Annual Report 2013

SUNTORY

SUNTORY BEVERAGE & FOOD

In Harmony with People and Nature

The Suntory Group's corporate philosophy is "In Harmony with People and Nature." These words express our core beliefs and ongoing objectives. We develop a rich experience of life based on real needs, in harmony with people and their natural surroundings. Through our corporate initiatives, Suntory strives to maintain a sustainable global environment and contribute to a truly prosperous society. Guided by this philosophy, as responsible corporate citizens, the Suntory Group aspires to provide the highest quality products and services for the improvement of life around the world.

SUNTORY
SUNTORY BEVERAGE & FOOD

Contents

Forward-Looking Statements

- This annual report is aimed at providing financial, management and other information on Suntory Beverage & Food Limited (SBF) and its subsidiaries and affiliate companies (the Group).
- Though SBF has relied upon and assumed the accuracy and completeness of third party information available to it in preparing this annual report, including data prepared by Euromonitor International Limited, Inryou Souken, and INTAGE Inc., SBF has not independently verified such information and makes no representations as to the actual accuracy or completeness of such information. Therefore, the information should not be relied upon in making, or refraining from making, any investment decision. The information in this annual report is subject to change without prior notice. Statements contained herein that relate to future operating performance or strategic objectives are forward-looking statements. Forward-looking statements are based on judgments made by SBF's management based on information currently available. These forward-looking statements are subject to various risks and uncertainties, and actual business results may vary substantially.
- This annual report is not a securities report based on the Financial Instruments Exchange Act of Japan, and does not necessarily contain all the information required in making investment decisions regarding the securities of SBF.

We Are a Soft Drink Company with a Globally Integrated Platform in Key Regions

Suntory Beverage & Food Limited (SBF) has a diverse portfolio of soft drinks including mineral water, ready-to-drink (RTD) coffee, RTD tea, carbonates, functional drinks and fruit juices. We are expanding our businesses globally with a focus on five key regions: Japan, Europe, Oceania, Asia and the Americas. On July 3, 2013, we successfully listed our shares on the First Section of the Tokyo Stock Exchange. Through this listing, we aim to accelerate our growth globally to become the world's leading global soft drink company.

2013 Financial Digest

Net sales

¥1,121.4 bil. +13.0 % YoY

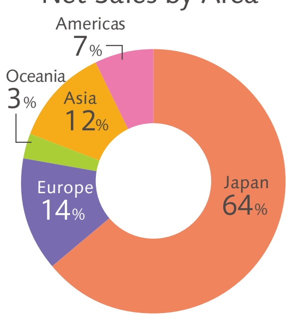
Operating income

¥72.7 bil. +24.4 % YoY

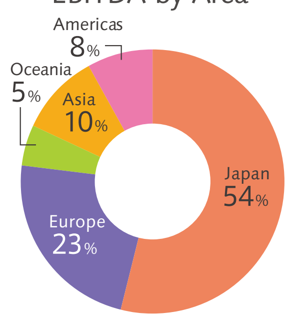
EBITDA*

¥139.6 bil. +21.8 % YoY

Net Sales by Area



EBITDA by Area

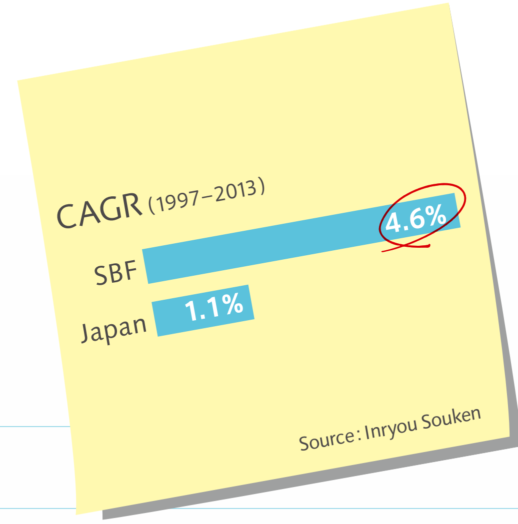


* EBITDA is operating income plus depreciation and amortization and amortization of goodwill.

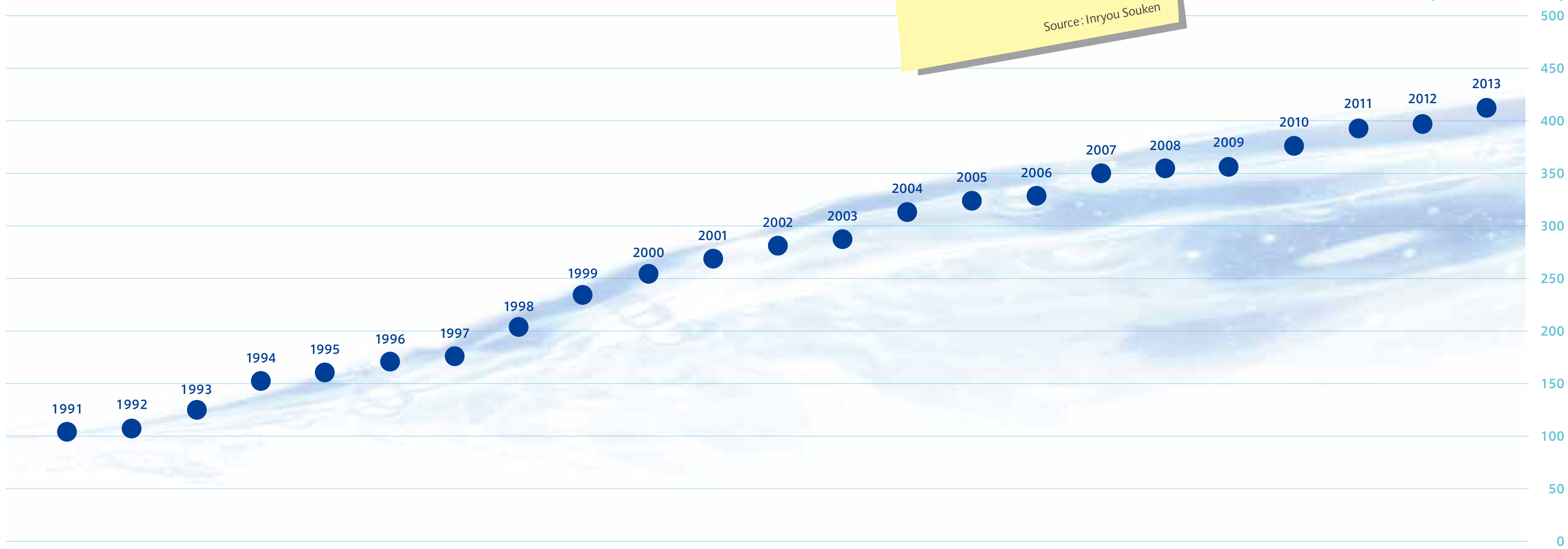
*Bottling operations in North Carolina.

Our Innovative Products Have Led Robust Organic Growth Outperforming the Japanese Market

We have increased our sales volumes in the soft drink market in Japan for more than 20 years. In the past 16 years, our growth has outstripped the Japanese market growth rate as we have expanded our market share. Today, we hold a 20.1%* share of the soft drink market in Japan. We have clinched this market position by continuing to boldly propose soft drink in a host of different product categories to customers, in an effort to swiftly respond to their changing needs over the years. Looking ahead, we will work to make our strong brands even stronger as we pursue the top market position in Japan.



Sales Volume in Japan (From 1991)



Soft Drink Market Share in Japan

20.1*%

No. 2 in Japan (2013)

*Source: Inryou Souken

Major Brands and Year of Launch

1981 Suntory Oolong Tea | 1991 Suntory Tennensui | 1992 BOSS | 1994 C.C.Lemon | 1998 natchan! | 2004 Iyemon | 2006 Pepsi NEX ZERO | 2006 Suntory Black Oolong Tea | 2012 Orangina | 2012 GREEN DAKARA

Established Strong Position through Marketing and R&D Expertise

Why have we been able to make such significant strides in Japan? It is because of our strong capabilities in product development and marketing, where we create and propose new ways of deriving enjoyment from beverages, and in R&D, where we explore what consumers truly want and create products that meet their needs.

EVOLUTION of *BOSS*

1992–1997

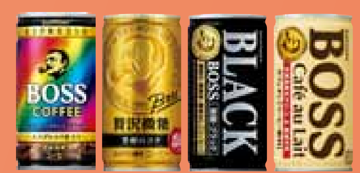
BOSS was launched as "The Worker's *AIBO*."

(*AIBO* = A reliable partner with long years of experience that could be trusted)

2002–2003

A major product renewal was undertaken in the 10th year, introducing new flavors for enjoying *BOSS* in various drinking occasions.

(expansion of product lineup)



Today

Strategy focused on four major categories

Established categories represented by *Rainbow Mountain Blend*, *Zeitaku Bito*, *Muto Black*, and *Café au Lait*.

SUNTORY BEVERAGE & FOOD LIMITED

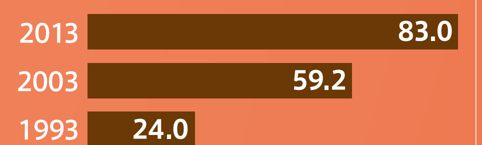
Marketing

BOSS: A Testament to Our Marketing Capabilities

We intended this canned coffee to fulfill the role of a faithful companion as "The Worker's *AIBO*." This concept was translated into the beverage content, naming and packaging, giving birth to *BOSS*, a canned RTD coffee product with a strong appeal to its target market. *BOSS* was rapidly embraced by Japanese business people dealing with Japan's economic recession in 1992, when it was launched. In its first three months, *BOSS* became a best-selling hit product, with sales volume surpassing 10 million cases. Since then, the brand has continued to evolve. We have pioneered new value in the *BOSS* canned RTD coffee series, keeping pace with changing consumer tastes by creating new product categories, such as *Zeitaku Bito* (low-sugar type), *Muto Black* (sugar-free type), and *Café au Lait*.

Sales volumes of *BOSS* have continuously increased over the past 20 years since its launch, and we aim to sustain this growth into the future.

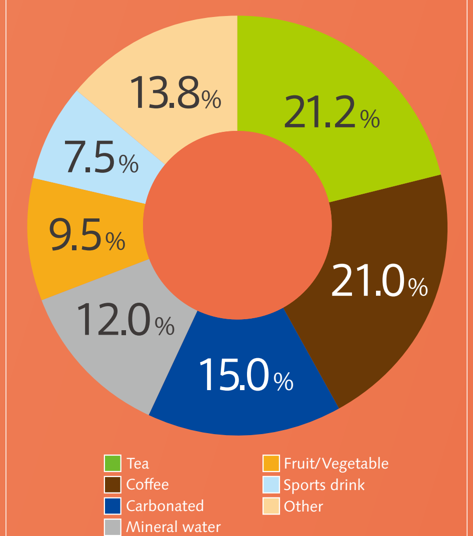
BOSS Sales (million cases)



About canned RTD coffee:

The size of the canned RTD coffee market is approximately ¥1 trillion. Canned RTD coffee is sold through supermarkets, convenience stores, vending machines and other channels. In recent years, numerous types of canned RTD coffee offering distinctive added value have been sold on the market, including categories such as sugar-free, low-sugar and café au lait, along with canned RTD coffee made from coffee beans sourced from special growing regions and using special roasting methods. There is now a growing assortment of packaging available for RTD coffee, including bottle cans and PET bottles.

Soft drink market in Japan by category (2013)



Source: Inryou Souken

FOSHU Lineup

Suntory Black Oolong Tea

An oolong tea that helps block the absorption of fat.

Pepsi Special

A cola product that helps block the absorption of fat and suppresses the increase of triglycerides after meals.

BOSS GREEN

A canned RTD coffee that helps to block the absorption of fat.

Iyemon Tokucha

A green tea that helps to reduce body fat.

Suntory Goma Mugicha

A barley tea drink containing sesame peptide, making it ideal for those with high blood pressure.

R&D

FOSHU: A Testament to Our R&D Capabilities

Guided by the thinking that R&D is the lifeblood of a manufacturer, we work hard every day to develop high value-added products that our customers will find delicious. In our R&D activities, we focus not only on the pursuit of delicious flavor, but also on the development of health benefits from the ingredients. For example, by focusing on the powerful ability of oolong tea polymerized polyphenols (OTPPs) to suppress the absorption of fat from food, we developed *Suntory Black Oolong Tea*, an RTD tea that has been approved as a Food for Specified Health Uses (FOSHU) by the Consumer Affairs Agency of Japan. Since then, we have expanded our FOSHU range to categories such as barley tea, cola drinks, and RTD coffee. Our R&D activities over many years have enabled us to expand our range of FOSHU products that are both delicious and offer health benefits to satisfy the desires of health-conscious consumers.

FOSHU

FOSHU (Foods for Specified Health Uses) refers to foods that have been scientifically proven to be beneficial for maintaining and promoting health and approved by the Consumer Affairs Agency of Japan. With the recent increase in health-consciousness among consumers in Japan, the FOSHU field has attracted a lot of attention in the past few years and is expected to expand further.

SBF's FOSHU Drinks Sales (million cases)

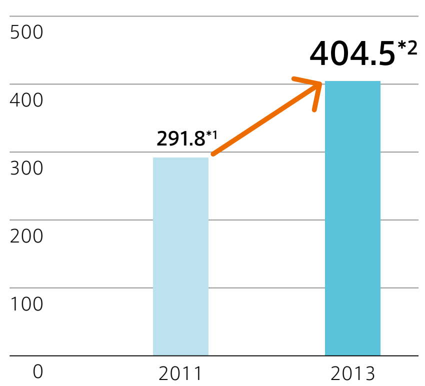
2014	25.3 (Forecast*)
2013	16.9
2012	10.7

*Forecast as of February 14, 2014

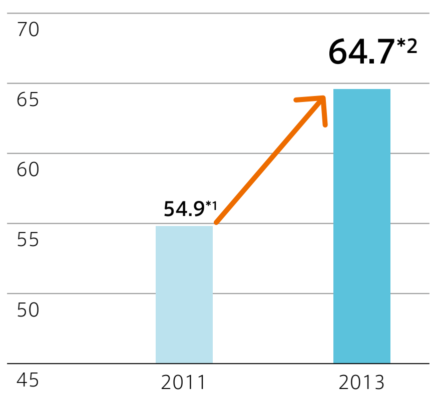
Strong Track Record of Acquisitions to Accelerate Global Business Expansion

Our first step toward overseas expansion was the acquisition in 1980 of PepCom Industries, Inc., a *Pepsi* bottler in the United States. Then in 1990 we established a foothold in the Asian market by acquiring Cerebos Pacific Limited. In 2009, we went on to acquire the Frucor Group, which owns *V*, a popular energy drink brand in Australia and New Zealand, and the Orangina Schweppes Group, which has a strong operation base in Europe. On December 31, 2013, we acquired the two brands *Lucozade* and *Ribena* in the U.K. We have rapidly expanded our business foundations overseas as we prepare to become a leading player in the global soft drink industry.

Sales (overseas) (billions of yen)



EBITDA (overseas) (billions of yen)



*1 For comparison purposes, SBF's 2011 proforma figures include results for Pepsi Bottling Ventures prior to their transfer from Suntory Holdings.

*2 The two beverage brands *Lucozade* and *Ribena* were transferred to SBF on December 31, 2013, and consequently had no impact on overseas sales and EBITDA for the year ended December 31, 2013.

M&A Track Record

Asia | Europe | Oceania | Americas

2013 Lucozade Ribena Suntory Limited
Acquired the two soft drink brands Lucozade and Ribena and related assets from GlaxoSmithKline plc of the U.K., and established Lucozade Ribena Suntory Limited.

2013 Suntory PepsiCo Vietnam Beverage Co., Ltd.
SBF and PepsiCo entered into a capital alliance agreement in the soft drink business in Vietnam.

2012 Suntory Narang Private Limited
Entered the Indian market by establishing Suntory Narang Private Limited as a joint venture.

2011 PT SUNTORY GARUDA BEVERAGE
Established PT SUNTORY GARUDA BEVERAGE as a joint venture with the Indonesian food and beverage group, GarudaFood Group.

2009 Orangina Schweppes Group
Acquired the Orangina Schweppes Group (OSG), a soft drink manufacturer based in France. OSG markets Orangina, a carbonated beverage containing fruit juice enjoyed in more than 40 countries around the world. In addition to its firmly established operating base in France and Spain, OSG is also developing an expansive concentrates business.

2009 Frucor Group
Acquired the Frucor Group of New Zealand. The Frucor Group has the second largest share of New Zealand's soft drink market. It is expanding its range of strong brands worldwide, including V, the leading energy drink in New Zealand and Australia.

1990 Cerebos Pacific Limited
Began managing Cerebos Pacific Limited, an international food company based in Singapore. Cerebos Pacific is contributing to healthier consumer lifestyles in Asian countries with its health food products led by BRAND'S Essence of Chicken. Cerebos Pacific also markets a wide range of processed foods centered on coffee and sauces in Oceania.

1980 PepCom Industries, Inc.
Entered the U.S. soft drink market by acquiring 100% of PepCom Industries, Inc., a Pepsi bottler.

1999 Pepsi Bottling Ventures LLC
Established the joint venture Pepsi Bottling Ventures LLC (PBV) with PepsiCo. PBV is a Pepsi bottler in the United States. It was established by integrating the franchise (manufacturing and marketing rights) area of PepCom Industries, an independent Pepsi bottler, with the franchise area of PepsiCo's bottling division in North Carolina.

SUNTORY BEVERAGE & FOOD LIMITED

Leveraging Our Strengths and Robust Overseas Business Platform to Deliver Deliciousness Worldwide

In this section, we introduce two examples of how we have used our assets to deliver innovative refreshment to our customers. The first example is the launch of *Orangina* in Japan. We tailored the product, for example its labeling and packaging, to appeal to consumers in Japan, and marketed it as a carbonated fruit drink with a distinctively French character. As a result, *Orangina* is now a hit product with an annual sales volume of 9 million cases. The second example is the launch of oolong tea products *MYTEA Oolong Tea* and *TEA+ Oolong Tea* in Southeast Asia. We used the technology we have accumulated over many years in product development for *Suntory Oolong Tea* to develop delicious tea products with a taste adapted to local consumer preferences. Looking ahead, we will continue to develop and market products across national and regional boundaries by adapting them to the tastes of customers in each region. In doing so, we will continue to embrace the challenge of delivering delicious refreshment to customers worldwide.

Our Vision

Suntory Beverage & Food is a core company in the Suntory Group, and has inherited its shared basic corporate philosophy and vision. Guided by Suntory Group's philosophy, we have developed a unique business vision for the Suntory Beverage & Food Group.

*Please see page 30 for the Suntory Group's Vision.

Our Vision for value

A quest for the best tastes & quality to bring happiness & wellness into everyday life.

Our Vision for the company

To be the leading global soft drink company recognized for our premium and unique brands.

Orangina
Originating in France, *Orangina* has been tailored to suit consumers in Japan, where it is now produced and marketed.

MYTEA Oolong Tea and *TEA+ Oolong Tea*
These tea drinks, developed using technology we have accumulated over many years of product development for *Suntory Oolong Tea*, are now being marketed in Southeast Asia.

SUNTORY BEVERAGE & FOOD LIMITED

Brand Portfolio

Over the past several decades we have expanded our brand portfolio to adapt to changing consumer preferences and create new demand for our products in the beverage market. Our diversified brand portfolio and development capabilities position us to swiftly capitalize on global consumer trends favoring healthier products in a variety of categories.

●RTD tea ●RTD coffee ●Functional drink ●Health supplement ●Mineral water ●Fruit juice ●Carbonate ●Cola drink ●Jelly drink ●Energy drink ●FOSHU

Performance Highlights

Suntory Beverage & Food Limited and Consolidated Subsidiaries

(millions of yen)

FOR THE YEAR	2011	2012	2013
Net sales	893,353	992,160	**1,121,362**
Operating income	59,789	58,447	**72,716**
Net income	29,497	23,385	**31,196**
Depreciation and amortization	30,063	36,570	**43,719**
Amortization of goodwill	19,121	19,666	**23,211**
Net income before amortization of goodwill	48,618	43,050	**54,407**
EBITDA*1	108,973	114,682	**139,646**
Before amortization of goodwill			
EPS (Yen)*2	225.09	199.31	**207.17**
ROE*3	—	24.2%	**14.5%**
After amortization of goodwill			
EPS (Yen)*2	136.56	108.27	**118.79**
ROE*3	21.7%	13.2%	**8.3%**
Cash flows			
Cash flows from operating activities	81,346	85,830	**114,082**
Cash flows from investing activities	(21,587)	(75,874)	**(290,613)**
Cash flows from financing activities	(42,377)	(15,249)	**190,409**
Cash and cash equivalents at end of the term	28,205	26,061	**45,851**
AT YEAR-END			
Total assets	802,876	844,450	**1,256,702**
Total equity	181,890	204,276	**592,969**
Capital expenditures	—	50,823	**62,600**
D/E ratio (Times)*4	1.7	1.5	**0.4**

*1 EBITDA is operating income plus depreciation and amortization and amortization of goodwill.
*2 The Company calculated EPS for the fiscal year ended December 31, 2013 based on the average number of issued shares during the year including the issuance of 93,000,000 new shares.
On April 16, 2013, the Company conducted a 1:500 share split whereby 1 share was split into 500 shares, bringing the total number of issued shares to 216,000,000 shares. The Company calculated EPS for the fiscal year ended December 31, 2012, and for the fiscal year ended December 31, 2013, based on the assumption that the share split was conducted at the beginning of the fiscal year ended December 31, 2012.
*3 The Company calculated ROE for the fiscal year ended December 31, 2013 based on the average shareholders' equity at the beginning and end of the fiscal year including the equity increase during the fiscal year.
*4 D/E ratio: (Interest-bearing debt – Cash and cash equivalents)/ Total equity

NET SALES

+13.0% YoY

Consolidated net sales for both the Japan segment and the overseas segment were ¥1,121.4 billion, as a result of efforts to foster and strengthen core brands and create demand through the implementation of new product launches, along with aggressive marketing activities.

OPERATING INCOME

+24.4% YoY

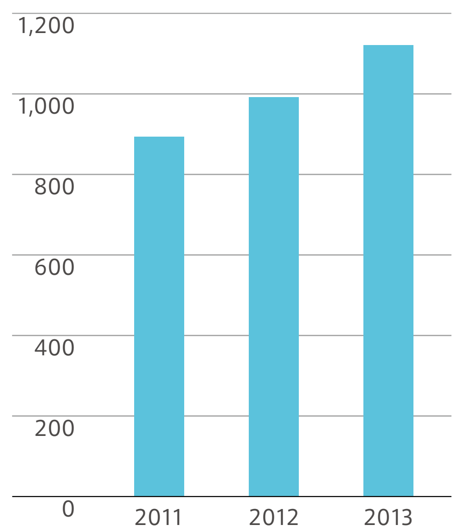
Consolidated operating income was ¥72.7 billion. In the Japan segment, profits were boosted by increased sales volume, as well as efforts to reduce manufacturing and distribution costs. In the overseas segment, we continued to strengthen group synergies through the overseas deployment of R&D technology and know-how for the reduction of costs developed in Japan. This enabled us to improve quality and bolster our earning capacity.

TOTAL EQUITY

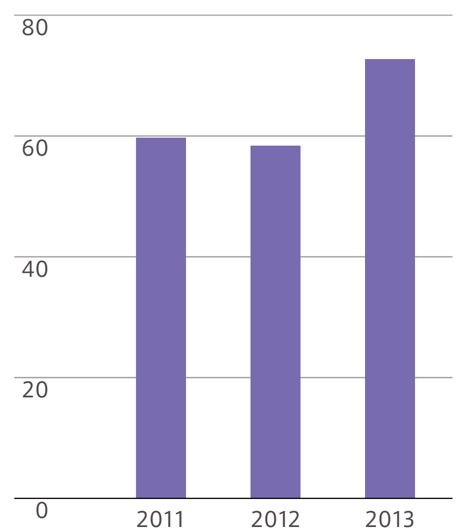
+388.7 bil. YoY

Total equity stood at ¥593.0 billion, increasing compared to December 31, 2012 because of increases in common stock and capital surplus due to the issuance of new shares and the addition of foreign currency translation adjustments.

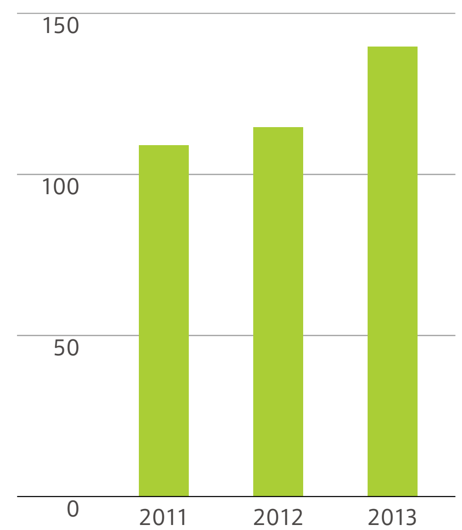
Net Sales (billions of yen)



Operating Income (billions of yen)



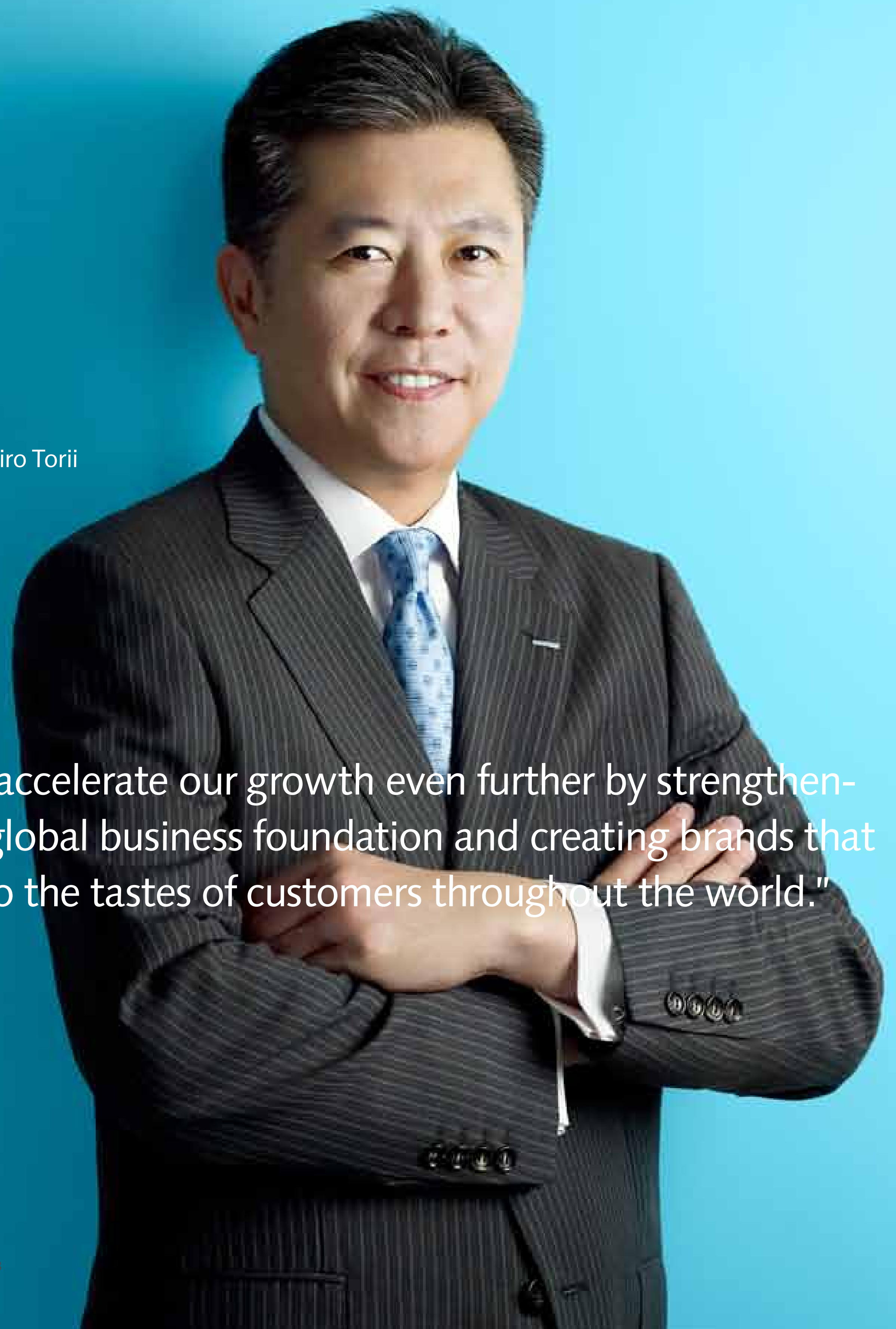
EBITDA (billions of yen)



* EBITDA is operating income plus depreciation and amortization and amortization of goodwill.

SUNTORY BEVERAGE & FOOD LIMITED

President's Message



Nobuhiro Torii
President

"We will accelerate our growth even further by strengthening our global business foundation and creating brands that appeal to the tastes of customers throughout the world."

Q1 SBF was listed on the First Section of the Tokyo Stock Exchange on July 3, 2013. Please tell us about the background to this move and the Company's objectives.

A By expanding our existing business and aggressively pursuing M&As, we aim to become internationally recognized as a leading global company in the soft drink industry.

SBF is the largest operating company in the Suntory Group, responsible for the group's non-alcoholic beverage and food businesses. In Japan, we have leveraged our strengths in product development and marketing to develop numerous powerful brands, including *BOSS* (RTD coffee), *Iyemon* (RTD green tea), and *Suntory Oolong Tea*. Our sales volumes in Japan have expanded steadily year on year for 21 consecutive years. Now our business is growing rapidly overseas as well, following our aggressive pursuit of M&A opportunities to acquire a business base and leading brands and product development aligned with local consumer preferences in each area.

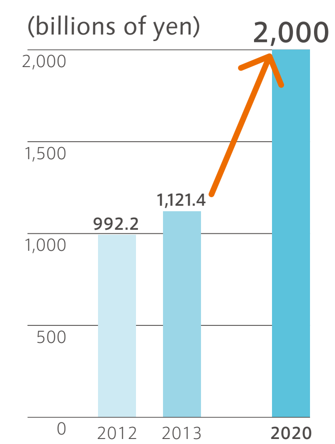
In our vision for 2020, we have set our sights on achieving consolidated net sales of ¥2 trillion. To reach this target, we will accelerate our growth as an autonomous global company through strategic acquisitions and expansion of our existing businesses. And, judging that a solid financial base would be essential to support these efforts, we listed the company on the First Section of the Tokyo Stock Exchange on July 3, 2013.

We aim to fully demonstrate our own strengths in product development and marketing, and make major advances as a company with unique, premium brands and a strong presence to become internationally recognized as a leading global company in the soft drink industry.

In terms of numerical targets, we have now embarked on our Medium-term Management Plan 2013-15. In the three years up until 2015, we aim to achieve a high single-digit CAGR—that is, 5% or more—for net sales and a high single-digit CAGR or higher for EBITDA of the existing businesses, compared to their 2012 levels. We intend to drive further growth in our existing Japan and overseas business segments, which will underpin our global growth, while undertaking earnings structure reforms and aggressively pursuing M&A opportunities to develop new businesses.

Our Vision for 2020

Net sales
¥2 trillion



[The Medium-term Management Plan covering the period 2013-15]
Net sales: High single-digit CAGR growth (5% or higher)
EBITDA: High single-digit CAGR growth or higher (existing businesses)

SUNTORY BEVERAGE & FOOD LIMITED

Q2 Please give a summary of the fiscal year ended December 31, 2013 and your targets for the fiscal year ending December 31, 2014.

A In the fiscal year ended December 31, 2013, we saw a substantial increase in both sales and earnings. In fiscal 2014, we will build an even stronger business in Japan, and enter a new growth stage, mainly in Europe and Asia.

Fiscal 2013, the year ended December 31, 2013, was the first year of our Medium-term Management Plan. We saw substantial increases in both sales and earnings, with consolidated net sales of ¥1,121.4 billion, up 13.0% year on year, operating income of ¥72.7 billion, up 24.4% year on year, and net income of ¥31.2 billion, up 33.4% year on year.

In the Japan segment, we worked to foster and strengthen core brands and to create new demand through new product launches and aggressive marketing activities such as cross-brand consumer sales campaigns. As a result, sales increased 4.1% and segment profit rose 27.5%, marking a significant increase in our profitability.

In the overseas segment, we worked to develop our core brands in each area and to expand our business by launching new products in emerging markets. In addition, we used Group synergies to improve quality and strengthen our earning capacity. This involved extending our home-grown R&D technology and cost-cutting expertise overseas. As a result, sales increased 33.3% year on year, and segment profit increased 18.9%.

In fiscal 2014, we will continue striving to accelerate our growth as a global soft drink company. To achieve even further earnings growth, we will work to make our Japan business even stronger and enter a new growth stage centered on business expansion in Europe and in Asia, where markets are growing. Our numerical forecasts are consolidated net sales of ¥1,260.0 billion, up 12.4% year on year, operating income of ¥85.0 billion, up 16.9% year on year, and net income of ¥35.0 billion, up 12.2% year on year.

(billions of yen)

	FY2013	FY2014 (Forecast*)	Year-on-year change
Net Sales	1,121.4	1,260.0	12.4%
Operating Income	72.7	85.0	16.9%
Net Income	31.2	35.0	12.2%
EBITDA	139.6	160.0	14.6%

*Forecast as of February 14, 2014


Credits Photo © Thomas Bismuth

Q3 What kind of strategies do you have in mind for achieving the vision for 2020 of consolidated net sales of ¥2 trillion?

A We will utilize our strengths in product development and marketing to drive faster growth in our Japan and overseas segments.

The type of value we want to offer customers worldwide is encapsulated in our slogan, "A quest for the best tastes & quality to bring happiness & wellness into everyday life."

Having set out our vision for achieving consolidated net sales of ¥2 trillion by 2020, we have adopted the following policies for achieving it: 1) strengthen core brands and create new demand in our domestic business, 2) strengthen the business foundation focused on key areas in our overseas business, and 3) develop new business by aggressively pursuing M&A opportunities.

There is no clever scheme for implementing these policies—the only real approach is to accurately grasp customer needs in Japan and each area overseas, swiftly develop products to meet those needs, and deliver them to customers.

We are expecting competition to intensify in our domestic business. To meet this challenge, as well as continuing to focus on strengthening our existing core brands, we will develop products by leveraging our powerful branding capabilities. We will strive to create new demand by fostering and reinforcing high value-added FOSHU products, and developing products that offer SBF's unique and inimitable value.

In responding to the needs of Japanese consumers as their tastes have diversified, we have developed strengths in product development and marketing. I believe we can fully demonstrate these abilities on the global stage too. For example, there is increasing demand around the world related to people seeking to be healthier, and this has created potential for a global expansion in demand for tea beverages. In fact, the Suntory brand authentic green tea beverages *Mirai*, *MYTEA Oolong Tea*, and *TEA+ Oolong Tea*, developed with tea beverage technology cultivated in Japan, are now seeding new markets in Southeast Asia.

In our overseas business, we will not only drive business expansion by introducing Suntory brands like this, but aim to achieve continuous business growth by promoting synergy creation through the sales of strong brands that straddle national and corporate boundaries and the transfer of Japan's advanced beverage production technologies to other parts of Suntory Beverage & Food Limited Group (the Group).

In addition to growing our existing businesses in Japan and overseas, we will also expand our business through aggressive pursuit of M&A opportunities. For SBF, M&As are premised on targets that match with our strategy, have a strong brand and a strong distribution platform. Guided by these premises, in 2009, we acquired the Frucor Group in New Zealand and the Orangina Schweppes Group in France. Then, in 2013, we acquired *Lucozade* and *Ribena*, two leading brands with established businesses in the U.K., Africa, and Asia.

Now, having secured a business foundation in Europe and Asia, to a certain extent, we will take our global management framework to the next level. Specifically, we will position Suntory Beverage & Food Asia Pte. Ltd. and the newly established Suntory Beverage & Food Europe Limited as regional managing companies and advance our management from an individual company basis to a regional basis. The change will give us the speed to respond flexibly to customer needs and market changes at the regional level, helping us to accelerate business growth.

Looking at our medium- to long-term direction, we will continue to develop our businesses globally, including Africa, the Middle East and emerging markets, with the aim of increasing the share of overseas business sales.

Q4 Please talk about your initiatives for continuously increasing SBF's corporate value.

A We are aiming to grow sustainably by providing safe, reliable, high quality products and building trust in our relationships with our stakeholders.

We have a corporate mission of "In Harmony with People and Nature." This informs our activities as a company that provides soft drinks—we work to protect the earth's valuable water resources, to protect the environment that provides that water, and to provide safe, reliable, high quality products and services.

Management is also included in this. As a global company, we strive to promote sound management and to build a high level of trust in our relationships with stakeholders. We are also working to strengthen our corporate governance.

We also recognize that returning profits to our shareholders is one of our most important management tasks. Our basic policy is to aim for a consolidated dividend payout ratio of 30% or more of net income before amortization of goodwill, giving overall consideration to the business environment and performance, and prioritizing strategic investments and capital expenditures aimed at promoting sustained profit growth and increased corporate value.

Could you please give your closing message to shareholders and investors.

We will continue to grow in the tradition of the Suntory Group, exemplified by the corporate motto, *Yatte Minahare*–Go for it! We will propose unique products tailored to meet the taste preferences of our customers in various countries as we strive to become a leading global soft drink company and meet the expectations of our shareholders by continuously increasing our corporate value. I ask for your continued support for our endeavors.

Nobuhiro Torii
President

Strategy in 2014

Japan

SUMMARY

- **Further Strengthening the Seven Core Brands**
- **Creating New Demand with FOSHU Drinks and Other High Value-Added Products**
- **Promoting Reductions in Manufacturing and Distribution Costs**

In 2013, the overall market in Japan was estimated to have grown 3% year on year, boosted by an extremely hot summer and other factors. In this environment, SBF outgrew the market, with sales increasing strongly at 6% year on year for the 21st consecutive year of sales increases*. In 2014, we continue to reinforce the initiatives we have taken to date, such as strengthening our core brands and reducing costs. Our aim is to build an even stronger business structure for achieving further profit growth. We are targeting an increase of 3.2% in sales to ¥740.0 billion, and an increase of 5.7% in segment profit to ¥48.0 billion. We believe that the market changes due to the April consumption tax hike and the effects of "Abenomics" represent major opportunities for SBF with its strong brands and fast-acting management style.

Our major theme for ensuring growth is fostering and reinforcing our core brands. The beverage market in Japan is expected to be almost flat in 2014 compared to the previous year due in part to the impact of the consumption tax hike; however, with our strengths in branding capabilities we are planning to increase sales volume by 3%. Once again in 2014, we are concentrating our management resources on our seven core brands: *Suntory Tennensui, BOSS, Iyemon, Pepsi, Suntory Oolong Tea, GREEN DAKARA*, and *Orangina*. Competition is intense in the Japanese market, and we believe that only brands ranking in the top two within each category will survive. *Suntory Tennensui, BOSS, Iyemon, Pepsi* and *Suntory Oolong Tea* each rank at either No. 1 or No. 2 within their respective categories, and we now plan to strengthen their positions and increase sales volumes for the seven core brands by 7% compared to the previous fiscal year.

Another theme is creating new demand. We will develop new markets and grow by proposing products with new value that win customers' approval. In addition to insisting on delicious taste, we focus on proposing products that accurately capture customers' needs. A case in point is Food for Specified Health Uses (FOSHU). In addition to *Suntory Black Oolong Tea* and *Goma Mugicha*, we introduced *Pepsi Special* in 2012, *Iyemon Tokucha* in 2013, and *BOSS GREEN* in 2014. The FOSHU drinks market is expanding rapidly in scale driven by rising health awareness among consumers.

To increase our profits, we are not only working to grow our top line, but also to reduce costs. We are promoting measures to achieve cost reductions to overcome cost-push factors such as the yen's depreciation and rising oil prices and create a lean earnings structure. For example, in packaging we will expand our technology for reducing the weight of PET bottles and making ultra-thin labels to more product categories. In manufacturing, we are continuously working to improve manufacturing efficiency and cut distribution costs by concentrating on core brands. In raw materials, we continue to expand our global procurement activities.

* Suntory's performance for soft drink sales volume in Japan
Figures for 2014 are based on forecasts as of February 14, 2014

2014 FORECAST (JAPAN)

Sales

¥740.0 bil. +3.2% YoY

Segment profit

¥48.0 bil. +5.7% YoY

[Seven Core Brands]

Sales volume: 75% of total, +7% YoY (Forecast*)

We are concentrating our management resources on the following seven core brands: *Suntory Tennensui, BOSS, Iyemon, Pepsi, Suntory Oolong Tea, GREEN DAKARA* and *Orangina*. We plan to grow the sales volume of these seven brands by 7% in 2014 and expect their composition of overall sales volume to reach 75%.

*Forecast as of February 14, 2014

[Leveraging the *Suntory Tennensui* Brand]

The *Suntory Tennensui* brand holds the No. 1* position in the mineral water market. In 2013, we launched a sparkling water under this brand, followed in 2014 by the launch of flavored water. We will continue to leverage our strong brand and expand our product lines to drive further growth in the *Suntory Tennensui* series.

* INTAGE MBI data; mineral water market; sales of *Suntory Tennensui* for Jan.–Dec. 2013 (SM·CVS·DRUG total)

[Creating New Demand with FOSHU Drinks]

Iyemon Tokucha was the first FOSHU drink to draw attention to the mechanism of breaking down fats. The product contains a polyphenol called quercetin glycoside that helps to reduce body fat. *BOSS GREEN* not only helps to block the absorption of fat from food, but also offers delicious refreshment as a low-sugar canned RTD coffee thanks to SBF's product development capabilities, which have been refined over many years.

Strategy in 2014

Overseas Segment

SUMMARY

- **Advance to a new growth stage led by business in Europe with the acquisitions of *Lucozade* and *Ribena*, and in Asia, where the market is growing.**

The global beverage market is expanding overall, but is expected to contract in some countries. Meanwhile, global competition has become even more intense.
During fiscal 2013, SBF positioned each of Europe, Oceania, Asia and the Americas as markets with growth potential and worked to expand its business and increase profitability by strengthening existing brands and launching Suntory brands. As a result, we achieved increases in both sales and segment profit. In fiscal 2014, we are continuing to concentrate on strengthening the core brands in each area and to expand our business scale by launching Suntory brands. At the same time, we are constructing a new global management structure to speed up group synergy creation and profitability improvement. For the overseas segment, we are planning to achieve sales of ¥520.0 billion and segment profit of ¥60.5 billion.

2014 FORECAST* (OVERSEAS)

Sales

¥520.0 bil. +28.6% YoY

Segment profit

¥60.5 bil. +19.7% YoY

*Forecast as of February 14, 2014

Europe

Initiatives in Europe

In Europe, although there are signs of recovery, the economic environment is expected to continue to be tough. In these circumstances, the Group has launched Suntory Beverage & Food Europe Limited and given it the role of managing the European business, which is comprised of the Orangina Schweppes Group and Lucozade Ribena Suntory Limited. As the managing company, Suntory Beverage & Food Europe Limited are pursuing to accelerate business growth through the formulation and execution of comprehensive strategies. At the Orangina Schweppes Group, marketing investment is concentrated on key products such as *Orangina* and *Schweppes*, while efforts are made to further strengthen the business foundation and boost profitability. At Lucozade Ribena Suntory Limited, new sales channels for *Lucozade* and *Ribena* will be explored not only in Europe, but also in such emerging markets as Southeast Asia, Africa and the Middle East.
We are also promoting cost reductions by leveraging expertise from our Japanese operations to reduce manufacturing and distribution costs, as well as to move forward with a better aligned and structured business processes.

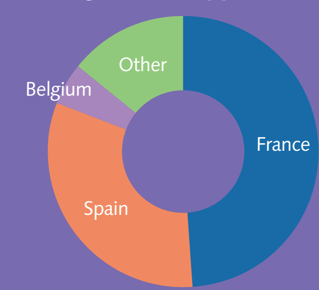
ORANGINA SCHWEPPES
A SUNTORY GROUP COMPANY

The prominent soft drink company in both the French and Spanish beverage markets, the Orangina Schweppes Group's offerings include *Orangina* and *Schweppes*. The company manufactures and sells beverages in-house, and also manufactures and exports concentrates as part of its wide-ranging business centered on Europe.

Orangina A semi-carbonated orange fruit drink marketed in more than 40 countries around the world.

Schweppes A carbonated soft drink available in a multitude of flavors.

Orangina Schweppes Group



Share of sales volume by country
*Source: Company

LUCOZADE RIBENA SUNTORY

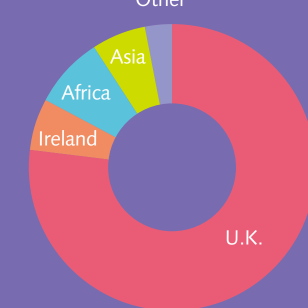
Lucozade

Lucozade
Launched in 1927.
Lucozade is a long-selling energy sports drink with an 80-year history. It has a strong international presence centered on the U.K.

Ribena

Ribena
Launched in 1938.
A fruit juice that is most popularly known for its blackcurrant (cassis) flavor. *Ribena* has an expansive lineup of products including RTD beverages, as well as a concentrate and a low-calorie version.

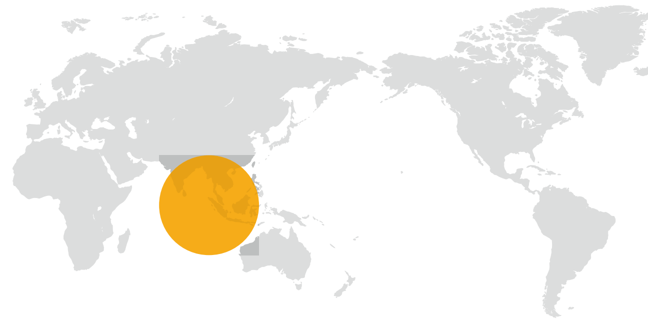
Lucozade Ribena Suntory Limited



Lucozade and Ribena
Share of sales volume by region
*Source: Euromonitor 2013CY, Off-trade Volume

SUNTORY BEVERAGE & FOOD LIMITED

Strategy in 2014



Asia

Initiatives in Asia

Although Asia is subject to concerns about the economic impacts of exchange rates and other factors, in countries with continuing economic growth, we are working to strengthen our business foundation and realize business expansion by such means as new product launches.

With respect to the Cerebos Group, the value of the flagship *BRAND'S* health food products are being emphasized and the Group's position in Southeast Asia will be strengthened further.

At Suntory Garuda Group and Suntory PepsiCo Vietnam Beverage Co., Ltd., further efforts will be made to foster Suntory brands and launch new products in addition to existing flagship brands with the aim of achieving business expansion in excess of the market's overall growth.

In addition, having achieved a certain scale of sales in each of Thailand, Indonesia and Vietnam, it is now possible to undertake activities to improve costs across these countries, including in-house production of packaging and joint purchasing. In this way, we will promote activities to improve cost efficiencies throughout Asia.

Moreover, since these markets are subject to rapid changes and intense competition, we will respond by strengthening local authority and responsibility to further expedite decision making and activity cycles.

Cerebos

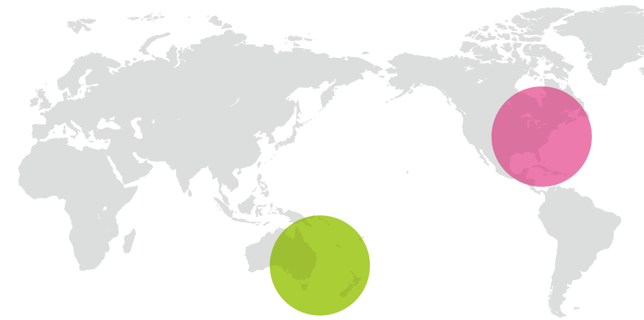
In 1990, Suntory acquired the management rights for Cerebos Pacific Limited (headquartered in Singapore), a general foods company with a strong network throughout Southeast Asia and Oceania. The company operates a health food business, mainly in Thailand, Taiwan, Hong Kong, China, Malaysia, and Singapore, with the products *Essence of Chicken* and *Bird's Nest*, sold under the flagship brand *BRAND'S*. Cerebos Pacific will concentrate on *BRAND'S* to consolidate its position in Southeast Asia.

SUNTORY GARUDA

PT SUNTORY GARUDA BEVERAGE (headquartered in Jakarta, Indonesia) was established in 2011 as a joint venture with Indonesian food and beverage group GarudaFood Group. In addition to the jelly drink *Okky*, SBF has launched *Mirai*, the first Suntory branded green tea in Indonesia, along with *MYTEA Oolong Tea*. PT SUNTORY GARUDA BEVERAGE will expand its business scale by continuing to strengthen the Garuda brand and launching Suntory branded products.

SUNTORY PEPSICO

Suntory PepsiCo Vietnam Beverage Co., Ltd. (headquartered in Ho chi Minh, Vietnam) has been manufacturing and selling soft drinks in Vietnam since 2013. The company's offerings include *Pepsi* brand carbonated beverages *Pepsi* and *7UP*, the energy drink *Sting*, along with Suntory branded *TEA+ Oolong Tea*.



Oceania

Initiatives in Oceania

In Oceania, although competition is expected to intensify further, *V* is being reinforced at the Frucor Group as the leading brand in the energy drink category and aggressive steps will be taken to expand the brand portfolio and launch new products outside the energy drink category, as well as implement cost reductions.

frucor
A SUNTORY GROUP COMPANY

In 2009, SBF acquired the Frucor Group, which runs a soft drink business, mainly in Oceania. In addition to its flagship energy drink product, *V*, the group has a strength in its *Just Juice* line of fruit juice products. Going forward, we will reinforce Frucor Group's position as the leader in the energy drink category in Oceania. With bottling operations for *Pepsi* brand beverages in New Zealand, the group is also growing in the carbonates category.

Americas

Initiatives in the Americas

In the Americas, we reorganized the geographical areas in which Pepsi Bottling Ventures LLC operates in fiscal 2013 and worked to streamline its management. In fiscal 2014, we will strengthen sales of our core products and also focus our efforts on the non-carbonated category, which is expected to see market growth. Furthermore, we continue to strengthen our business foundation following the business area reorganization by working to achieve further business efficiency improvements, primarily in sales and logistics.

pepsi bottling ventures

In 1980, the Suntory Group acquired PepCom Industries, Inc. and commenced bottling business in the U.S. In 1999, the group established Pepsi Bottling Ventures LLC (headquartered in Raleigh, North Carolina) as a joint venture with PepsiCo, Inc. and expanded the geographical area of the business, mainly in North Carolina, by acquiring neighboring bottlers.

SUNTORY BEVERAGE & FOOD LIMITED

CSR Approach and Initiatives

SBF is the core company of the Suntory Group. As such, we have inherited, and share, the Suntory Group's mission of being "In Harmony with People and Nature." Based on the Suntory Group corporate message, "Suntory, Bringing Water to Life," we are conducting various initiatives to realize a sustainable society as a member of the Suntory Group, aiming to coexist with people, society and nature.

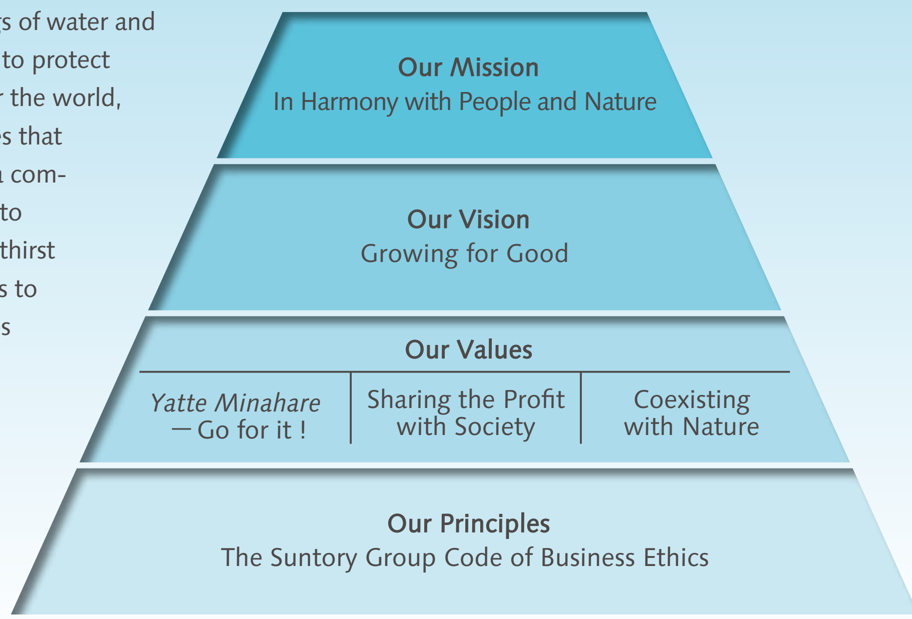
- To indicate clearly to stakeholders which of the CSR activities are led primarily by SBF, the initiatives that have been undertaken through SBF's policies under the Suntory Group corporate philosophy and our independent initiatives are shown as SBF originated activities.

Further details about the Suntory Group's CSR are described on our website at the following URL: http://www.suntory.com/csr/

Suntory Group's Mission, Vision & Values

Suntory, Bringing Water to Life

"Suntory, Bringing Water to Life" is the corporate slogan of the Suntory Group. This message conveys the spirit that our corporate logo expresses in an understandable way, and broadly shares with society our philosophy and the activities we undertake. It reflects that as a company that delivers the blessings of water and nature to our customers, we want to protect both water, a precious resource for the world, and the environment that produces that water. This means we want to be a company that delivers those pleasures to society just like water satisfies the thirst of all living things. We want always to be ready to take on new challenges and be adaptable like water. Our message signifies turning such ideas into something new every day. All of this is encapsulated in our slogan: "Suntory, Bringing Water to Life."



Suntory Group's CSR Statement

SBF is working to promote CSR activities as an integral member of the Suntory Group. The Suntory Group's CSR statement sets out the following precepts, which guide SBF employees in practicing CSR through their ties with stakeholders and society.

- We coexist with society and nature to realize a sustainable society by practicing the Suntory Group's Mission, Vision and Values.
- We promote CSR activities to address social issues as well as create new value to society.
- We respect human rights and behave in high integrity with business partners through all business activities.

Relations with Stakeholders

SBF pursues its business activities amid a range of connections with a variety of stakeholders. As a member of the Suntory Group, we communicate with our stakeholders in various ways. We aim to incorporate feedback we receive and social needs into our corporate activities and continuously work to build deeply trusting and collaborative relationships with them.

CSR Approach and Initiatives

Initiatives for the Global Environment

As a company involved in the soft drink business, we see our most important responsibility as making careful use of clear and beautiful water, and to return water of pristine quality to the environment. The ecosystem produced by the plants, trees, rivers, seas, air, and living things that are nurtured by that water constitute an amazing circulatory system that is, in turn an important business resource. Guided by this thinking, the Suntory Group continues to make its fullest efforts to "reduce its environmental impact" and to "protect and revive the natural environment."

Suntory Group's Water Resource Cultivation Activities

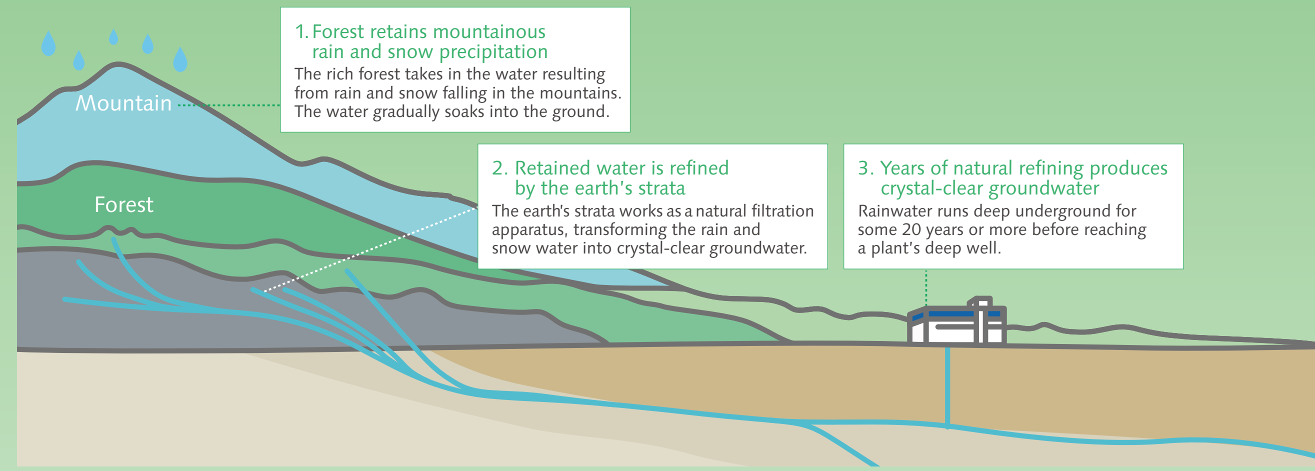
The Suntory Group uses large amounts of groundwater in every step of the manufacturing process of our products, such as *Suntory Tennensui*.

We consider it our responsibility to foster rich forests, cultivating groundwater in excess of the amounts we use in our plants. We therefore established specific forest areas for nature protection activities within the water resource cultivation areas around our plants.

Our goal for these "Natural Water Sanctuaries," as we call the forest areas, is to cultivate more groundwater than we use in our plants. Originally we set out to protect a cultivation area of approximately 7,000 hectares, but the area has already grown to exceed 7,600 hectares at 17 locations in 13 prefectures throughout Japan. Suntory Group has now made a target to almost double the area for cultivating groundwater for use in our plants in Japan by 2020, to a size of 12,000 hectares in total.

*The area required to cultivate groundwater for use in the Suntory plants in Japan continues to shrink since the start of the program through the active promotion of water-saving activities at the plants, and is currently estimated to be 6,000 hectares by 2020.

The Natural Water Sanctuaries are also the site of the Suntory Group's ecosystem protection activities focused on wild birds. We conduct these activities because it is important to protect the entire ecosystem pyramid that supports the habitat where wild birds live. Extending this concept beyond our own back garden, we have been widening support for wild bird protection activities overseas as well.



Suntory Beverage & Food's Environmental Initiatives (Originated by SBF)

SBF positions environmental management at the core of its business activities. In addition to the Basic Principles of Suntory Group's Environmental Policy, we have also independently set out our own environmental policies. Furthermore, in January 2014, we set two environmental burden reduction targets for SBF, intended to contribute to achieving the Suntory Group's Environmental Vision toward 2050.

Environmental Targets

1. Reduction of water consumption at SBF Group*1 factories by 42%*2
- For example, by reducing the amount of water used in the factories for cleaning and cooling of production equipment and containers.

2. Reduction of CO_2 emissions in the SBF Group*1 value chain by 25%*2
- In addition to further reducing the weight of containers, using recycled materials and plant-derived materials in plastic bottles.
- Accelerating introduction of Japan's No.1 energy-efficient vending machines.

*1 The group of companies that covers more than 80% of the SBF Group's sales for 2012 (including overseas companies)
*2 Compared with per unit sales from Suntory's beverages business in 2007 (energy use and emissions per 1 kl of product sold)

CSR Approach and Initiatives

Initiatives for Achieving Environmental Targets (Originated by SBF)

Reducing CO_2 Emissions

(1) Container raw materials

SBF is constantly working to reduce the amount of raw materials used in PET bottles.

Reduction of Container Raw Material and CO_2 Emissions in 2L PET bottles of *Suntory Tennensui*

PET bottle	Lightest*1 weight produced in Japan at 29.8 g	▶	Reduced annual CO_2 emissions by 7,200 tons*3
Labels	Thinnest*2 in Japan at 12 µm	▶	Reduced CO_2 emissions by 25% compared with conventional labels Used 80% recycled PET resin
External packaging	Changed from cardboard to transparent film	▶	Reduced CO_2 emissions by 50% compared with cardboard

We developed our own bottle for *Suntory Tennensui* 550 ml, the lightest* in the industry in Japan at 11.3 g. The bottle also uses 30% plant-derived raw material to further reduce use of petroleum-based resources.

*As of March 31, 2013, for domestically produced mineral water in sizes ranging from 500-ml to 600-ml

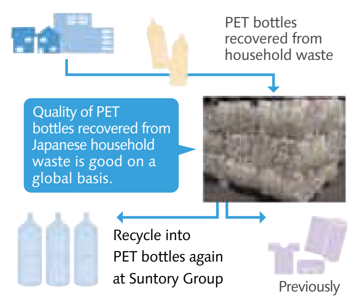
*1 As of December 31, 2012
*2 As of April 2014
*3 Based on SBF calculations the amount saved was converted to approximately 7,200 tons. This is equivalent to the annual CO_2 emissions of about 1,380 standard households (approximately 5,200 kg of CO_2 per household based on data from the National Institute of Environmental Studies)

(2) Recycling

We are the first in Japan's beverage industry to implement bottle-to-bottle mechanical recycling*1.

In this initiative, we recycle PET bottles by using 100% PET resin manufactured from collected PET bottles. This enables us to reduce CO_2 emissions by 83%*2 compared with bottles made completely from petroleum-based resources.

83% Reduction in CO_2 Emissions



*1 Pulverization, cleansing, and return of used products to a material status. Recovered resin is processed for a regulated period under high temperatures and low pressure to remove impurities from the regenerated materials, yielding reclaimed PET resin suitable for use in bottle production.
*2 Compared with virgin resin. Including the manufacturing process to produce PET resin.

(3) State-of-the-art vending machines

We are introducing state-of-the-art, energy-reducing vending machines to reduce power consumption.

SBF has collaborated with vending machine manufacturers to be the first to introduce an ultra energy-saving vending machine (Eco Active Machine), requiring half the power consumed by conventional energy-saving heat-pump vending machines, offering the lowest*1 energy consumption in Japan.

*1 420 kWh/y, the lowest annual energy consumption in Japan among the primary 25 product selection machines offered by major manufacturers in Japan as of April 2014 (according to research conducted by SUNTORY FOODS LIMITED).

Reducing Water Usage

(1) Reusing water for washing containers

At the Minami Alps Hakushu Water Plant of Suntory Products Limited, a water cascade is used to achieve one of the lowest volumes of water used per 1 kl of production in the industry.

(2) Using water with care

Through steady efforts to save water used in plants, such as for washing equipment or coolant water, we are working to reduce water usage by optimizing the washing process and other means.

SUNTORY BEVERAGE & FOOD LIMITED

CSR Approach and Initiatives

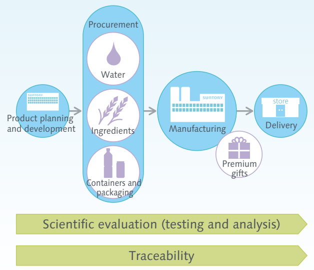
Initiatives for Customers

As a member of the Suntory Group, SBF aims to grow as a company that provides customers throughout the world with the highest quality products and services, and enjoys their support.

Grounded in the Suntory Group's Quality Policy, which has been established by the Suntory Group, all SBF employees are continually working to maintain and improve quality in all of our processes from product planning and development, to material procurement, manufacture, distribution, sales and services. In the area of ingredient procurement in particular, we conduct risk analysis of each and every ingredient from various perspectives, applicable to every stage from the production of the ingredients to their final use, to ensure that they are safe and conform with laws. In manufacturing, we employ testing equipment in all parts of the manufacturing process, including preparation, mixing, bottling and packaging. We also carry out multilayered quality checks, making sure that no foreign substances get into either the containers or their contents, and looking for container damage and leaks.

We are also strengthening the quality management systems used by our group companies overseas. In addition to clarifying audit criterion based on international quality standards, we assessed issues and strengths within each company. We then worked to increase our level of quality by expanding Japan's high quality assurance capability to our overseas Group companies, while applying lessons learned from overseas to our Group companies in Japan.

● Overview of the Process



Initiatives for Local Communities

We are intent on continuing to exist as a company in harmony with our local communities. As such, we value initiatives and communications as a member of those communities. Moreover, SBF plays a part in the social contribution activities of the Suntory Group, and has supported the following initiatives aimed at coexisting with society.

As part of its local community contribution to social welfare, education, and disaster support, the Suntory Group has three public interest foundations through which it operates Suntory Hall and Suntory Museum of Art, and provides wide ranging support to promote the arts, academic research, and regional cultural revitalization, and cultural activities for developing the next generation. It has also organized rugby and volleyball teams to promote sports.

Since the Great East Japan Earthquake of 2011, the Suntory Group has continued to conduct activities in support of the fishing industry and children (total scale: ¥10.8 billion as of March 2014) to contribute to the rapid recovery of the affected regions.

Initiatives for Employees

SBF is aiming to achieve further growth on the global field. The Suntory Group has set up a system for developing employees so that they can perform effectively in global business.

Global Human Resources Training Program (Suntory Group)

Name	Details
Career Challenge Program	Individually establish and acquire the skills needed to do business globally
Company-Sponsored Business School	Acquire an MBA (Master of Business Administration) in English at a business school in Japan or overseas
Overseas Trainee Program	Go to an overseas Group company, or participate in a program at an outside institution or school in an area where SBF has not yet expanded (emerging countries, etc.), and acquire language skills, communication abilities, or knowledge of a foreign culture
Support for Language School Study	Develop practical language abilities for employees in departments that have regular communication with people overseas

The Suntory Group is promoting new global initiatives, such as holding the Global Human Resources Meeting for human resource managers from Group companies overseas, building frameworks for global talent management and sharing concepts.

With regard to recruitment activities, we have enhanced our global activities by creating an English-language website for recruitment, holding seminars for international students and conducting hiring activities overseas.

Initiatives for Business Partners

Suntory Group has established the Suntory Group's Basic Policy on Supply Chain CSR, and is working together with its business partners to promote supply chain CSR initiatives.

CSR Approach and Initiatives

Group Company Initiatives Overseas (Originated by SBF)

Orangina Schweppes Group

Conducting Responsible Marketing

Recognizing the large influence that its brand has on society, the Orangina Schweppes Group has taken steps since 2009 to include nutritional labels on the packaging of all products. In addition, it has created and follows its own special code of conduct for responsible marketing, which includes not advertising or directly appealing to children under 12 years old.

Frucor Group

Promoting Employee Safety and Health

Based on its corporate philosophy of "Value You," Frucor Group positions the health and safety of all of its employees as one of its highest priority issues. Safety and health are measured in numerical values and managed, while the Safety Steering Team reviews areas that need improvement on a regular basis. It also willingly works with external groups to ensure it meets compliance above national standards.

PT SUNTORY GARUDA BEVERAGE

Creative Uses of Waste

PT SUNTORY GARUDA BEVERAGE is conducting activities to creatively use waste materials including containers and labels. It encourages imagination and creativity in recycling collected waste into a variety of crafts, such as bags, flowerpots, and umbrellas, in cooperation with elementary schools and local communities.

Pepsi Bottling Ventures LLC

Workplace Creation Conducive to Health and Improving Motivation

Pepsi Bottling Ventures LLC conducts a variety of activities for the purpose of maintaining employee health and improving employee motivation. "Wednesday Walks" are conducted every week during lunch break for employees to come together, stretch, and walk as a team, while "Fresh Fruit Friday" is held once a month in all facilities where healthy breakfast and snack choices are provided.
These are some of the ways Pepsi Bottling Ventures LLC promotes maintaining and bettering employee health.

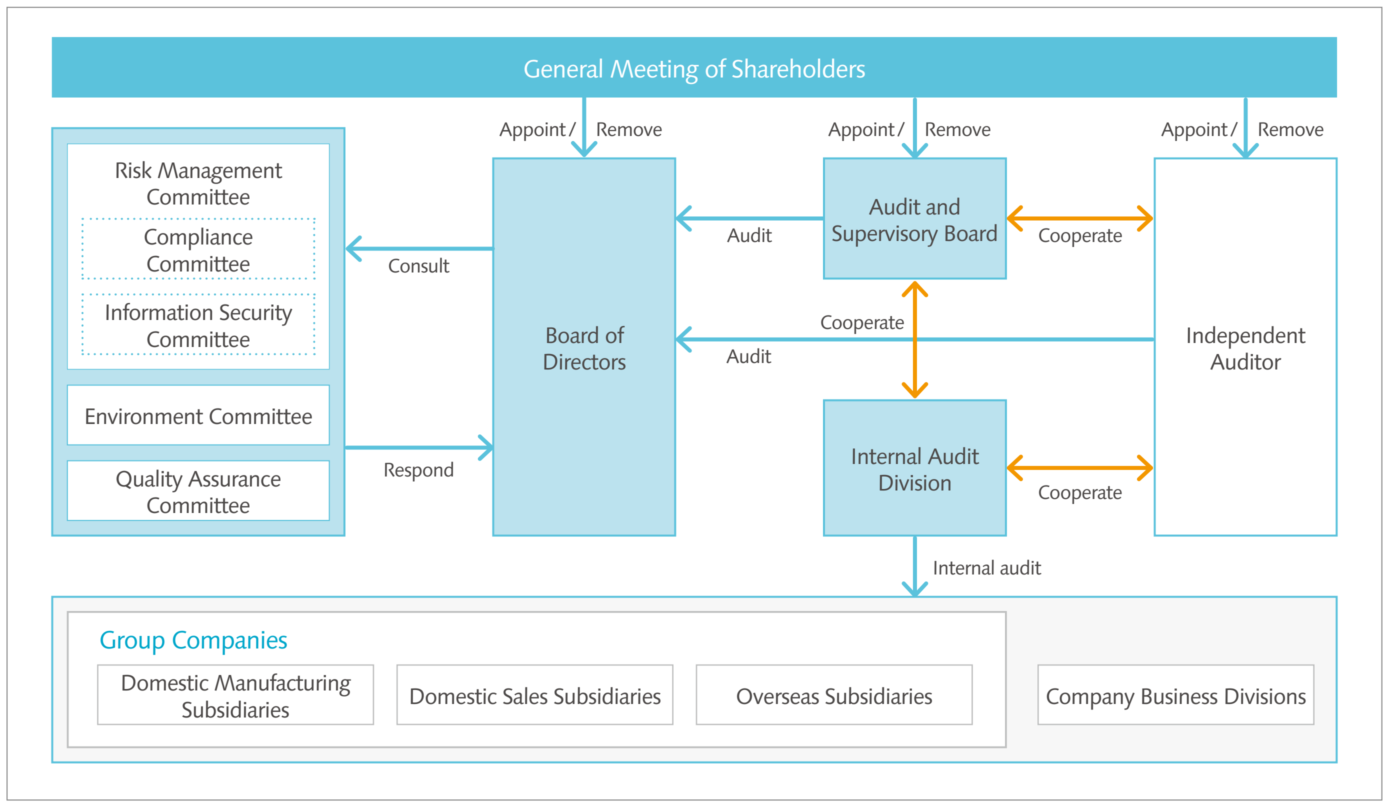
SUNTORY BEVERAGE & FOOD LIMITED

Corporate Governance

Basic Policy on Corporate Governance

SBF and the Group strive to enhance corporate governance in order to increase the efficiency of management, maintain good relationships with shareholders and other investors, customers, communities, suppliers and other stakeholder groups, and fulfill its corporate social responsibilities. Through the products we offer, we aim to be a group of companies that consistently offers new value to customers around the world.

Outline of Corporate Governance Framework



SBF's corporate governance framework comprises a board of directors, Audit and Supervisory Board members and an Independent Auditor. SBF had nine directors as of the publication date of this report. The term of office for directors is set at one year to create an appropriate management system that is capable of responding flexibly to changes in the operating environment. SBF has an Audit and Supervisory Board and there were four Audit and Supervisory Board members as of the date of publication of this report.

Board of Directors

The board of directors holds regular meetings once a month and extraordinary meetings as necessary. The board makes decisions on important business execution and statutory matters. It also receives reports regarding business execution at Group companies, which it uses to conduct oversight.

SBF has set up consultative bodies to the board of directors, namely the Risk Management Committee, Environment Committee and the Quality Assurance Committee. The Risk Management Committee has two sub-committees: the Compliance Committee and the Information Security Committee. The Risk Management Committee is responsible for promoting risk management activities for the Group as a whole. It gathers information and conducts various awareness-raising activities, along with conducting fact-finding missions and taking corrective actions when risks materialize. The Environment Committee is responsible for promoting environmental management for the Group as a whole. It develops and implements strategies and medium- and long-term plans to promote business activities that give consideration to sustainability. The Quality Assurance Committee promotes quality assurance activities for the Group as a whole. It formulates the Group's policies and plans for quality assurance activities, identifies quality risks and issues and works to prevent the materialization or recurrence of risk events, among other activities.

The Audit and Supervisory Board members attend meetings of the board of directors and other important meetings in order to audit the execution of duties by directors, the status of development of the internal control system and business execution matters related to all areas of Group management.

SBF believes that it is able to maintain highly transparent corporate governance through a two-fold checking system comprising oversight of business execution by the board of directors and audits by the Audit and Supervisory Board members. Accordingly, SBF has adopted the corporate governance framework described above.

Internal Control System

SBF has formulated the following basic policy as the basis for the development of its internal control system.

(1) System to ensure the conformity of performance of directors' and employees' duties to laws, regulations, and the articles of incorporation

"The corporate philosophy, 'In Harmony with People and Nature,' is the universal wish. Compliance shall be treated as a matter of the highest priority. The business activities shall be developed based on social ethics." This code shall be the standard of business conduct for the directors and employees.

The directors shall take the initiative in complying with laws, regulations, the articles of incorporation, and business ethics, and actively make efforts to maintain and improve management based on compliance.

SBF shall establish and promote a Group-wide compliance system that includes Group companies via the Compliance Committee and departments charged with compliance-related matters, and discussed matters and activities shall be reported to the board of directors and the Audit and Supervisory Board. Compliance hotlines are established within and outside SBF, and SBF has an established system in which employees, etc. may directly report problems of compliance.

The Internal Audit Division shall implement an internal audit of the state of compliance among employees, etc., and the suitability of compliance operations.

The directors shall establish and promote a system in order to block any association with anti-social forces and clearly reject improper demands from them.

(2) System for the preservation and management of information concerning the performance of directors' duties

The directors shall preserve and manage information such as material documents, etc., in accordance with laws, regulations, and internal rules, and maintain the availability of such information for inspection by the directors and the Audit and Supervisory Board members, as necessary.

SBF shall establish and promote an information security governance system via the Information Security Committee that not only protects and preserves information but also boosts corporate value through the utilization of information.

(3) Rules and other systems for management of risk of loss

Each director shall be responsible for taking measures against risks in performance of businesses. Material risks shall be analyzed and evaluated, and improvement plans shall be discussed and determined by the board of directors.
As for material risks, quality risks pertaining to the Group as a whole, and risks incidental to the execution of business throughout the Group shall be managed comprehensively and collectively by the Risk Management Committee and Quality Assurance Committee, both of which are entrusted by the board of directors. Measures against newly arising material risks shall be determined by the board of directors.

(4) System to ensure the efficient performance of directors' duties

Company-wide goals shall be established and the directors in charge shall determine efficient methods for achieving the goals. The directors in charge shall confirm the progress of the achievement of goals and report the measures to achieve the goals at the meetings of the board of directors.
Each director shall be in charge of his/her duties appropriately and attempt efficient decision-making under internal rules.

(5) System to ensure the appropriateness of business of the group consisting of SBF, its parent company, and its subsidiaries

The directors and Audit and Supervisory Board members shall be seconded to Group companies as necessary to implement the appropriate execution of business and decision making and to supervise and audit them.
The internal rules require that certain matters be discussed with and reported to relevant departments at SBF or approved by the board of directors.
In addition to ensuring objectivity and rationality in transactions between SBF and Group companies, including the parent company, SBF shall ensure the company's independence from the parent company in transactions with the parent company.
An internal control system shall be arranged by and established within the Group to ensure the appropriateness of financial reporting.

(6) Matters regarding employees who are requested by the Audit and Supervisory Board members to be assigned to assist the Audit and Supervisory Board members' duties and matters regarding the independence of such employees from the directors

An employee shall, upon consultation, be assigned to assist the Audit and Supervisory Board member's duties, if required by the Audit and Supervisory Board members. Efforts shall be made to ensure the independence of such employee from the directors.

(7) System for directors and employees to report to the Audit and Supervisory Board members and system for other reports to the Audit and Supervisory Board members

The Audit and Supervisory Board members shall attend the meetings of the board of directors and the representative director and business executing directors shall report on their execution of business.
If the Audit and Supervisory Board members request a report on a business or conduct an investigation of a business or property, the directors and employees, etc., shall respond to the request or investigation promptly and accurately.

(8) System for Enabling the Audit and Supervisory Board members to efficiently conduct other audits

The Audit and Supervisory Board members shall strive to facilitate communication and information exchange between themselves and the Audit & Supervisory Board members of SBF's subsidiaries or equivalent persons, and the Internal Audit Division.
The Audit and Supervisory Board members shall provide opportunities for the exchange of opinions with the representative director and president and the Independent Auditor.

Outside Director and Outside Audit and Supervisory Board Members

(1) Selection of outside director and outside Audit and Supervisory Board members

The outside director shall express their opinions based on their experience and insight as corporate managers, and thereby aid in appropriate decision making and oversight of business execution by the board of directors.
The outside Audit and Supervisory Board members shall express their opinions at meetings of the board of directors and Audit and Supervisory Board from their expert viewpoints as researchers, lawyers and so forth, and thereby aid in enhancing the auditing function.
As of the issue date of this report, SBF had one outside director and two outside Audit and Supervisory Board members.
Outside Director Hitoshi Kashiwaki possesses abundant experience, knowledge and insight as a corporate manager, and 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 he is properly qualified for the post of outside director.
Outside Audit and Supervisory Board Member Yukihiko Uehara possesses extensive knowledge and deep insight as a researcher in the fields of marketing and management strategy, and conducts audits of the execution of duties by directors from an objective and neutral standpoint as an outside Audit and Supervisory Board member. Accordingly, SBF believes that he is properly qualified for the post of outside Audit and Supervisory Board member.
Outside Audit and Supervisory Board Member Harumichi Uchida possesses abundant experience, extensive knowledge, and deep insight as a lawyer who is well versed in the field of corporate law, and conducts audits of the execution of duties by directors from an objective and neutral standpoint as an outside Audit and Supervisory Board member. Accordingly, SBF believes he is properly qualified for the post of outside Audit and Supervisory Board member.

(2) Related-party interests between SBF and outside director and outside Audit and Supervisory Board members

Outside Director Hitoshi Kashiwaki serves as a board director of Recruit Holdings Co., Ltd. and representative commissioner of The Ezoe Memorial Foundation. There are no special related-party interests between SBF and these entities.
Outside Audit and Supervisory Board Member Yukihiko Uehara is a professor at Meiji University Professional Graduate School, and serves as Chairman of The Distribution Economics Institute of Japan and an outside director of INTAGE HOLDINGS Inc. There are no special related-party interests between SBF and these entities.
Outside Audit and Supervisory Board Member Harumichi Uchida is an attorney with Mori Hamada & Matsumoto and serves as outside Audit and Supervisory Board member of Daifuku Co., Ltd. and an outside Audit and Supervisory Board member of Dainippon Sumitomo Pharma Co., Ltd. There are no special related-party interests between SBF and these entities.

(3) Selection standards for outside director and outside Audit and Supervisory Board members

SBF has not established its own standards relating to independence for selecting the outside director and outside Audit and Supervisory Board members. However, SBF selects the outside director and outside Audit and Supervisory Board members by referring to the decision-making standards related to the independence of independent officers stipulated by the Tokyo Stock Exchange. SBF also takes into account business and other relationships with the companies and groups where the outside director and outside Audit and Supervisory Board members serve in an executive capacity.
SBF has notified the Tokyo Stock Exchange of the appointment of Outside Director Hitoshi Kashiwaki and Outside Audit and Supervisory Board Member Yukihiko Uehara as independent officers, as stipulated by the Tokyo Stock Exchange.

(4) Liability limitation agreements

SBF has entered into liability limitation agreements with each outside director and outside Audit and Supervisory Board member in accordance with paragraph 1 of Article 427 of the Companies Act. Under these agreements, the maximum amount of the liability to SBF of each outside director and outside Audit and Supervisory Board member arising in connection with a failure to execute their duties while acting in good faith and without gross negligence shall be limited to the amount prescribed in paragraph 1 of Article 425 of the Companies Act.

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

The Group has decided to make decisions on transactions with its controlling shareholders, including the transaction conditions, the appropriateness of the related decision-making process and other details, only after conducting exhaustive discussions at a board of directors meeting where the outside director and outside Audit and Supervisory Board members are also in attendance. This is to protect the interests of minority shareholders. SBF intends to expand its business based on its own decision-making process, independently of the controlling shareholders.

SBF will build a system that presents no problems with respect to the protection of minority shareholders, without conducting any transactions, investments and business expansion initiatives that would be particularly advantageous to the controlling shareholder under the controlling shareholder's influence.

Compensation of Directors and Audit and Supervisory Board Members

SBF's annual compensation limits for directors were set at an extraordinary meeting of shareholders held on December 26, 2012. For directors the limit is ¥1,000 million (not including employee salary for directors serving concurrently as employees) and for Audit and Supervisory Board members the limit is ¥150 million.

Compensation for each director is determined at the discretion of the directors, and compensation for each Audit and Supervisory Board member is determined at the discretion of the Audit and Supervisory Board members. Details of the compensation amounts are as follows:

(1) Total amount of compensation, total amount by type of compensation, and number of recipients by executive officer category

	Millions of yen			Numbers of eligible directors and Audit and Supervisory Board members
		Total by compensation and remuneration category		
Director and Audit and Supervisory Board member category	Total compensation and other remuneration	Basic compensation	Bonuses	
Directors (excluding the outside director)	459	274	185	10
Outside director	12	12	—	1
Audit and Supervisory Board members (excluding outside Audit and Supervisory Board members)	39	26	12	2
Outside Audit and Supervisory Board members	24	24	—	2

Note: Not including employee salary.

(2) Total compensation amounts for persons receiving total compensation of ¥100 million or more

		Millions of yen		
		Total by compensation and compensation type		
Name	Director and Audit and Supervisory Board member category	Basic compensation	Bonuses	Total compensation amount
Nobuhiro Torii	Director	66	39	105

(3) Policy on determining the amount of compensation for executive officers

Directors' compensation is determined using a system designed to provide an appropriate level of compensation for each director's role and responsibilities while motivating the directors to improve SBF's performance and corporate value and enabling SBF to secure high-quality human resources.

Directors' compensation comprises a basic salary (monthly, fixed amount) and bonuses (annual, performance linked). The levels of these are set according to each director's position, responsibilities, and internal or external status, making reference to survey data from specialist external institutions. The amounts for bonuses are primarily determined by an index based on SBF's consolidated operating income.

Audit and Supervisory Board members' compensation is determined using a system designed to ensure an appropriate level of compensation for each Audit and Supervisory Board member's role and responsibilities while enabling SBF to secure high-quality human resources.

In principle, Audit and Supervisory Board members' compensation comprises only a basic salary (monthly, fixed amount).

Senior Audit and Supervisory Board members' compensation includes a bonus (annual, performance linked) in addition to the basic salary in consideration of their contribution to SBF's performance. The levels of these are set according to each member's position and responsibility, and internal or external status, making reference to survey data from specialist external institutions. The amounts for bonuses are primarily determined by an index based on SBF's consolidated operating income.

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

Compensation of the Independent Auditor

Details of compensation for certified public accountants and other staff of the independent auditor

	Millions of yen			
	Fiscal year ended December 31, 2012		Fiscal year ended December 31, 2013	
Category	Compensation for audit certification activities	Compensation for non-audit activities	Compensation for audit certification activities	Compensation for non-audit activities
Suntory Beverage & Food Limited	38	0	50	74
Consolidated subsidiaries	18	0	18	—
Total	56	1	68	74

Investor Relations Activities

SBF has established the investor relations group in the Corporate Communication Division, under the supervision of the executive officer in charge of corporate communications. SBF holds presentations for analysts and institutional investors given by the president or the chief financial officer on the dates for announcing its quarterly financial results. SBF also holds several meetings each year for overseas institutional investors in Europe, the U.S. and Asia. Disclosure information, other important information and supplementary information from financial results presentations are promptly posted on SBF's website, with disclosure materials in English also posted on the English version of the website.

Board of Directors and Audit & Supervisory Board Members

(As of the publishing date of this report)

Directors


Representative Director & President
Nobuhiro Torii


Executive Vice President
Yoshihiko Kakimi


Executive Vice President
Saburo Kogo


Senior Managing Director
Nobuhiro Kurihara


Senior Managing Director
Shinichiro Hizuka


Director
Masato Tsuchida


Director
Yasuhiko Kamada


Director
Shigehiro Aoyama


Outside Director
Hitoshi Kashiwaki

Audit & Supervisory Board Members


Senior Audit & Supervisory Board Member
Seiichiro Hattori


Audit & Supervisory Board Member
Toru Yamamoto


Outside Audit & Supervisory Board Member
Yukihiko Uehara


Outside Audit & Supervisory Board Member
Harumichi Uchida

Financial Section

Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating Environment and Initiatives in the Fiscal Year Ended December 31, 2013

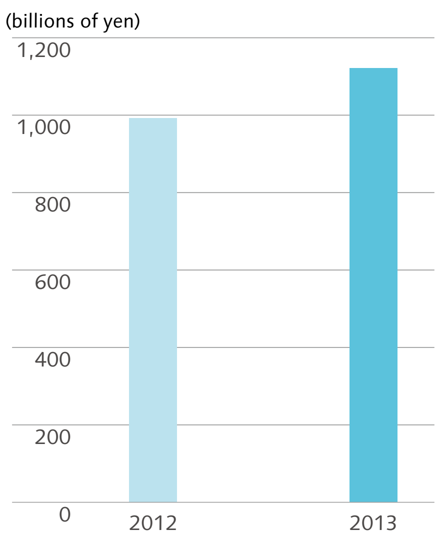
In the fiscal year ended December 31, 2013, the global economy continued to pick up at a moderate pace and showed some underlying strength, despite lingering concerns about downside risks. The Japanese economy underwent a moderate recovery as a result of an improvement in corporate earnings and a pickup in consumer spending reflecting upward movement in stock prices and yen depreciation.

Against this backdrop, the Suntory Beverage & Food Limited Group (the Group) worked to increase demand with a focus on reinforcing its brands. In addition, while the Group made efforts to strengthen earning capacity by improving quality and reducing costs with the use of group synergies, it also boosted investment in marketing with a view to the future and enhanced its business foundation outside Japan.

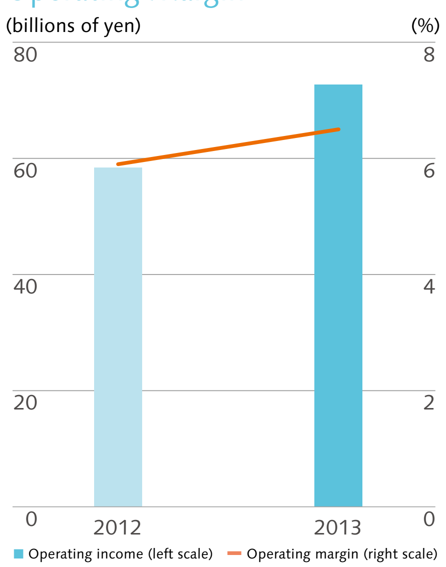
In the Japan segment, the Group worked to grow its business and enhance profitability by fostering and strengthening core brands, creating new demand through the implementation of new product launches, and carrying out aggressive marketing activities including cross-brand consumer sales campaigns.

In the overseas segment, the Group focused on expanding its business and boosting profitability through such means as fostering core brands in each overseas market and launching new products in emerging countries. In April, earnings were given a steady boost with the launch and start of operations of the beverage business in Vietnam at the Group's new joint venture with PepsiCo, Inc. In December, SBF obtained the commercial rights and production facilities for *Lucozade* and *Ribena*, two of the UK's iconic beverage brands, from UK-based GlaxoSmithKline plc.

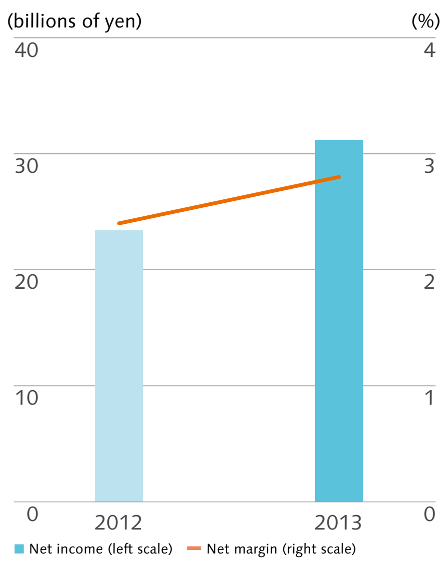
Net Sales



Operating Income and Operating Margin



Net Income and Net Margin



Analysis of Results of Operations

In the fiscal year ended December 31, 2013, net sales increased 13.0% year on year to ¥1,121.4 billion, mainly due to strong performances by new products of mainstay brands and the launch of a new joint venture with PepsiCo, Inc. in Vietnam. Gross profit rose 12.8% year on year to ¥618.6 billion.

Selling, general and administrative expenses amounted to ¥545.9 billion. Operating income rose 24.4% year on year to ¥72.7 billion. The operating margin improved 0.6 of a percentage point from the previous year to 6.5%.

Other expenses – net increased 123.8% year on year to ¥10.3 billion due to increases in foreign currency exchange loss – net, impairment loss and restructuring charges.

As a result of the above, net income rose 33.4% to ¥31.2 billion, and the net margin improved 0.4 of a percentage point from the previous year to 2.8%. Basic net income per share was ¥118.79.

The Group uses EBITDA (calculated as the aggregate of (i) operating income, (ii) depreciation and amortization and (iii) amortization of goodwill) as a key performance indicator to monitor trends in the Group's operating results. In the fiscal year ended December 31, 2013, EBITDA was ¥139.6 billion, an increase of 21.8% year on year.

Segment Performance

Japan Segment

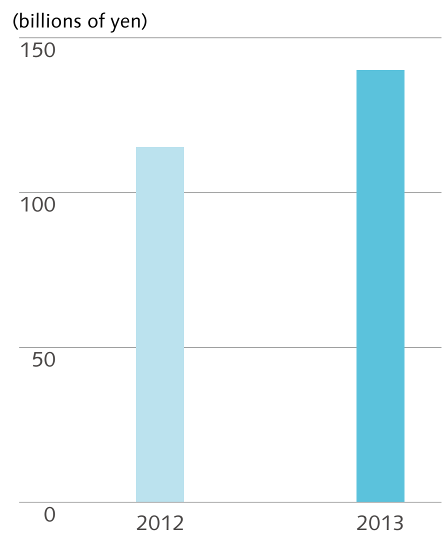
Net sales: ¥716.9 billion (+4.1% YoY)
Segment profit: ¥45.4 billion (+27.5% YoY)
(Reference) EBITDA: ¥75.0 billion (+18.6% YoY)

In the Japan segment, the Group made further efforts to enhance and foster core brands, particularly the seven brands mentioned below. In tandem, the Group launched new products to offer new value to customers and made efforts to further enhance its business foundation.

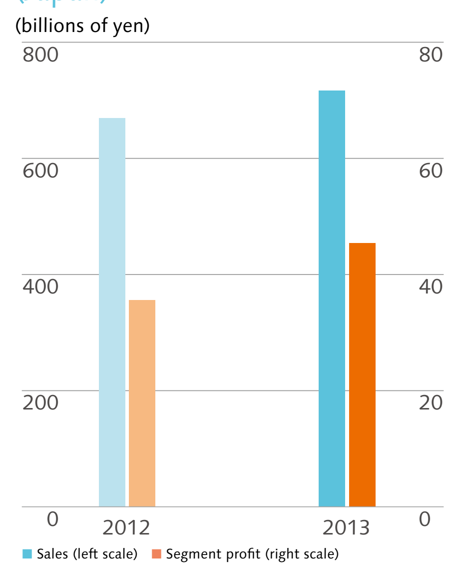
In the *BOSS* coffee range, the Group complemented core products *Rainbow Mountain Blend, Zeitaku Bito, Muto Black, Café au Lait* and *Cho* with the launch of new product *Gran Aroma*, which is distinctive for its opulent aroma. The Group also carried out sales promotion activities, including consumer sales campaigns. As a result, in contrast with the overall canned coffee market, for which a year-on-year sales decline was expected, the Group achieved a year-on-year increase in sales volume.

In the *Iyemon* green tea range, sales of the two core brands of *Iyemon* and *Zeitaku Reicha* were strong thanks to aggressive marketing activities. Furthermore, sales of *Iyemon Tokucha*, a beverage launched in October that is approved as a FOSHU (a Food for Specified Health Uses) by the Consumer Affairs Agency of Japan, exceeded the initial sales target. As a result, sales volume of this range grew substantially.

EBITDA



Sales and Segment Profit (Japan)



Although sales volume of the *Suntory Oolong Tea* range was slightly down year on year, the Group carried out product renewals while also emphasizing the range's compatibility with food and its value as a healthy beverage to be enjoyed during meals.

The *Suntory Tennensui* range saw substantial growth in sales volume partly due to efforts to reinforce the brand through such means as product renewals. The growth also reflected strong sales of *Suntory Tennensui Sparkling* following its launch in the sugar-free carbonated water drinks market, which is growing on the back of increasing health consciousness.

In the *Pepsi* range, sales volume grew year on year, reflecting efforts to expand the brand's customer base such as by renewing *Pepsi Special*, which is approved as a FOSHU, and emphasizing the appeal of zero-calorie drinks.

Sales volume of the carbonated fruit drink *Orangina* was about level with the previous fiscal year, and the drink continued to be popular as a product with its own distinct value. The functional beverage *GREEN DAKARA* saw its sales volume roughly doubled (including sales of the barley tea *GREEN DAKARA Yasashii Mugicha*), mainly due to customers purchasing it as a way of rehydrating to prevent heat stroke in the summer and counter dryness in the winter.

In addition to the above-mentioned sales expansion efforts, the Group worked aggressively to boost profitability by reducing manufacturing and distribution costs.

In the vending machine business, the Group merged six sales subsidiaries and formed a company called Suntory Beverage Service Limited, which began operations in April 2013.

As a result of the above, for the fiscal year under review, sales volume in Japan was 414.80 million cases, a substantial rise of 5.8% year on year. This served to drive growth in the market overall.

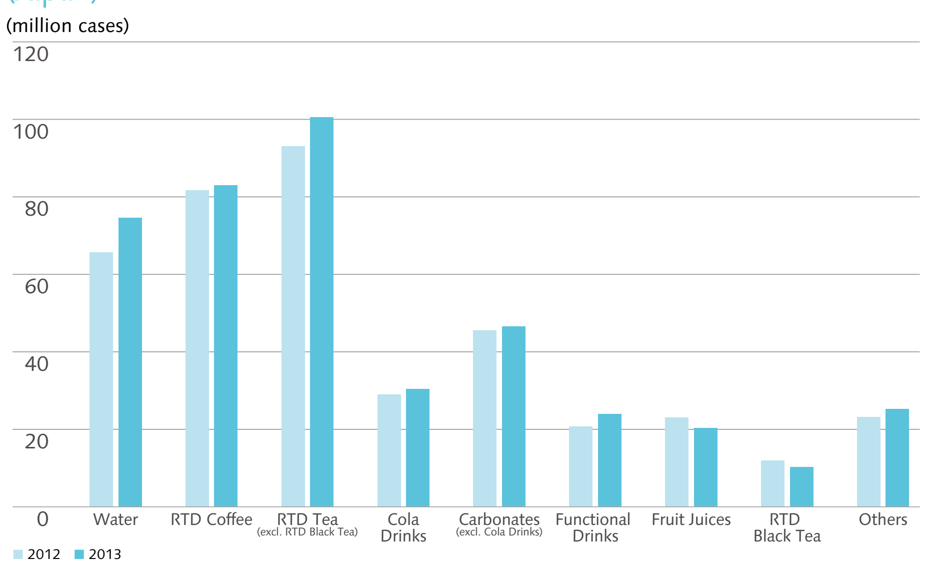
Overseas Segment

Net sales: ¥404.5 billion (+33.3% YoY)
Segment profit: ¥50.5 billion (+18.9% YoY)
(Reference) EBITDA: ¥64.7 billion (+25.6% YoY)

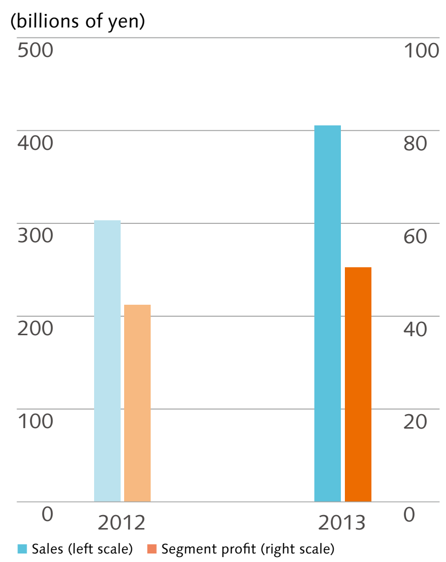
In the overseas segment, the Group positioned Europe, Oceania, Asia and the Americas as markets with growth potential and worked to strengthen its marketing activities by such means as strengthening existing brands and launching Suntory brands.

In Europe, the Orangina Schweppes Group worked to reinforce brands such as *Orangina* and *Schweppes* by continuing to invest aggressively in marketing for these brands with the aim of strengthening the business foundation and boosting profitability. Nevertheless, the economic environment continued to be tough and sales volumes in the fiscal year under review were slightly down year on year.

Sales Volume by Category (Japan)



Sales and Segment Profit (Overseas)



In Oceania, the Frucor Group worked to boost brand power by such means as launching new products in its mainstay range of energy drinks marketed under the *V* brand. Strong sales of *Pepsi* and other carbonated drinks in New Zealand also made a contribution, resulting in growth in sales volume for the Frucor Group overall.

With respect to Asia, we made aggressive efforts to expand business in countries with continuing economic growth mainly by strengthening our business foundation and launching new products. The Cerebos Group, which manufactures and sells health foods and processed foods, reported strong sales, particularly of health foods in Thailand. At the Suntory Garuda Group, *Okky* jelly drinks and other products provided a boost to the business, while the Suntory brand green tea *Mirai* and new product *MYTEA Oolong Tea* also made contributions to sales growth. Furthermore, the joint venture with PepsiCo, Inc. in Vietnam achieved steady business expansion through initiatives including the launch of the Suntory brand *TEA+ Oolong Tea*.

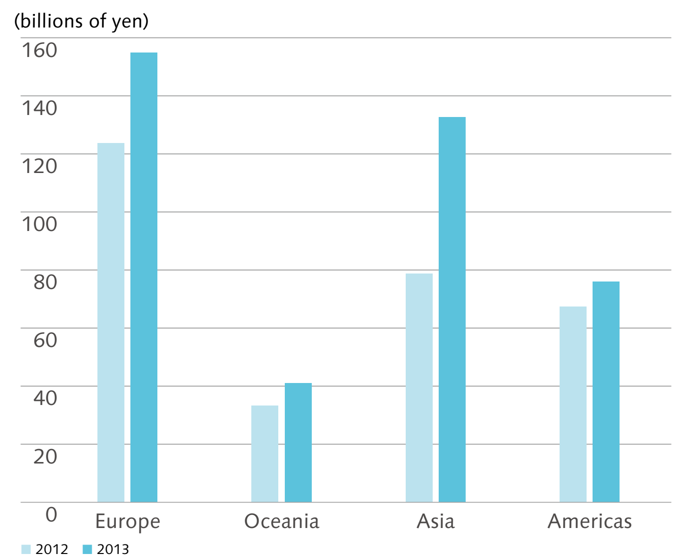
In the Americas, Pepsi Bottling Ventures LLC worked to boost management efficiency by reorganizing the geographical areas in which it operates.

In addition, we continued to strengthen group synergies through the overseas deployment of R&D technology and know-how for the reduction of costs developed in Japan. By strengthening synergies in this way, we worked to improve quality and strengthen earning capacity.

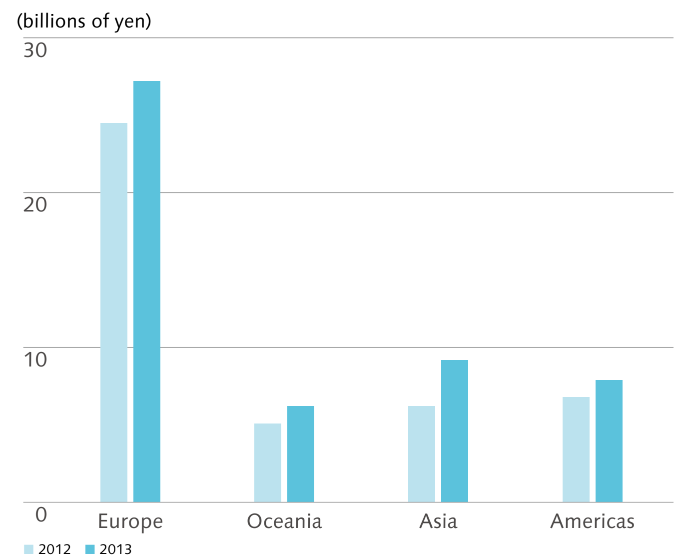
R&D Activities

The Research and Development Divisions believe that great taste, underpinned by safety and reliability, lies at the heart of the value of products. Accordingly, research and development divisions and departments established in Japan and overseas are working to develop high value-added products. In the fiscal year ended December 31, 2013, total research and development costs amounted to ¥6.9 billion.

Net Sales by Geographic Area (Overseas)



Segment Profit by Geographic Area (Overseas)



Analysis of Financial Condition

Total assets as of December 31, 2013 stood at ¥1,256.7 billion, an increase of ¥412.3 billion compared to December 31, 2012. Current assets were ¥283.3 billion, up ¥64.4 billion, due mainly to increases in cash and cash equivalents and inventories. Net property, plant and equipment amounted to ¥312.8 billion, up ¥77.5 billion, mainly due to increases in buildings and structures, and machinery, equipment and other. Furthermore, total investments and other assets stood at ¥660.6 billion, up ¥270.3 billion, mainly due to increases in goodwill and trademarks.

Total liabilities stood at ¥663.7 billion, an increase of ¥23.6 billion compared to December 31, 2012. Current liabilities were ¥446.6 billion, down ¥90.5 billion, mainly due to a decrease in short-term borrowings as a result of refinancing borrowings from Suntory Holdings Limited with borrowings from financial institutions (long-term). For the same reason, long-term liabilities were up ¥114.1 billion at ¥217.1 billion, mainly reflecting an increase in long-term debt.

Equity stood at ¥593.0 billion, an increase of ¥388.7 billion compared to December 31, 2012, mainly due to increases in common stock and capital surplus through the issuance of new shares. As a result of the above, the shareholders' equity ratio was 44.4% and equity per share was ¥1,806.48.

Cash Flows

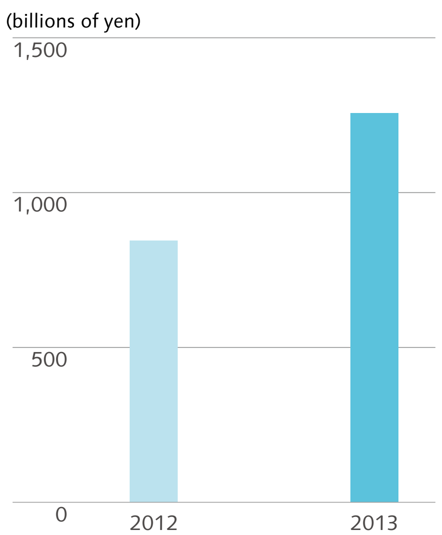
Cash and cash equivalents, as of December 31, 2013, stood at ¥45.9 billion, up ¥19.8 billion compared to December 31, 2012.

Net cash provided by operating activities was ¥114.1 billion, an increase of ¥28.3 billion compared to December 31, 2012. This was mainly the result of income before income taxes and minority interests of ¥62.5 billion and depreciation and amortization of ¥43.7 billion.

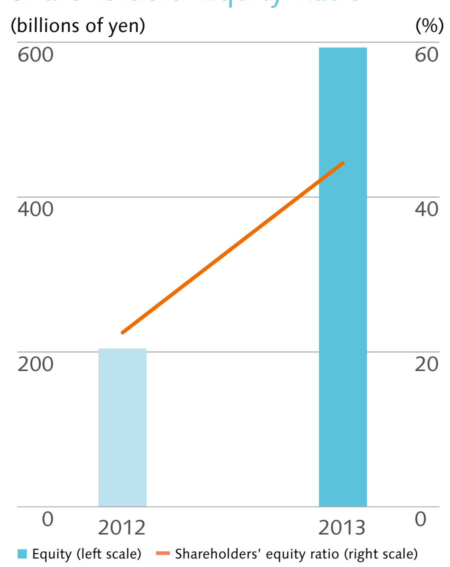
Net cash used in investing activities was ¥290.6 billion, an increase of ¥214.7 billion compared to December 31, 2012. This was mainly the result of purchases of property, plant, and equipment of ¥59.7 billion and acquisition of business of ¥220.1 billion.

Net cash used in financing activities was ¥190.4 billion, mainly due to proceeds from issuance of shares.

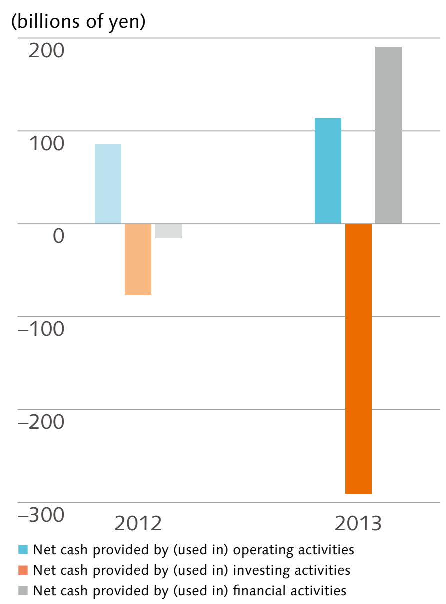
Total Assets



Equity and Shareholders' Equity Ratio



Cash Flows



Capital Expenditures

In the fiscal year ended December 31, 2013, the Group spent a total of ¥62.6 billion on capital expenditures to increase its manufacturing capacity, strengthen its sales ability, improve the quality of its products and streamline its businesses.

In the Japan segment, the Group spent ¥34.4 billion on capital expenditures, primarily to increase its manufacturing capacity, streamline its businesses and install vending machines.

In the overseas segment, the Group spent ¥28.2 billion on capital expenditures, primarily to increase its manufacturing capacity and streamline its businesses.

Dividend Policy

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.

For the fiscal year under review, in accordance with the basic policy on shareholder returns described above, we declared a year-end dividend of ¥58 per share (comprised of an ordinary dividend of ¥53 and a special dividend payment of ¥5 to commemorate the listing of our shares on the stock exchange). The year-end dividend was approved by a resolution of the 5th Ordinary General Meeting of Shareholders held on March 28, 2014. The total planned dividend payment is ¥17.9 billion.

As noted above, the Group uses internal reserves for strategic investments in future business expansion and capital expenditures to strengthen its core business.

SBF's articles of incorporation provide that interim dividends with a record date of June 30 every year may be declared by a resolution of the board of directors. From the fiscal year ending December 31, 2014, SBF's basic policy is to declare dividends twice a year in the form of interim and year-end dividends.

Determinations regarding year-end dividends are made by the general meeting of shareholders, while interim dividends are determined by the board of directors.

* This figure represents the sum of net income and amortization of goodwill.

Outlook for the Fiscal Year Ending December 31, 2014

The Group has a vision for 2020 (consolidated net sales of ¥2,000 billion) and a Medium-term Management Plan for 2013–15. To achieve these goals, in the 2014 fiscal year, the Group will continue striving to grow both its Japanese and overseas businesses further and to reform its earnings structure as foundations for global growth.

For details on activities in Japan, please refer to pages 24–25, and for details on overseas activities, please refer to pages 26–29. In the 2014 fiscal year, the above activities are expected to result in consolidated net sales of ¥1,260.0 billion, up 12.4% year on year, operating income of ¥85.0 billion, up 16.9%, and net income of ¥35.0 billion, up 12.2%.

<Reference>
EBITDA (the sum of each segment profit and depreciation and amortization) is expected to be ¥160.0 billion, up 14.6% year on year, and net income before amortization of goodwill is expected to be ¥58.5 billion, up 7.5% year on year.

The main foreign exchange rates underlying the outlook for the 2014 fiscal year are ¥130 against the euro and ¥100 against the U.S. dollar.

SUNTORY BEVERAGE & FOOD LIMITED

Business and Other Risks

The following risks could have an impact on the Group's operating results and financial condition. Please note that forward-looking statements made in this section reflect the Group's judgment as of the publication date of this annual report.

(1) Risk related to responding effectively to changing consumer preferences and product development

The beverage and food industry is highly susceptible to changes in consumer preferences. In order to generate revenues and profits, we must have product offerings that appeal to consumers. Although we strive to effectively monitor changes in the markets for our products, there is no assurance that we will develop new products that appeal to consumers. In particular, one element of our product strategy is to introduce products that appeal to health-conscious consumers, but we may face increased competition as other manufacturers also focus on products that emphasize health. Any significant changes in consumer preferences or any inability on our part to anticipate or react to such changes could result in reduced demand for our products and erosion of our competitiveness, and impact our operating results and financial position.

Our continued success is also dependent on our ability to innovate, which includes maintaining a robust pipeline of new products and improving the effectiveness of our product packaging and marketing efforts. While we devote significant resources to promoting our brands and new product launches, there can be no assurance as to our continued ability to develop and launch successful new products or to effectively execute our marketing programs. Any failure on our part to achieve appropriate innovation or successfully launch new products could decrease demand for our products by negatively affecting consumer perception of our brands, as well as result in inventory write-offs and other costs.

(2) Risks related to competition

The beverage industry is highly competitive. We compete with major international beverage companies that, like us, operate in multiple geographic areas, as well as numerous companies that are primarily local in operation. Large competitors can use their resources and scale to rapidly respond to competitive pressures and changes in consumer preferences by introducing new products, reducing prices or increasing promotional activities. We also compete with a variety of smaller, regional and private label manufacturers, which may have historical strengths in particular geographic markets or product categories. Our inability to compete effectively could have an impact on our operating results and financial condition.

(3) Risks related to potential acquisitions and joint ventures

Identifying and taking advantage of additional acquisition and market entry opportunities in Japan, Europe, other developed markets and emerging markets is an important part of our growth strategy. Accordingly, we regularly evaluate potential acquisitions and joint ventures, some of which are large in size or otherwise substantial. Potential issues associated with these activities could include, among others:

- we may be unable to identify appropriate acquisitions and other opportunities or may be unable to agree on terms with potential counterparties, due to competing bids among other reasons;
- we may fail to receive necessary consents, clearances and approvals in connection with an acquisition or joint venture;
- we may be unable to raise necessary capital on favorable terms;
- in entering new geographic markets or product segments, we may change our business profile and face challenges with which we are unfamiliar or fail to anticipate; and
- we may be unable to realize the full extent of the profits or cost savings that we expect to realize as a result of an acquisition or the formation of a joint venture.

If we do not successfully execute our acquisition and joint venture strategy, we may be unable to realize our medium- and long-term growth objectives.

(4) Risks related to international operations

Our global operations and ongoing investment in developed and especially emerging markets mean we are subject to risks involved in international operations generally. Such risks include, among others:

- the need to comply with differing or undeveloped legal, regulatory and tax regimes;
- negative economic or political developments;
- fluctuations in exchange rates; and
- disruptions from extraordinary events such as terrorism, political instability, civil unrest or epidemics such as SARS or avian flu.

We also intend to leverage our product development expertise and existing product portfolio in Japan and key overseas group companies to expand our product offerings in other markets. However, there can be no assurance that our existing products, variants of our existing products or new products that we make, manufacture, market or sell will be accepted or successful in other markets, due to local competition, product price, cultural differences or other factors. If we are unable to develop products that appeal to consumers in new markets in which we have little or no prior experience, our ability to realize our growth objectives could be adversely affected.

(5) Risks related to business plans and business strategies based on medium- and long-term goals

We have developed a medium-term business plan and established certain long-term business strategies and goals. Although we believe that our plan and these strategies and goals will help us achieve medium- and long-term growth, there can be no assurance that we will be successful in implementing our plan, executing our strategies or achieving our goals. In order to reach our medium- and long-term goals, we will need to achieve growth organically and through acquisitions and joint ventures. In addition to the risks we face in sourcing acquisition and joint venture opportunities and executing and integrating acquisitions and joint ventures as noted in Item (3) above, we also face risks in achieving organic growth in our existing operations. For example, we may not succeed in implementing business strategies to introduce products commanding premium pricing or to achieve targeted supply chain cost efficiencies.

(6) Risks related to our product safety

As a beverage and food manufacturer, the safety of our products is vital to our business and we strive to comply with applicable rules and regulations and ensure that our products meet all required quality standards. In addition, we have adopted various quality, environmental, and health and safety standards in our operations. However, despite our efforts, our products may not meet these standards or could otherwise become contaminated. Such failure to meet our standards or contamination of our products could occur in our own operations or those of third-party manufacturers, distributors or suppliers, who we do not control. This could result in expensive production interruptions, recalls or liability claims and harm the affected brand and our corporate reputation. Moreover, negative publicity could be generated from unfounded or nominal liability claims or limited recalls.

(7) Risks related to distribution channels

We sell our products through multiple channels, including wholesalers and major retail groups. In Japan, our vending machine network is also an important distribution channel. Challenges we face with respect to our distribution channels include:

- consolidation among retail groups in many markets has resulted in large, sophisticated retailers with strong bargaining power in terms of pricing and sales promotions. The loss of significant customers, or unfavorable changes to pricing and other terms, could adversely affect our results of operations;
- independent retailing groups, including those in Japan, are introducing competitively priced private label products that contribute to intensifying price competition; and
- the Japanese market is relatively saturated in terms of vending machines, resulting in increased price competition. In addition, sales per machine may decrease due to increased competition from an increase in convenience store locations.

These risks related to our distribution channels could impact our results of operations and financial condition.

(8) Risks related to economic conditions

Unfavorable economic conditions, such as a future recession or economic slowdown in Japan or our other major markets, could negatively affect the affordability of, and consumer demand for, our products. Under challenging economic conditions, consumers may seek to reduce discretionary spending by forgoing purchases of our products or by shifting away from our products to lower-priced offerings from other companies, including private label brands. Weak consumer demand for our products in Japan or in other major markets could reduce our profitability and negatively affect our results of operations and financial position.

The Japanese government increased the rate of consumption tax from 5% to the current 8% in April 2014 and plans to increase the tax to 10% in October 2015. It is unclear what impact these increases will have on our sales in Japan or whether we will be able to maintain current margin levels following such increases. Furthermore, Japan's long-term demographic trends generally point to an aging and declining population. This could have a negative impact on consumer demand. If the tax increases or Japan's demographic trends result in decreased demand for our products or increased pricing pressure, they may have a negative effect on our results of operations and financial position.

(9) Risks related to foreign exchange rate fluctuations

We purchase certain raw materials internationally using currencies other than the Japanese yen, principally the U.S. dollar. Although we use derivative financial instruments to reduce our net exposure to exchange rate fluctuations, such hedging instruments do not protect us against all fluctuations and our business and financial performance could be adversely affected. In addition, because our consolidated financial statements are presented in Japanese yen, we must translate revenues, income and expenses, as well as assets and liabilities, of overseas subsidiaries into Japanese yen at exchange rates in effect during or at the end of each reporting period. Therefore, foreign exchange rate fluctuations could impact our results of operations and financial position.

SUNTORY BEVERAGE & FOOD LIMITED

(10) Risks related to interest rate fluctuations
We finance a portion of our operations through interest-bearing loans and in the future we may conduct additional debt financing through loans, the issuance of corporate bonds or other means. In addition, we may finance future acquisitions through additional borrowings. Although we use fixed-interest transactions and derivative instruments to manage our interest rate exposure, large increases in interest rates could have an adverse effect on our financial condition and results of operations.

(11) Risks related to goodwill and trademarks
As of December 31, 2013, goodwill stood at ¥400.1 billion and trademarks were ¥184.9 billion. Most of this goodwill is related to the acquisition of the Orangina Schweppes Group, and is scheduled to be amortized over a period of 20 years based on Japanese GAAP and our accounting policies. Furthermore, most of the trademarks are related to the manufacture and sales business of *Lucozade* and *Ribena*, which were acquired from GlaxoSmithKline plc. We do not plan to amortize these trademarks because their economic useful life cannot be estimated.

We may record additional goodwill and trademarks as a result of conducting new acquisitions and joint ventures in the future. We are required to regularly assess our consolidated intangible assets for any signs of impairment. In cases where we determine that these consolidated intangible assets are impaired, we are required to post an impairment loss. The recording of such an impairment loss could have an adverse effect on our results of operations and financial position.

(12) Risks related to procurement of raw materials
The principal raw materials we use in our business are aluminum cans and ends, glass bottles, PET bottles and caps, paperboard packaging, sweeteners, juice, fruit, coffee beans, tea leaves and other ingredients.

The price of these materials is affected by changes in weather patterns and supply and demand in the relevant global markets. Additionally, conversion of raw materials into our products for sale also uses electricity and natural gas. The cost of the raw materials and energy can fluctuate substantially. Continued increases in the prices of these raw materials and energy could exert pressure on our costs and we may not be able to pass along any such increases to the sales price of our products, which could negatively affect our business, results of operations and financial position.

In addition, some raw materials we use are sourced from industries characterized by a limited supply base. Although we believe we have strong relationships with our suppliers, we could suffer raw material shortages if they are unable to meet our requirements. The failure of our suppliers to meet our needs could occur for many reasons, including fires, natural disasters, adverse weather conditions, manufacturing problems, disease, crop failures, strikes, transportation issues, supply interruptions, government regulation, political instability and terrorism. Some of these risks may be more acute where the supplier or its facilities are located in riskier or less-developed countries or regions. Changing suppliers can require long lead times and any significant interruption to supply over an extended period of time could substantially harm our business, results of operations and financial position.

(13) Risks related to water supply
Water is the main ingredient in substantially all our products and water resources in many parts of the world are facing unprecedented challenges from population pressures, pollution, poor management and the impact of climate change. As demand for water resources increases around the world, companies that depend on abundant water resources, including us, may face increased production costs or capacity constraints which could adversely affect our profitability or growth strategy over the long term.

(14) Risks related to weather conditions
Sales of certain types of our products are significantly influenced by weather conditions. We ordinarily record our highest sales volume levels during hotter weather in the spring and summer months, but unseasonably cool weather conditions during this period could depress demand for our products and negatively impact our results of operations and financial position.

(15) Risks related to environmental problems
Recognizing that the global natural environment constitutes one of our management resources, we are working in earnest to implement environmental preservation activities, in an effort to hand a sustainable society to future generations. We are striving to thoroughly reduce water usage, cut CO_2 emissions, convert waste materials into useful resources and recycle containers. In the course of executing business operations, we comply with various related environmental regulations. However, in the event of global environmental problems due to global climate change, resource depletion and other issues; environmental pollution caused by accidents, mishaps and other events; and higher cost outlays for investment in new equipment mainly due to amendments in relevant laws and regulations, our results of operations and financial position could be negatively affected.

(16) Risks related to supply chains
We and our business partners source materials and conduct manufacturing activities globally. Using supply chain management techniques to lower costs and improve profitability is one element of our business strategy, but we may not be able to achieve the targeted efficiencies, due to factors beyond our control. Damage or disruption to our manufacturing or distribution capabilities due to any of the following could impair our ability to make, manufacture, distribute or sell our products: adverse weather conditions or natural disasters; transportation problems; government action; fire; political instability; terrorism; pandemic; industrial accidents or other occupational health and safety issues; or strikes and other labor disputes. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

(17) Risks related to management team and employees
Our continued growth requires us to hire, retain and develop our leadership driven management team and highly skilled workforce. We must hire talented new employees and then train them and develop their skills and competencies. Any unplanned turnover or our failure to develop an adequate succession plan for current management positions could deplete our institutional knowledge base and erode our competitive advantage.

Our operating results and financial position could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs.

(18) Risks related to employee retirement benefit obligations
Our costs related to employee retirement obligations are calculated based on actuarial assumptions and estimates such as an assumed discount rate and estimated returns from employee retirement plan assets. A divergence of actual results from our assumptions or estimates, or a change in those assumptions and estimates, could adversely affect our results of operations and financial position.

(19) Risks related to information systems and services
We depend on key information systems and services to accurately and efficiently transact our business, interface with customers, provide information to management and prepare financial reports, among other activities. In addition, we rely on third-party providers, including a subsidiary of Suntory Holdings Limited, for a number of key information systems and business processing services. Although we have effected policies and procedures to increase the security of these systems and services, they are vulnerable to interruptions or other failures resulting from, among other things, earthquakes and other natural disasters, terrorist attacks, software, equipment or telecommunications failures, processing errors, computer viruses, hackers, other security issues or supplier defaults. Security, backup and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures.

(20) Risks related to legal compliance
We are subject to a variety of national and local laws and regulations in Japan, Europe, Oceania, Asia, the Americas and the other regions in which we do business. These laws and regulations apply to many aspects of our business activities including the manufacture, safety, labeling, transportation, advertising and sale of our products. In particular, if an accident or non-compliance with these laws or regulations results in environmental pollution, we could be subject to claims or sanctions and incur increased costs. Due to our global operations, we must also comply with anti-corruption provisions of Japanese law or foreign statutes.

Violations of applicable laws or regulations could damage our reputation or result in regulatory or private actions with substantial penalties or damages. In addition, any significant change in such laws or regulations or their interpretation, or the introduction of higher standards or more stringent laws or regulations, could result in increased compliance costs.

Recently, a number of jurisdictions have been considering measures such as special excise taxes and new labeling requirements, serving sizes or other restrictions on the sale of carbonated soft drinks on health grounds. Although we believe our product portfolio has a much higher proportion of non-carbonated and healthy products as compared to other global beverage firms, any such regulatory measures could adversely affect our results of operations and financial position.

(21) Risks related to the reputation of our brands

Maintaining a good reputation globally is critical to selling our branded products. Product contamination or tampering; the failure to maintain high standards for product quality, safety and integrity, including with respect to raw materials and ingredients obtained from suppliers; or allegations of product quality issues, mislabeling or contamination, even if untrue, may harm our reputation and reduce demand for our products or cause production and sales disruptions. If any of our products fail to meet health or safety standards, cause injury to consumers or are mislabeled, we may have to engage in a product recall and/or be subject to liability. Furthermore, Suntory Holdings Limited and other Suntory Group companies not under our control also use the "Suntory" brand. Similar problems or compliance failures on the part of such companies could also contribute to negative perceptions of our brand. Damage to our reputation or loss of consumer confidence in our products for any of these or other reasons could result in decreased demand for our products and could have a material adverse effect on our business, financial condition and results of operations, as well as require additional resources to rebuild our reputation.

(22) Risks related to intellectual property

We license the "Suntory" brand from our Parent, Suntory Holdings Limited, and expect to continue to do so in the future. If our license is terminated, including because we are no longer a subsidiary of our Parent, our corporate image and marketing efforts could be impacted, and we could be required to make a significant investment in rebranding.

We also license various other trademarks from third parties and license our own trademarks to third parties.

For trademarks licensed from third parties, the licensor may terminate the license arrangement or other agreements. Consequently, we may no longer be able to manufacture or sell the related products. The termination of any material license arrangement or other agreements could adversely affect our results of operations and financial position.

For trademarks licensed to third parties, problems could occur with respect to the use of trademarks and related products by these third parties. This could have an impact on our use of the trademarks and the reputation of our brands.

In regions where we have not registered our trademarks, third parties may own or use the same or similar trademarks to our own. In the event that problems occur with respect to the use of trademarks or related products by these third parties, this could adversely affect our brands, and could have an impact on our results of operations and financial position.

We also possess other intellectual property that is important to our business. This intellectual property includes trademarks, copyrights, patents, and other trade secrets. We and third parties could come into conflict over intellectual property rights. Litigation could disrupt our business and cost a substantial amount to protect our rights or defend ourselves against claims. We cannot be certain that the steps we take to protect our rights will be sufficient or that others will not infringe or misappropriate our rights. If we are unable to protect our intellectual property rights, our brands, products and business could be harmed.

(23) Risks associated with control by the Parent

As of the end of March 2014, our Parent, Suntory Holdings Limited, owns 59.48% of the outstanding shares of our common stock, and accordingly, has control, or a veto right with respect to fundamental decisions such as election and removal of our directors and Audit and Supervisory Board members, the approval of joint ventures or other business reorganizations, the transfer of material businesses, amendments to our articles of incorporation and the declaration of dividends. Suntory Holdings Limited could continue to influence the determination of all matters that require the approval of the general meeting of shareholders, regardless of the intentions of other shareholders. Our management makes decisions independently of our Parent, with no matters requiring the Parent's prior approval.

1) Details on our main relationships with Suntory Holdings Limited and other subsidiaries are as follows:

Type of transaction	Counterparty	Method used to determine transaction terms
Payment of brand royalties	Suntory Holdings Limited	The rate of royalty was determined by discussions between the parties after considering the brand value and other factors
Outsourcing of product shipping	Suntory Logistics Ltd.	Determined by discussions between the parties after considering the quality and market price of similar services
Outsourcing of indirect services (logistics, procurement, customer relations, etc.)	Suntory Business Expert Limited	Determined by discussions between the parties after considering the quality of operations and market price of similar services
Purchase of coffee beans	Suncafé Ltd.	Determined by discussions between the parties after considering the quality and market price of similar services
Payment of personnel-related expenses for seconded employees	Suntory Holdings Limited	Determined by discussions based on the personnel expenses of Suntory Holdings Limited

With respect to transactions with the Suntory Group, from the standpoint of ensuring our independence from Suntory Holdings Limited, we regularly report material transactions with the Suntory Group to our board of directors. We have developed a framework to ensure sound and appropriate terms of transactions with the Suntory Group, and continue to strengthen this framework. The framework encompasses checks performed by management divisions before transactions and checks of transaction details by our Audit and Supervisory Board members and the Internal Audit Division after transactions.

2) Posts held concurrently at Suntory Holdings Limited by our officers

Among our nine directors, Nobuhiro Torii, our President and Representative Director, concurrently serves as a Director of Suntory Holdings Limited. This appointment was made to allow Mr. Torii to participate in the decision-making process of our Parent as the representative of an operating company. Furthermore, Shigehiro Aoyama, a Director of ours, is also the Vice President and Representative Director of Suntory Holdings Limited. This appointment was made to reflect his many years of management experience and expertise in our management.

With regard to Audit and Supervisory Board members, Toru Yamamoto, a member of our Audit and Supervisory Board, is also a full-time member of the Audit and Supervisory Board of Suntory Holdings Limited. The purpose of this appointment is to bolster our audit and supervisory framework.

3) Acceptance of seconded personnel (employees) from Suntory Holdings Limited

Among our employees, a certain number of full-time employees other than employees at the level of manager and above are seconded employees from Suntory Holdings Limited. As of December 31, 2013, there were approximately 270 employees seconded to us from Suntory Holdings Limited. Effective April 1, 2013, all of our employees at the level of manager and above who were seconded from Suntory Holdings Limited have transferred to become our employees. All other seconded employees will continue to be employed by Suntory Holdings Limited, and will be transferred to become our employees when they are promoted to the level of manager and above. Furthermore, we will conduct our own recruitment activities independently of the Parent.

4) Trademarks, patents, and comprehensive licensing agreements

We have entered into a licensing agreement with Suntory Holdings Limited regarding our use of the "Suntory" corporate brand. Based on this agreement, we are licensed to use the "Suntory" name and brand. Under the terms of the agreement, our use of the "Suntory" brand is effective so long as we remain part of the Suntory Group. Based on the agreement, we are paying brand royalties to Suntory Holdings Limited.

We own the patents, designs, and trademarks that we use exclusively in our businesses. However, considering that the "Suntory" corporate brand is an asset that belongs to the entire Suntory Group, Suntory Holdings Limited will continue to own trademarks and other intellectual property that contain the "Suntory" corporate brand.

5) Suntory group company loan system

We have historically obtained loans from Suntory Holdings Limited by using the Suntory Group's group company loan system. To ensure our independence from the Suntory Group in terms of fund procurement and management, we are refinancing these loans with borrowings from financial institutions. We plan to complete the refinancing process by the end of 2014.

SUNTORY BEVERAGE & FOOD LIMITED

Consolidated Balance Sheet

Suntory Beverage & Food Limited and Consolidated Subsidiaries
December 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2012	2013	2013
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 26,061	¥ 45,851	$ 435,060
Short-term investments (Note 4)	9	19	180
Notes and accounts receivable (Note 15):			
Trade	113,710	125,412	1,189,980
Other	13,019	17,532	166,354
Allowance for doubtful accounts	(389)	(321)	(3,046)
Inventories (Note 5)	44,756	67,655	641,949
Deferred tax assets (Note 10)	9,539	11,403	108,198
Other current assets	12,191	15,770	149,635
Total current assets	218,896	283,321	2,688,310
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 7)	35,927	40,032	379,846
Buildings and structures (Notes 6 and 7)	86,552	102,966	977,000
Machinery, equipment and other	387,965	478,702	4,542,196
Construction in progress	7,144	10,306	97,789
Lease assets (Note 14)	8,859	8,645	82,029
Total	526,447	640,651	6,078,860
Accumulated depreciation	(291,108)	(327,830)	(3,110,637)
Net property, plant and equipment	235,339	312,821	2,968,223
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries and affiliates (Note 15)	8,247	9,004	85,435
Investment securities (Notes 4 and 15)	7,535	8,816	83,651
Long-term receivable	155	113	1,072
Long-term guarantee deposit	1,898	2,936	27,858
Goodwill (Note 12)	349,929	400,050	3,795,901
Trademarks (Note 6)	7,284	184,943	1,754,844
Deferred tax assets (Note 10)	3,756	3,479	33,011
Other	12,208	52,061	493,984
Allowance for doubtful accounts	(797)	(842)	(7,989)
Total investments and other assets	390,215	660,560	6,267,767
TOTAL	¥844,450	¥1,256,702	$11,924,300

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND EQUITY	2012	2013	2013
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 15)	¥286,736	¥ 122,901	$ 1,166,154
Current portion of long-term debt (Notes 7, 14 and 15)	26,123	51,304	486,801
Notes and accounts payable (Note 15):			
Trade	94,089	100,423	952,870
Other	76,569	90,190	855,774
Consumption taxes payable (Note 15)	3,247	3,559	33,770
Accrued income taxes (Notes 10 and 15)	5,103	11,227	106,528
Accrued expenses (Note 15)	36,459	46,439	440,640
Other current liabilities	8,860	20,594	195,408
Total current liabilities	537,186	446,637	4,237,945
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 14 and 15)	33,730	132,107	1,253,506
Liability for employee retirement benefits (Note 8)	6,815	6,320	59,968
Retirement allowances for directors and Audit and Supervisory Board members	32	24	228
Long-term deposits payable	10,041	10,562	100,218
Deferred tax liabilities (Note 10)	46,509	58,908	558,952
Other	5,861	9,175	87,058
Total long-term liabilities	102,988	217,096	2,059,930
COMMITMENTS (Notes 14 and 16)			
EQUITY (Notes 9, 17 and 18)**:**			
Common stock, authorized – 480,000,000 shares, and issued – 216,000,000 shares in 2012 and 309,000,000 shares in 2013	30,000	168,384	1,597,723
Capital surplus	54,395	192,702	1,828,466
Retained earnings	122,609	141,077	1,338,619
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	430	963	9,137
Deferred gain on derivatives under hedge accounting	436	265	2,514
Foreign currency translation adjustments	(17,521)	54,810	520,068
Total	190,349	558,201	5,296,527
Minority interests	13,927	34,768	329,898
Total equity	204,276	592,969	5,626,425
TOTAL	¥844,450	¥1,256,702	$11,924,300

Consolidated Statement of Income

Suntory Beverage & Food Limited and Consolidated Subsidiaries
Year Ended December 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
NET SALES	¥992,160	¥1,121,362	$10,640,118
COST OF SALES	443,656	502,731	4,770,196
Gross profit	548,504	618,631	5,869,922
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 11, 12 and 13)	490,057	545,915	5,179,951
Operating income	58,447	72,716	689,971
OTHER INCOME (EXPENSES):			
Interest and dividend income	451	487	4,621
Interest expense	(5,219)	(4,763)	(45,194)
Foreign currency exchange loss – net	(51)	(1,665)	(15,799)
Gain from exemption from imputed tax payable attributable to the consolidation tax system	3,811	—	—
Impairment loss (Note 6)	(193)	(1,176)	(11,159)
Restructuring charges	(529)	(3,863)	(36,654)
Other – net	(2,857)	714	6,775
Other expenses – net	(4,587)	(10,266)	(97,410)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	53,860	62,450	592,561
INCOME TAXES (Note 10):			
Current	21,572	25,599	242,898
Deferred	5,466	473	4,488
Total income taxes	27,038	26,072	247,386
NET INCOME BEFORE MINORITY INTERESTS	26,822	36,378	345,175
MINORITY INTERESTS IN NET INCOME	3,437	5,182	49,170
NET INCOME	¥ 23,385	¥ 31,196	$ 296,005

	Yen		U.S. dollars (Note 1)
	2012	2013	2013
AMOUNTS PER SHARE (Notes 9 (c) and 18):			
Net income – basic	¥108.27	¥118.79	$1.13
Cash dividends applicable to the year	59.79	58.00	0.55

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Suntory Beverage & Food Limited and Consolidated Subsidiaries
Year Ended December 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
NET INCOME BEFORE MINORITY INTERESTS	¥26,822	¥ 36,378	$ 345,175
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain on available-for-sale securities	170	534	5,067
Deferred (loss) gain on derivatives under hedge accounting	335	(171)	(1,623)
Foreign currency translation adjustments	33,883	74,513	707,022
Share of other comprehensive income in affiliates	590	1,282	12,164
Total other comprehensive income	34,978	76,158	722,630
COMPREHENSIVE INCOME	¥61,800	¥112,536	$1,067,805
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥56,393	¥103,890	$ 985,767
Minority interests	5,407	8,646	82,038

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Suntory Beverage & Food Limited and Consolidated Subsidiaries
Year Ended December 31, 2013

	Outstanding Number of Shares of Common Stock	Millions of yen			
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings
BALANCE AT JANUARY 1, 2012	432,000	¥ 30,000	¥ 75,042	¥ 51	¥109,749
Net income	—	—	—	—	23,385
Cash dividends, ¥48.73 per share (Note 9 (c))	—	—	—	—	(10,525)
Changes due to purchase of shares in a foreign subsidiary from minority shareholders	—	—	(20,647)	—	—
Net change in the year	—	—	—	(51)	—
BALANCE AT DECEMBER 31, 2012	432,000	30,000	54,395	—	122,609
Net income	—	—	—	—	31,196
Stock split (Note 9 (c))	215,568,000	—	—	—	—
Issuance of common stock (Note 9 (b))	93,000,000	138,384	138,384	—	—
Cash dividends, ¥59.79 per share (Note 9 (c))	—	—	—	—	(12,915)
Change in scope of consolidation	—	—	—	—	308
Change in foreign subsidiaries' interest in their subsidiaries	—	—	(77)	—	—
Put option granted to minority shareholders	—	—	—	—	(121)
Net change in the year	—	—	—	—	—
BALANCE AT DECEMBER 31, 2013	309,000,000	¥168,384	¥192,702	¥ —	¥141,077

	Millions of yen					
	Accumulated Other Comprehensive Income (Loss)					
	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE AT JANUARY 1, 2012	¥260	¥ 88	¥(50,011)	¥165,179	¥16,712	¥181,891
Net income	—	—	—	23,385	—	23,385
Cash dividends, ¥48.73 per share (Note 9 (c))	—	—	—	(10,525)	—	(10,525)
Changes due to purchase of shares in a foreign subsidiary from minority shareholders	—	—	—	(20,647)	—	(20,647)
Net change in the year	170	348	32,490	32,957	(2,785)	30,172
BALANCE AT DECEMBER 31, 2012	430	436	(17,521)	190,349	13,927	204,276
Net income	—	—	—	31,196	—	31,196
Stock split (Note 9 (c))	—	—	—	—	—	—
Issuance of common stock (Note 9 (b))	—	—	—	276,768	—	276,768
Cash dividends, ¥59.79 per share (Note 9 (c))	—	—	—	(12,915)	—	(12,915)
Change in scope of consolidation	—	—	—	308	—	308
Change in foreign subsidiaries' interest in their subsidiaries	—	—	—	(77)	—	(77)
Put option granted to minority shareholders	—	—	—	(121)	—	(121)
Net change in the year	533	(171)	72,331	72,693	20,841	93,534
BALANCE AT DECEMBER 31, 2013	¥963	¥ 265	¥ 54,810	¥558,201	¥34,768	¥592,969

	Outstanding Number of Shares of Common Stock	Thousands of U.S. dollars (Note 1)			
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings
BALANCE AT DECEMBER 31, 2012	432,000	$ 284,657	$ 516,131	$—	$1,163,384
Net income	—	—	—	—	296,005
Stock split (Note 9 (c))	215,568,000	—	—	—	—
Issuance of common stock (Note 9 (b))	93,000,000	1,313,066	1,313,066	—	—
Cash dividends, $0.57 per share (Note 9 (c))	—	—	—	—	(122,545)
Change in scope of consolidation	—	—	—	—	2,923
Change in foreign subsidiaries' interest in their subsidiaries	—	—	(731)	—	—
Put option granted to minority shareholders	—	—	—	—	(1,148)
Net change in the year	—	—	—	—	—
BALANCE AT DECEMBER 31, 2013	309,000,000	$1,597,723	$1,828,466	$—	$1,338,619

	Thousands of U.S. dollars (Note 1)					
	Accumulated Other Comprehensive Income (Loss)					
	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE AT DECEMBER 31, 2012	$4,080	$ 4,137	$(166,249)	$1,806,140	$132,147	$1,938,287
Net income	—	—	—	296,005	—	296,005
Stock split (Note 9 (c))	—	—	—	—	—	—
Issuance of common stock (Note 9 (b))	—	—	—	2,626,132	—	2,626,132
Cash dividends, $0.57 per share (Note 9 (c))	—	—	—	(122,545)	—	(122,545)
Change in scope of consolidation	—	—	—	2,923	—	2,923
Change in foreign subsidiaries' interest in their subsidiaries	—	—	—	(731)	—	(731)
Put option granted to minority shareholders	—	—	—	(1,148)	—	(1,148)
Net change in the year	5,057	(1,623)	686,317	689,751	197,751	887,502
BALANCE AT DECEMBER 31, 2013	$9,137	$ 2,514	$ 520,068	$5,296,527	$329,898	$5,626,425

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Suntory Beverage & Food Limited and Consolidated Subsidiaries
Year Ended December 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2013	2013
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 53,860	¥ 62,450	$ 592,561
Adjustments for:			
Depreciation and amortization	36,570	43,719	414,831
Amortization of goodwill	19,666	23,211	220,239
Impairment loss	193	1,176	30,809
Loss on disposal of property, plant and equipment	3,451	3,247	11,159
Net gain on sales of property, plant and equipment	(77)	(72)	(683)
Increase in notes and accounts receivable – trade	(284)	(2,906)	(27,574)
Decrease (increase) in inventories	2,600	(4,682)	(44,425)
Decrease in notes and accounts payable – trade	(1,751)	(4,963)	(47,092)
Decrease in interest and dividends receivable	494	741	7,031
Increase in interest payable	42	163	1,547
Income taxes paid	(23,985)	(24,085)	(228,532)
Other – net	(4,949)	16,083	152,604
Net cash provided by operating activities	85,830	114,082	1,082,475
INVESTING ACTIVITIES:			
Net (increase) decrease in short-term loan receivables	(2)	25	237
Purchases of property, plant and equipment	(51,631)	(59,658)	(566,069)
Proceeds from sales of property, plant and equipment	403	2,248	21,330
Purchases of investment securities	(544)	(500)	(4,744)
Proceeds from sales of investment securities	58	2	19
Purchases of investments in subsidiaries and affiliates	(23,703)	—	—
Purchases of investments in subsidiaries resulting in changes in consolidation scope – net of cash acquired	(840)	(12,209)	(115,846)
Acquisition of business	—	(220,098)	(2,088,414)
Other – net	385	(423)	(4,014)
Net cash used in investing activities	(75,874)	(290,613)	(2,757,501)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term bank loans	21,618	(62,412)	(592,200)
Net increase in commercial papers	—	16,000	151,817
Proceeds from long-term debt	1,832	57,759	548,050
Repayments of long-term loans	(23,762)	(78,966)	(749,274)
Repayments of lease obligations	(1,589)	(1,682)	(15,960)
Cash dividends	(10,525)	(12,915)	(122,545)
Cash dividends to minority shareholders	(2,943)	(2,841)	(26,957)
Proceeds from issuance of common stocks	—	275,466	2,613,777
Other – net	120	—	—
Net cash (used in) provided by financing activities	(15,249)	190,409	1,806,708
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	3,149	5,912	56,096
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,144)	19,790	187,778
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	28,205	26,061	247,282
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 26,061	¥ 45,851	$ 435,060

See notes to consolidated financial statements.

SUNTORY BEVERAGE & FOOD LIMITED

Notes to Consolidated Financial Statements

Suntory Beverage & Food Limited and Consolidated Subsidiaries
Year Ended December 31, 2013

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2012 consolidated financial statements to conform to the classifications used in 2013.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Suntory Beverage & Food Limited (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.39 to $1, the exchange rate at December 31, 2013. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The Company is a 59.48% owned subsidiary of Suntory Holdings Limited (the "Parent"), a pure holding company that was established on February 16, 2009 through a stock transfer from Suntory Limited (now, Suntory Liquors Limited), a company founded in Osaka in 1899. The Parent and its subsidiaries (together, the "Suntory Group") produce and distribute various popular brands of ready-to-drink beverages in various alcoholic and non-alcoholic beverage categories. The Company was established on January 23, 2009 and commenced the non-alcoholic beverage and food business among the Suntory Group on April 1, 2009. The Company was transferred such business by way of corporate split in connection with the reorganization of Suntory Group that adopted the holding company structure mentioned above. On July 3, 2013, the Company's shares were initially listed on the Tokyo Stock Exchange. See Note 9 (b).

2. Summary of Significant Accounting Policies

(a) Consolidation – The consolidated financial statements as of December 31, 2013, include the accounts of the Company and its 83 significant (76 in 2012) subsidiaries (collectively, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in eight (six in 2012) affiliates are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and affiliates are stated at cost. Even if the consolidation or equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of mainly 20 years, or if immaterial, is charged to income when incurred. Acquired intangible assets with finite useful lives are amortized over the estimated useful lives. Acquired intangible assets with infinite useful lives are not amortized and subject to impairment test.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements – In May 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Practical Issues Task Force (PITF) No. 18, *Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*. PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements; (2) financial statements prepared by foreign subsidiaries in accordance with either IFRS or the generally accepted accounting principles in the United States of America ("U.S. GAAP") tentatively may be used for the consolidation process; and (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material, 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of research and development (R&D); 4) cancellation of the fair value model of accounting for property, plant and equipment, and investment properties and incorporation of the cost model of accounting; and 5) exclusion of minority interests from net income, if contained in net income.

(c) Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method – In March 2008, the ASBJ issued ASBJ Statement No. 16, *Accounting Standard for Equity Method of Accounting for Investments*. The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS or U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant and equipment, and investment properties and incorporation of the cost model of accounting; and 5) exclusion of minority interests from net income, if contained in net income.

(d) Business Combination – In October, 2003, the Business Accounting Council (BAC) issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, *Accounting Standard for Business Divestitures* and ASBJ Guidance No. 10, *Guidance for Accounting Standard for Business Combinations and Business Divestitures*. The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting of interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, *Accounting Standard for Business Combinations*. Major accounting changes under the revised accounting standard are as follows:

(1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed.
(2) The previous accounting standard required R&D costs to be charged to income as incurred. Under the revised standard, in-process R&D costs acquired in a business combination are capitalized as an intangible asset.
(3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.

(e) Cash and Cash Equivalents – Cash and cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash and cash equivalents include cash on hand, deposits due from the Parent, and deposits in banks (including time deposits). The Group utilizes the finance system provided by the Parent, which satisfies the Group's short-term investments of cash surplus or cash demands, if any. Besides the finance system provided by the Parent, the Group has been financed from banks and other financial institutions by way of loan on commercial papers, and gradually ceased the use of the finance system provided by the Parent. See Note 15 (1). The Group considers all time deposits with an original maturity of six months or less to be cash and cash equivalents. Generally, such time deposits can also be withdrawn at any time without penalty or diminution of the principal amount.

(f) Inventories – Inventories are primarily stated at the lower of cost determined by the average method or net selling value, which is defined as the selling price, less additional estimated manufacturing costs and estimated direct selling expenses.

(g) Short-Term Investments and Investment Securities – Short-term investments and investment securities are classified and accounted for, depending on management's intent, as either (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost or (2) available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by charging the related expense to income.

(h) Allowance for Doubtful Accounts – The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(i) Property, Plant and Equipment – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is mainly computed using the straight-line method. The range of useful lives is principally from five to 50 years for buildings and structures, and from two to 17 years for machinery, equipment and other. The useful lives for lease assets, which do not transfer ownership of the leased property to the lessee, are the terms of the respective leases.

(j) Intangible Assets – Intangible assets are amortized primarily using the straight-line method. Purchased software for internal use and software development costs are amortized based on the straight-line method over an estimated useful life of up to five years.

(k) Long-Lived Assets – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset or asset group exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(l) Employee Retirement and Pension Plans – The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. The amount of the retirement benefit is, in general, based on the length of service, basic salary at the time of retirement, and cause of retirement. The Group accounts for the liability for retirement benefit based on projected benefit obligations and plan assets at the consolidated balance sheet date. See Note 8.

Unrecognized prior service cost is amortized by the straight-line method mainly over a period of 15 years, which is shorter than the average remaining years of service of the employees.

Unrecognized actuarial differences are amortized in the years following the year in which the gain or loss is recognized by the straight-line method mainly over a period of 15 years, which is shorter than the average remaining years of service of the employees.

(m) Retirement Allowances for Directors, and Audit and Supervisory Board Members – Upon retirement, directors, and Audit and Supervisory Board members of the Company's certain domestic subsidiaries and directors of certain foreign subsidiaries are also qualified to receive lump-sum payments based on each company's internal policies.

Retirement allowances for directors, and Audit and Supervisory Board members are recorded to state the liability at the amount that would be required if all directors and Audit and Supervisory Board members retired at each balance sheet date.

(n) Asset Retirement Obligations – In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, *Accounting Standard for Asset Retirement Obligations*, and ASBJ Guidance No. 21, *Guidance on Accounting Standard for Asset Retirement Obligations*. Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(o) R&D Costs – R&D costs are charged to income as incurred.

(p) Consumption Taxes – Consumption taxes are excluded from the revenue and expense accounts, which are subject to such taxes.

(q) Leases – In March 2007, the ASBJ issued ASBJ Statement No. 13, *Accounting Standard for Lease Transactions*, which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years, which began on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions, if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations on the balance sheet. In addition, the revised accounting standard permits leases, which existed at the transition date and do not transfer ownership of the leased property to the lessee, to continue to be accounted for as operating lease transactions with "as if capitalized" information disclosed in the notes to the lessee's financial statements.

The Group applied the revised accounting standard effective for the year ended December 31, 2009, and accounted for leases, which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

(r) Income Taxes – The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax rates to the temporary differences.

The Parent adopted the consolidated taxation system, which allows the Parent and its wholly owned domestic subsidiaries to base corporate tax payments on the combined profits or losses, for the year ended December 31, 2012.

Due to the issuance of the Company's common stocks and disposals of the Company's shares by the Parent during the year ended December 31, 2013, the Company is no longer a wholly owned subsidiary of the Parent and, accordingly, the Company and its domestic consolidated subsidiaries have been withdrawn from the consolidated tax group of the Parent.

(s) Foreign Currency Transactions – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen by applying the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

(t) Foreign Currency Consolidated Financial Statements – The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen by applying the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate for their accounting periods.

(u) Derivatives and Hedge Activities – The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates, interest rates, and commodity prices. These derivative financial instruments are utilized by the Group to reduce volatility risks of foreign currency exchange rates, interest rates, and commodity prices. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: 1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and 2) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains, or losses on derivatives are deferred until maturity of the hedged transactions. The foreign currency forward contracts and foreign currency option contracts employed to hedge foreign exchange exposures for import purchases, and forward contracts applied for forecasted (or committed) transactions are measured at fair value, but the unrealized gains/losses are deferred until the underlying transactions are completed.

Trade and other payables denominated in foreign currencies, for which foreign currency forward contracts are used to hedge the foreign currency fluctuations, are translated at the contracted rate, if the forward contracts qualify for hedge accounting.

Interest rate and currency swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income, and hedged items denominated in a foreign currency are translated at the contracted rates.

Commodity swap contracts, which qualify for hedge accounting, are measured at market value at the balance sheet date, and any unrealized gains or losses are deferred until maturity as deferred gains (losses) under hedge accounting in a separate component of equity.

(v) Per Share Information – Basic net income per share (EPS) is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statements of income represent dividends applicable to the respective year, including dividends to be paid after the end of the year.

(w) Accounting Changes and Error Corrections – In December 2009, the ASBJ issued ASBJ Statement No. 24, *Accounting Standard for Accounting Changes and Error Corrections* and ASBJ Guidance No. 24, *Guidance on Accounting Standard for Accounting Changes and Error Corrections*. Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies
When a new accounting policy is applied with a revision of accounting standards, the new policy is applied retrospectively, unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentation
When the presentation of consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors
When an error in prior-period consolidated financial statements is discovered, those prior-period consolidated financial statements are restated.

(x) New Accounting Pronouncements

Accounting Standard for Retirement Benefits – On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, *Accounting Standard for Retirement Benefits* and ASBJ Guidance No. 25, *Guidance on Accounting Standard for Retirement Benefits*, which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.

Major changes are as follows:

(1) Treatment in the balance sheet
Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) Treatment in the statement of income and the statement of comprehensive income
The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(3) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases
The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (1) and (2) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (3) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Group expects to apply the revised accounting standard for (1) and (2) above from the end of the annual period beginning on January 1, 2014, and for (3) above from the beginning of the annual period beginning on January 1, 2015, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

Accounting Standards for Business Combinations and Consolidated Financial Statements – On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, *Accounting Standard for Business Combinations*, revised ASBJ Guidance No. 10, *Guidance on Accounting Standards for Business Combinations and Business Divestitures*, and revised ASBJ Statement No. 22, *Accounting Standard for Consolidated Financial Statements*.

Major accounting changes are as follows:

(1) Transactions with noncontrolling interest
Under the current requirements, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted, is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income, if the parent purchases or sells ownership interests in its subsidiary and retains control over its subsidiary. Under the revised requirement, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

(2) Acquisition-related costs
Under the current requirements, acquisition-related costs, such as advisory fees or professional fees, are included in the acquisition costs of the investment. Under the revised requirements, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

(3) Provisional accounting treatments for a business combination
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisioned amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the adjustments to provisional amounts recorded in a business combination are recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(4) Presentation of the consolidated balance sheet
In the consolidated balance sheet, "minority interest" under the current requirements will be changed to "noncontrolling interest" under the revised requirements.

(5) Presentation of the consolidated statement of income
In the consolidated statement of income, "income before minority interest" under the current requirements will be changed to "net income" under the revised requirements, and "net income" under the current requirements will be changed to "net income attributable to owners of the parent" under the revised requirements.

These requirements for "transactions with noncontrolling interest," "acquisition-related costs" and "presentation changes in the consolidated financial statements" are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted in case of simultaneous application of these requirements from the beginning of annual periods beginning on or after April 1, 2014, except for the presentation changes in the consolidated financial statements. Either retrospective or prospective application of the revised requirements for "transactions with noncontrolling interest" and "acquisition-related costs" is permitted. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised requirements for "provisional accounting treatments for a business combination" is effective for a business combination on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination on or after the beginning of annual periods beginning on or after April 1, 2014.

The Group expects to apply the revised requirements from the beginning of the annual period beginning on January 1, 2016, and is in the process of measuring the effects of applying the revised requirements in future applicable periods.

3. Business Combination

Acquisition of Lucozade and Ribena Business from GlaxoSmithKline plc

On December 31, 2013, the Group acquired two non-alcoholic beverage brands of the United Kingdom (U.K.), "Lucozade" and "Ribena," and related assets from GlaxoSmithKline plc ("GSK").

Through the acquisition, the Group aims to achieve further expansion of its non-alcoholic beverage business in Europe and also enhance its corporate value by obtaining such two brands with large market share centered on the beverage market in the U.K. and a core business with historical and iconic value based in the U.K. Furthermore, by taking over the worldwide distribution rights of those brands held by GSK, the Group aims to obtain a new business basis in emerging countries and other areas, and also to expand sales of the Group's own brands in such areas.

The purchase price of the business totaled ¥220,098 million ($2,088,414 thousand). Based on preliminary valuation assessments, the Company initially recorded goodwill of ¥9,482 million ($89,971 thousand), current assets of ¥8,585 million ($81,459 thousand), and noncurrent assets of ¥202,837 million ($1,924,632 thousand), including trademarks of ¥178,104 million ($1,689,952 thousand) and customer relationships of ¥10,773 million ($102,220 thousand). The allocation of the purchase price is subject to adjustment during the one-year measurement period.

Goodwill will be amortized over 20 years by the straight-line method starting from the year ending December 31, 2014. Trademarks are deemed to have infinite life due to their nature whereas the customer relationships were deemed to be amortized over 24 years.

Assets acquired and cash used for the acquisition in 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 8,585	$ 81,459
Noncurrent assets including trademarks and other intangibles	202,837	1,924,632
Goodwill	8,676	82,323
Total acquisition costs	220,098	2,088,414
Cash used for acquisition	¥220,098	$2,088,414

Goodwill in the above table is the amount converted from the local currency (GBP) to Japanese yen at the spot rate of the transaction date.

Acquisition of PEPSICO INTERNATIONAL VIETNAM COMPANY

During the year ended December 31, 2013, the Group acquired 51% of the shares of PEPSICO INTERNATIONAL – VIETNAM COMPANY. Assets and liabilities of the company and net cash used for the acquisition were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 11,208	$ 106,348
Noncurrent assets	27,775	263,545
Goodwill	2,937	27,868
Current liabilities	(8,111)	(76,962)
Noncurrent liabilities	(3,414)	(32,394)
Minority interests	(13,454)	(127,659)
Total acquisition costs	16,941	160,746
Cash and cash equivalents	(4,731)	(44,890)
Net acquisition costs	12,210	115,855
Net cash used for acquisition	¥ 12,210	$ 115,855

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4. Short-term Investments and Investment Securities

Short-term investments and investment securities as of December 31, 2012 and 2013, consisted of the following:

	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars 2013
Short-term investments:			
Time deposits	¥ 9	¥ 19	$ 180
Investment securities:			
Equity securities	¥7,535	¥8,816	$83,651

The costs and aggregate fair values of marketable securities included in short-term investments and investment securities as of December 31, 2012 and 2013, were as follows:

	Millions of yen 2012 Acquisition Cost	2012 Carrying Amounts	2012 Unrealized Gain (Loss)	2013 Acquisition Cost	2013 Carrying Amounts	2013 Unrealized Gain (Loss)
Available-for-sale securities:						
Carrying amounts exceeding their acquisition cost:						
Equity securities	¥ 879	¥1,596	¥717	¥1,479	¥2,957	¥1,478
Acquisition costs exceeding their carrying amounts:						
Equity securities	279	232	(47)	109	85	(24)
Total	¥1,158	¥1,828	¥670	¥1,588	¥3,042	¥1,454

	Thousands of U.S. dollars 2013 Acquisition Cost	2013 Carrying Amounts	2013 Unrealized Gain (Loss)
Available-for-sale securities:			
Carrying amounts exceeding their acquisition cost:			
Equity securities	$14,034	$28,058	$14,024
Acquisition costs exceeding their carrying amounts:			
Equity securities	1,034	806	(228)
Total	$15,068	$28,864	$13,796

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2012 and 2013, were as follows:

	Carrying Amounts Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars 2013
Available-for-sale:			
Equity securities	¥5,707	¥5,774	$54,787

Sales of securities classified as available-for-sale securities for the years ended December 31, 2012 and 2013, were as follows:

	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars 2013
Amount sold	¥58	¥ 2	$19
Total gain on sale	18	1	9
Total loss on sale	—	(0)	(0)

5. Inventories

Inventories as of December 31, 2012 and 2013, consisted of the following:

	Millions of yen 2012	Millions of yen 2013	Thousands of U.S. dollars 2013
Finished products	¥27,732	¥40,141	$380,881
Work in process	2,403	2,991	28,380
Raw materials and supplies	14,621	24,523	232,688
Total	¥44,756	¥67,655	$641,949

6. Long-Lived Assets

The Group reviewed its long-lived assets for impairment at year-end and, as a result, recognized impairment losses of ¥1,176 million ($11,159 thousand) for the year ended December 31, 2013, to adjust the carrying amounts of the relevant assets or asset groups to recoverable amounts. The recoverable amounts of these assets or asset groups were the higher of the discounted cash flows from the continued use and eventual disposition of the assets or the net selling price at disposition. The discount rate mainly used for computation of present values of future cash flows was 11.4% for the year ended December 31, 2013. The details were as follows:

2013		
Location	Use	Type
Overseas:		
Spain, and other two locations	Idle assets and Business property	Buildings and structures, etc.
Japan:		
Inagi City in Tokyo, and another location	Idle assets	Buildings and structures, etc.

7. Short-term Borrowings and Long-term Debt

Short-term borrowings as of December 31, 2012 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Short-term loans, principally from the Parent and banks, weighted-average rate of 0.95% as of December 31, 2012 and 1.08% as of December 31, 2013	¥286,736	¥106,901	$1,014,337
Commercial papers, weighted-average rate of 0.08% as of December 31, 2013	—	16,000	151,817
Short-term borrowings	¥286,736	¥122,901	$1,166,154

Long-term debt as of December 31, 2012 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Loans, from banks and other financial institutions, due through 2021, rates ranging from 0.49% to 15.25%:			
Unsecured	¥54,962	¥179,218	$1,700,522
Obligations under finance leases	4,891	4,193	39,785
Total	59,853	183,411	1,740,307
Less current portion	26,123	51,304	486,801
Long-term debt – less current portion	¥33,730	¥132,107	$1,253,506

Annual maturities of long-term loans from banks and other financial institutions, as of December 31, 2013, were as follows:

Years Ending December 31	Millions of yen	Thousands of U.S. dollars
2014	¥ 49,872	$ 473,214
2015	9,304	88,281
2016	88,788	842,471
2017	9,812	93,102
2018 and thereafter	21,442	203,454
Total	¥179,218	$1,700,522

The carrying amounts of assets pledged as collateral for long-term bank loans of ¥1,688 million ($16,017 thousand) as of December 31, 2013, were as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures – net of accumulated depreciation	¥1,535	$14,565
Land	4,768	45,241
Total	¥6,303	$59,806

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8. Retirement and Pension Plans

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Some of the employees of the Group were transferred from the Parent, and are under coverage of the Parent's retirement and pension plans. Hence, the Company reimburses the amount of retirement benefit costs associated with those employees.

The liability for employees' retirement benefits as of December 31, 2012 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Projected benefit obligation	¥(18,492)	¥(23,826)	$(226,075)
Fair value of plan assets	11,300	17,055	161,827
Unfunded retirement benefit obligation	(7,192)	(6,771)	(64,248)
Unrecognized actuarial loss	3,211	1,483	14,072
Unrecognized prior service cost	(2,834)	(1,032)	(9,792)
Net liability	¥ (6,815)	¥ (6,320)	$ (59,968)

The components of net periodic benefit costs for the years ended December 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Service cost	¥ 943	¥1,234	$11,709
Interest cost	281	361	3,425
Expected return on plan assets	(262)	(374)	(3,549)
Amortization of actuarial loss	300	151	1,433
Amortization of prior service cost	(368)	(145)	(1,376)
Net periodic benefit costs	894	1,227	11,642
Contributions to the defined contribution pension plan	788	916	8,692
Total	¥1,682	¥2,143	$20,334

Reimbursement cost as to the Company's employees temporarily transferred from the Parent are included in the service costs above.

Assumptions used for the years ended December 31, 2012 and 2013, are set forth as follows:

	2012	2013
Discount rate	Mainly 2.0%	Mainly 1.7%
Expected return on assets	Mainly 3.0%	Mainly 2.5%
Amortization period of prior service cost	Mainly 15 years	Mainly 15 years
Recognition period of actuarial loss	Mainly 15 years	Mainly 15 years

9. Equity

(a) The Companies Act of Japan
Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(1) Dividends
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(2) Increases/decreases and transfer of common stock, reserve, and surplus
The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(3) Treasury stock and treasury stock acquisition rights
The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

(b) Stock split
To improve the liquidity of the Company's stocks, the Company executed a stock split with a ratio of 500 shares per share on April 16, 2013 in accordance with the resolution of Board of Directors' meeting held on March 11, 2013. EPSs and dividends were calculated as if the stock split had taken place at the beginning of the fiscal year ended December 31, 2012.

(c) The initial public offering
The Company's shares were initially listed on the Tokyo Stock Exchange on July 3, 2013. Upon the listing, the Company issued 93,000,000 new shares (33,500,000 shares were issued in domestic market and 59,500,000 shares were issued in overseas market) by public offering with the offer price of ¥3,100 ($29.41) per share. The total amount of ¥288,300 million ($2,735,553 thousand) payment was completed on July 2, 2013. The Company received net proceeds of ¥276,768 million ($2,626,132 thousand) with the purchase price of ¥2,976 ($28.24) per share after deducting underwriting commissions.

10. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the year ended December 31, 2012 and 38.0% for the year ended December 31, 2013.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of December 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Deferred tax assets:			
Tax loss carryforwards	¥ 7,626	¥ 7,690	$ 72,967
Accrued expenses	4,114	5,985	56,789
Unrealized profit	3,223	3,629	34,434
Investments in subsidiaries	2,723	2,937	27,868
Pension liabilities	1,817	1,834	17,402
Other	4,676	6,134	58,203
Total gross deferred tax assets	24,179	28,209	267,663
Valuation allowance	(6,214)	(7,467)	(70,851)
Net deferred tax assets	17,965	20,742	196,812
Deferred tax liabilities:			
Intangible assets	(24,668)	(37,726)	(357,966)
Investments in subsidiaries	(19,811)	(21,691)	(205,816)
Property, plant and equipment	(2,022)	(2,254)	(21,387)
Reserves for advanced depreciation of noncurrent assets	(1,563)	(1,508)	(14,309)
Other	(3,403)	(2,560)	(24,291)
Total deferred tax liabilities	(51,467)	(65,739)	(623,769)
Net deferred tax liabilities	¥(33,502)	¥(44,997)	$(426,957)

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended December 31, 2012 and 2013, were as follows:

	2012	2013
Normal effective statutory tax rate	40.7%	38.0%
Income not taxable for income tax purposes	(3.9)	(3.8)
Differences in tax rate of overseas consolidated subsidiaries	(6.9)	(1.9)
Amortization of goodwill	13.0	12.3
Accumulated earnings tax	7.1	—
Other – net	0.2	(2.9)
Actual effective tax rate	50.2%	41.7%

The accumulated earnings tax was imposed due to the first-time adoption of the consolidation tax system by the Parent as of December 31, 2012. The payment of the tax was exempted from the Parent and such amount was included as a gain in the consolidated statement of income for the year ended December 31, 2012.

11. R&D Costs

R&D costs charged to income were ¥6,292 million and ¥6,856 million ($65,054 thousand) for the years ended December 31, 2012 and 2013, respectively.

12. Amortization of Goodwill

Amortization of goodwill were ¥19,666 million and ¥23,211 million ($220,239 thousand) for the years ended December 31, 2012 and 2013, respectively.

13. Advertising Costs

Advertising costs were ¥35,620 million and ¥44,374 million ($421,046 thousand) for the years ended December 31, 2012 and 2013, respectively.

14. Lease Transactions

As Lessee

The Group leases certain machinery, computer equipment, office space, and other assets. Total rental expenses, including lease payments under finance leases for the years ended December 31, 2012 and 2013, amounted to ¥6,491 million and ¥6,894 million ($65,414 thousand), respectively.

Pro Forma Information of Leased Property Whose Lease Inception Was Before December 31, 2008

ASBJ Statement No. 13 requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008, to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the consolidated financial statements. The Group applied ASBJ Statement No. 13 effective January 1, 2009, and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before December 31, 2008, such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense, and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis, were as follows:

	Millions of yen			
	2012			
	Buildings and Structures	Machinery and Equipment	Others	Total
Acquisition cost	¥ 786	¥11,945	¥ 733	¥13,464
Accumulated depreciation	(522)	(6,064)	(642)	(7,228)
Net leased property	¥ 264	¥ 5,881	¥ 91	¥ 6,236

	Millions of yen			
	2013			
	Buildings and Structures	Machinery and Equipment	Others	Total
Acquisition cost	¥ 186	¥ 9,619	¥ 109	¥ 9,914
Accumulated depreciation	(127)	(5,116)	(100)	(5,343)
Net leased property	¥ 59	¥ 4,503	¥ 9	¥ 4,571

	Thousands of U.S. dollars			
	2013			
	Buildings and Structures	Machinery and Equipment	Others	Total
Acquisition cost	$ 1,765	$ 91,271	$1,034	$ 94,070
Accumulated depreciation	(1,205)	(48,544)	(949)	(50,698)
Net leased property	$ 560	$ 42,727	$ 85	$ 43,372

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Due within one year	¥1,175	¥ 813	$ 7,714
Due after one year	5,126	3,797	36,028
Total	¥6,301	¥4,610	$43,742

Depreciation expense and interest expense for finance leases as of December 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Depreciation expense	¥1,224	¥1,099	$10,428
Interest expense	96	58	550

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the effective interest method, respectively.

Minimum rental commitments under noncancelable operating leases as of December 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Due within one year	¥ 4,431	¥ 7,133	$ 67,682
Due after one year	15,752	22,913	217,411
Total	¥20,183	¥30,046	$285,093

15. Financial Instruments And Related Disclosures

(1) Group policy for financial instruments

The Group utilizes the finance system provided by the Parent. The finance system satisfies the Group's short-term cash demands and investments of cash surplus, if any. Besides the finance system provided by the Parent, the Group has been financed by banks and other financial institutions by way of loan or commercial papers, and gradually ceased the use of the Parent's finance system. The Group sometimes invests cash surpluses in low-risk financial instruments, but does not invest for trading or speculative purposes. The Group takes long-term bank loans to satisfy its long-term cash demands. Derivatives are used not for trading or speculative purposes but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Marketable and investment securities, mainly equity instruments of unconsolidated subsidiaries and affiliates or customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year and exposed to liquidity risk. Bank loans are used to fund the Group's ongoing operations or investments. A part of such debts is exposed to market risks from changes in variable interest rates or from fluctuation in foreign currency exchange rates.

Derivatives are used to manage exposure to risks from changes in foreign currency exchange rates or changes in market price fluctuations of goods, payables derived from the Group's normal business such as purchases of raw or packaging materials, and imports of goods; risks from changes in foreign currency exchange rates of capital transactions denominated in foreign currencies and dividends receivable; and risks from changes in variable interest rates and foreign exchange rates of bank loans. The Group does not enter into derivatives for trading or speculative purposes. Please see Note 16 for more detail about derivatives.

(3) Risk management for financial instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from the counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include the monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers in the early stages. With respect to financial investments and derivatives, the Group manages its exposure to credit risk by limiting its counterparties to high credit rating financial institutions. Please see Note 16 for the detail about derivatives.

Market Risk Management (foreign exchange risk, interest rate risk, and commodity price risk)

Forward foreign currency contracts, foreign currency swaps, and foreign currency options are employed to hedge foreign exchange exposures of trade receivables and payables denominated in foreign currencies.

Interest rate swaps and interest rate and currency swaps are used to manage exposure to market risks from changes in interest rates.

Commodity price swap contracts are used to hedge risks from fluctuations in raw material prices.

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis. In addition, the Group periodically reviews its portfolio considering relationships with its customers and suppliers, except for held-to-maturity securities.

The Group executes derivative transactions based on internal guidelines, which prescribe the counterparties and the quantity and profit/loss limit for each transaction. Each transaction is approved by management before and after the executions. The Group also reviews consolidated subsidiaries' derivative transactions based on the internal guidelines reports from those subsidiaries after the execution of the transaction. The Group has established segregation of duties in the Group by separating execution of derivative transactions from back office that performs reconciliations and risk evaluations. Finance and other related departments comprehensively review the balance and risk status of the transactions, including consolidated subsidiaries.

Liquidity Risk Management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by adequate financial planning.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. Also, please see Note 16 for details of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of yen		
December 31, 2012	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 26,061	¥ 26,061	¥ —
Notes and accounts receivable – trade	113,710	113,710	—
Notes and accounts receivable – other	13,019	13,019	—
Investment securities	1,828	1,828	—
Total	¥154,618	¥154,618	¥ —
Short-term borrowings	¥286,736	¥286,736	¥ —
Current portion of long-term debt	26,123	26,802	(679)
Notes and accounts payable – trade	94,089	94,089	—
Notes and accounts payable – other	76,569	76,569	—
Consumption taxes payable	3,247	3,247	—
Accrued income taxes	5,103	5,103	—
Accrued expenses	36,459	36,459	—
Long-term debt	33,730	35,356	(1,626)
Total	¥562,056	¥564,361	¥(2,305)

	Millions of yen		
December 31, 2013	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 45,851	¥ 45,851	¥ —
Notes and accounts receivable – trade	125,412	125,412	—
Notes and accounts receivable – other	17,532	17,532	—
Investment securities	3,042	3,042	—
Total	¥191,837	¥191,837	¥ —
Short-term borrowings	¥122,901	¥122,901	¥ —
Current portion of long-term debt	51,304	52,338	(1,034)
Notes and accounts payable – trade	100,423	100,423	—
Notes and accounts payable – other	90,190	90,190	—
Consumption taxes payable	3,559	3,559	—
Accrued income taxes	11,227	11,227	—
Accrued expenses	46,439	46,439	—
Long-term debt	132,107	134,226	(2,119)
Total	¥558,150	¥561,303	¥(3,153)

	Thousands of U.S. dollars		
December 31, 2013	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	$ 435,060	$ 435,060	$ —
Notes and accounts receivable – trade	1,189,980	1,189,980	—
Notes and accounts receivable – other	166,354	166,354	—
Investment securities	28,864	28,864	—
Total	$1,820,258	$1,820,258	$ —
Short-term borrowings	$1,166,154	$1,166,154	$ —
Current portion of long-term debt	486,801	496,613	(9,812)
Notes and accounts payable – trade	952,870	952,870	—
Notes and accounts payable – other	855,774	855,774	—
Consumption taxes payable	33,770	33,770	—
Accrued income taxes	106,528	106,528	—
Accrued expenses	440,640	440,640	—
Long-term debt	1,253,506	1,273,612	(20,106)
Total	$5,296,043	$5,325,961	$(29,918)

Cash and cash equivalents, receivables and payables, short-term borrowings, consumption taxes payable, accrued expenses, and accrued income taxes

The carrying values of cash and cash equivalents, receivables and payables, short-term borrowings, consumption taxes payable, accrued expenses, and accrued income taxes approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Information on the fair value for investment securities by classification is included in Note 4.

Long-term debt

The fair value of long-term debt is determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

Information on the fair value for derivatives is included in Note 16.

(b) Financial instruments whose fair value cannot be reliably determined

	Carrying Amounts		
	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Investments in unconsolidated subsidiaries and affiliates	¥8,247	¥9,004	$85,435
Investments in equity instruments that do not have a quoted market price in an active market	5,707	5,774	54,787

(5) Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen			
December 31, 2012	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 26,061	¥—	¥—	¥—
Notes and accounts receivable – Trade	113,710	—	—	—
Notes and accounts receivable – Other	13,019	—	—	—
Total	¥152,790	¥—	¥—	¥—

	Millions of yen			
December 31, 2013	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 45,851	¥—	¥—	¥—
Notes and accounts receivable – Trade	125,412	—	—	—
Notes and accounts receivable – Other	17,532	—	—	—
Total	¥188,795	¥—	¥—	¥—

	Thousands of U.S. dollars			
December 31, 2013	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 435,060	$—	$—	$—
Notes and accounts receivable – Trade	1,189,980	—	—	—
Notes and accounts receivable – Other	166,354	—	—	—
Total	$1,791,394	$—	$—	$—

Please see Note 7 for annual maturities of long-term debt and Note 14 for obligations under finance leases.

16. Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Group principally to reduce interest rate and foreign exchange rate risks. The Group has established internal policies, which include procedures for risk assessment, for the approval, reporting, and monitoring of transactions involving derivative financial instruments. The Group policies state that the Group is not to hold or issue derivative financial instruments for trading or speculative purposes.

The Group is exposed to certain market risks arising from its forward exchange contracts, swap agreements, currency option contracts, and commodity price swap contracts. The Group is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency, interest, and commodity price contract; however, the Group does not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

(a) Derivative transactions to which hedge accounting is not applied

(1) Foreign currency-related derivatives

	Millions of yen			
December 31, 2012	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain
Forward exchange contracts to:				
Buy:				
USD	¥4,758	¥—	¥(36)	¥(36)
EUR	238	—	9	9
SGD	1,140	—	6	6
THB	470	—	(2)	(2)
Other	155	—	(0)	(0)
Sell:				
HKD	414	—	11	11
Other	8	—	0	0
Currency swaps:				
EUR payment, USD receipt	190	—	(0)	(0)
GBP payment, EUR receipt	112	—	(0)	(0)

	Millions of yen			
December 31, 2013	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain
Forward exchange contracts to:				
Buy:				
USD	¥ 5,228	¥—	¥ 77	¥ 77
EUR	186	—	12	12
SGD	2,666	—	(47)	(47)
THB	132	—	(2)	(2)
Other	112	—	(4)	(4)
Sell:				
GBP	102,068	—	(4,102)	(4,102)
USD	68	—	0	0
THB	618	—	19	19
Other	10	—	(0)	(0)

	Thousands of U.S. dollars			
December 31, 2013	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain
Forward exchange contracts to:				
Buy:				
USD	$ 49,606	$—	$ 731	$ 731
EUR	1,765	—	114	114
SGD	25,297	—	(446)	(446)
THB	1,252	—	(19)	(19)
Other	1,063	—	(38)	(38)
Sell:				
GBP	968,479	—	(38,922)	(38,922)
USD	645	—	0	0
THB	5,864	—	180	180
Other	95	—	(0)	(0)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions.

The contract or notional amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

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(b) Derivative transactions to which hedge accounting is applied

(1) Foreign currency-related derivatives

	Millions of yen			
December 31, 2012	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payable and other	¥11,924	¥—	¥476
EUR	Payable	572	—	24
Sell:				
AUD	Receivable	3,025	—	(14)
Currency swaps:				
EUR payment, USD receipt	Payable	190	—	(4)
GBP payment, EUR receipt	Receivable	112	—	(2)
Currency options:				
Call options, purchased:				
USD	Payable	4,416	—	
Premium		(75)	—	265
EUR	Payable	309	—	
Premium		(10)	—	25

	Millions of yen			
December 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payable	¥5,932	¥—	¥ 73
EUR	Payable	873	—	63
Sell:				
GBP	Receivable	981	—	(1)
AUD	Receivable	2,308	—	135
Currency options:				
Call options, purchased:				
USD	Payable	1,551	—	
Premium		(15)	—	24

	Thousands of U.S. dollars			
December 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payable	$56,286	$—	$ 693
EUR	Payable	8,284	—	598
Sell:				
GBP	Receivable	9,308	—	(9)
AUD	Receivable	21,900	—	1,281
Currency options:				
Call options, purchased:				
USD	Payable	14,717	—	
Premium		(142)	—	228

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions.

The contract or notional amounts of derivatives that are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

The following foreign currency forward contracts were not measured at fair value, but the hedged items (i.e., payable) denominated in a foreign currency are translated at the contracted rates as described in Note 2 (u). The fair values of such foreign currency forward contracts are included in those of the hedged items in Note 15 and are not shown in the table below:

	Millions of yen			
December 31, 2012	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payables	¥ 57	¥—	¥—
EUR	Payables	145	—	—

	Millions of yen			
December 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payables	¥ 56	¥—	¥—
EUR	Payables	142	—	—

	Thousands of U.S. dollars			
December 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payables	$ 531	$—	$—
EUR	Payables	1,347	—	—

(2) Interest and currency-related derivatives

There was no interest and currency-related derivative contract employed for the year ended December 31, 2012.

The following interest rate and currency swaps that qualify for hedge accounting and meet specific matching criteria are not measured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in that of hedged items (i.e. long-term debt) in Note 15.

	Millions of yen			
December 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate and currency swaps:				
Buy JPY, sell USD				
Fixed payment and floating receipt	Long-term debt	¥29,503	¥29,503	¥—
Interest rate and currency swaps:				
Buy EUR, sell USD				
Fixed payment and floating receipt	Long-term debt	¥23,479	¥23,479	¥—

	Thousands of U.S. dollars			
December 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate and currency swaps:				
Buy JPY, sell USD				
Fixed payment and floating receipt	Long-term debt	$279,941	$279,941	$—
Interest rate and currency swaps:				
Buy EUR, sell USD				
Fixed payment and floating receipt	Long-term debt	$222,782	$222,782	$—

(3) Commodity-related derivatives

	Millions of yen			
December 31, 2012	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Commodity price swaps:				
Fixed payment and floating receipt	Raw sugar	¥1,014	¥—	¥12

	Millions of yen			
December 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Commodity price swaps:				
Fixed payment and floating receipt	Raw sugar	¥1,075	¥—	¥(2)

	Thousands of U.S. Dollars			
December 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Commodity price swaps:				
Fixed payment and floating receipt	Raw sugar	$10,200	$—	$(19)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

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17. Comprehensive Income

The components of other comprehensive income for the years ended December 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 266	¥ 807	$ 7,657
Reclassification adjustments to profit or loss	(18)	(1)	(9)
Amount before income tax effect	248	806	7,648
Income tax effect	(78)	(272)	(2,581)
Total	¥ 170	¥ 534	$ 5,067
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥ 625	¥ (376)	$ (3,568)
Reclassification adjustments to profit or loss	(3)	—	—
Amount before income tax effect	622	(376)	(3,568)
Income tax effect	(287)	205	1,945
Total	¥ 335	¥ (171)	$ (1,623)
Foreign currency translation adjustments:			
Gains arising during the year	¥33,883	¥74,500	$706,898
Reclassification adjustments to profit or loss	—	13	124
Total	¥33,883	¥74,513	$707,022
Share of other comprehensive income in affiliates:			
Gains arising during the year	590	1,282	12,164
Total other comprehensive income	¥34,978	¥76,158	$722,630

18. Subsequent Event

Appropriation of Retained Earnings

The following appropriation of retained earnings as of December 31, 2013, will be approved at the Company's shareholders meeting to be held on March 28, 2014:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥58.00 ($0.55) per share	¥17,922	$170,054

19. Segment Information

For the years ended December 31, 2012 and 2013

Under ASBJ Statement No. 17, *Accounting Standard for Segment Information Disclosures*, and ASBJ Guidance No. 20, Guidance on Accounting Standard for Segment Information Disclosures, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(a) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of "Japan" and "Overseas."

(b) Methods of measurement for the amounts of sales, profit, assets, and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(c) Information about sales, profit, assets, and other items was as follows:

	Millions of yen				
	2012				
	Japan	Overseas	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥688,796	¥303,364	¥992,160	¥ —	¥992,160
Intersegment sales or transfers	—	1,208	1,208	(1,208)	—
Total	¥688,796	¥304,572	¥993,368	¥ (1,208)	¥992,160
Segment profit	¥ 35,605	¥ 42,507	¥ 78,112	¥(19,665)	¥ 58,447
Segment assets	291,134	553,316	844,450	—	844,450
Others:					
Depreciation and amortization	27,591	8,979	36,570	—	36,570
Amortization of goodwill	129	19,537	19,666	—	19,666
Investments in affiliates accounted for by the equity methods	—	7,940	7,940	—	7,940
Increase in property, plant and equipment and intangible assets	31,620	19,911	51,531	—	51,531

	Millions of yen				
	2013				
	Japan	Overseas	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥716,852	¥404,510	¥1,121,362	¥ —	¥1,121,362
Intersegment sales or transfers	—	1,071	1,071	(1,071)	—
Total	¥716,852	¥405,581	¥1,122,433	¥ (1,071)	¥1,121,362
Segment profit	¥ 45,395	¥ 50,532	¥ 95,927	¥(23,211)	¥ 72,716
Segment assets	308,237	948,465	1,256,702	—	1,256,702
Others:					
Depreciation and amortization	29,575	14,144	43,719	—	43,719
Amortization of goodwill	111	23,100	23,211	—	23,211
Investments in affiliates accounted for by the equity methods	—	8,744	8,744	—	8,744
Increase in property, plant and equipment and intangible assets	34,427	218,253	252,680	—	252,680

	Thousands of U.S. dollars				
	2013				
	Japan	Overseas	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$6,801,898	$3,838,220	$10,640,118	$ —	$10,640,118
Intersegment sales or transfers	—	10,162	10,162	(10,162)	—
Total	$6,801,898	$3,848,382	$10,650,280	$ (10,162)	$10,640,118
Segment profit	$ 430,733	$ 479,477	$ 910,210	$(220,239)	$ 689,971
Segment assets	2,924,727	8,999,573	11,924,300	—	11,924,300
Others:					
Depreciation and amortization	280,624	134,207	414,831	—	414,831
Amortization of goodwill	1,053	219,186	220,239	—	220,239
Investments in affiliates accounted for by the equity methods	—	82,968	82,968	—	82,968
Increase in property, plant and equipment and intangible assets	326,663	2,070,908	2,397,571	—	2,397,571

"Reconciliations" in the segment profit represents amortization of goodwill that was not allocated to each reportable segment. "Segment profit" represents operating income before the amortization of goodwill.

The following table shows reconciliations from segment profit to earnings before interest, taxes, depreciation, and amortization ("EBITDA") by reportable segments for the years ended December 31, 2012 and 2013:

	Millions of yen		
	2012		
	Japan	Overseas	Total
Segment profit	¥35,605	¥42,507	¥ 78,112
Add: Depreciation and amortization	27,591	8,979	36,570
EBITDA	¥63,196	¥51,486	¥114,682

	Millions of yen		
	2013		
	Japan	Overseas	Total
Segment profit	¥45,395	¥50,532	¥ 95,927
Add: Depreciation and amortization	29,575	14,144	43,719
EBITDA	¥74,970	¥64,676	¥139,646

	Thousands of U.S. dollars		
	2013		
	Japan	Overseas	Total
Segment profit	$430,733	$479,477	$ 910,210
Add: Depreciation and amortization	280,624	134,207	414,831
EBITDA	$711,357	$613,684	$1,325,041

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(d) Overseas information about sales and reconciliations from segment profit to EBITDA by geographic area is as follows:

The "overseas" segments are divided into four areas, each corresponding to where the headquarters of the overseas subsidiaries are located.

	Millions of yen				
	2012				
	Europe	Oceania	Asia	Americas	Total
Sales:					
Sales to external customers	¥123,661	¥33,343	¥78,843	¥67,517	¥303,364
Intersegment sales or transfers	1,208	—	—	—	1,208
Total	¥124,869	¥33,343	¥78,843	¥67,517	¥304,572
Segment profit	¥ 24,450	¥ 5,077	¥ 6,230	¥ 6,750	¥ 42,507
Add: Depreciation and amortization	3,480	824	2,125	2,550	8,979
EBITDA	¥ 27,930	¥ 5,901	¥ 8,355	¥ 9,300	¥ 51,486

	Millions of yen				
	2013				
	Europe	Oceania	Asia	Americas	Total
Sales:					
Sales to external customers	¥154,932	¥40,962	¥132,658	¥75,958	¥404,510
Intersegment sales or transfers	1,071	—	—	—	1,071
Total	¥156,003	¥40,962	¥132,658	¥75,958	¥405,581
Segment profit	¥ 27,243	¥ 6,217	¥ 9,201	¥ 7,871	¥ 50,532
Add: Depreciation and amortization	4,667	1,218	5,306	2,953	14,144
EBITDA	¥ 31,910	¥ 7,435	¥ 14,507	¥10,824	¥ 64,676

	Thousands of U.S. dollars				
	2013				
	Europe	Oceania	Asia	Americas	Total
Sales:					
Sales to external customers	$1,470,082	$388,671	$1,258,734	$720,733	$3,838,220
Intersegment sales or transfers	10,162	—	—	—	10,162
Total	$1,480,244	$388,671	$1,258,734	$720,733	$3,848,382
Segment profit	$ 258,498	$ 58,990	$ 87,304	$ 74,685	$ 479,477
Add: Depreciation and amortization	44,283	11,557	50,347	28,020	134,207
EBITDA	$ 302,781	$ 70,547	$ 137,651	$102,705	$ 613,684

(e) Relevant information

Sales by geographic area were as follows:

	Millions of yen					
	2012					
	Japan	Europe	Oceania	Asia	Americas	Total
Sales	¥688,796	¥124,167	¥58,138	¥53,542	¥67,517	¥992,160

	Millions of yen					
	2013					
	Japan	Europe	Oceania	Asia	Americas	Total
Sales	¥716,852	¥155,681	¥69,435	¥103,436	¥75,958	¥1,121,362

	Thousands of U.S. dollars					
	2013					
	Japan	Europe	Oceania	Asia	Americas	Total
Sales	$6,801,898	$1,477,189	$658,839	$981,459	$720,733	$10,640,118

Sales are classified by country or region based on location of customers.

(f) Property, plant and equipment by geographic area were as follows:

	Millions of yen					
	2012					
	Japan	Europe	Oceania	Asia	Americas	Total
Property, plant and equipment	¥150,324	¥34,156	¥13,899	¥16,659	¥20,301	¥235,339

	Millions of yen					
	2013					
	Japan	Europe	Oceania	Asia	Americas	Total
Property, plant and equipment	¥152,769	¥70,248	¥19,414	¥49,202	¥21,188	¥312,821

	Thousands of U.S. dollars					
	2013					
	Japan	Europe	Oceania	Asia	Americas	Total
Property, plant and equipment	$1,449,559	$666,553	$184,211	$466,856	$201,044	$2,968,223

(g) Significant impairment loss on noncurrent assets

	Millions of yen		
	2012		
	Japan	Overseas	Total
Impairment losses on noncurrent assets	¥109	¥84	¥193

	Millions of yen		
	2013		
	Japan	Overseas	Total
Impairment losses on noncurrent assets	¥16	¥1,160	¥1,176

	Thousands of U.S. dollars		
	2013		
	Japan	Overseas	Total
Impairment losses on noncurrent assets	$152	$11,007	$11,159

(h) Information regarding balance of goodwill by reportable segment

	Millions of yen		
	2012		
	Japan	Overseas	Total
Goodwill	¥1,262	¥348,667	¥349,929

	Millions of yen		
	2013		
	Japan	Overseas	Total
Goodwill	¥1,050	¥399,000	¥400,050

	Thousands of U.S. dollars		
	2013		
	Japan	Overseas	Total
Goodwill	$9,963	$3,785,938	$3,795,901

20. Related-Party Transactions

In addition to the related-party information disclosed elsewhere in the consolidated financial statements, the following significant transactions between the Group and related parties took place for the years ended December 31, 2012 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Loans due to:			
Parent	¥320,754	¥128,209	$1,216,520
Interest payment:			
Parent	4,010	1,868	17,725
Debt guarantee:			
Parent	19,254	—	—
Pledge of collateral:			
Parent	15,694	—	—

The balances due to or from these related parties as of December 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Loans due to:			
Parent:			
Short-term	¥274,870	¥ 99,199	$ 941,256
Current portion of long-term debt	22,942	29,010	275,264
Long-term	22,942	—	—
Total	¥320,754	¥128,209	$1,216,520
Accrued expense:			
Parent	¥ 216	¥ —	$ —
Suntory Business Expert Limited	13,854	15,325	145,412
Total	¥ 14,070	¥ 15,325	$ 145,412
Accounts payable:			
Suntory Business Expert Limited	¥ 56,538	¥ 60,862	$ 577,493

Suntory Business Expert Limited ("SBE") is a wholly owned subsidiary of the Parent and no shares are held by the Company. SBE acts as a shared-service business company among the Suntory Group, and makes payments to the Group's suppliers on behalf of the Group. Such payments are not transactions between the Group and SBE, and not included in the transaction information above, whereas the balances due to SBE are disclosed.

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1, Imabashi, Chuo-ku
Osaka 541-0042
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Suntory Beverage & Food Limited:

We have audited the accompanying consolidated balance sheet of Suntory Beverage & Food Limited and its consolidated subsidiaries as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year ended December 31, 2013, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suntory Beverage & Food Limited and its consolidated subsidiaries as of December 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

March 20, 2014

Member of
Deloitte Touche Tohmatsu Limited

Corporate Overview

(As of December 31, 2013)

Company Name:	Suntory Beverage & Food Limited
Representative Director and President:	Nobuhiro Torii
Head Office:	3-1-1 Kyobashi, Chuo-ku, Tokyo 104-0031 Japan
Established:	January 2009
Capital:	¥168,384 million
Group Companies:	100 (as of December 31, 2013)
Employees:	17,758 (as of December 31, 2013)

Group Companies

Group Companies in Japan

[Product Sales in Japan]
- SUNTORY FOODS LIMITED
- Suntory Beverage Service Limited
- Okinawa Pepsi Beverage Co., Ltd.

[Product Manufacturing in Japan]
- Suntory Products Limited
- Suntory Food Industries Co. Ltd.
- Nihon Pepsi Cola Production Co., Ltd

Group Companies Overseas

[Europe]
- Suntory Beverage & Food Europe Limited (United Kingdom)
- Orangina Schweppes Group (France)
- Lucozade Ribena Suntory Limited (United Kingdom)

[Oceania]
- Frucor Group (New Zealand)

[Asia]
- Suntory Beverage & Food Asia Pte. Ltd. (Singapore)
- Cerebos Pacific Limited (Singapore)
- PT SUNTORY GARUDA BEVERAGE (Indonesia)
- Suntory Narang Private Limited (India)
- Suntory PepsiCo Vietnam Beverage Co., Ltd. (Vietnam)
- TIPCO F&B CO., LTD (Thailand)

[Americas]
- Pepsi Bottling Ventures LLC (U.S.A.)

Stock Overview

(As of December 31, 2013)

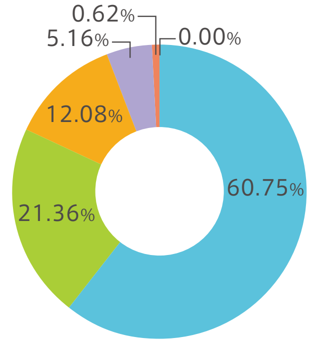
Stock Code:	2587
Date of Listing:	July 3, 2013
Stock Listing:	First Section of Tokyo Stock Exchange
Fiscal Year:	January 1 – December 31
Authorized Shares:	480,000,000 shares
Issued Shares:	309,000,000 shares
Number of Shareholders:	107,221
Ordinary General Meeting of Shareholders:	March (Record date: December 31)
Shareholder Registry Administrator:	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo

Major Shareholders

Shareholders	Number of shares held (thousands)	Percentage of shareholding
Suntory Holdings Limited	183,800	59.4
GIC PRIVATE LIMITED	9,029	2.9
HSBC BANK PLC A/C ABU DHABI INVESTMENT AUTHORITY	7,683	2.4
GOLDMAN, SACHS & CO. REG	4,514	1.4
BBH FOR MATTHEWS ASIA DIVIDEND FUND	4,148	1.3
Japan Trustee Services Bank, Ltd. (Trust Account)	2,808	0.9
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	2,292	0.7
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,269	0.7
UBS SECURITIES LLC-HFS CUSTOMER SEGREGATED ACCOUNT	2,022	0.6
THE CHASE MANHATTAN BANK, N.A. LONDON	1,994	0.6

Composition of Shareholders

(Year ended December 31)



Other Japanese corporations	60.75%
Foreign investors	21.36%
Individuals, other	12.08%
Financial institutions	5.16%
Securities companies	0.62%
Japanese government	0.00%

Suntory Beverage & Food Limited Online Information

http://www.suntory.com/sbf/

Suntory Beverage & Food Limited's corporate website lists information about our company's products in addition to IR materials including financial information and investor briefings for shareholders and investors.

IR site: http://www.suntory.com/softdrink/ir/

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