

# Strategy in 2014

## Japan

### SUMMARY

- Further Strengthening the Seven Core Brands
- Creating New Demand with FOSHU Drinks and Other High Value-Added Products
- Promoting Reductions in Manufacturing and Distribution Costs



In 2013, the overall market in Japan was estimated to have grown 3% year on year, boosted by an extremely hot summer and other factors. In this environment, SBF outgrew the market, with sales increasing strongly at 6% year on year for the 21st consecutive year of sales increases\*. In 2014, we continue to reinforce the initiatives we have taken to date, such as strengthening our core brands and reducing costs. Our aim is to build an even stronger business structure for achieving further profit growth. We are targeting an increase of 3.2% in sales to ¥740.0 billion, and an increase of 5.7% in segment profit to ¥48.0 billion. We believe that the market changes due to the April consumption tax hike and the effects of "Abenomics" represent major opportunities for SBF with its strong brands and fast-acting management style.

Our major theme for ensuring growth is fostering and reinforcing our core brands. The beverage market in Japan is expected to be almost flat in 2014 compared to the previous year due in part to the impact of the consumption tax hike; however, with our strengths in branding capabilities we are planning to increase sales volume by 3%. Once again in 2014, we are concentrating our management resources on our seven core brands: *Suntory Tennensui*, *BOSS*, *Iyemon*, *Pepsi*, *Suntory Oolong Tea*, *GREEN DAKARA*, and *Orangina*. Competition is intense in the Japanese market, and we believe that only brands ranking in the top two within each category will survive. *Suntory Tennensui*, *BOSS*, *Iyemon*, *Pepsi* and *Suntory Oolong Tea* each

rank at either No. 1 or No. 2 within their respective categories, and we now plan to strengthen their positions and increase sales volumes for the seven core brands by 7% compared to the previous fiscal year.

Another theme is creating new demand. We will develop new markets and grow by proposing products with new value that win customers' approval. In addition to insisting on delicious taste, we focus on proposing products that accurately capture customers' needs. A case in point is Food for Specified Health Uses (FOSHU). In addition to *Suntory Black Oolong Tea* and *Goma Mugicha*, we introduced *Pepsi Special* in 2012, *Iyemon Tokucha* in 2013, and *BOSS GREEN* in 2014. The FOSHU drinks market is expanding rapidly in scale driven by rising health awareness among consumers.

To increase our profits, we are not only working to grow our top line, but also to reduce costs. We are promoting measures to achieve cost reductions to overcome cost-push factors such as the yen's depreciation and rising oil prices and create a lean earnings structure. For example, in packaging we will expand our technology for reducing the weight of PET bottles and making ultra-thin labels to more product categories. In manufacturing, we are continuously working to improve manufacturing efficiency and cut distribution costs by concentrating on core brands. In raw materials, we continue to expand our global procurement activities.

\* Suntory's performance for soft drink sales volume in Japan  
 Figures for 2014 are based on forecasts as of February 14, 2014

### 2014 FORECAST (JAPAN)

|                       |                      |
|-----------------------|----------------------|
| Sales                 | Segment profit       |
| ¥740.0 bil. +3.2% YoY | ¥48.0 bil. +5.7% YoY |

## [ Seven Core Brands ]

Sales volume: 75% of total, +7% YoY (Forecast\*)

We are concentrating our management resources on the following seven core brands: *Suntory Tennensui*, *BOSS*, *Iyemon*, *Pepsi*, *Suntory Oolong Tea*, *GREEN DAKARA* and *Orangina*. We plan to grow the sales volume of these seven brands by 7% in 2014 and expect their composition of overall sales volume to reach 75%.

\*Forecast as of February 14, 2014

### [ Leveraging the *Suntory Tennensui* Brand ]

The *Suntory Tennensui* brand holds the No. 1\* position in the mineral water market. In 2013, we launched a sparkling water under this brand, followed in 2014 by the launch of flavored water. We will continue to leverage our strong brand and expand our product lines to drive further growth in the *Suntory Tennensui* series.

\* INTAGE MBI data; mineral water market; sales of *Suntory Tennensui* for Jan.–Dec. 2013 (SM-CVS-DRUG total)

### [ Creating New Demand with FOSHU Drinks ]

*Iyemon Tokucha* was the first FOSHU drink to draw attention to the mechanism of breaking down fats. The product contains a polyphenol called quercetin glycoside that helps to reduce body fat. *BOSS GREEN* not only helps to block the absorption of fat from food, but also offers delicious refreshment as a low-sugar canned RTD coffee thanks to SBF's product development capabilities, which have been refined over many years.

# Strategy in 2014

## Overseas Segment

### SUMMARY

- Advance to a new growth stage led by business in Europe with the acquisitions of *Lucozade* and *Ribena*, and in Asia, where the market is growing.

The global beverage market is expanding overall, but is expected to contract in some countries. Meanwhile, global competition has become even more intense.

During fiscal 2013, SBF positioned each of Europe, Oceania, Asia and the Americas as markets with growth potential and worked to expand its business and increase profitability by strengthening existing brands and launching Suntory brands. As a result, we achieved increases in both sales and segment profit. In fiscal 2014, we are continuing to concentrate on strengthening the core brands in each area and to expand our business scale by launching Suntory brands. At the same time, we are constructing a new global management structure to speed up group synergy creation and profitability improvement. For the overseas segment, we are planning to achieve sales of ¥520.0 billion and segment profit of ¥60.5 billion.

### 2014 FORECAST\* (OVERSEAS)

Sales

¥520.0 bil. +28.6% YoY

Segment profit

¥60.5 bil. +19.7% YoY \*Forecast as of February 14, 2014

## Europe



### Initiatives in Europe

In Europe, although there are signs of recovery, the economic environment is expected to continue to be tough. In these circumstances, the Group has launched Suntory Beverage & Food Europe Limited and given it the role of managing the European business, which is comprised of the Orangina Schweppes Group and Lucozade Ribena Suntory Limited. As the managing company, Suntory Beverage & Food Europe Limited are pursuing to accelerate business growth through the formulation and execution of comprehensive strategies. At the Orangina Schweppes Group, marketing investment is concentrated on key products such as *Orangina* and *Schweppes*, while efforts are made to further strengthen the business foundation and boost profitability. At Lucozade Ribena Suntory Limited, new sales channels for *Lucozade* and *Ribena* will be explored not only in Europe, but also in such emerging markets as South-east Asia, Africa and the Middle East.

We are also promoting cost reductions by leveraging expertise from our Japanese operations to reduce manufacturing and distribution costs, as well as to move forward with a better aligned and structured business processes.

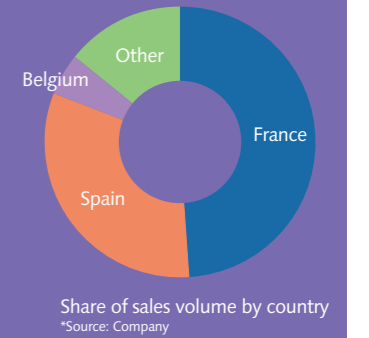


The prominent soft drink company in both the French and Spanish beverage markets, the Orangina Schweppes Group's offerings include *Orangina* and *Schweppes*. The company manufactures and sells beverages in-house, and also manufactures and exports concentrates as part of its wide-ranging business centered on Europe.

*Orangina* A semi-carbonated orange fruit drink marketed in more than 40 countries around the world.

*Schweppes* A carbonated soft drink available in a multitude of flavors.

### Orangina Schweppes Group



### Lucozade

Launched in 1927.

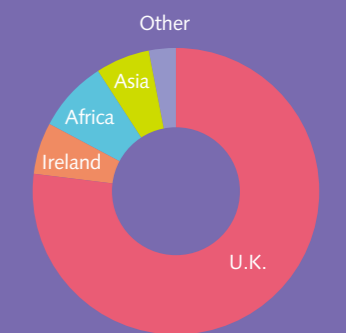
*Lucozade* is a long-selling energy sports drink with an 80-year history. It has a strong international presence centered on the U.K.

### Ribena

Launched in 1938.

A fruit juice that is most popularly known for its blackcurrant (cassis) flavor. *Ribena* has an expansive lineup of products including RTD beverages, as well as a concentrate and a low-calorie version.

### Lucozade Ribena Suntory Limited



# Strategy in 2014



## Asia

### Initiatives in Asia

Although Asia is subject to concerns about the economic impacts of exchange rates and other factors, in countries with continuing economic growth, we are working to strengthen our business foundation and realize business expansion by such means as new product launches. With respect to the Cerebos Group, the value of the flagship *BRAND'S* health food products are being emphasized and the Group's position in Southeast Asia will be strengthened further.

At Suntory Garuda Group and Suntory PepsiCo Vietnam Beverage Co., Ltd., further efforts will be made to foster Suntory brands and launch new products in addition to existing flagship brands with the aim of achieving business expansion in excess of the market's overall growth. In addition, having achieved a certain scale of sales in each of Thailand, Indonesia and Vietnam, it is now possible to undertake activities to improve costs across these countries, including in-house production of packaging and joint purchasing. In this way, we will promote activities to improve cost efficiencies throughout Asia.

Moreover, since these markets are subject to rapid changes and intense competition, we will respond by strengthening local authority and responsibility to further expedite decision making and activity cycles.



In 1990, Suntory acquired the management rights for Cerebos Pacific Limited (headquartered in Singapore), a general foods company with a strong network throughout Southeast Asia and Oceania. The company operates a health food business, mainly in Thailand, Taiwan, Hong Kong, China, Malaysia, and Singapore, with the products *Essence of Chicken* and *Bird's Nest*, sold under the flagship brand *BRAND'S*. Cerebos Pacific will concentrate on *BRAND'S* to consolidate its position in Southeast Asia.

### SUNTORY GARUDA

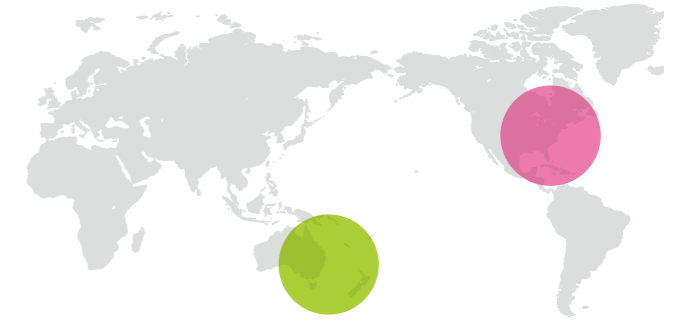


PT SUNTORY GARUDA BEVERAGE (headquartered in Jakarta, Indonesia) was established in 2011 as a joint venture with Indonesian food and beverage group GarudaFood Group. In addition to the jelly drink *Okky*, SBF has launched *Mirai*, the first Suntory branded green tea in Indonesia, along with *MYTEA Oolong Tea*. PT SUNTORY GARUDA BEVERAGE will expand its business scale by continuing to strengthen the Garuda brand and launching Suntory branded products.

### SUNTORY PEPSICO



Suntory PepsiCo Vietnam Beverage Co., Ltd. (headquartered in Ho Chi Minh, Vietnam) has been manufacturing and selling soft drinks in Vietnam since 2013. The company's offerings include *Pepsi* brand carbonated beverages *Pepsi* and *7UP*, the energy drink *Sting*, along with Suntory branded *TEA+ Oolong Tea*.



## Oceania

### Initiatives in Oceania

In Oceania, although competition is expected to intensify further, *V* is being reinforced at the Frucor Group as the leading brand in the energy drink category and aggressive steps will be taken to expand the brand portfolio and launch new products outside the energy drink category, as well as implement cost reductions.



In 2009, SBF acquired the Frucor Group, which runs a soft drink business, mainly in Oceania. In addition to its flagship energy drink product, *V*, the group has a strength in its *Just Juice* line of fruit juice products. Going forward, we will reinforce Frucor Group's position as the leader in the energy drink category in Oceania. With bottling operations for *Pepsi* brand beverages in New Zealand, the group is also growing in the carbonates category.

## Americas

### Initiatives in the Americas

In the Americas, we reorganized the geographical areas in which Pepsi Bottling Ventures LLC operates in fiscal 2013 and worked to streamline its management. In fiscal 2014, we will strengthen sales of our core products and also focus our efforts on the non-carbonated category, which is expected to see market growth. Furthermore, we continue to strengthen our business foundation following the business area reorganization by working to achieve further business efficiency improvements, primarily in sales and logistics.



In 1980, the Suntory Group acquired PepCom Industries, Inc. and commenced bottling business in the U.S. In 1999, the group established Pepsi Bottling Ventures LLC (headquartered in Raleigh, North Carolina) as a joint venture with PepsiCo, Inc. and expanded the geographical area of the business, mainly in North Carolina, by acquiring neighboring bottlers.