

Suntory Holdings Limited **Summary on FY2016-2Q Earnings**

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We would like to sincerely thank you for your constant support of the Suntory Group. Thank you for this opportunity to provide a briefing on Suntory.

(1) Results for the Period

I will provide an explanation on the results of the Suntory Group for the first six months of the fiscal year ending December 31, 2016.

Net sales were 1.2731 trillion yen (up 3.0% year on year).

Operating income was 87.3 billion yen (up 14.0% year on year).

Net income attributable to owners of parent was 35.6 billion yen (up 129.5% year on year).

In income before amortization of goodwill and others amortization expenses,

Operating income was 121.4 billion yen (up 10.3% year on year).

Net income attributable to owners of parent was 63.5 billion yen (up 44.4% year on year).

The decrease in revenue from foreign currency translation was covered, and record-high levels of net sales and operating income for a six-month period were achieved for the 12th consecutive period and 4th consecutive period, respectively.

(2) Business Trends

■ Economic conditions in business area

While the Japanese economy experienced a mild recovery during the period under review, personal consumption was somewhat weak. On the other hand, the U.S. economy continued to expand, and personal consumption was also strong. The European economy slowed down slightly, and it is believed that there was some uncertainty in Asia. Amid these circumstances, the Suntory Group conducted business activities centered around its Non-Alcoholic Beverages and Food and Alcoholic Beverages Segments.

■ Non-Alcoholic Beverages and Food Segment

In the Non-Alcoholic Beverages and Food Segment, as reported by Suntory Beverage & Food Limited yesterday, we focused on growing existing businesses and strengthening profitability, taking on new business models, and realizing global synergies, and results were relatively solid.

Despite the impact of currency exchange rates, results for the domestic business were particularly strong, as an increase in revenue and income was achieved.

Net sales were 674.5 billion yen (up 9.1% year on year), and operating income was 49.2 billion yen (up 5.4% year on year).

■ Alcoholic Beverages Segment

While sales were 466.1 billion yen (down 1.9% year on year) in the Alcoholic Beverages Segment due in part to the impact of exchange rates, if exchange rates are assumed to be neutral, sales increased by 1.4%, and growth was mostly in line with plans in existing businesses in each country.

Furthermore, operating income was 39.5 billion yen, a significant increase of 24.1% year on year. In addition to strong business performance, the year on year comparison is also somewhat high due to differences in the timing for recording earnings for the subsidiary Beam Suntory Inc. last year. In actually, the growth was about 10%.

While Beam Suntory Inc. that is the core of the Alcoholic Beverages Segment experienced a decline in revenue and an increase in income, if an organic comparison excluding the impact of exchange rates and other one-time effects is made, net sales would be also up and performance would be strong overall.

For global sales of the core product *Jim Beam*, sales mid-single-digit growth was achieved, and sales of premium bourbons such as *Makers Mark* were also strong. *Jim Beam Black* received the top award for bourbon in the IWSC global competition for alcoholic beverages that was announced last week.

In the domestic spirits business (Suntory Spirits Limited), whisky increased by 6% and RTD products increased by 14% on a quantity basis. Among these growing RTD products, canned highballs performed particularly strongly, as growth of approximately 30% was achieved.

In addition, in the on-premise market, we aggressively expanded sales of *Jim Beam Highball*, and the number of outlets handling the product grew by 10,000 from the end of the previous fiscal year to 35,000 outlets (as the end of June). You have probably also seen customers giving a toast with *Jim Beam Highball* at bars and restaurants in Japan.

Meanwhile, in the overall market for beer-type beverages, the results were down year on year.

Against this backdrop, growth of 1.6% was achieved for the Company's beer-type beverages, and a record-high share of 16% for a six-month period was achieved.

With *The Premium Malt's*, initiatives were made to develop new domestic beer market and create demand through means such as the sales of launch of *The Premium Malt's Kaoru Ale*. Performance was strong as *The Malts* also contributed to growth and the results for *Kinmugi* improved as well over the previous year.

■ Other Businesses Segment

Due to factors including the cancellation of a joint venture agreement related to the beer business in China, net sales were 132.5 billion yen (down 7.6% year on year) and operating income was 16.2 billion yen (up 8.1% year on year).

As described above, we believe that each business centered around the Non-Alcoholic Beverages and Food and Alcoholic Beverages segments has performed strong. In particular, growth was driven by business in Japan and was sufficient to compensate for the negative impact of foreign currency translation.

(3) Creation of Global Synergies

Initiatives to create synergies through the integrations with Beam Suntory Inc. (post merger integration) are also proceeding well.

In terms of sales, sales of *Jim Beam* have been extremely strong in Japan, and upward revisions have been made to initial plans.

Furthermore, we expect certain improvements in terms of costs thanks to initiatives including the sharing of know-how on production technologies and energy saving technologies in addition to Beam Suntory Inc.

We are focusing on communicating and sharing the corporate philosophy and the entrepreneurial spirit at Suntory University. During the six months under review, around 70 overseas executives from 15 countries came to Japan to deepen their understanding of Suntory.

We believe that these forms of human resources interchanges will become an important asset and achievement for the Suntory Group over the medium to long term.

(4) Measures to Strengthen Financial Position

In addition to strong business performance, business units were also sold off during the period under review, and as a result free cash flows grew significantly by 57% to 63.6 billion yen. Of this, approximately 50 billion yen was used to repay net debt. We acknowledge that measures to strengthen our financial position are proceeding according to plan.

(5) One-time Effects During the Period Under Review

Next, I would like to talk about extraordinary gains and losses.

The Kumamoto Earthquake occurred during the period under review, and Suntory Kyushu Kumamoto Plant was damaged as a result. As this plant is located in the Kamimashiki District near the epicenter, it received much damage. Currently, we are doing all that we can with the cooperation of our business partners in order to achieve a prompt recovery. During the period under review, extraordinary losses of 10.1 billion

yen have been recorded for matters including facilities and the disposal of damaged inventory.

In addition, multiple business transfers that were conducted during the period under review were recorded as extraordinary gains. As a result of posting a gain on the transfer of the brandy and sherry in Spain and the dissolution of the joint venture in the Chinese beer business, extraordinary gains increased by 14.4 billion yen compared to the previous period.

(6) Full-year Forecast

Lastly, I would like to talk about the full-year forecast.

While uncertainty on a global level can be expected to continue, the Suntory Group will stay thoroughly customer-oriented in an aim to achieve further growth and strengthen profitability. We will focus on the three following points to achieve this.

- (1) Offering high value-added products
- (2) Improving productivity
- (3) Creating global synergies

In terms of the full-year forecast, we will maintain the initial forecast and aim for the following:

Net sales of 2.73 trillion yen (up 1.6% year on year).

Operating income of 188 billion yen (up 1.6% year on year).

Net income attributable to owners of parent of 50 billion yen (up 10.5% year on year).

Operating income excluding amortization of goodwill and others amortization expenses of 258 billion yen (up 1.2% year on year).

While it has been brief, that concludes this briefing summarizing the results for the first six months of the fiscal year ending December 31, 2016.

We would like to ask for your continual support and thank you for your attention today.