

Segment Activities

JAPAN



Josuke Kimura
Division CEO
Japan Business Division

木村 義介

TOP MESSAGE

I began working in the beverage business almost 30 years ago in 1992. There have been many dramatic changes in the market since then, including the explosive growth of small PET bottle products, a rapid increase in sales of non-sugar and health category products, and rising environmental awareness.

Throughout this period, those at SBF have always considered their customers' perspectives and spent years developing long-selling products and expanding the portfolio by offering beverages that provide new value.

We have also continued to respond to consumer needs 24/7 through our vending machine business. Our 670,000 vending machines provide immediate access to our products wherever people live and work, including communities and offices.

We will continue to take up the challenge of using new ideas and technologies to create added value that exceeds customer expectations. We will also continue to support the growth of SBF as one of Japan's leading integrated beverage manufacturers.

Overview of 2018

Sales volumes increased year on year as a result of efforts to strengthen core brands, especially in the water, coffee, and sugar-free tea categories, while also generating new demand by offering products with new value.

Our core brands performed well, especially in the water and coffee categories. For example, *Suntory Tennensui* became the No. 1 brand*1 in the domestic soft drink market in terms of sales volume, while *BOSS* achieved yearly sales of 100 million cases for the first time since its launch.

Profit was lower year on year because of increased supply chain costs, adverse product mix, and other factors. However, we will continue our efforts to improve profitability through medium-term structural reform.

*1 Source: Japan beverage research institutes Inryou Souken

Key Measures for 2019

Consumer trends affecting the beverage industry are expected to accelerate. In addition to work style and lifestyle changes driven by new technologies, values are also changing, and consumers are becoming more health conscious. Other factors that are likely to impact the business environment include abnormal weather, escalating price competition, and fluctuations in raw material and logistics costs. We will respond to these challenges through medium-term structural reform designed to improve our profitability.

First, we will work to establish a high added-value and profitability business model. Our priorities are the recovery and expansion of sales of high-margin products, such as the *Iyemon Tokucha* (FOSHU) range, and accelerated innovation, including in product and container development, and the creation of additional consumer contact points.

Second, we will restructure our supply chain management. In addition to the expansion of our production capacity, we will increase the use of technology such as AI to create reliable product supply structures.

Third, we will reform our vending machine business structure. Our marketing activities in 2019 will again focus primarily on *Suntory Tennensui*, *BOSS*, and the sugar-free tea category.

PRODUCT HIGHLIGHT

Tokucha Ranked First in the FOSHU Tea Drink Market for the Fifth Straight Year*

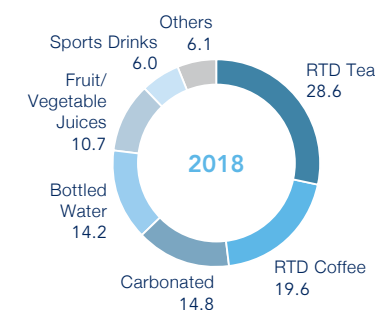
We launched the *Iyemon* brand FOSHU (a Food for Specified Health Uses) tea, *Suntory Green Tea Iyemon Tokucha*, in October 2013, as a product that could help with the reduction of body fat.

By targeting mechanisms that assist in the breakdown of body fat, *Tokucha's* innovative health benefits led to the expansion of the FOSHU tea market. The brand's popularity also reflects its excellent flavor, which combines the rich, sweet fragrance of tea with just the right touch of bitterness. *Tokucha* is the perfect accompaniment to meals, with a flavor that could be enjoyed every day without tiring of it.

In 2018, we adopted a marketing strategy focusing on support for lifestyle improvement. We will continue to develop this FOSHU brand to closely match consumer health needs.

*3 INTAGE SRI research: sales of *Iyemon Tokucha* in the FOSHU tea drink market, January 2014–December 2018 (total for supermarkets, convenience stores, and drug stores)

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



*2 Source: Japan beverage research institute Inryou Souken



OUR BRANDS



History of Japan Business

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.

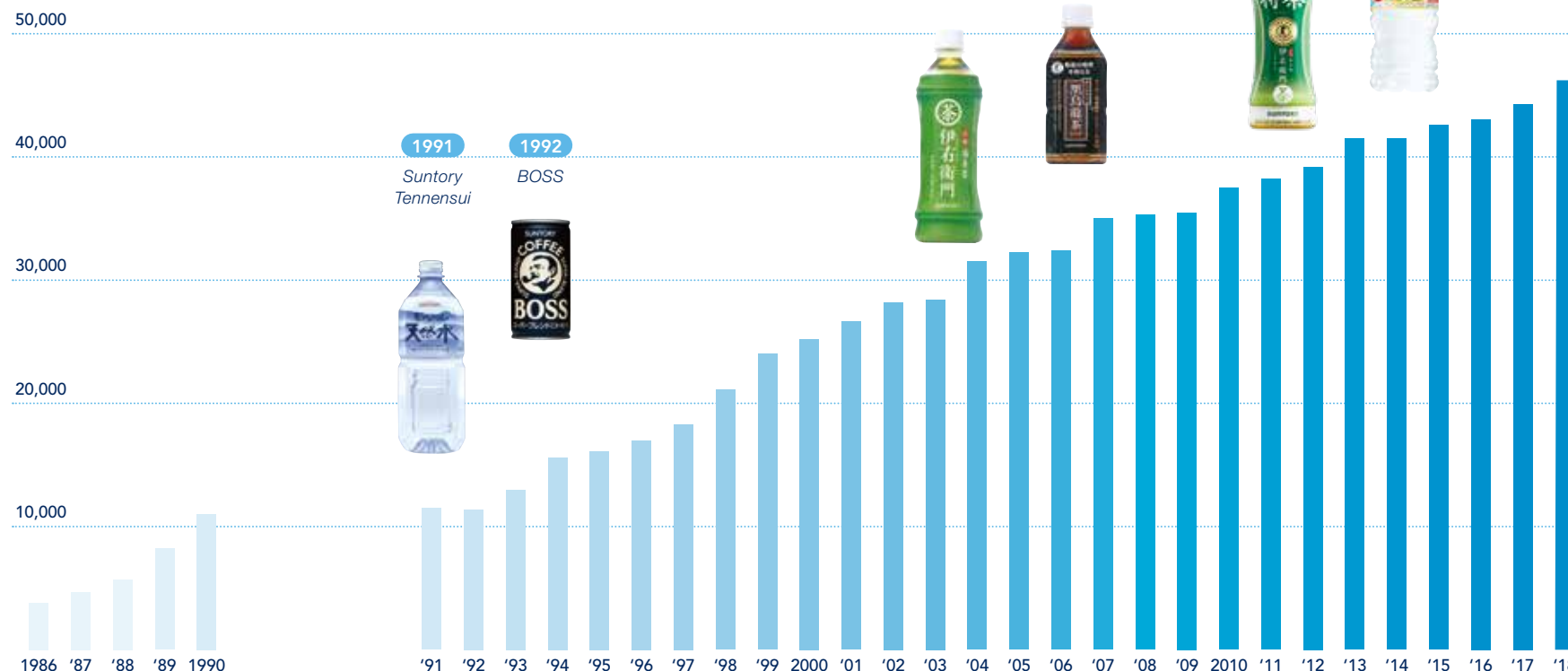
1998 – 2018
Sales Volume Compound Annual Growth Rate (CAGR*)



*Source: Internal data

Suntory's Soft Drink Sales Volume in Japan

(10 thousand cases)



Two Major Brands that are Widely Popular

1

Suntory Tennensui Attains Highest Sales Volume in the Japanese Soft Drink Market in 2018



The *Suntory Tennensui* brand has continued to grow ever since its launch in 1991. Consumer support can be attributed to the care taken over water sources, the fresh, clean taste, and product safety and dependability based on our total commitment to quality control. Over the past few years, we have created new market areas by introducing products with high added value, such as *Yogurina & Suntory Tennensui* flavored water, which has a delicious yogurt flavor despite remaining

clear, and the *Suntory Minami-Alps Tennensui* series of strongly carbonated mineral water drinks.

These innovations helped *Suntory Tennensui* to become the top brand of 2018 in the Japanese soft drink market in terms of sales volumes.

*Source: Japan beverage research institutes Inryou Souken

2

Yearly BOSS Sales Exceed 100 Million Cases



First launched in 1992, *BOSS* coffee has become a long-selling brand enjoyed by people across a wide range of occupations and age groups as the "coffee of working people."

We have expanded the range to meet a variety of consumer preferences and needs. For frequent coffee drinkers who enjoy a quick coffee break to invigorate them during work, the *BOSS* range includes canned products, such as *BOSS Rainbow Mountain Blend*, while PET bottle versions with caps, such as

Craft BOSS, are ideal for sipping while working at an office desk. The *Craft BOSS* series has been especially popular with young women, who had a lower affinity for canned coffee.

In addition to the expansion of the *BOSS* brand to accommodate a wide range of consumer needs, we have also promoted the products through innovative and TV commercials and consumer campaigns. As a result of these strategies, yearly sales in 2018 exceeded 100 million cases for the first time.

EUROPE



Peter Harding
CEO
Sunbory Beverage & Food Europe

Peter Harding

TOP MESSAGE

I joined Sunbory in 2014 to lead the integration of Lucozade, Ribena, and SBF. In 2018, I moved to the role of CEO for Sunbory Beverage & Food Europe (SBFE). Europe is a mature market for soft drinks but is now undergoing structural changes that offer many new opportunities. Consumers are rapidly moving to healthy, natural, low-sugar drinks and expecting a more sustainable environmental footprint, particularly on PET. SBFE has successfully launched new healthier propositions such as *MayTea* and reformulated core brands like *Lucozade* to create low-sugar options. Our opportunity is now to come together as One Sunbory to accelerate our innovation on healthy drinks and sustainable packaging formats.

Overview of 2018

Aggressive investment in marketing, especially for core brands and the premium, low-sugar iced tea *MayTea* resulted in sales performing well. However, adverse weather conditions in Spain caused a downturn in the on-premise market, with resulting sales revenue similar to the previous year's level.

In France, there were year-on-year increases in sales volumes for the carbonated fruit drink *Orangina* and the fruit juice *Oasis*. *MayTea* sales were also strong.

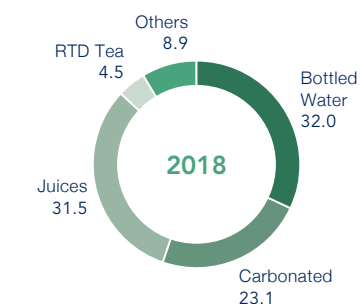
In the UK, *Lucozade Energy* started to recover its sales trend.

Segment profit declined due to supply chain cost increases in France and the sales decline in Spain, as well as one-off impairment losses.

Key Measures for 2019

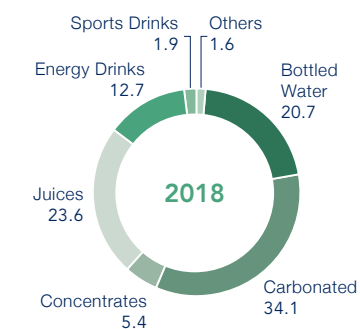
We anticipate continuing expansion of the demand for natural and healthy drinks in the European market. We will respond to this trend by strengthening our core brands, and by implementing structural reforms designed to enhance our systems in such areas as sales and supply chain management. Our focus in France will be further reinforcement of core brands, such as *Orangina*, *Oasis*, and the low-sugar product *MayTea*. We will also target supply chain improvements. In the UK, we will further expand our marketing efforts, especially for the flagship *Lucozade* brand. In Spain, we will step up our marketing activities for *Schweppes* products, which are mainly sold via commercial channels, with the aim of halting a downward sales trend.

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



*Source: Euromonitor 2019, Off-trade Value RSP

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



*Source: Euromonitor 2019, Off-trade Value RSP

PRODUCT HIGHLIGHT



MayTea — Pursuing Flavors Local Customers Love through Japanese Beverage Technology

MayTea was first launched in France in 2016 as a premium, low-sugar iced tea available in a wide variety of flavors. We created the product line by combining highly developed Japanese infusion technology with a deep knowledge of water—the product's base—while also exploring flavors that appeal to local consumers. In 2018, we achieved the second biggest share of the French RTD tea market and we will continue to develop the *MayTea* brand.



OUR BRANDS



ASIA



Shekhar Mundlay
CEO
Suntory Beverage & Food Asia



TOP MESSAGE

I have more than 32 years of work experience, out of which over 27 years are in the beverage industry across various functions in emerging markets. Since 2016, I have been managing the Asia Beverage business. Our new region is broad and very diverse. Most countries in our region are emerging or developing markets and hence provide significant opportunity for growth across both the health supplement and beverage portfolio.

Our focus in 2019 and beyond is to be the growth engine for SBF both in revenue and profits. We will focus on our own Suntory low-sugar, premium portfolio to leverage the changing consumer trends in the beverage industry toward such offerings. We will apply our emerging market learning and experience to new areas to establish a sustainable growth model there.

Overview of 2018

We took steps to expand sales of core products in key regions, and we achieved substantial growth in both soft drink sales and profit. This was partly attributable to the launch of Suntory PepsiCo Beverage (Thailand), our joint venture with PepsiCo, Inc., which made good progress after the start-up of its business operations in March 2018.

Our business in Vietnam continued to grow, with sales of the ready-to-drink (RTD) tea *TEA+* exceeding 10 million cases*. Sales of the bottled water *Aquafina*, carbonated drinks, and other products also expanded. In Indonesia, we recorded strong sales of the cup jelly drink *Okky*.

We expanded our marketing efforts for the health supplement business. Our priority was to achieve a recovery in sales of *BRAND'S Essence of Chicken*, especially in Thailand, which is a key market for this product.

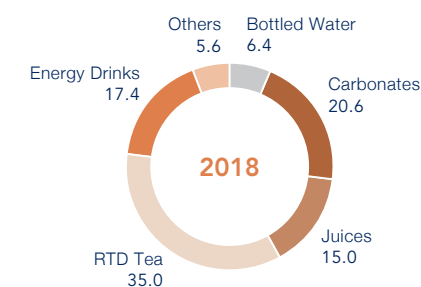
*This figure is based on 24-bottle cases. The local count was over 20 million cases.

Key Measures for 2019

We anticipate continuing growth in Asian markets. Our priority in Vietnam will be the expansion of sales of core products, such as the energy drink *Sting* and the RTD tea drink *TEA+*. In Thailand, we will strengthen our core brands, further improve production efficiency, and enhance our range of low-sugar products, including *goodmood*. In Indonesia, we will target growth in sales of *Okky* cup drinks.

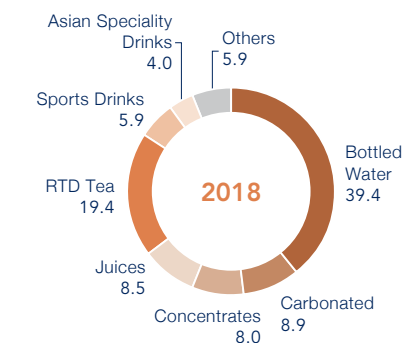
In the health supplement category, we will work toward recovering sales through aggressive marketing of *BRAND'S Essence of Chicken*. We will also step up our efforts in growing markets, such as Myanmar.

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



*Source: Euromonitor 2019, Off-trade Value RSP

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



*Source: Euromonitor 2019, Off-trade Value RSP

PRODUCT HIGHLIGHT



TEA+—Using Oolong Tea Technology to Respond to a Growing Focus on Health

TEA+ was first launched in Vietnam in 2013 as a Suntory brand product. It was created using technology refined in Japan over many years through the development of *Suntory Oolong Tea*. TEA+ offers a unique flavor that reflects the preferences of local consumers. Sales have expanded in step with the growing focus on health and TEA+ *Oolong Lemon* has been especially popular in northern Vietnam.



OUR BRANDS



TEA+



Sting



Okky



goodmood



BRAND'S Essence of Chicken

OCEANIA



Jonathan Moss
CEO
Frucor Suntory Group

Jonathan Moss

TOP MESSAGE

“Hungry to make drinks better” is our purpose and it shapes everything we do as a team. We are passionate about bringing our purpose to life. We are making a better range of low- and non-sugar beverages. We are pursuing better sustainability, with an ambitious range of initiatives, including the use of recycled PET plastic packaging and a focus on reducing our use of water and energy. Our *V Energy* portfolio also continues to get better with new and exciting flavors and our all-natural product, *V Pure*.

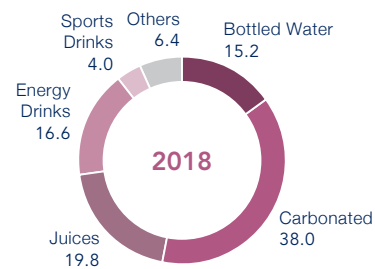
Overview of 2018 and Key Measures for 2019

Our results for 2018 were impacted by sharply higher raw material costs and other factors. However, sales were roughly equal to the previous year's level on a currency-neutral basis, while profit was higher. We continued to strengthen our core brands. In addition to strong sales of our *V* range of energy drinks, we also launched the fermented tea (kombucha) product *Amplify*.

Our priority for the fresh coffee business, which was transferred to the Oceania segment in 2018, was to strengthen our core brands, including *Toby's Estate*, *L'Affare*, and *Mocopan*.

We anticipate steady market growth in 2019. In the soft drink category, we will continue to focus on our core brands, such as the *V* range of energy drinks, and *Maximus* sports drinks. We will also continue to strengthen brands in the fresh coffee segment.

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



*Source: Euromonitor 2019, Off-trade Value RSP

OUR BRANDS



V Energy *Maximus* *Just Juice* *Toby's Estate*

AMERICAS



Paul Finney
President and CEO
Pepsi Bottling Ventures

Paul Finney

TOP MESSAGE

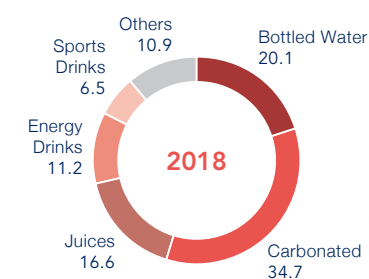
We are a Pepsi bottler who does the majority of our business along the East Coast of the United States. We sell a broad range of drinks including carbonated soft drinks, coffee, tea, and water. In 2019, we will execute our plan and achieve our profit targets as we launch new innovative products from Pepsi and our own products, including *Nature's Twist*. *Yatte Minahare!*

Overview of 2018 and Key Measures for 2019

Our core carbonated drink brands continued to struggle in 2018, but there were signs of recovery, and sales matched the previous year's level on a currency-neutral basis. However, performance was impacted by sharply higher costs for raw materials, labor, and other factors, with the resulting profit lower year on year.

In 2019, we will focus our efforts toward a recovery in the carbonated drink category and the achievement of further expansion in the growing non-carbonated drink category. We will also continue our efforts to reduce costs.

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



*Source: Euromonitor 2019, Off-trade Value RSP

OUR BRANDS



Pepsi *Mountain Dew* *Nature's Twist* *Aquafina*

FEATURE: JAPAN

01

Providing Drinks to Meet Needs in a Variety of Locations

Vending machines are a unique sales channel in Japan. SBF has advantages due to a highly diverse product line-up and a large number of vending machines in offices and other prime locations. We focus on providing a fine-tuned response to consumer needs through this channel.

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.

The TAKU-BEN™ boxed lunch delivery service launched in 2018 allows people working in offices and factories to order lunches through nearby Suntory vending machines. This service is helping to expand meal choices for busy working people, while also enhancing the workplace environment. Customers place orders in the morning through a vending machine in their workplace and the service delivers hot, boxed lunches to the office at noon. In addition to allowing more effective use of their time, the service provides workers with access to freshly cooked meals so adoption of the service has been expanding.

We are also improving our ability to supply beverages to meet a variety of needs. For example, our water service business allows people to enjoy *Suntory Tennensui* from a cooler or dispenser at any time and in a variety of locations, such as homes and offices.



Water dispensers

Cup vending machines

FEATURE: COFFEE

02



SUNTORY COFFEE

SUNTORY COFFEE INTERNATIONAL

Providing for a Rich Coffee Cultures

As a pioneering coffee roastery, Suntory Coffee in Australia supplies products and services for a rich coffee culture, starting with the development and roasting of uniquely flavorful coffee beans. In 2018, our assistance with the launch of a new McCafé brand resulted in selection as McDonald's "2018 supplier of the year."

We will continue to expand our coffee business through innovative coffee-related projects in the future.



JAPAN

New Coffee Bean Roastery to Meet Diverse Needs

In 2018, we opened Suntory Coffee Roastery Ltd.'s new Ebina Plant in Japan. In recent years, the coffee market has seen an expansion and diversification in drinking styles. In addition to consumers purchasing canned coffee, cafés have grown in popularity, convenience stores sell take-out coffee, and many people enjoy brewing coffee at home.

This new plant will further expand Suntory's production capacity while allowing us to produce roasted beans with flavors that can meet various consumer preferences.

Our coffee beverage business, including the BOSS brand, will continue to evolve in the future.

03

