

President's Message



Saburo Kogo
President & CEO

Opening Greetings

My name is Saburo Kogo, and I have recently been appointed as president and CEO of Suntory Beverage & Food Limited.

Suntory Beverage & Food (SBF) has until now adopted a medium-to-long-term vision of becoming a leading global soft drink company. Guided by that vision, the Company has grown its existing businesses and enhanced its global business foundation by such means as conducting M&A both in Japan and overseas. Now, the Company has reached a stage where it must reinforce its enhanced business foundation and accelerate organic growth in order to achieve further rapid progress. I have assumed the responsibility of the Company in this next stage.

To fulfill that responsibility, I believe that my most important mission is to lead the Company through this stage of further rapid progress by steadily carrying out the reinforcement of the existing business foundation while achieving accelerated growth. In working to accomplishing this mission, I would like us to continue to evolve our brand and innovation strategy and our high-value-added strategy, which we have made strenuous efforts to implement domestically. At the same time, I see us expanding these strategies globally, which will help accelerate the growth of our existing businesses both in Japan and overseas and reinforce our earnings foundation.

In addition, we will embrace the essence of "*Yatte Minahare – Go for it!*" which continuously flows through the Suntory Group, and engage in open and natural debate Groupwide. With an emphasis on creativity and originality, we will aim for an in-house culture that gives rise to new ideas and innovations one after the other.

Management Strategies for 2015–2017

By having its shares listed on the Tokyo Stock Exchange and conducting M&A, SBF has enhanced its business foundation. In 2015, we established management strategies for 2015–2017 that aim to leverage our business foundation to accelerate independent growth in each area of our operations while creating synergies and promoting integrated development.

1. Maintain a focus on core geographical areas
2. Establish a strong market presence in each geographical area
3. Promote integrated development

The key targets for existing businesses are as follows.

Key targets

Operating profit

Mid single digit or above CAGR growth
Further improve ratio of operating income to net sales

ROE

Maintain at 10% or above based on net income before amortization of goodwill and improve it further through profit growth

Net sales

Aim for continued growth

Review of 2015 and Forecasts for 2016

In the fiscal year ended December 31, 2015, the first year after establishing our management strategies for 2015–2017, we engaged in initiatives in three different areas. First, we worked to strengthen our brands. In Japan, sales of core brands, such as *Suntory Tennensui* and *Boss*, grew steadily due to the introduction of new, high-value-added products. Overseas, *Schweppes* performed well in Europe, as did the *TEA+ Oolong Tea* in Vietnam. Second, we made efforts to reinforce our distribution network. No matter how strong of a product portfolio we possess, consumers will not be able to experience the value of our products if we do not have a strong distribution network that can deliver our products to them. Domestically, we joined forces with the Japan Beverage Group in August 2015, thereby acquiring a foundation for a “full-line beverage service business.” And third, we endeavored to reduce manufacturing costs. In Japan, we started up a new manufacturing line at the Minami Alps Hakushu Water Plant and a manufacturing line for bottle-shaped canned coffee at the Haruna Plant. We also moved forward with increasing the number of products with roll labels and expanding the use of lightweight PET bottle caps. In addition, we extended the cost reduction know-how we have long cultivated in Japan into countries overseas.

As a result of these initiatives, net sales increased 9.8% year on year, to ¥1,381.0 billion, and operating income rose 7.0%, to ¥92.0 billion. Net income was up 17.2%, to ¥42.5 billion.

At SBF, we view 2016 as a year that carries great significance for reinforcing our existing businesses and realizing independent growth. As such, we will engage in initiatives in accordance with three policies.

The first policy is to bolster the growth and earning power of our existing businesses. To this end, we will create new demand by reinforcing our brands and introducing high-value-added products. We will also strengthen our product portfolio in each country where we operate. In addition, we will work to redevelop and revamp our business foundation in Asia and Africa to capture market growth in these regions.

The second is to take on the challenge of introducing a new business model. I would like to introduce our initiatives in Japan as an example of this policy. In 2015, we welcomed Japan Beverage Holdings Inc. and A-Star Co., Ltd. into the SBF Group. With this move, we acquired a “full-line beverage service business” that offers consumers a wide range of options for enjoying beverage products, including vending machines that offer products of other beverage manufacturers, cup-type vending machines, tea servers, and coffee servers, in addition to the can and PET bottle products of SBF. We will advance this business by drawing on our product and vending machine development capabilities, networks, and synergies among Group companies as well as on the collaborations with external partners. In this way, we will offer new solutions to the workplace.

The third policy is to bring out our global synergies. By leveraging our product portfolio, which differs from those of other major beverage companies around the world by emphasizing the concepts of “natural & healthy” and “unique & premium,” we will combine the development and production technologies that our Group companies have cultivated over the years to roll out new products on a global scale. In addition, we will collaborate with Group companies in raw material procurement and share the know-how we possess in terms of production. We will also promote the optimal placement of human resources that extends beyond geographical boundaries.

As for forecasts for the fiscal year ending December 31, 2016, we anticipate a 3.5% increase in net sales, to ¥1,430.0 billion, and a 2.2% decrease in operating income, to ¥90.0 billion. We are also expecting a 4.6% decline in net income, to ¥40.5

billion. On a currency neutral basis, we forecast a 6.6% rise in net sales and a 3.2% increase in operating income.

Efforts toward Enhancing Shareholder Value

At SBF, we believe our prioritization of strategic investments as well as capital expenditures for sustainable revenue growth and increasing the value of our business will benefit our shareholders. In addition, we view an appropriate shareholder return as one of our core management principles. While giving due consideration to providing a stable return and maintaining robust internal reserves for the future, we intend to pursue a comprehensive shareholder return policy that also takes into account our business results and future funding needs.

Specifically, we aim to stably increase dividends on the basis of profit growth with a targeted consolidated payout ratio of 30% or more of net income before amortization of goodwill. Looking to the medium and long term, we will also consider increasing the payout ratio depending on such factors as our need for funds and progress in profit growth. In 2015, we declared an annual dividend of ¥68 per share, a year-on-year increase of ¥8 per share.

In addition, we intend to apply the IFRS for consolidated financial statements, commencing from the fiscal year ending December 31, 2017. Amid the ongoing globalization of the SBF Group's business activities, we aim to improve the quality of the SBF Group's business management through unified financial reporting standards and to increase international comparability of our financial information in the capital markets.



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President & CEO Kogo with the regional CEOs