

Suntory Holdings Limited **Summary on FY2018 Earnings**

Presenter: President and CEO Takeshi Niinami

Suntory Holdings Limited

Thank you very much for your support to the Suntory Group.

As part of the results announcement for fiscal year 2018, I will briefly go over the current state of Suntory Group.

(1)Results for FY2018

Looking back, 2018 was a year of heightened geopolitical risks in the world, such as the U.S. / China trade war. In Japan, there were numerous natural disasters, including earthquakes and heavy rainfall, which had a notable impact on our business. Under these circumstances, our revenue (excluding excise taxes) was 2.2508 trillion yen, up 4.3% year-on-year, while our operating income was 250.9 billion yen, down 1.1% year-on-year.

We have two core businesses, “Non-Alcoholic Beverages and Food”, and “Alcoholic Beverages”, and we have a global presence in both of them. For “Non-Alcoholic Beverages and Food”, net sales increased, thanks to the *Suntory Tennensui* becoming the number one soft drink brand in Japan[※], sales of *BOSS* exceeding 100 million cases, as well as other factors. However, our profit declined, due to factors such as the increase in logistics costs, such as supply chain costs. We regard supply chain costs as a Group-wide issue, and plan to make improvements using digital technologies such as AI. Meanwhile, we enjoyed growth in both net sales and income for “Alcoholic Beverages”, with Beam Suntory serving as the driver.

※ Based on research results by the Inryou Souken research institute

Since my appointment to President in 2014, I have positioned the Beam Suntory integration as a top priority. In realizing a full PMI, my focus has been to embed Suntory’s identity among Beam Suntory’s employees. To do this, I established our Group education institution “Suntory University”, and had Beam Suntory employees attend, thereby spending significant time and expenses to deepen their understanding of Suntory’s founding principles and values. Sharing the same foundational spirit significantly enhances a team’s capabilities, especially its MONOZUKURI abilities. As a result of these integration efforts, we were able to launch products jointly developed between Japan and the U.S., such as the Japanese craft gin *ROKU* and the Japanese craft vodka *HAKU*. I think it is safe to say that phase one of the integration is now complete.

We have positioned the period from 2019 as “Phase Two” for Beam Suntory, in which it will achieve further growth. Under the leadership of Mr. Albert Baladi, the new CEO, Beam Suntory will continue to mix the expertise of both the east and west, and pursue unique and high-quality manufacturing that rival spirits makers cannot imitate. In April, we will launch *Suntory World Whisky Ao* in Japan.

Meanwhile, the beer category faced an extremely tough external environment, with natural disasters, Liquor Tax reform, price revisions of returnable kegs and bottles, leading to the market shrinking for 14 years in a row. For Suntory, the beer business is the forefront of Suntory’s challenge, and symbolizes the “Yatte-Minahare” spirit. Within the beer business, *The Premium Malt’s* plays an especially important role. *The Premium Malt’s* leaping forward brings great confidence and vitality to the entire Suntory Group.

Although the beer market suffered a significant year-on-year decline in 2018, *The Premium Malt’s* achieved positive growth. We have been encouraged by the positive response from the market to our “Kami-awa(creamy foam)” promotion activities, focusing on the “beer head”, which is one of the intrinsic values of beer. The *Kinmugi (Gold Lager)*, just launched last week, also made a very good start. Our efforts since last year are gradually starting to bear fruit, and we are sensing the strong momentum of the beer category from the beginning of the year.

(2) Mid-to-long term strategy

Next, I will talk briefly about the future direction of Suntory Group.

We will continue “Growing for Good”, and pursue both “business growth” and “coexistence with society”.

On the “Growing” side, the key will be to continue providing high quality products like *The Premium Malt’s* and *Jim Beam*, and creating strong brands that are loved by consumers. In order to do this, we need to develop and grow premium products that have new value, which our rivals cannot offer. And it is crucial to continue investing in our MONOZUKURI and R&D capabilities in the medium to long term.

On the “Good” side, it is crucial to coexist with society and nature. As a company that has committed to “Mizu To Ikiru”, we have been focusing mainly water-related activities, including the “Natural Water Sanctuary” activity. Last year, we set the “Environment Target for 2030”, outlining how we will cut down on our water usage and CO₂ emissions, and we will make a firm-wide effort to achieve these targets, and manage the firm with a strong focus on the environment. Recently, the use of plastics is

gaining a lot of attention. By actively using recycled plastic, Suntory will contribute in realizing a recycling society. We will bring together our state-of-the-art technologies, and become a leading player in preserving the earth's environment.

Training our people, which forms the underlying base of "Growing for Good", is one of our top management priorities. If we are to innovate, it is crucial to create a free and open environment, bringing out the best of our talented and diverse employees. Suntory Group will continue making the necessary investments, and further promote workstyle reform, health management, as well as making better use of elderly employees.

In the year 2019, Suntory Group will pursue further growth of the firm by driving the expansion of our health food business, while continuing to position the "Non-Alcoholic Beverages and Food" and "Alcoholic Beverages" businesses at our core.

We appreciate your continued support to Suntory Group.

Presenter: Shinichiro Hizuka,
Director, Senior Managing Executive Officer, Suntory Holdings Limited

Thank you for your continued support to Suntory Group.

I would now like to explain our consolidated results for the period ended December 2018.

Since the previous results announcement, we have been using IFRS to report our financials.

For revenue, we are excluding excise taxes, which is in line with most of the global spirits and beer players that we benchmark ourselves against. However, many Japanese competitors include excise taxes when they report their revenues, so we also announce our revenue including excise taxes as well.

(1) Results for FY2018

The financial performance of Suntory Group in the fiscal period ended December 2018 was as follows:

Revenue (excluding excise taxes): 2.2508 trillion yen (+4.3% year-on-year)

Revenue (including excise taxes): 2.5173 trillion yen (+4.0% year-on-year)

Operating income: 250.9 billion yen (-1.1% year-on-year)

Our “adjusted operating income”, excluding one-off items such as gains from business transfers, was down 1.8% year-on-year.

Profit attributable to owners of the Company was 140.2 billion yen, down 33.7% year-on-year. This is because in the year ended December 2017, the passing of the tax reforms in the U.S. led to corporate tax expenses having a positive impact on our profit.

〈Non-Alcoholic Beverages and Food〉

Revenue was 1.2866 trillion yen, up 4.9% year-on-year.

Operating income was 135.3 billion yen, down 2.5% year-on-year.

〈Alcoholic Beverages〉

Revenue (excluding excise taxes) was 749.4 billion yen, up 3.7% year-on-year.

Revenue (including excise taxes) was 1.0159 trillion yen, up 3.1% year-on-year.

Operating income was 133 billion yen, up 4.8% year-on-year.

For the “Non-Alcoholic Beverages and Food” segment, Suntory Beverage and Food announced their results yesterday, so I would like to explain the “Alcoholic Beverages” segment.

The domestic beer market in 2018 was an extremely difficult one, with the market shrinking 14 years in a row. Under these circumstances, we conducted a large-scale “Kami-awa(creamy foam)” promotion in relation to *The Premium Malt’s*, focusing on the beer head, which is one of the intrinsic values of beer. This led to sales 17.11 million cases, exceeding the previous year.

As Mr. Niinami explained, the beer business, and especially *The Premium Malt’s*, is a true representation of our founding principle of “Yatte-Minahare”, where Suntory, as a latecomer to the business, succeeded in developing and launching a Premium product. The year-on-year outperformance by *The Premium Malt’s* is not merely about one of our brands, but an important success that will serve as the driver for the entire Suntory Group.

Whisky also did well in Japan, with our proposals on how to enjoy “Highball”, an effort that we had been continuing since 2008, bearing fruit. We achieved growth in *Kakubin*, *Toris*, *Jim Beam* and *Maker’s Mark*. In the RTD category, the *-196°C* brand reached 40 million cases for the first time.

(2)The outlook for 2019

Global uncertainties seem set to remain in 2019, with the deterioration of U.S. / China relations, as well as other factors. Despite all this, Suntory Group will fully exert its strength as a multifaceted beverage and liquor company, and pursue revenue growth by focusing on activities that meet the needs of customers in each of our businesses and areas.

We will also continue to actively invest for the growth of this year and future. Investments will cover areas such as marketing investments to reinforce our various brands, talent development, R&D investment and capex for storage facilities etc. to capture future demand for whisky.

Today I would like to talk a little bit more about marketing investments to reinforce our brands. We will concentrate our efforts in expanding our beer business, as well as in the growth of Beam Suntory.

We will further advance the “Kami-awa(creamy foam)” activities for *The Premium*

Malt's. This includes various proposals urging consumers to choose beer based on the “Awa”, or beer head, through measures such as the new Kami-awa beer server, announced last week.

We will also reinforce the New Genre category. We will create new demand through the new launches of *Kinmugi (Gold Lager)* and *MAGNUM DRY HON-KARAKUCHI*. Initial shipments for *Kinmugi (Gold Lager)*, launched on February 5th, reached 820,000 cases, and we feel the positive expectations among consumers.

On the other hand, we will take various methods to reduce the impact of increasing expenses such as supply chain costs, and will aim to exceed last year's profits.

Our guidance for the period ending December 2019 is as follows:

Revenue (excluding excise taxes): 2.3 trillion yen (+2.2% year-on-year)

Revenue (including excise taxes): 2.57 trillion yen (+2.1% year-on-year)

Operating income: 251 billion yen (+0.1% year-on-year)

Adjusted operating income: +1.2% year-on-year

Profit attributable to owners of the Company: 123 billion yen, down 12.2% year-on-year.

We look forward to your continued support. Thank you.