



Strategy in

Japan

Message from Management



My name is Yukio Okizaki, COO of Japan Business Division.

Sales in Japan were up 10.3% for fiscal 2016, while segment profit rose 17.1%. I am pleased to report that this was a

24th consecutive year of sales growth. This year, our core *Suntory Tennensui* brand surpassed 100 million cases in sales volume, the first of any SBF brands to reach this milestone. Our *Boss* brand delivered year-on-year growth for a 24th consecutive year, owing to marketing efforts for our mainstay 185g can product, as well as significant sales growth in our bottle-shaped can products. Our *Iyemon Tokucha* has been the No. 1 best-selling product beverage in the Foods for Specified Health Uses category for the past three years. In addition to the strong performance of this product, we launched *Tokucha Caffeine Zero* to an enthusiastic response from our consumers.

For fiscal 2017, we forecast sales and segment profit growth of 0.6% and 4.1%. We plan to see further growth by concentrating on our core brands and producing new innovations. The environment surrounding the beverage industry is changing and will continue to change in significant ways. Our job is to see these coming changes quickly and engage in the right activities. In addition to strengthening our core brands, we intend to take on the challenge of creating new demand.

In Japan, we plan to continue to sell products offering unique value as only Suntory can, introducing consumers to beverages that extend beyond the framework of traditional product categories. We will use our knowledge and skills in technology, development, design, and communications to sell products that are uniquely Suntory.

(Note) Forecast as of Feb. 13, 2017

Yukio Okizaki
Chief Operating Officer
Japan Business Division
Suntory Beverage & Food

Promoting Seven Core Brands

The larger portion of our management resources is invested strategically across seven core brands: *Suntory Tennensui*, *Boss*, *Iyemon*, *Suntory Oolong Tea*, *Green DAKARA*, *Pepsi*, and *Orangina*. These brands represent 78% of our total sales volume.

Sales volume: **78%** of total



Pepsi

Suntory has produced and sold *Pepsi* products in Japan since 1998. The *Pepsi* brand message here is *Forever Challenge*, and the brand is popular among a wide range of consumers. The *Pepsi Strong* brand was developed specifically for the Japanese market.



Suntory Oolong Tea

We introduced *Suntory Oolong Tea* to the market in 1981. Since then, it has been a best-seller, loved by consumers as their favorite way to hydrate and as an accompaniment with meals.



Suntory Tennensui

This beverage has been the No.1*1 best-selling product in the mineral water market for 21 consecutive years. Bolstered by the brand value messages of *clear and tasty* and *natural and healthy*, in 2016, *Suntory Tennensui* became the first brand in our beverage business to surpass 100 million cases sold in a year*2.



Boss

Since its introduction in 1992, *Boss* has been known as the coffee of the working people. This popular brand has continued to grow every year, driven by an extensive lineup of products tailored to consumer needs, our iconic TV commercials, and strong consumer marketing campaigns.



Iyemon

Iyemon has a richly delicious flavor, which is achieved by using Japanese tea leaves carefully selected by a master tea blender from the venerable tea company Fukujuen in Kyoto with a long history starting in 1790. As such, it has proved hugely popular since its launch in 2004.



Green DAKARA

Made from natural and familiar ingredients, *Green DAKARA* is a hydration beverage popular across a wide range of consumer segments, from children to adults.



Orangina

Born on France's Mediterranean coast in 1936, *Orangina* has been a long-time favorite sparkling fruit drink. The brand was introduced to Japan in 2012, quickly becoming popular for its refreshing orange flavor and natural bitterness of natural orange peel extract.

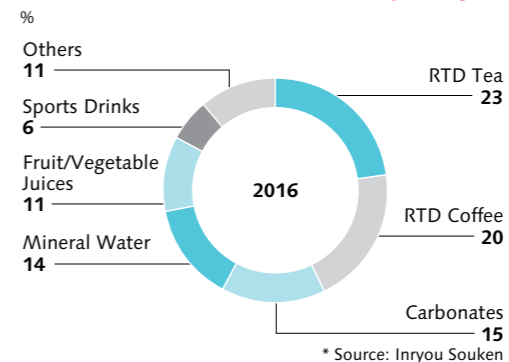
*1 Source: INTAGE SRI survey

Mineral Water Sales Jan 1996 through Dec 2016 (JPY)

[Industry] 1996-2001 SM/CVS/General Liquor Stores/Grocery Stores/Bread and Confectionery Stores Total
2002-2006 SM/CVS/General Liquor Stores/Grocery Stores/Bread and Confectionery Stores Total
2007-2016 SM/CVS/General Liquor Stores/Grocery Stores/Bread and Confectionery Stores Total

*2 100.6 million cases sold in 2016. 106% vs. prior year.

Soft Drink Market Share in Japan by Category*



Our Beverage Business in Japan

We have created and cultivated many innovative brands producing continued growth.

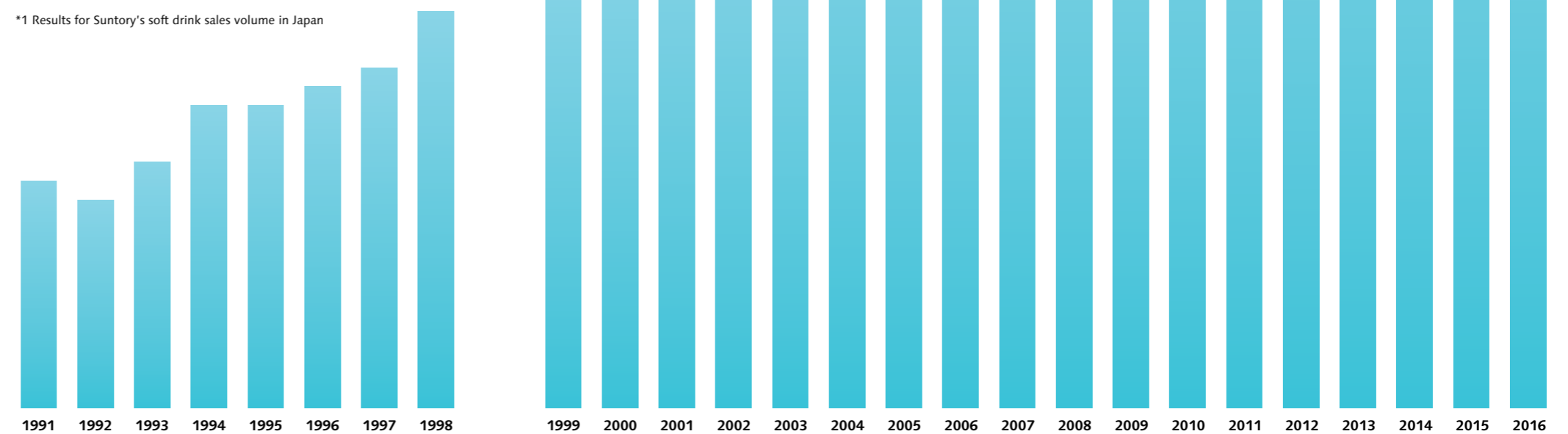
SBF has delivered ongoing growth in Japan's beverage market for more than 20 years. Driving this growth are our core brands, carefully created and nurtured. These brands respond to changing consumer needs and uncover new needs, providing innovative choices across a variety of beverage categories. As we continue to build our brands, we will strive to deliver new value inspired by the needs of the consumer.

CAGR (1996–2016)*2
 Japan 1.2%
 SBF **4.3%**

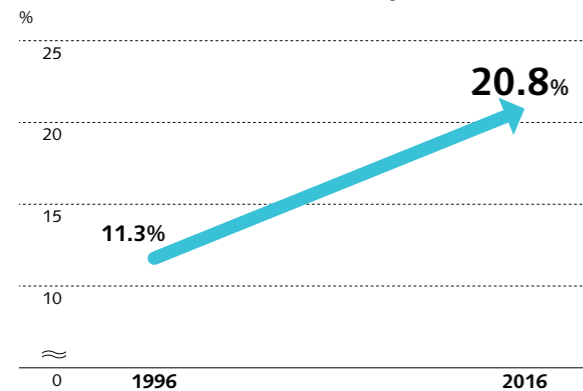
*2 Source: Inryou Souken

Soft Drink Sales Volume in Japan (from 1991)*1

*1 Results for Suntory's soft drink sales volume in Japan



Soft Drink Market Share in Japan**4



*4 Source: Inryou Souken

Major Brands and Year of Launch



Special Feature 1 **Suntory Tennensui**

Suntory Tennensui Continues to Create New Value

Suntory Tennensui is a flagship brand that has continued to grow every year since we first introduced it in 1991. For 21 years, *Suntory Tennensui* has been the No.1*1 best-selling beverage in the mineral water market. In 2016, sales volume of the brand exceeded 100 million cases, a first for one of SBF's brands.

As lifestyles continue to change, the *Suntory Tennensui* brand remains a trusted name, offering the safety, peace of mind, and delicious taste of an all-natural mineral water. In particular, Japanese consumers have become much more interested in personal health. In response, we improved our unique brand values, emphasizing *Clear and Tasty* water that is *Natural and Healthy*. In turn, our diverse consumer base has continued to love and support our brands. But there is more to the story. In 2015, we launched *Suntory Yogurina & Tennensui*, the quickest product to reach 10 million cases in the history of the flavored water market*2. Other value-added extensions from our *Suntory Tennensui* brand include *Suntory Asa-zumi Orange & Tennensui* and *Suntory Minami-Alps Tennensui Sparkling*. In 2017, we launched *Suntory Tennensui PREMIUM MORNING TEA Lemon*, a beverage that is transparent while still offering the depth and aroma of tea and that features a refreshing aftertaste.

At the Suntory Group, we are dedicated to giving the gifts of water and nature to our consumers. We are tireless in conducting proprietary research and other activities related to water and our future. Researching both water found in nature and the water cycling through our bodies, Suntory's Institute for Water Science performs comprehensive research and education related to this precious resource. Our *Natural Water Sanctuary* project works with universities and other special entities at 19 locations (over 9,000 hectares in total) to conserve forests that preserve and protect water. Our *Suntory Mizuiku* environmental education program teaches about the importance of nature to a new generation of youth in Japan. Our packaging also reflects our dedication to preserving the environment. *Suntory Tennensui* (550ml) features the lightest cap in Japan*3, made from 30% plant-derived materials. In this way, and in many others, we continue to reduce our environmental footprint in bottles, labels, and other packaging. Through these activities and more, *Suntory Tennensui* will continue to market clear and tasty water from carefully selected sources, and offer new products with new value to our consumers.



*1 Source: INTAGE SRI survey
Mineral Water Sales Jan 1996 through Dec 2016 (JPY)
[Industry] 1996-2001 SM/CVS/General Liquor Stores/
Grocery Stores/Bread and Confectionery Stores Total
2002-2006 SM/CVS/General Liquor Stores/Grocery Stores/
Bread and Confectionery Stores Total
2007-2016 SM/CVS/General Liquor Stores/Grocery Stores/
Bread and Confectionery Stores Total

*2 Source: Internal survey

*3 Source: Internal survey as of March 2017

Special Feature 2 **Food for Specified Health Uses**

Iyemon Tokucha Leads the Market

First introduced in October 2013, Suntory green tea *Iyemon Tokucha* has been the No.1 best-selling beverage in the Food for Specified Health Uses (FOSHU) category in Japan for three consecutive years.

How has *Iyemon Tokucha* become such a success story? Most FOSHU drinks prevent the body from absorbing fat when consumed with meals. *Iyemon Tokucha*, on the other hand, is the first FOSHU drink that focused on the underlying mechanisms for breaking down body fat. *Iyemon Tokucha* works on fat already stored in the body. It's a beverage you can drink anywhere and anytime; with meals, at work, at the gym. On the other hand, *Iyemon Tokucha* is so delicious, it's easy to drink every day. We have spent years conducting research into polyphenols. During the course of this work, we discovered quercetin glycoside, a polyphenol found in abundance in onions, broccoli, apples, and other fruits and vegetables. This particular polyphenol functions to help reduce body fat. But, we wanted to do more than just create a functional beverage to reduce body fat. We wanted to create a FOSHU beverage that people would love and would want to drink every day. After seven years of trial and error, our research finally resulted in *Iyemon Tokucha*, a tea featuring a blend of quercetin glycoside. A delicious, functional beverage. Our aggressive marketing campaigns and sales efforts highlighted these benefits, resulting in more than 10 million cases sold in just 11 months after launch.

After noting the ongoing growth of blend tea and barley tea (non-caffeinated) markets in Japan, we introduced *Suntory Tokucha Caffeine Zero* in August 2016. This new product kept all of the *Iyemon Tokucha* fat-reducing benefits, while providing a more delicate taste profile. Consumers worried about drinking caffeine late in the day have no worries with this non-caffeinated beverage. This benefit was one key in making *Suntory Tokucha Caffeine Zero* such a strong seller.

Our efforts have led to the *Tokucha* brand becoming the No.1 best-selling FOSHU beverage in Japan for three years running. For fiscal 2016, the *Tokucha* brand experienced 17% growth (16.8 million cases) compared to the prior year. Look for more high-value, high-function products from Suntory that anticipate consumer needs.



Our FOSHU Drink Lineup



Besides our *Tokucha* brand of tea, we are hard at work developing other FOSHU beverages offering a wide range of health benefits. Our results are represented by products including *Suntory Black Oolong Tea* (based on research indicating polymerized polyphenols unique to oolong tea limit fat absorption), *Suntory Goma Mugicha* (for consumers concerned with the onset of high blood pressure), and *Pepsi Special* (restricts the absorption of fat). Suntory helps people live healthier lifestyles through our extensive lineup of beverages that taste good and do good for human health.