

# Corporate Governance

## Basic Policy on Corporate Governance

Suntory Beverage & Food ("SBF") and its subsidiaries (collectively, "the Group") have adopted a vision for value: *A quest for the best tastes and quality to bring happiness and wellness into everyday life.* The vision for SBF as a company is *to be the leading global soft drink company recognized for our premium and unique brands.* Guided by

these visions, the Group is committed to strengthening corporate governance to maintain good relationships with shareholders and other investors, customers, communities, suppliers, employees, and other stakeholders, fulfilling our corporate social responsibilities.

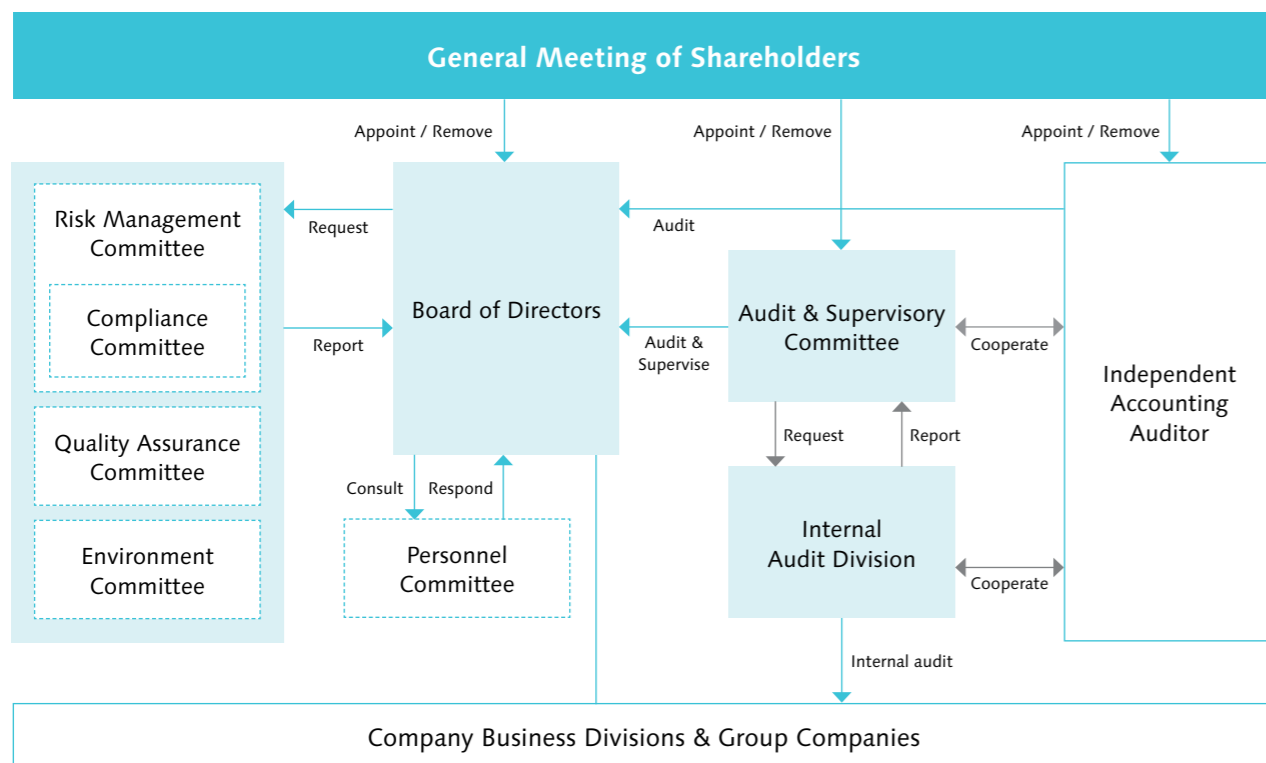
### Basic Policy on Corporate Governance:

<http://www.suntory.com/softdrink/ir/management/governance.html>

## Overview of Corporate Governance Framework

SBF has elected to adopt a Company with an Audit & Supervisory Committee system as our corporate governance framework. We have put in place the requisite structures, a Board of Directors, an Audit & Supervisory Committee, and an Independent Auditor. The purpose of this framework is to further enhance SBF corporate governance through various means. These means include improving the effectiveness of audits and supervision by

appointing a voting board director serving as an Audit & Supervisory Committee member to participate in audits. We have also strengthened the supervisory functions of the Board of Directors by increasing the percentage of outside directors, by prompting more rapid decision-making by the Board of Directors, by entrusting directors with the responsibility for making all or certain important decisions regarding business execution.



## Board of Directors

### 1. Directors and the Board of Directors

Pursuant to the SBF Articles of Incorporation, the Board of Directors shall consist of no more than 20 individuals (five or fewer being members of the Audit & Supervisory Committee).

As of March 31, 2017, SBF had six directors. The term of office for directors is set at one year to create an appropriate management system capable of responding to changes in the operating environment in a flexible manner.

The Board of Directors holds regular meetings once a month and extraordinary meetings as the need arises. The Board makes decisions regarding important management and legal matters and receives reports about business execution at Group companies, using said reports to conduct oversight.

In addition, SBF stipulates in its Articles of Incorporation that directors may be entrusted to make all or certain important decisions regarding business execution by vote. Important matters subject to Board resolution include mergers and acquisitions, structural reorganization, and the acquisition/disposal of a significant amount of assets. As a general rule, decisions related to individual business execution are entrusted to the management ranks, such as the president of SBF.

### 2. Audit & Supervisory Committee

The Audit & Supervisory Committee is comprised of three Audit & Supervisory Committee members (including two outside directors) and performs audits on the performance of duties by directors and other general performance related to Group management, in accordance with the SBF internal control system.

Moreover, to strengthen the auditing and supervisory functions of the Audit & Supervisory Committee, SBF collects information from directors (excluding Audit & Supervisory Committee members) and shares information at important meetings. Also, to ensure ample cooperation between the Internal Audit Department and the Audit & Supervisory Committee, SBF has selected one full-time Audit & Supervisory Committee member. This full-time member will help SBF achieve a mutual understanding between directors and the Internal Audit Department as the individual gathers information and maintains a suitable environment for audits.

Kozo Chiji, the full-time Audit & Supervisory Committee member, possesses a considerable amount of expertise related to finance and accounting through his financial and accounting experience as managing executive officer and Chief Operating Officer of the Finance & Accounting Division at Suntory Holdings Limited through March 2016.

### 3. Independent Auditor

SBF has selected Deloitte Touche Tohmatsu LLC as its Independent Auditor. The Independent Auditor provides advice and instructions to SBF from a third-party standpoint regarding the appropriateness and legal compliance of SBF's accounts and related internal control systems.

The following are the names and years of service of the certified public accountants who have carried out accounting auditing duties for SBF.

- Koji Inagaki (Deloitte Touche Tohmatsu LLC); three years
- Hideyuki Hirata (Deloitte Touche Tohmatsu LLC); five years
- Keiko Hishimoto (Deloitte Touche Tohmatsu LLC); two years

In addition, 21 other certified public accountants and 22 other individuals assist with accounting auditing duties.

### 4. Internal Audit Department

SBF has established an Auditing Department and Global Auditing Department to conduct internal audits. The Auditing Department and Global Auditing Department conduct audits of SBF and its Group companies to ensure business operations are being conducted in an appropriate manner.

As of this publication, there were 14 members in the Auditing Department and Global Auditing Department. Many of these members possess a high level of expertise related to finance and accounting.

### 5. Personnel Committee

SBF has established a Personnel Committee as a discretionary committee that deals with director nomination and remuneration. The Personnel Committee discusses prospective candidates for director and submits reports to the Board of Directors regarding the suitability of director candidates. The committee also holds deliberations regarding standards and indicators for director remuneration (excluding Audit & Supervisory Committee members), and reports on their adequacy to the Board of Directors. The Committee is comprised of four members: two outside directors, the president of SBF, and the director with responsibility over the Human Resources Department.

## 6. Risk Management Committee, etc.

SBF has established a Risk Management Committee, a Quality Assurance Committee, and an Environment Committee. Further, SBF has set up a Compliance Committee as a subordinate body of the Risk Management Committee.

The Risk Management Committee directs risk management activities of the entire Group. The committee identifies Group risks, designs countermeasures, and verifies the progress of response. The Compliance Committees confirms and deliberates issues and responses related to compliance for the Group.

The Quality Assurance Committee promotes quality assurance activities for the Group. The committee identifies issues, develops countermeasures, and confirms progress related to quality assurance.

The Risk Management Committee and Quality Assurance Committee have established corrective actions in the event a risk occurs. These actions include reporting rules in the event of a crisis.

The Environment Committee directs Group-wide environmental management. The committee designs and promotes strategies and medium- to long-term plans to advance business activities in consideration of sustainability.

## Internal Controls System

The SBF Board of Directors has determined the following system (internal controls system) to ensure the proper conduct of business operations.

### 1. System to ensure the performance of Group and Group subsidiary directors and executive officers ("Directors and Executive Officers") and ensure that employees duties conform to laws, regulations, and the Articles of Incorporation

- (1) The Group shares the beliefs set forth in our corporate philosophy, *In Harmony with People and Nature*. As international corporate citizens, the Group respects the rules of civil society and places the highest priority on compliance. As we expand our business activities, each director, executive officer, and employee of the Group will make decisions as corporate citizens based on social ethics.

- (2) To implement this philosophy in our business operations, every director, executive officer, and employee shall respect compliance and social ethics, basing their standard of conduct on Group corporate ethics. The Directors and Executive Officers shall lead in complying with laws, regulations, the Articles of Incorporation, and corporate ethics. Directors and Executive Officers shall also strive to maintain and improve management based on compliance.
- (3) To ensure Group directors, executive officers, and employees perform their duties in compliance with laws, regulations, and the Articles of Incorporation, the Group has established a Compliance Committee, which is a subordinate body of the Risk Management Committee. The Compliance Committee promotes Group compliance activities and deliberates important issues related to compliance promotion. Moreover, the Compliance Committee and the departments responsible for overseeing compliance conduct regular compliance education and training activities, striving to establish and promote a Group compliance system.
- (4) The Risk Management Committee and Compliance Committee shall report the details of discussed matters and compliance activities to the Board of Directors and the Audit & Supervisory Committee in a timely manner.
- (5) If a Director and Executive Officer discovers an issue related to Group compliance, the director and Executive Officer shall report said issue promptly to the Compliance Committee. Moreover, compliance hotlines have been established both inside and outside the Group to allow employees to a direct channel to report compliance issues. After securing information related to said issue, the Compliance Committee, upon receiving a report, shall investigate the details. As necessary, the Compliance Committee shall consult with related departments to take corrective action and establish measures to prevent recurrence. These measures shall then be enforced Group wide.
- (6) As necessary, a director shall be dispatched to Group companies to oversee the appropriateness of business execution and decision-making. As necessary, this director shall coordinate with related departments to provide Group companies with advice, guidance, and support.

- (7) As necessary, a corporate auditor shall be dispatched to Group companies to conduct an audit.
- (8) An Internal Audit Department has been established and shall conduct internal audits of compliance and the appropriateness of business execution. The Internal Audit Department shall report the results of internal audits to the Audit & Supervisory Committee and the president and representative director in a timely manner.
- (9) The Group shall establish and maintain a system of internal controls to ensure the appropriateness of financial reporting.
- (10) Directors and Executive Officers shall establish and promote a system to prevent any association with anti-social forces and to clearly reject improper demands from such forces.

### 2. System for the preservation and management of information concerning the performance of Director and Executive Officer duties

- (1) Directors and Executive Officers shall preserve and manage valuable documents related to decision-making, including minutes of the general meeting of shareholders and Board of Directors meetings (including electromagnetic records), as well as any other valuable information related to the performance of director duties, in accordance with laws, regulations, and internal rules.
- (2) The directors shall maintain the availability of documents and information mentioned above for inspection as necessary.
- (3) The Risk Management Committee shall establish and promote an information security governance system that not only protects and preserves information, including personal information, but also boosts corporate value through the use of such information.

### 3. Rules and other systems for the risk management of loss for the Group

- (1) The Group basic policy for risk management shall be determined by the Board of Directors.
- (2) Each Director and Executive Officer shall be responsible for taking measures against risks that occur in business execution. Material risks shall be analyzed and evaluated, and plans for improvement shall be discussed and determined by the Board of Directors.

- (3) Risks related to Group management, such as quality risks pertaining to the Group as a whole and risks related to business execution throughout the Group, shall be managed comprehensively and collectively by the Risk Management Committee and Quality Assurance Committee. In addition, these committees shall establish rules, formulate guidelines, and conduct training activities to manage such risks as necessary.
- (4) In the event of newly arising material risks, the Board of Directors shall promptly assign Directors and Executive Officers with related responsibility. These Directors and Executive Officers shall determine measures related to said risks.

### 4. System to ensure the efficient performance of duties by Group directors

- (1) Group basic management policies shall be determined by the Board of Directors.
- (2) Group Directors and Executive Officers shall establish Company goals to be shared among directors, executive officers, and employees. Directors shall determine efficient methods for achieving Company goals, allocating specific goals and authority to business divisions as appropriate.
- (3) The directors in charge shall confirm the progress of the achievement of goals and shall be required to report specific measures being taken to achieve said goals at Board of Directors meetings.
- (4) Each director shall execute their duties appropriately and engage in efficient decision making based on internal regulations related to responsibility and authority.

### 5. System for Directors and Executive Officers of Group companies to report matters related to business execution by the Group

- (1) Business execution of Group companies shall be reported regularly to the Executive Committee and the Board of Directors.
- (2) Directors and Executive Officers in charge of Group companies shall request reports on business execution from Group companies as necessary.

(3) Under internal regulations for responsibility and authority, Group companies shall be obligated to report to and cooperate with the Group, or receive approval from the Board of Directors, on certain matters related to management at Group companies.

(4) The Internal Audit Department shall report the results of internal audits of Group companies to the Internal Audit Committee and the president and representative director in a timely manner.

#### **6. System to ensure the appropriateness of business operations of the Group and its parent company**

The Group shall ensure objectivity and rationality in transactions between the Group and Group companies, including the parent company. The Group shall ensure independence from the parent company, especially for transactions with the parent company.

#### **7. Matters regarding directors and employees who are requested to assist with the duties of the Audit & Supervisory Committee (excluding directors who are members of the Audit & Supervisory Committee), matters regarding the independence of such directors and employees from the Audit & Supervisory Committee, and matters regarding the provision of effective instructions to such employees.**

(1) Directors and employees assigned to the Auditing Department shall assist with the duties of the Audit & Supervisory Committee. The transfer and evaluation of Auditing Department directors and employees shall be conducted with respect to the opinions of the Audit & Supervisory Committee. The independence of such directors and employees from other directors (excluding directors who are members of the Audit & Supervisory Committee) shall be ensured.

(2) If a director or an employee of the Internal Audit Department is asked to assist the duties of the Audit & Supervisory Committee, such directors or employees shall comply with the direction and instructions of the Audit & Supervisory Committee.

#### **8. System for directors (excluding directors who are members of the Audit & Supervisory Committee), executive officers, employees, and auditors of the Group (or equivalent persons) to report to the Audit & Supervisory Committee, as well as persons who receive reports from directors, executive officers, employees, and auditors of the Group to report to the Audit & Supervisory Committee, and system for other reports to the Audit & Supervisory Committee**

(1) The president and representative director and Group directors shall report on their business execution at Board of Directors meetings as necessary.

(2) If the Audit & Supervisory Committee requests a report about a business or conducts an investigation of a business or property, the directors (excluding directors who are members of the Audit & Supervisory Committee), executive officers, and employees of the Group shall respond to the request or investigation promptly and accurately.

(3) If a director (excluding a director who is a member of the Audit & Supervisory Committee), executive officer, or employee discovers any incident that could bring harm to the Group, including a violation of laws or regulations, the director, executive officer, or employee shall report the incident to the Audit & Supervisory Committee immediately.

(4) The Internal Audit Department and the Risk Management Committee shall regularly report the results of internal audits of Group companies, as well as the status of any other activities, to the Audit & Supervisory Committee.

(5) The departments responsible for overseeing compliance shall regularly report the status of internal reporting at Group companies to the Audit & Supervisory Committee.

#### **9. System to ensure that persons who submit reports to the Audit & Supervisory Committee will not be treated disadvantageously due to their submission of reports**

Directors (excluding directors who are members of the Audit & Supervisory Committee), executive officers, or employees of the Group shall be able to submit reports directly to the Audit & Supervisory Committee. Internal regulations prohibit disadvantageous treatment of any director, executive officer, or employee due to their submission of reports.

#### **10. Policy on prepayment and repayment of expenses resulting from the business execution of the Audit & Supervisory Committee (limited only to business execution related to the Audit & Supervisory Committee) and the processing of expenses and debt resulting from said business execution, and system for enabling the Audit & Supervisory Committee to conduct other audits**

(1) If the Audit & Supervisory Committee requests prepayment or repayment of expenses resulting from its business execution based on Article 399, Paragraph 2, Item 4 of the Companies Act, excluding cases where such expenses or debts are not necessary for said business execution, such expenses and debts shall be promptly recorded.

(2) If the Audit & Supervisory Committee independently requests the use of external specialists, SBF shall pay such expenses, unless such a request is not necessary for conducting committee business.

(3) The Audit & Supervisory Committee shall ensure that information is exchanged between auditors of Group companies (or equivalent persons), the Internal Audit Department, and the committee itself, establishing a mutual understanding among all parties.

(4) The Audit & Supervisory Committee shall provide regular opportunities for the exchange of opinions with the president and representative director and the Independent Auditor.

### **Outside Directors**

#### **1. Selection of outside directors**

Outside directors shall express their opinions based on their record of achievement, abundance of experience, and expertise. In doing so, they assist in appropriate decision-making and oversight of business execution by the Board of Directors, as well as strengthening the auditing functions of the Audit & Supervisory Committee.

As of March 31, 2017, SBF had three outside directors, two of whom were also members of the Audit & Supervisory Committee.

Outside Director Yukari Inoue possesses a record of achievement and valuable expertise based on her overseas experience through her many years of service as a corporate manager. She provides constructive advice and appropriate oversight from an objective and neutral standpoint during deliberation of agenda items at meetings of the Board of Directors and in other settings. Accordingly, SBF believes that Ms. Inoue is properly qualified for the post of Outside director.

Outside Director and Audit & Supervisory Committee member Harumichi Uchida possesses an abundance of experience and valuable expertise as an attorney. As an Outside Director and Audit & Supervisory Committee member, he offers effective advice and performs proper audit and supervisory duties from an objective and neutral standpoint during deliberation of agenda items at meetings of the Board of Directors and in other settings. Accordingly, SBF believes Mr. Uchida is properly qualified for the post of Outside Director and Audit & Supervisory Committee member.

Outside Director and Audit & Supervisory Committee member Mika Masuyama possesses an abundance of consulting experience, knowledge, and global expertise in management and economics related to corporate governance, human resources and organizational management, M&A, and other fields. As an Outside Director and Audit & Supervisory Committee member, she offers effective advice and performs audit and supervisory duties from an objective and neutral standpoint during deliberation of agenda items at meetings of the Board of Directors and in other settings. Accordingly, SBF believes that Ms. Masuyama is properly qualified for the post of Outside Director and Audit & Supervisory Committee member.

#### **2. Interests between SBF and outside directors**

Outside Director Yukari Inoue serves as Managing Director of Kellogg Japan G.K. and Outside Director for JC Comsa Corporation. While beverage-related transactions occur between the SBF Group and Kellogg Japan G.K. parent company Kellogg Company, such transactions do not represent significant financial amounts. The SBF Group has no transactional relationships with JC Comsa Corporation. Accordingly, there are no special related-party interests between SBF and the two aforementioned companies.

Outside Director and Audit & Supervisory Committee member Harumichi Uchida serves as an attorney with Mori Hamada & Matsumoto and as Outside Audit & Supervisory Board member for Sumitomo Dainippon Pharma Co., Ltd. While the SBF Group engages Mori Hamada & Matsumoto as attorneys, such transactions do not represent significant financial amounts. Accordingly, there are no special related-party interests between SBF and Mori Hamada & Matsumoto. Outside Director and Audit & Supervisory Committee member Mika Masuyama serves as Representative Partner of Masuyama & Company G.K. The SBF Group has no transactional relationships with Masuyama & Company G.K. Accordingly, there are no special related-party interests between SBF Masuyama & Company G.K.

### 3. Selection standards for outside directors

SBF believes outside directors must have the ability to use expertise and experience from their fields to contribute to management strategy and supervise operations.

SBF views outside directors as independent if they do not fall into the categories below.

- (1) A close relative (of first or second degree) of the relevant outside director is currently or has in the past been an executive director of SBF or its subsidiaries.
- (2) A company where the relevant outside director currently serving as an executive officer or employee has transactions with the Group and the monetary amount of such transactions was greater than 2% of consolidated net sales for either company in the past three business years.
- (3) The relevant director has, as an expert or consultant in the field of law, accounting, or tax, received remuneration of over ¥10 million directly from SBF in the past three business years. This excludes remuneration as a director of SBF and remuneration paid to the organization or business to which the relevant outside director belongs.
- (4) A nonprofit organization of which the relevant director is an executive director that has received donations from SBF of over ¥10 million and this amount exceeded 2% of the relevant organization's total business income in the past three business years.

SBF has registered outside directors Yukari Inoue and Mika Masuyama as independent directors with the Tokyo Stock Exchange, Inc.

## Guidelines on Measures to Protect Minority Shareholders When Conducting Transactions and Other Business with the Controlling Shareholders

- (1) Transactions between the Suntory Group, including SBF parent company Suntory Holdings Limited, are examined by SBF General Affairs Department and Accounting Department beforehand to confirm the necessity of the transaction, the appropriateness of the relevant terms and conditions, and the decision-making process. Working to ensure independence from the parent company, the Board of Directors, including outside directors, deliberate the necessity and appropriateness of transactions deemed particularly important between the parent company and other Suntory Group members.
- (2) In addition to these prior deliberations, the Internal Audit Department conducts a post-transaction review of details of the transaction to determine whether it was in accordance with the contents of the deliberation. Also, the Audit & Supervisory Committee conducts an audit to assess the soundness and appropriateness of the transaction.

## Compensation of Members of the Board of Directors and Audit & Supervisory Committee

By resolution of the Ordinary General Meeting of Shareholders held on March 27, 2015, remuneration for directors (excluding directors who are Audit & Supervisory Committee members) has been established as ¥1,000 million or less per year (not including the employee portion of salaries of directors who are concurrently employees). Remuneration for outside directors was established as ¥100 million or less per year. The limit for Audit & Supervisory Committee member remuneration was set at ¥150 million per year according to a resolution passed at the same meeting.

The allocation of remuneration to each director (excluding directors who are Audit & Supervisory Committee members) is entrusted to the Board of Directors, while the allocation of remuneration to each Audit & Supervisory Committee member is entrusted to the Audit & Supervisory Committee. The details on remuneration amounts are as follows.

### 1. Total amount of compensation, total amount by type of compensation, and number of recipients by director category

Title	Millions of yen			Number of Eligible Directors
	Total Compensation and Other Remuneration	Basic Compensation	Bonuses	
Directors (excluding Audit & Supervisory Committee members) (excluding Outside Directors)	352	178	174	9
Outside Directors (excluding Audit & Supervisory Committee members)	12	12	—	1
Directors (Audit & Supervisory Committee members) (excluding Outside Directors)	46	26	19	2
Outside Directors (Audit & Supervisory Committee members)	24	24	—	2

Note: Not including employee salary

### 2. Total compensation amounts for persons receiving total compensation of ¥100 million or more

Name	Title	Millions of yen		
		Basic compensation	Bonuses	Total Compensation
Saburo Kogo	Director	67	63	130

### 3. Policy on determining the amount of compensation for executive officers

Remuneration for directors is structured to be at levels corresponding to roles and responsibilities. This structure provides directors with motivation to improve SBF performance and corporate value, while also designed to attract outstanding personnel.

Compensation for executive directors is comprised of a basic salary (a monthly, fixed amount) and bonuses (annual, performance-based). Compensation levels are determined based on the role and responsibility of each director. Bonuses are primarily determined by a benchmark based on SBF consolidated operating income.

In principle, non-executive director compensation is comprised of a basic salary only (monthly, fixed amount). Full-time Audit & Supervisory Committee member compensation consists of a basic salary and a bonus (annual, performance-based), paid in consideration of the contribution to SBF performance. Compensation levels are determined based on roles and responsibilities. Bonuses are primarily determined by a benchmark based on SBF consolidated operating income.

SBF does not have a retirement benefit system or a stock option system.

## Independent Auditor Compensation

### Details of compensation for certified public accountants and other staff of the Independent Auditor

Classification	Millions of yen			
	Fiscal Year Ended December 2015		Fiscal Year Ended December 2016	
	Audit Certification Services	Non-Audit Services	Audit Certification Services	Non-Audit Services
Suntory Beverage & Food Limited	50	48	50	77
Consolidated subsidiaries	39	—	45	—
Total	89	48	95	77

## Investor Relations Activities

The Investor Relations Department within the Corporate Strategy Division directs investor relations activities. SBF holds presentations on financial results (second-quarter and year-end) given by the president and representative director or the chief financial officer. In addition, SBF holds several one-on-one meetings with institutional investors in major cities in Europe, the United States, and Asia each year. Presentations at these meetings are given by the president and representative director, the chief financial officer or members of the Investor Relations Department. In principle, important disclosure materials for investors are provided entirely in English and are posted on the SBF website at the same time as Japanese-language materials, or shortly thereafter.