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FY2017 Q1 Results Presentation Q&A
August 3, 2016

Q1 What is your outlook for potato chips this year, the sales of which decreased in the first quarter?

Net sales decreased due to our concern about a raw materials shortage on the poor quality of the potato in the first quarter, as a result of which the discontinuation of some *Potato Chips* products was accelerated and the launch of seasonal products delayed. From the second quarter, when the intake of domestically produced potato gains momentum, we will push forward with execution of our initial product sales plan.

Q2 What progress has Japan Frito-Lay made in improving its operating income?

In the first quarter, profit greatly increased due to factors such as our controlling selling expenses. However, because fixed costs also decreased due to temporary factors, it may be difficult to maintain the profit at this level beyond the second quarter. We will continue to pursue initiatives focused on increasing profit.

Q3 What is your sales outlook for North America after the second quarter? Also, how are sales to Costco?

In North America net sales are gradually recovering, and grew by 5% on a local currency basis. Sales to Costco, a major client, have recovered to around 80% compared with the same period last year. We are planning to invest in new products, and aim to further increase sales.

Q4 What is the status of the utilization ratio, profit and new products in South Korea?

According to our initial plan, we had expected to launch multiple new *Potato Chips* flavors following the new factory's commencing operation in May, but the new product launch was delayed. We plan to launch 4-5 new flavors from August. We expect both utilization ratio and profit to improve from the second quarter.

Q5 What is the quantitative effect of the higher yen on the decreased raw material costs and the improved costs in this quarter, and your outlook from the second quarter? Also, what is your outlook for cost ratio as *Frugra* sales rise?

The decrease in raw material costs caused by the higher yen was approximately 250 million yen, and non-raw material costs (power costs) decreased by approximately 100 million yen. If the current foreign exchange level persists, we forecast decreases in raw material costs to continue in the second half of the fiscal year.

Regarding *Frugra*, the cost ratio is improving as progress is made in cost reductions through factors including reviews of the mixture and processing processes. Changes to our product mix on higher sales of *Frugra* will not influence the cost ratio.

Q6 Please discuss the particulars of cost improvements (Utilization ratio improvements, decreases in depreciation expenses).

Within utilization ratio improvements, the largest positive effect was a decrease in power expenses of approximately 400 million yen on the influence of the higher yen and lower oil costs. Negative effects include lower utilization in North America and South Korea of, respectively, approximately 200 million yen and approximately 100 million yen.

Regarding decreases in depreciation expenses, although the full-year plan forecasts a year-on-year increase, as there are facilities that have not yet started to depreciate, they decreased by approximately 200 million yen in the first quarter.

Q7 Selling expenses are exceeding the plan; please describe the specifics and your outlook.

In the first quarter we proactively conducted promotions for *Frugra* and *Jagarico*. Because sales momentum is directly connected to selling expenses we will control them on an annual basis and monitor the situation in close coordination with our sales front line.