



JAPAN



Josuke Kimura
Division CEO
Japan Business Division



Strengthening growth category brands and aiming to deliver new value proposals unbounded by existing categories will become driving forces for the growth of the SBF Group.

| (¥ billion) | FY2016 | FY2017 (Change) |
|----------------|--------|-----------------|
| Revenue | 687.8 | 689.2 (0.2%) |
| Segment Profit | 54.5 | 57.3 (5.1%) |

REVIEW OF PERFORMANCE

In addition to the reinforcement of key brands, our priority in Japan was to generate new demand by offering products with new value.

Sales of the *Suntory Tennensui* line-up, which offers the unique brand value of "clear & tasty" and "natural & healthy," were higher year on year in volume terms thanks to strong demand for the core product *Suntory Tennensui* mineral water. New products also contributed to growth.

Our marketing efforts for the *BOSS*

range of RTD (Ready to Drink) coffee beverages focused on core products. We also worked to revitalize the 185g canned coffee market by launching a 25th anniversary commemorative product, *Pride of BOSS. Craft BOSS*, a new PET bottle product launched to offer new ways to enjoy coffee, was very successful. In contrast with the slowdown of the overall RTD coffee beverage market, there was a substantial volume increase in overall sales of *BOSS* brand products.

In March 2017, we renewed the flavor and packaging of the *Suntory Green Tea Iyemon* in order to provide a

PET bottle green tea product with the color, scent and taste of "freshly-brewed high-quality tea" that consumers desire. Aggressive marketing helped to lift sales above the previous year's level.

We also revamped the flavor and packaging of *Suntory Oolong Tea*. Launched in May 2017, the updated version of this product was marketed as a product offering the unique flavor of oolong tea. This resulted in year-on-year growth in sales volumes.

Sales of foods for specified health uses (FOSHU) were lower year on year in volume terms. We continued to market these products actively, while also taking steps to capture new demand, including the launch of *Suntory Tokucha Jasmine* in June 2017.

In the vending machine business, we implemented initiatives to enhance the attractiveness of this channel, including the launch of products sold exclusively through vending machines, and original campaigns targeting each region. We also worked to capture demand in office buildings through corporate marketing.

These activities resulted in a year-on-year increase in overall sales volumes. Sales revenues were 0.2% higher at ¥689.2 billion, while segment profit increased by 5.1% to ¥57.3 billion. These results reflect our efforts to improve the efficiency of expenditure on marketing and advertising.

TOPICS & DEVELOPMENT

A new canned coffee product, *Pride of BOSS*, was launched to commemorate the 25th anniversary of the *BOSS* brand. The new product symbolizes our determination to maintain the position of our coffee as the "coffee of the working people" by supporting working people who have long been core customers for *BOSS* canned coffees.

We will continue our efforts to expand sales of the *BOSS* range by expanding and enhancing the product line-up, and by running TV commercials and campaigns.

Our core brand in Japan is *Suntory*

Tennensui. This range of mineral water has been the top seller in the Japanese mineral water market for 22 straight years*1, with annual sales exceeding 100 million cases in the last two consecutive years. This success reflects aggressive marketing activities and other initiatives across category lines.

Suntory Products Limited, the soft drink manufacturing company in the SBF Group, will begin expanding capacity at its Ujigawa Plant in Kyoto Prefecture in the summer of 2018. This work will ensure stability of supply over the medium-term future. The company plans to expand its production



Our Brands



Suntory Tennensui



BOSS



Suntory Green Tea Iyemon



Suntory Oolong Tea



Green DAKARA

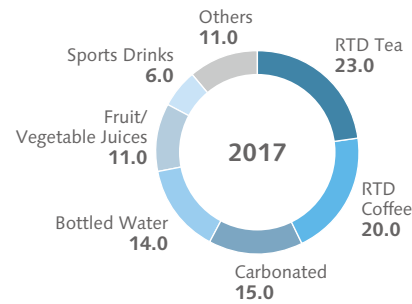


Orangina



Pepsi

Soft Drink Market Share in Japan by Category*2 (%)



*2 Source: Inryou Souken

operations after its new lines become operational in August 2019.

*1 Intage SRI Research: Mineral water sales volume, January 1996 through December 2017 (monetary amount) [Retail outlets]
 1996 – 2001 total for SM/CVS/general liquor shops/beverage & food shops/bakeries
 2002 – 2006 total for SM/CVS/drug stores/general liquor shops/beverage & food shops/bakeries
 2007 – 2017 total for SM/CVS/drug stores

STRATEGIES AND FORECASTS

A key factor influencing recent trends in the Japanese market over the past few years has been growth in the total volume of beverages consumed. Reasons for this include a growing focus on health, a trend toward RTD products, increased awareness of the importance of heatstroke prevention, and growth in the number of aged people, who require more fluid intake.

SBF is responding to these trends through continued efforts to strengthen its brands, especially growth categories such as water, coffee, and sugar free tea. Brands targeted include *Suntory Tennensui*, *BOSS*, and *Iyemon*. We will also continue with initiatives to create new value.

Despite a challenging environment, including rising market prices for raw materials and increased labor costs, we are determined to keep our profit growth rate above the sales growth rate through cost reduction activities and improvements in efficiency of sales promotion expenditure.

Our performance forecasts for the Japanese market in fiscal 2018 include revenue growth of 0.6% to ¥693.0 billion, and segment profit of ¥58.5 billion, a year-on-year increase of 2.1%.

Note: Forecast as of February 15, 2018

A PIONEER OF RTD COFFEE FOR THE NEXT GENERATION



In 2017, we launched the *Craft Boss* series of coffee drinks sold in PET bottles. The new products have been very popular, with first-year sales reaching 10 million cases, or 240 million bottles. Reasons for this success include a consistent focus on the way people work, through our concept of *BOSS* as the "coffee of the working people."

Canned products (185g size) still account for around 70% of the Japanese market for RTD coffee. These products are consumed mainly as quick drinks during short breaks from work. The *BOSS* development team carried out numerous interviews with young people such as IT desk workers to explore their workstyles. This process led to the

discovery of new needs. The interviews revealed that desk workers drink coffee slowly while working, that they want containers that can be resealed, and that they prefer a taste that is refreshing and clears the mind. Although they are surrounded by digital equipment, IT workers like products that remind of them of the warmth of a human hand and find comfort in "analog" things. These discoveries influenced the naming and design of the products. SBF used its

decades of experience in coffee manufacturing to eliminate bitter aftertastes and odd flavors, leaving a clean and flavorful drink that can be sipped continuously. *Craft BOSS* is a new RTD coffee for contemporary society. It was perfected by combining the SBF's manufacturing expertise with a focus on customer needs. We will continue to take up the challenge of developing the *BOSS* range as the "coffee of the working people."

VENDING MACHINE INITIATIVES



The vending machine channel is very highly developed in Japan. SBF has gained an important advantage by building an extensive and varied product line-up and positioning vending machines in excellent locations, especially offices. We are constantly working to provide a fine-tuned response to consumer needs. In 2017, we launched new products in a variety of categories

designed specifically for vending machines, including coffee and vegetable drinks. The consumer reaction has been very positive. In 2016, we introduced the Suntory Green+ point service to support health management initiatives by employers. We have continued to enhance this service, including the introduction of a prepayment system, in step with growing awareness in society and the business sector about the importance of employee health management. Through other initiatives like our water service business, which supplies *Suntory Tennensui* mineral water to offices and homes, we work to provide beverage options matched to any location and occasion.

Sustainability Topics:

Green DAKARA "Supporting a Healthy Future for Children"

Since April 2018, a portion of revenues from sales of *Green DAKARA* brand products has been donated to the Children's Future Support Fund. The money is used for initiatives to promote a healthy future for children under the Children's Future Support National Movement. The Children's Future Support National Movement is a project to provide assistance to children who have grown up in poverty and whose future potential has been limited by a lack of educational opportunities, or whose basic needs are not being adequately met.

Note: The project is administered by the Prime Minister's Office, the Ministry of Education, Culture, Sports, Science and Technology, the Ministry of Health, Labour and Welfare, and the Welfare and Medical Service Agency (WAM).



Suntory Oolong Tea "Reconstruction Support for the Great East Japan Earthquake"

SBF launched the "*Suntory Oolong Tea* Sandwichman Love Tohoku Bottle" in January 2018. Quantities of the product were limited, and it was available only in the Tohoku region. For every bottle sold, SBF donated ¥2 to the Tohoku Spirit Charity*, which is supported by the Sandwichman comedy duo. The Sandwichman duo, who have been fans of *Suntory Oolong Tea* for many years, recently agreed to become *Suntory Oolong Tea* Ambassadors.

* The Sandwichman duo established this charity in 2011 to support victims of the devastation caused by Great East Japan Earthquake. The money is donated to government agencies to assist children orphaned by the disaster in Miyagi, Fukushima, and Iwate Prefectures.





EUROPE

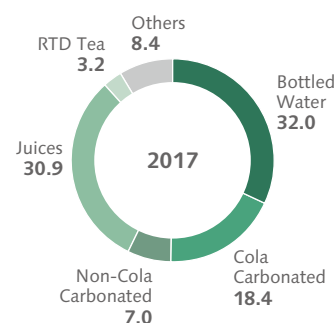


Stanislas De Gramont
CEO
Suntory Beverage & Food Europe

“We will strive for long-term growth by strengthening our existing brands, and continue to make progress on portfolio reform to address the “natural and healthy” consumption trend.”

| (¥ billion) | FY2016 | FY2017 (Change) |
|----------------|--------|-----------------|
| Revenue | 229.4 | 238.9 (4.2%) |
| Segment Profit | 33.6 | 34.6 (2.9%) |

Soft Drink Market Share in France by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

REVIEW OF PERFORMANCE

In Europe, aggressive marketing activities were conducted with a focus on core brands.

In France, we are focusing on products in small-size formats. Sales volumes for the carbonated fruit drink *Orangina* and *Oasis* fruit juice exceeded the previous year's levels. There was also a dramatic increase in sales of the *MayTea*, a premium low-sugar infused ice tea product launched in May 2016.

In the United Kingdom, aggressive marketing activities resulted in strong sales of the sports drink *Lucozade Sport*. However, sales of the energy drink *Lucozade Energy*, which was renewed as a low-sugar product in April 2017, were lower year on year, and there was a struggle in total sales volumes for the *Lucozade* brand. Sales volumes for the fruit juice beverage *Ribena* also decreased year on year.

Our Brands



In Spain, we continued to reinforce on-premise channels (restaurants and bars, etc.). This resulted in steady sales of *Schweppes*, especially tonic water.

Our focus in Africa was the development of business foundation, especially in Nigeria.

Sales revenues in Europe were 4.2% up year on year at ¥238.9 billion, while segment profit increased by 2.9% to ¥34.6 billion.

TOPICS & DEVELOPMENT

MayTea is the result of collaborative development efforts by R&D teams in France and Japan. The perfect match of real infused tea leaves with the delicious pleasure of fruit and herbal notes appeals to health-conscious consumers. *MayTea* has been very popular and has attracted a high percentage of repeat buyers. After just 18 months on the market, it has risen to second place in terms of its share of the RTD tea market in France. We plan to raise the presence of *MayTea* in Europe by taking the product into other markets.

STRATEGIES & FORECAST

Demand for natural and healthy beverages is expanding in Europe, and the introduction of sugar taxes in various countries is likely to accelerate this trend. We are adapting to this change

by transforming our product portfolio.

First, we are enhancing our range of low-sugar, low-calorie products sold under our flagship brands, such as *Lucozade*, *Ribena* and *Orangina*, and *Schweppes*. In addition to our investment in the *MayTea* brand in France, we also launched the product in Spain this year, and are planning for expansion into new markets going forward.

In France, we will continue to strengthen key brands that are selling well, such as *Orangina*. We will also reinforce supply chain management for our products. In the United Kingdom, we strongly work toward low-sugar products including *Lucozade Energy* and increase market penetration for new *Ribena* through expanded marketing activities. In Spain, we aim to expand our on-premise channels for *Schweppes*.

Our performance forecasts for Europe in fiscal 2018 are 6.7% year-on-year growth in revenue. We expect operating income to decline by 1.7% because of forward investment in growth strategies.

Note: Forecast as of February 15, 2018

Sustainability Topics:

Initiatives in the United Kingdom

We collaborated with the Hubbub Foundation and other environmental groups on the “Love Your Forest” campaign for two consecutive years in 2016 and 2017. This campaign took the form of educational activities to help reduce roadside litter. It has been designed to engage different sections of the local community in a collaborative effort to help fight this ever-increasing environmental issue.





ASIA

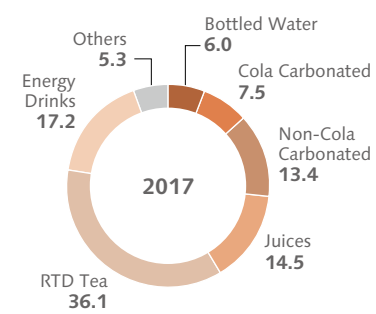


Kazuhiro Saito
CEO
Suntory Beverage & Food Asia

“Suntory Beverage & Food Asia (SBFA) is a growth engine of SBF. We will address the health needs of the Asian market and try to grow both sales and profits.”

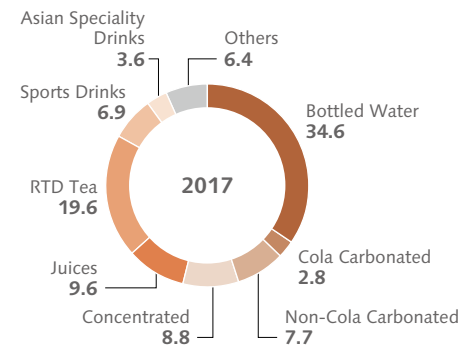
| (¥ billion) | FY2016 | FY2017 (Change) |
|----------------|--------|-----------------|
| Revenue | 164.5 | 177.1 (7.6%) |
| Segment profit | 17.2 | 23.2 (34.5%) |

Soft Drink Market Share in Vietnam by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

Soft Drink Market Share in Indonesia by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

→ Our Brands



TEA+



Sting



Okky



Good Mood



BRAND'S Essence of Chicken

REVIEW OF PERFORMANCE

In addition to our efforts to strengthen core brands, we also enhanced our marketing and distribution structures in Asian countries.

In Vietnam, dynamic marketing activities brought year-on-year growth in sales volumes for the energy drink *Sting* and for the RTD tea *TEA+*.

In Indonesia, we improved distribution capacity, especially in the Java area, and strengthened our sales and distribution structures. These efforts were reflected in strong sales of our mainstay cup jelly drink *Okky*.

In the health supplement business, we revised our distribution structure in Thailand, which is a key market, and improved route-to-market capabilities. These changes resulted in higher sales of *BRAND'S Essence of Chicken*.

Revenue in Asia increased by 7.6% year on year to ¥177.1 billion, while segment profit was higher with 34.5% growth.

TOPICS & DEVELOPMENT

- In Thailand, we launched a new joint venture with PepsiCo in March 2018. We will work to achieve further business growth by combining our portfolio of non-carbonated beverages and our cost reduction know-how with PepsiCo's powerful brands and

distribution infrastructure. We are committed to the expansion of our new beverage business in Thailand as a growth driver for the whole of Asia.

- In May 2017 we relaunched our health supplement business as *BRAND'S SUNTORY* with the aim of further strengthening the *BRAND'S* brand, especially *BRAND'S Essence of Chicken*, while heightening the sense of solidarity and unity within the SBF Group.

STRATEGIES & FORECAST

In our beverage business in Asia, we will accelerate growth strategies focused on needs in individual markets.

In Vietnam, we will respond to a growing preference for health-oriented products by strengthening marketing for the popular *TEA+* brand, as well as for our flagship *Sting* brand. We also aim to achieve sales growth in excess of market growth by expanding shipments in northern and central areas.

In Indonesia, we will continue to focus on *Okky*, but we will also nurture the new *Good Mood* infused water brand, which has sold well since its launch in March 2017.

We will work to expand health supplement sales by further strengthening our flagship *BRAND'S Essence of Chicken* brand. We will also implement marketing campaigns designed to expand the range of situations in which people consume

beverages. Other goals include further strengthening the sales in the e-commerce channel in addition to retail channels, and expansion into emerging markets, such as Myanmar.

We are forecasting major growth in fiscal 2018 in Asia segment, including a 22.3% year-on-year increase in sales revenues, and a 39.8% increase in segment profit.

Note: Forecast as of February 15, 2018

Sustainability Topics:

Initiatives through BRAND'S SUNTORY

BRAND'S SUNTORY contributes to youth education through various initiatives, such as the *BRAND'S Summer Camp* and *BRAND'S Young Blood*.





OCEANIA

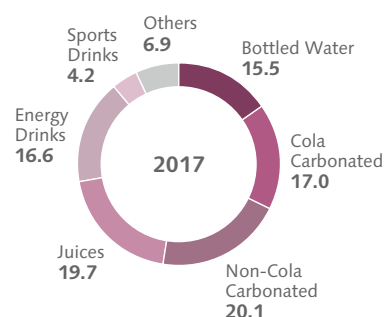


Jonathan Moss
CEO
Frucor Suntory Group

“We at Frucor Suntory, are “Hungry to make drinks better”. This is our purpose, and we will continue to grow by taking on new challenges of accelerating the growth of our low- and no-sugar drinks portfolio.

| (¥ billion) | FY2016 | FY2017 (Change) |
|----------------|--------|-----------------|
| Revenue | 41.2 | 42.8 (3.8%) |
| Segment Profit | 5.8 | 5.0 (-13.8%) |

Soft Drink Market Share in New Zealand by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

REVIEW OF PERFORMANCE

In Oceania, the Group worked to expand sales by conducting aggressive marketing activities surrounding its core brands, while business conditions remained challenging because of escalating competition. We responded by strengthening our marketing activities in New Zealand, including the introduction of new flavors and packaging. These initiatives focused in particular on V brand energy drinks and the *Just Juice* and *Simply Squeezed* fruit juice brands.

In Australia, we further enhanced

→ Our Brands



our product line-up by rolling out new V flavors. We also targeted sales growth by stepping up in-store marketing for *Maximus* sports drinks.

These efforts resulted in year-on-year revenue growth of 3.8%. However segment profit was 13.8% below the previous year's level at ¥5.0 billion because of increased sales promotion expenses in response to intensified competition.

TOPICS & DEVELOPMENT

Kombucha, a tangy, fermented sparkling tea that contains good bacteria and yeast, is becoming increasingly popular in the United States as a health drink that contains lactic acid bacteria,

enzymes, polyphenols, and other elements. The new organic *Amplify* kombucha introduced in the Oceania market by Frucor Suntory in 2018 has a smooth, clean, rounded finish with no vinegary aftertaste. We aim to develop it into a popular brand for consumers.

STRATEGIES & FORECAST

Throughout the year, we will try to achieve revenue growth by strengthening our core brand and healthier product portfolio.

Demand for carbonated beverages is shrinking in Oceania, while the need for health-oriented products is rising. We will respond to this need by focusing on

the growth of our flagship V range of energy drinks, including the expansion of sales of the low-sugar version made from natural ingredients, *V Pure*.

Performance forecasts for the Oceania segment in FY2018 include 3.0% revenue growth and 11.4% growth in segment profit compared with FY2017.

Note: Forecast as of February 15, 2018

Fresh Coffee Business

Following the sale of our food and instant coffee business, in January 2018, we have transferred the fresh coffee business from the Asia segment to the Oceania segment, which is the main market for these products. We have established and strengthened the organizational structures and management infrastructure needed to enable the fresh coffee business to operate independently. Our fresh coffee business encompasses all stages, from the selection, purchase, and roasting of beans, to sales to cafes, fast food outlets, and convenience stores. Going forward, we will use our knowledge and brand strength to achieve further sales growth in Oceania and to expand the business globally.



Sustainability Topics:

Frucor Suntory Initiatives

Frucor Suntory supports voluntary activities by employees, including the provision of annual paid leave to allow employees to contribute to sound community development through voluntary activities. Employees engage in community activities with organizations in Australia and New Zealand.





AMERICAS



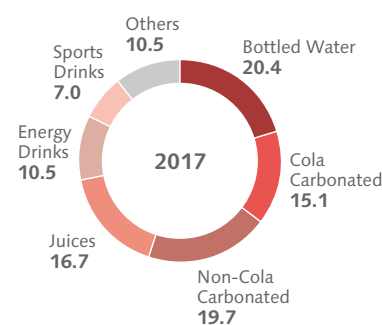
Paul Finney
President and CEO
Pepsi Bottling Ventures



Pepsi Bottling Ventures (PBV) is the largest Independent Bottler in the United States. We offer a wide variety of beverages to satisfy consumers' daily needs while driving overall operational efficiencies.

| (¥ billion) | FY2016 | FY2017 (Change) |
|----------------|--------|-----------------|
| Revenue | 86.2 | 86.0 (-0.2%) |
| Segment Profit | 11.3 | 9.3 (-17.9%) |

Soft Drink Market Share in the United States by Category* (%)



* Source: Euromonitor 2018, Off-trade Value RSP

REVIEW OF PERFORMANCE

In the Americas, the Group strove to further support PepsiCo brand products in North Carolina, while focusing on the growing non-carbonated beverage category, which included water and RTD coffee. On the other hand, earnings were affected by a decrease in sales in the carbonated beverage category as a result of intensified competition and higher raw material costs. As a result of these activities, the Americas business reported revenue of ¥86.0 billion,

→ Our Brands



down 0.2% year on year and segment profit of ¥9.3 billion, down 17.9%.

STRATEGIES & FORECAST

In the Americas, the Group will strive to regain growth in the carbonated beverage category, while also focusing on the expanding non-carbonated beverage category. In addition, in view of the rising health-focus among consumers, the Group will pursue initiatives in relation to investment in new business.

Our efforts to reinvigorate the carbonated beverage category in this market environment included the launch of *Dew Ice*, a clear version of *Mountain Dew*.

Our performance forecasts for fiscal 2018 are 1.1% revenue growth. As in the previous year, we anticipate that segment profit will remain close to the fiscal 2017 level.

Note: Forecast as of February 15, 2018

Sustainability Topics:

PBV Initiatives

Initiatives through PBV center on activities by employee volunteers in cooperation with the U.S. organization Inter-Faith Food Shuttle. Through these activities, we contribute to social welfare activities based on food banks in the United States.



Exploring Business Opportunities

Various changes are occurring in the North American market, including urbanization and demographic changes. Consumer needs are also diversifying due to changes in consumer behavior and an increasing focus on health. Distribution structures and beverage categories are shifting in step with these changes, and we recognize that SBF will need to adapt flexibly. We recently established a new team in the region to create a structure capable of exploring local business opportunities. Going forward, we aim to further develop new business opportunities.

