

## **Q&A from Financial Statements Briefing for 1H of Year ending December 31, 2015**

<Date and Time> August 6, 15:30-17:00

<Speakers> President, Representative Director Tsutomu Kamijo, Director Toshio Mizokami, and President of Sapporo Breweries Ltd. Masaki Oga

### **1. Japanese Alcoholic Beverages Business**

Q. This year several companies have released a series of new products in the beer, happoshu and new genre markets, and sales competition has become increasingly tough. Why has Sapporo enjoyed strong volumes of beer sales despite these conditions?

A. (SB President Oga)

Previously, our mainstay Sapporo Draft Beer Black Label experienced year on year falls as a result of falling sales of bottled beer, but this year we have succeeded in compensating for this decline with growth in sales of canned beer. Sapporo Classic is a regionally-limited product from Hokkaido and one of the pioneering products in the regionally-limited products market. Last year, Sapporo Classic enjoyed its 14<sup>th</sup> consecutive year of year-on-year sales growth and sales have continued to grow this year.

Some commentators have argued that growth in the premium beer market is slowing, but I do not agree. In terms of Sapporo's premium products, sales of commercial products have grown, including products such as Edelpils, Shirohonoka and Kohaku Yebisu for commercial use.

Q. Could you please explain the outlook for the second half of the year in the happoshu and new genre categories, particularly in the functional products market?

A. (SB President Oga)

In the functional products markets, a large number of products were released between last year and the first half of this year, but I think the number of new releases will slow down in the second half of the year. In the first half of the year, we struggled with new products after a negative rebound in new genre sales in reaction to the large-scale rebranding of "Mugi to Hop" last year. In the second half of the year, new genre product launches include "- 0°C" in July and Sapporo Aki no Honjuku in August. We plan to launch new products as an extension to mainstay products and to target sales aggressively.

### **2. International Business**

Q. Could you describe the reasons why the Sapporo brand has experienced growth in sales overseas and describe the future outlook for sales?

A. (President Kamijo)

Sales have grown strongly in North America and Canada. We believe that sales can be increased further through sales campaigns in Ontario, where our brewery is located. The population of the United States is growing and Japanese food is gaining a stronger reputation, so we plan to make a bolder approach in areas of concentrated populations on the East and West coasts.

In Southeast Asia, we remain firm in our belief that the most attractive market is Vietnam, which has a population of 90 million and an average age of 28. We are examining ways of reviewing our business strategy with a view to implementing the second stage in our Vietnam business.

Q. Could you tell us more about the strategic review of the Vietnam business?

A. (President Kamijo)

In terms of product development in Vietnam, we are focusing on premium beer Sapporo Premium. The reason we are targeting the premium market is the fact that sales of high quality products can be expected along with rising living standards in the future. In fact, sales of mid-priced products are growing, and the pace of growth in the premium category has been slower than expected. There are a variety of options for the development of business in Vietnam, and we believe that the way into the second stage of business development is to keep pace with market trends.

### **3. Full-year plan**

Q. Could you please give us a breakdown for each segment of the measures that will be implemented in the second half of the year with a view to achieving the full-year plan?

A. (President Kamijo, Director Mizokami)

In the Japanese Alcoholic Beverages Business, we need to achieve operating income of at least 10 billion yen in the second half of the year. However, we plan to reduce depreciation costs by 1.5 billion yen across the year as a whole, and we believe that our operating income target can be achieved by controlling sales promotion expenses and other costs.

In the International Business, raw materials costs in the North American drinks business rose from the second half of last year, and the impact of the rising costs will be seen in the year-on-year figures throughout this year. Measures have been taken, including a review of trading, and we are currently achieving a recovery.

In the Food and Soft Drinks Business, strong sales have been seen in lemon drinks. In soft drinks, we expect to see results during the summer sales season from measures implemented in the vending machine business, and in the food business we expect to see growth in sales during the winter season from our canned soup and cup soup business, which is one of the strengths of our food business.

In the Restaurants Business, labor costs and cost prices remain a challenge, but we are beginning to see gradual progress in labor costs through the implementation of an internal costs project. Regarding cost prices, we are promoting price revisions when main menus are revised. We are also making a gradual recovery in the Japanese-style restaurant business, which was struggling previously.

In the Real Estate Business, a near 100% occupancy rate is expected to be restored at Yebisu Garden Place at the end of this year thanks to active efforts to lease the property after the contract of a major tenant expired in May last year. The vacancy rate in the Ebisu, Shibuya district is falling and there has been a gradual rise in the level of rents for new contracts.

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