[Review of 2015]

In the overall Japanese soft drink industry in 2015, while the first half of the year remained stagnant due to the impact of the tax rate hike during the previous year, the second half is expected to be largely unchanged from the previous year due to particularly favorable weather in the autumn and beyond.

Meanwhile, Suntory Beverage & Food Limited (SBF) outperformed the market by posting a 3% year-on-year growth in sales volume owing to the nurturing and strengthening of core brands and the cultivation of new demand. This reflects the SBF concept of proposing distinctive, high-quality products that satisfy the preferences and needs of consumers to deliver products that offer an abundant richness to the lives of consumers.

Among its brands, the company is positioning Suntory Tennensui (Mineral Water) as a key brand of its business in Japan, conducting aggressive marketing activities and the development of new categories. In addition to favorable sales of existing products, Suntory Minami-Alps Tennensui & Yogurina launched in April became a hit product that sold over 8.7 million cases. Overall brand sales volume increased by 11.8 million cases (up 14%) compared to the previous year to exceed 90 million cases (94.8 million cases).

The same held true for the BOSS brand. Despite estimates that sales in the canned coffee market would be largely unchanged from the previous year, overall sales volume for BOSS brand canned coffees increased by 3.6 million cases (up 4%) compared to the previous year to reach 91.7 million cases owing to aggressive marketing carried out throughout the year. In addition to solid sales of mainstay Boss products, the Premium Boss brand achieved very favorable sales for Premium Boss Black and Premium Boss Bito in the rapidly growing bottle-shaped canned coffee market.

Iyemon Tokucha, a FOSHU (food for specified health uses) drink product, received the support of many consumers given that it offers value both in the form
of good flavor and health functions. Only in its third year on the market, demand for *Iyemon Tokucha* has grown extensively, exceeding sales of 14 million cases a year. Sales of *Suntory Black Oolong Tea*, which was renewed and released in March, have been favorable and the product has helped capture new customers.

Reflecting these and other activities we implemented during the year, SBF domestic sales volume increased by 10.7 million cases to 425.7 million cases, 3% growth from a year earlier, marking our 23rd consecutive year of year-on-year growth, in our business in Japan.

*Results for Suntory’s soft drink sales volume in Japan*

[2016 strategies for brands in Japan]

Facing factors such as the consumption tax rate hike in 2017, the 2020 Tokyo Olympics and Paralympics, and the advancement of an aging society, the consumer environment impacting the soft drink industry is expected to see significant changes moving ahead.

Viewing such business environment changes as opportunities for business expansion, we will remain steadfast in our focus on increasing brand value and developing new markets and new demand as we implementing, expanding, and accelerating various initiatives aimed at adapting to these changes.

Looking at the future of the soft drink market, we will create a business model that does not rely on price competitiveness and aggressively challenge ourselves to new demand creation.

SBF is positioning 2016 as our launching point for business innovation, a year in which we challenge ourselves to innovate our business model within the soft drink industry, refine our brands, and undertake the never-ending challenge of proposing new added value. We will present the market with products with high added value and, as a result, not only expand our yearly sales but invigorate the entire market by leading customer-centric innovation in a variety of fields.

**Strengthen existing brands to become No. 1 in each category**

Conduct strategic brand investments, positioning *Suntory Tennensui*, *BOSS*, *Iyemon*, *PEPSI*, *Suntory Oolong Tea*, *GREEN DAKARA*, and *Orangina* as core brands. In particular, we will work to further strengthen brands for (1) *Suntory Tennensui*, (2) *BOSS*, and (3) FOSHU drink products.

**Create high added-value premium category**

We will use unique proposals for new value, as represented by products such as *Iyemon Tokucha* (FOSHU *Iyemon*), *Suntory Minami-Alps Tennensui* &
Yogurina, to create a new category that transcends pricing competition. We will also apply the value, recognition, and image of our core brands toward further developing premium products with high added value and strengthening measures related to containers and sizes, including increasingly popular 500ml PET bottles and bottle-cans that reflect changes in consumer drinking patterns.

- Challenging ourselves in the Full-line beverage services market for office
Initiatives aimed at increasing brand value will include focusing on changes in consumer drinking habits and proposing added value services that more closely reflect customer drinking preferences. In particular, not only will we offer can and PET vending machines to meet office soft drink demand, we also will challenge ourselves to offer comprehensive office soft drink services including cup coffee machines (Smart Café*2), paper cup soft drink machines, and various other types of device proposals, product lineups, and dedicated product development.

*2 Cup coffee machines developed by the Japan Beverage Group that grind beans on a per-cup basis and use a drip brewing method.

These activities should facilitate the nurturing and strengthening of SBF brands as well as the creation of novel products through innovations in various fields in addition to technology. This will then set off a positive chain reaction that should further boost brand value.

The following table outlines the major details of core brand performance in 2015 and plans for 2016.

(Million cases)

<table>
<thead>
<tr>
<th></th>
<th>2015 results</th>
<th>YoY</th>
<th>2016 plan</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suntory Tennensui</td>
<td>94.8</td>
<td>+14%</td>
<td>95.9</td>
<td>+1%</td>
</tr>
<tr>
<td>BOSS</td>
<td>91.7</td>
<td>+4%</td>
<td>92.2</td>
<td>+1%</td>
</tr>
<tr>
<td>Iyemon</td>
<td>52.4</td>
<td>0%</td>
<td>55.0</td>
<td>+5%</td>
</tr>
<tr>
<td>PEPSI</td>
<td>26.8</td>
<td>-10%</td>
<td>26.3</td>
<td>-2%</td>
</tr>
<tr>
<td>Suntory Oolong Tea</td>
<td>27.2</td>
<td>-8%</td>
<td>25.4</td>
<td>-7%</td>
</tr>
<tr>
<td>GREEN DAKARA</td>
<td>24.1</td>
<td>+2%</td>
<td>22.4</td>
<td>-7%</td>
</tr>
<tr>
<td>Orangina</td>
<td>13.2</td>
<td>+39%</td>
<td>13.7</td>
<td>+4%</td>
</tr>
<tr>
<td><strong>Total for FOSHU products</strong></td>
<td>26.4</td>
<td>+8%</td>
<td>28.0</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Total soft drink in Japan</strong></td>
<td>425.7</td>
<td>+3%</td>
<td>425.9</td>
<td>0%</td>
</tr>
</tbody>
</table>
SBF will continue to position Suntory Tennensui as a core brand in the company's business in Japan and work to further increase the brand value for Suntory Tennensui by promoting its “cool, clear, delicious taste” and “natural and healthy” characteristics as unique values. In addition to aggressively developing our popular flavored water Suntory Minami-Alps Tennensui & Yogurina, we will develop new products specifically for vending machines and products that combine Suntory Tennensui with carefully-selected ingredients to propose new value for the Tennensui brand. Through these activities, we will further solidify our position as No. 1 on the mineral water market.*3

*3 Intage SRI on the mineral water market in January-December 2015
Cumulative sales amount for the Suntory Tennensui brand
Retail channels: supermarkets, convenience stores, drugstores

BOSS will seek to strengthen relationships with heavy users for our mainstay products. With PREMIUM BOSS, we will work to further grow and strengthen the brand by promoting innovation and quality. By releasing new products that take advantage of our R&D technology, we will offer proposals for new value that create new value and occasions, and invigorate the coffee market. Additionally, we will be aggressive in challenging ourselves creating products that propose new drinking styles and products specifically developed for vending machines.

SBF plans to implement aggressive marketing activities designed to suit the characteristics of each brand.

- *Iyemon*
  We will continue to offer flavors for our popular tea that matches the changing seasons. We will further work to develop Iyemon Tokucha and achieve innovation for the Iyemon brand.

- *PEPSI*
  We will continue strengthening our PEPSI Strong Brand featuring strong carbonation and strong caffeine.

- *Suntory Oolong Tea*
  This is a popular long-selling item that has been on the market for more than 30 years. SBF plans to continue to promote the product as a tea that goes well with meals by leveraging its characteristics as a "healthy tea to drink with meals."
· **GREEN DAKARA**

   The company aims to continue to promote **GREEN DAKARA** for its value as a daily hydration drink, which includes its benefits for avoiding heat stroke and to protect from drying during the winter season. SBF plans to further strengthen the positioning of **GREEN DAKARA Yasashii Mugicha** in the growing non-caffeine, unsweetened tea market. Aggressive marketing is scheduled, including product renewal

· **Orangina**

   We will continue to strengthen the brand by promoting the distinctive value of **Orangina** in the adult consumer market for carbonated beverages that contain fruit juice. Also, we will aim to create a high added value premium category by introducing the highly promising **Blood Orangina**. Planned for release in March, we will conduct a large-scale marketing campaign prior to product release. Additionally, we will develop products specifically for vending machines to expand drinking occasions.

**FOSHU and new category products**

   In 2015, SBF was the market leader*4 in terms of sales volume for FOSHU teas, reflecting the popularity of **Iyemon Tokucha**. In 2016 the company once again aims to fully develop this product, which includes running TV commercials.

   In addition, SBF is looking to introduce new FOSHU and develop products in completely new categories to further solidify Suntory’s positioning in products with a high added value and create new demand.

   *4 Intage SRI on the FOSHU tea market in January-December 2015
   Cumulative sales amount for the **Iyemon Tokucha** brand
   Retail channels: supermarkets, convenience stores, drugstores

Reflecting these and other activities we plan to implement during the year, we will aim for sales of 425.9 million cases, largely unchanged from a year earlier, in 2016 for our business in Japan.
Reference: Suntory Group’s environmental activities

Based on the Suntory Group’s corporate philosophy of “In Harmony with People and Nature,” we are promoting environmental management in line with our responsibilities as a corporation that benefits from nature’s gifts. We will continue to conduct various activities aimed at reducing environmental impact to ensure that we leave a sustainable global environment to future generations. Along with container and packaging initiatives based on Suntory’s unique 2R+B strategy, we conduct numerous other activities including the Suntory Natural Water Sanctuary project that develops highly functional forests that serve as water resource recharging forests.

● 2R+B Strategy for containers and packaging

Reduce/Recycle + Bio is an approach that promotes reductions in volumes of resin used and the effective use of resources through material recycling as well as the aggressive use of renewable alternatives to petroleum-based raw materials. The Reduce aspect of this approach is applied not only to bottles, but also to labels and caps in order to promote volume reduction. The Recycle aspect involves creating a mechanical bottle-to-bottle recycling system, the first of its kind in Japan. The Bio aspect has already been implemented through the use of 30% plant-based materials for Suntory Tennensui (550ml). This spring, we are planning to introduce the world’s first soft drinks using PET bottle caps made from 30% plant-based materials and for 2016 we are planning the startup of a demo plant for the development of PET bottles using 100% plant-based materials.

● 14th Year of Natural Water Sanctuary Activities

Since 2003, the Suntory Group has conducted its Natural Water Sanctuary project. This project involves developing forests that create groundwater in water resource cultivation areas with the aim of creating groundwater exceeding the volume used by Suntory in its plants. This project covers a total land area of 8,000ha with 18 locations in 13 prefectures in Japan. Our goal for 2020 is to expand this project to 12,000ha, which would produce water volume that is twice that used by Suntory in its plants. For two years, nearly 6,000 employees from the Suntory Group, including SBF, participated in forest management training. The goal is to promote environmental management carried out by the Suntory Group as a whole by further instilling the common value of “Coexisting with Nature.”
Selected to CDP Climate Performance Leadership Index (CPLI) (A List) 2 years in a row

Praised for activities aimed at reducing greenhouse gas emissions and easing climate fluctuation risks, SBF was selected to “the Climate Performance Leadership Index” A List for the second consecutive year by CDP\(^5\). We believe this serves as recognition for our activities related to reducing environment impact and initiatives related to environmental management information disclosure.

SBF will continue to be a leader of the Suntory Group and remain aggressively involved in reducing environmental impact, including reducing water consumption volume at our plants, CO\(_2\) emissions volume from our value chain, achieving PET bottle size reduction and thinner labels, and reducing the electricity consumption of vending machines.

\(^5\) International NPO that provides a system for companies and cities to measure, disclose, manage, and share vital environmental information