mentioned that beer, happoshu, and new genre products as a whole grew by about 6% in April. In particular, you mentioned that the contribution of beer to the commercial use was very significant, with an increase of about 15%.

Until March, I think you have had difficulties due to new products from other companies. I would like to know about whether the trend after this April is sustainable, including restaurant business subsidiaries. That's my first question. Thanks.

Matsude [A]: Thank you very much.

Regarding the beer market, our company's sales volume was 106%, and we believe that total demand was probably on par with the previous year.

As for the trend, there have certainly been some changes from the trend up to March in numerical terms.

One trend is that some customers are shifting from new genre products to beer or RTDs. In addition, there has been a shift from RTD to the beer category, and I have the impression that beer drinkers in particular are becoming more diverse.

Therefore, while we will maintain our standard products as standard products, one of our future issues will be how to capture the so-called migrating customers. We are also considering proposing derivative products and limited-edition products, which are also desired by our customers.

As for the situation in the commercial sector, the market bottomed out in February and gradually recovered in March, April, and early May after the Golden Week holidays.

We had estimated at the beginning of the year that the commercial sector recovery would be about 70% or more of the 2019 level.

However, as you know, prices of various items have been raised. Also, taking into account the rather negative impact on consumption due to the psychological impact of the spread of the coronavirus infection and other factors, I see a strong possibility that the trend will hit the ceiling at some point this year.

However, we believe that we have a high degree of certainty that Sapporo Lion, our restaurant business, will

be able to achieve the goal set at the beginning of the year, because we have incorporated a certain degree of risk.

That's all from me.

Saji [Q]: Thank you very much. Understood. Second, I would like to ask about the price increase.

Yesterday, Kirin commented that they had decided to raise prices on beer, and that details would be provided later. You mentioned that your company will be able to absorb the additional JPY1 billion cost increase in Japan. Does this mean that if other companies raise their prices, you will not follow suit, or will you consider it?

If a price increase is to be announced, there are many cases in other categories that lower-end manufacturers announce their price increases a few months later. How are you thinking about it? That's all from me.

Matsude [A]: Thank you.

As I recall, we received a similar question at the briefing at the beginning of the year, and as Mr. Nose, president of Brewery Company, has already answered, we believe that the current cost increase in raw materials is an extremely important management issue.

Therefore, we are still considering the pricing policy, but no decision has been made at this point, so we would like to refrain from giving you any more information.

Saji [Q]: I see. Can I understand that if Kirin announces the details, you will think about it, including following suit?

Matsude [A]: I cannot comment further. We leave it to your guess.

Saji [M]: Understood. Then, I will guess. Thank you very much.

Moderator [M]: Thank you.

Now, let's move on to the next person. Mr. Sumoge from Okasan Securities, please.

Sumoge [Q]: Okasan Securities, Sumoge. Thank you.

First of all, you mentioned at the beginning that core operating profit was in line with the plan, but I would like to ask you about the progress of profit by segment.

For example, I think that the beer is cost-controlled, and profits are in line with the plan, but the first quarter sales themselves probably weren't that strong, partly due to the increase in [inaudible].

On the other hand, you mentioned that the second quarter is pretty much recovering. I would like to ask how the first quarter is going against this plan. Along with that, I would also like to ask if you can catch up on that from the second quarter.

Matsude [M]: First of all, you are talking about the status of each segment in comparison with the plan for the first quarter, right?

Sumoge [M]: Yes.

Matsude [A]: Revenue from domestic alcoholic beverages was down nearly 10%. This was because we had

expected the recovery in the commercial sector slightly stronger. However, core operating profit was almost in line with the plan, with an increase of JPY100 million compared to the plan. The impact of sales that fell short of the plan was offset by cost control.

In addition, revenue in the food and soft drinks business was lower than the plan by a few percentage points. However, this shortage is not that big, and core operating profit was slightly behind against the plan. Does that answer you?

Sumoge [Q]: So, you say that the real estate and restaurant businesses are generally as planned?

Matsude [A]: I'm sorry, regarding overseas, profit was slightly higher than the plan. The real estate business is totally in line with the plan.

Sumoge [Q]: I understand. You are newly planning that the cost will be JPY1.8 billion higher than the initial plan, but I think it can be generally offset by the risk response costs in each category. Can I understand that the cost won't deteriorate compared to the plan?

Matsude [A]: Yes, that's right. Thank you very much.

Since the beginning of the year, we have set aside JPY700 million for company-wide reserve funds and JPY1.5 billion for domestic alcoholic beverages, so if there is no significant downturn in the restaurant business, this JPY700 million can be used to offset cost increases, and a cost increase in the domestic alcoholic beverages business can also be offset by the reserve funds.

Sumoge [Q]: Understood. One more point, I'm sorry, it may be difficult to answer, but I would also like to ask about the price increase.

You mentioned that you are considering this, but if your company were to raise the price of beer in the same manner as your competitors, it would be quite profitable. In your group, beer makes up a larger percentage of total sales than that of your competitors, so it would generate profit.

It may be a little difficult to answer this question, but I think that more than cost push will probably come out as profit, so I would be grateful if you could give me any hints. It could be how it will be used, future investment ideas, or even a sense of direction.

Matsude [A]: It is very difficult for me to answer, but I cannot say that I will not answer.

In general terms, a price increase is likely to have a positive impact. The difference between the increase in raw material prices and price increase, the impact on total demand, which makes a rather negative contribution, and consumer sentiment. We believe that pricing policies should be considered in light of these factors.

I guess what you want to ask is what impact there would be if we raise the price as announced by Asahi, but I would like to refrain from answering it at this time.

Sumoge [Q]: As just mentioned, if the price increase is in response to cost push, you don't have to raise the price so much. If you are to raise prices in the same manner as competitors, it would be quite profitable. Could you tell us your current thinking about this?

Matsude [A]: This is still in the realm of speculation, so please understand that I cannot say anything about it.

Sumoge [M]: I understand.

Matsude [M]: I'm sorry.

Sumoge [M]: I'm sorry. Thank you.

Matsude [M]: Thank you very much.

Moderator [M]: Thank you.

Mr. Fujiwara from Nomura Securities, please.

Fujiwara [M]: Thank you very much. I'm Fujiwara from Nomura Securities.

Matsude [M]: Thank you very much.

Fujiwara [Q]: I have two questions. The impact of the raw materials prices has gone up from JPY3 billion to JPY4.8 billion, by about JPY1.8 billion, with JPY1 billion in Japan and JPY0.8 billion overseas. I would like to know which products or areas this is related to.

Also, what image for the cost do you have for the next fiscal year? For example, you are keeping a close eye on the aluminum market or any other areas. I would appreciate it if you could tell me which market your company is monitoring. This is the first question.

Secondly, you mentioned that in Canada, the market demand has declined by 8%, but the sales volume for your company has declined only 3%, which I think is a very good situation. Please tell us the background.

Matsude [A]: First of all, regarding the cost of raw materials, at the beginning of the year, we could see what would go up to some extent, but regarding the additional JPY1.8 billion is due to price hikes of a lot of things.

In particular, beer companies will suffer a major impact on imported malt and barley, as well as materials such as cans and cardboard, including drinking water. The food and soft drinks business are seeing price hikes of coffee, sugar, and other items. In addition, energy prices are also gradually rising. This again affects logistics costs, and so on.

As for the domestic market, I see the impact of malt as being particularly significant. This includes what we have seen since the beginning of the year. As for the future, we need to watch the aluminum market, which is currently in a rather volatile and upward trend.

As for energy trends, we should monitor the price of crude oil.

We are not importing malt from Russia or Ukraine, but since Ukraine is a major producer of wheat, we are watching the situation in Ukraine closely as it may have a significant impact on the production of beer barley.

Furthermore, the exchange rate. The yen is weakening against the US dollar due to the interest rate differential with the US, and we must keep a close eye on where this will settle.

Fujiwara [Q]: I believe, if we consider the issue of the length of contracts between domestic and overseas suppliers, there is a practice in Japan to contract suppliers for longer periods of time. Is there any difference between domestic and overseas, for example, there is a bit more risk domestic, to consider for next year?

Matsude [A]: I can't say for sure since we are just now watching the trends for next year, but I think there is a risk in both cases.

However, in terms of countermeasures, as you know, overseas, there is more room than in Japan to pass on

price increases in raw material costs to unit selling prices.

Fujiwara [M]: I understand. Then, can you please tell us about Canada?

Matsude [A]: I think I should talk a little bit about the movement of aggregate demand.

From January to March, it was 85% in January, a 15% decrease from the previous year. As you may recall, the Canadian government imposed some pretty tight restrictions on activity in January as a result of the Omicron strain infestation. This seems to have depressed consumption all at once. Subsequently, in February and March, the demand recovered to 93% and 96%, respectively.

The impact of the behavioral restrictions is stronger for commercial use than for residential use. Since 95% of our sales are to households, we believe that this has had less of an impact and that the various comparative developments have prevented a downward swing.

Fujiwara [Q]: Then, I am wondering if the market will naturally calm down to some extent, but is it safe to assume that this tendency to outperform will continue? Can you outperform this trend? For example, if you consider the demand for home use.

Matsude [A]: Our business plan is more focused on improving our portfolio based on the market wave rather than on outperforming. In other words, the premium will be strengthened.

Fujiwara [Q]: You mean to be sure of the contents rather than the quantity.

Matsude [A]: Yes, yes.

Fujiwara [M]: I understand. Thank you very much.

Matsude [M]: Thank you very much.

Moderator [M]: Thank you.

There are still a few minutes left, but it seems there are no more questions, so we will now conclude this question-and-answer session.

In closing, Mr. Matsude will give a few words.

Matsude [M]: Thank you for taking time out of your busy schedule to join us today.

The financial results for the first quarter are in the red, and we intend to strengthen our operations so that we can produce even better financial results in the future. I would appreciate your continued advice.

Thank you very much.

Moderator [M]: Now we would like to conclude the conference call.

Thank you very much for joining us today. Thank you for your continued support.

[END]