

[Key Q&A] Analysts' Meeting on Financial Results for the Fiscal Year Ending December 31, 2016

[Japan Segment]

Q. Profit increased significantly throughout the soft drink market including your company in 2016. Going forward, what kind of initiatives are needed in order to achieve continuous profit growth in the market?

A. We think that each company will continue to focus on profitability by reinforcing their brands in 2017, but cannot expect as much growth in sales volume and profit as achieved in 2016. In order to realize continuous profit growth in the future, it is important to create products that offer new value to consumers by innovation, to increase consumption per capita in the declining population trend.

Q. Although you keep mentioning that you are focusing on core brands and high value-added products, we cannot see that effect from your FY2017 profit bridge. It seems that your driver of profit growth is cost reduction.

A. In 2017, we plan to focus on core brands such as *Suntory Tennensui*, *Boss* and *Iyemon*, and will make investment on these brands. In addition, we expect some investment relating to the launch of new products and strengthening our sales activities toward corporate customers in the vending machine business. We believe that these investments will lead to medium- to long-term profit growth rather than impacting the profit in 2017.

Q. How do you forecast category growth of FOSHU (Food for Specified Health Uses) products going forward?

A. It is true that the category growth of FOSHU products is slowing down impacted by Foods with Function Claims and various FOSHU products appearing in the market that have effect on body fat. Although it is not easy to launch products like *Tokucha* every year, we are continuing our research and development in effort to offer new products in the future.

Q. In 2016, your sales volume growth was less than that of the market. Are you more focused on sales in value terms rather than volume?

A. Sales in terms of value and volume are both important for us. We have underperformed the market in terms of volume in 2016 and we view this as an issue. We will aim for higher sales volume growth than the market in 2017. We also want to improve profitability of the business. Going forward, we will not only pursue sales volume but also profit growth.

[Overseas Segment]

Q. Considering the fact that global soft drinks market is growing, your annual forecast for overseas in 2017 seems conservative. How do you plan to achieve higher sales growth than the market?

A. Although markets in the developed countries are matured, we believe we can grow our business steadily by reinforcing our sales force, R&D and brand equity. Moreover, we expect that demand for natural and healthy products and less sugar products will continue to grow, and we will aim for further growth by expanding our product portfolio that satisfy such demands. We will also accelerate business in Africa, with a focus on Nigeria, and health supplements business in Asia, where we are conducting structural reform including expansion of our sales channels. With our business in developed countries as our revenue base, we will work to realize high growth in the emerging countries in 2017.

Q. What is the driver of growth in Asia in 2017? Are you seeing signs of recovery in the Vietnam market?

A. Drivers of growth in Asia are health supplements business and beverage business in Vietnam. We have been working on strengthening route-to-market capabilities in the health supplements business since 2016, and expecting positive effects to appear in 2017. In Vietnam, market trends of categories other than RTD tea and energy drinks are improving, and we think the total market will bottom out soon. We forecast that the beverage market in Vietnam will grow by about 6% year-on-year in 2017, and we aim to outperform the market with double-digit sales growth. If we could achieve this level of sales growth, we believe we can achieve higher profit growth with improvement in capacity utilization.

Q. Considering the poor performance in H1 in France last year, we think we can expect more profit in 2017 for Europe. Please explain the background of profit forecast of Europe.

A. For the three core countries, which are France, UK and Spain, we are forecasting higher sales growth than the market and higher profit growth than the sales growth. The reason why the profit growth of Europe overall seems small is that we are planning investment to reinforce marketing in developing countries, such as Nigeria.