SUNTORY
SUNTORY BEVERAGE & FOOD

ANNUAL REPORT 2014

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.

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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 SBF 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 Ltd., 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, such 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 the 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.

Overview

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, Asia, Oceania, 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 leading global soft drink company.

2014 Financial Digest

Net Sales
¥1,257.3 billion
+12.1% YoY

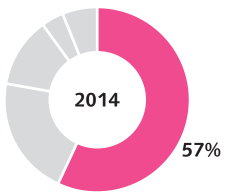
Operating Income
¥85.9 billion
+18.2% YoY

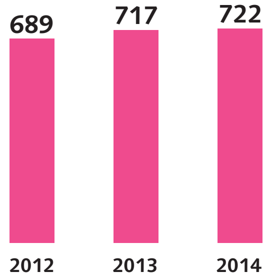
EBITDA*
¥161.1 billion
+15.3% YoY

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

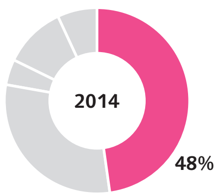
Japan

Net Sales
¥722 billion



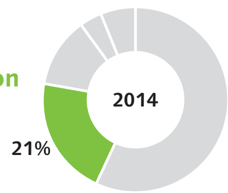


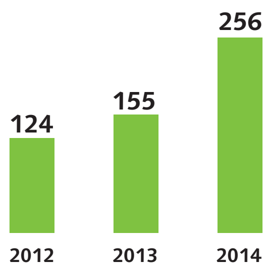
EBITDA
¥77 billion



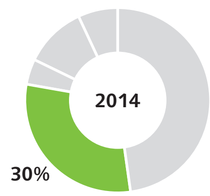
Europe

Net Sales
¥256 billion



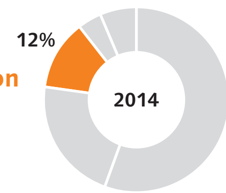


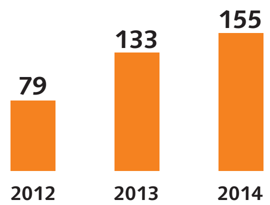
EBITDA
¥48 billion



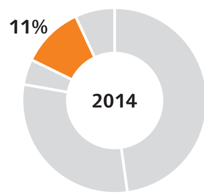
Asia

Net Sales
¥155 billion



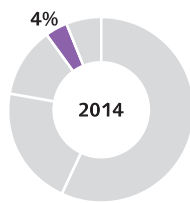


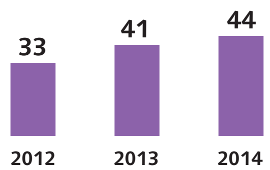
EBITDA
¥18 billion



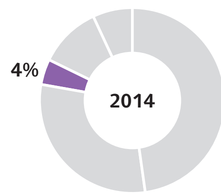
Oceania

Net Sales
¥44 billion



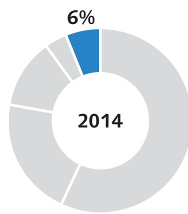


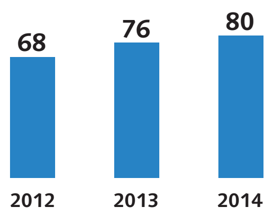
EBITDA
¥7 billion



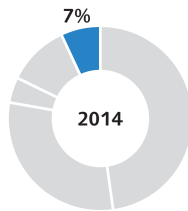
Americas

Net Sales
¥80 billion





EBITDA
¥12 billion



Performance Highlights

Suntory Beverage & Food Limited and Consolidated Subsidiaries

millions of yen

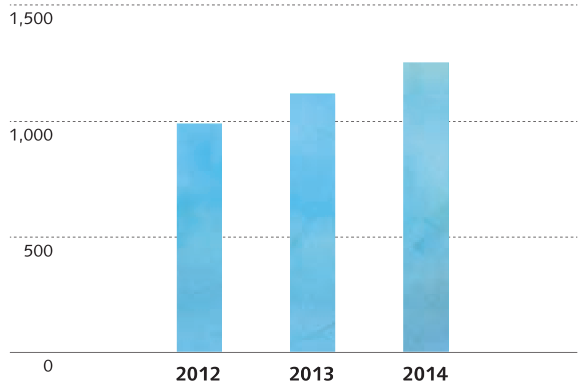
FOR THE YEAR	2012	2013	2014
Net sales	992,160	1,121,362	1,257,280
Operating income	58,447	72,716	85,950
Net income	23,385	31,196	36,240
Depreciation and amortization	36,570	43,719	50,032
Amortization of goodwill	19,666	23,211	25,075
Net income before amortization of goodwill	43,051	54,407	61,315
EBITDA*1	114,682	139,646	161,057
Before amortization of goodwill			
EPS (Yen)*2	199.31	207.17	198.43
ROE*3	24.2%	14.5%	10.6%
After amortization of goodwill			
EPS (Yen)*2	108.27	118.79	117.28
ROE*3	13.2%	8.3%	6.3%
Cash flows			
Cash flows from operating activities	85,830	114,082	108,639
Cash flows from investing activities	(75,874)	(290,613)	(67,483)
Cash flows from financing activities	(15,249)	190,409	13,671
Cash and cash equivalents at end of the term	26,061	45,851	105,505

AT YEAR–END	2012	2013	2014
Total assets	844,450	1,256,702	1,389,096
Total equity	204,276	592,969	635,624
Capital expenditures	50,823	62,582	69,141
D/E ratio (Times)*4	1.5	0.4	0.4

*1. EBITDA is operating income + depreciation and amortization + amortization of goodwill.
*2. SBF 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, SBF 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. SBF 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. SBF 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 is (interest-bearing debt – cash and cash equivalents) / total equity.

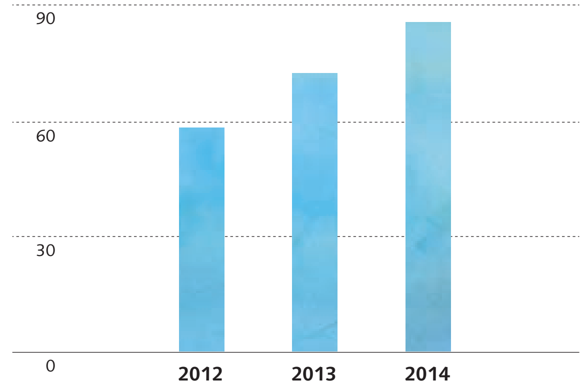
Net Sales

billions of yen



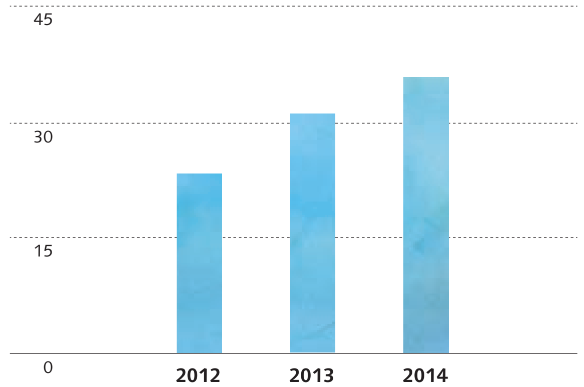
Operating Income

billions of yen



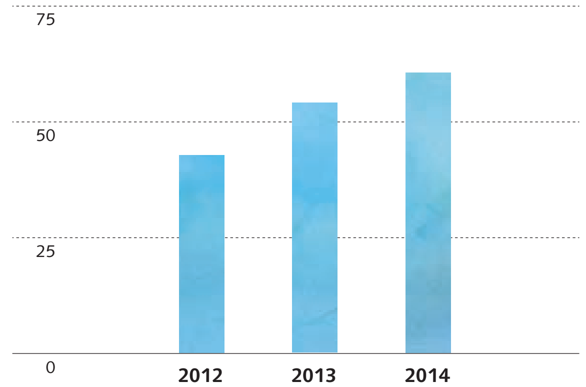
Net Income

billions of yen



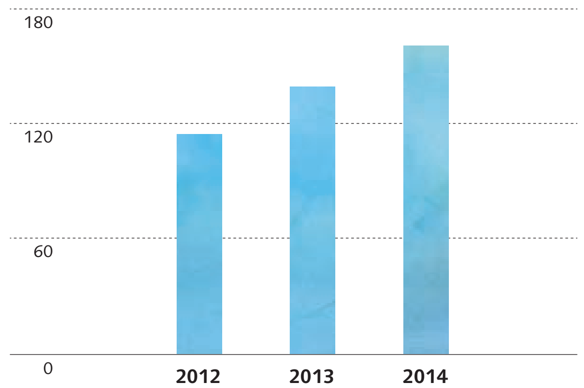
Net Income Before Amortization of Goodwill

billions of yen



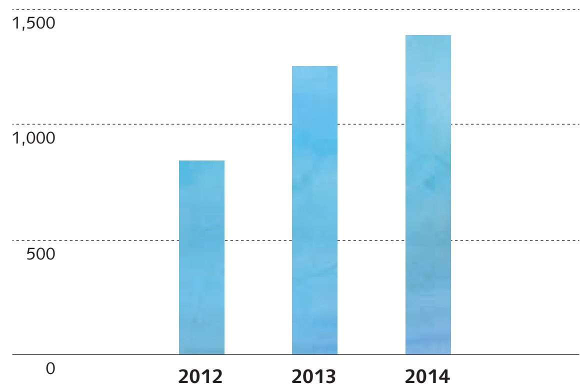
EBITDA

billions of yen



Total Assets

billions of yen



President's Message

Nobuhiro Torii
President &
Chief Executive Officer,
Member of the Board,
Representative Director

Opening Greetings

Our vision for the company

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

Our vision for value

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

The essence of this two-pronged vision, which was adopted by SBF in 2011, is to deliver products that meet consumer demand.

Which country does the consumer live in? What kind of lifestyle do they have? What type of tastes and preferences do they have? Around the world, what consumers desire and the sense of value they have vary widely, and change from generation to generation. By accurately assessing the needs of consumers and creating products that offer new value, we bring happiness and wellness into the everyday life of consumers. This is not only the origin of our business but also our mission.

Delivering products that meet consumer demand means that we start with a deep understanding of the consumer and reflect that understanding in our day-to-day actions. In doing so, I believe we will become a leading global soft drink company.

Review of 2014 and Forecast for 2015

In 2014, net sales were ¥1,257.3 billion, up 12.1%; operating income was ¥85.9 billion, up 18.2%; and net income was ¥36.2 billion, up 16.2%.

In the Japan segment, net sales were ¥722.3 billion, up 0.8%, and segment profit was ¥46.6 billion, up 2.7%. In terms of volume, we recorded growth for the 22nd consecutive year*.

We implemented three strategies in this segment: (i) reinforcing core brands, with a focus on our seven core brands, (ii) developing new demand, and (iii) overcoming rising costs and realizing cost reductions. As a result, total sales volume of core brands increased 5% year on year; total sales volume of FOSHU (Foods for Specified Health Uses) drinks grew 45%, with *Iyemon Tokucha* performing particularly well, while products offering new value, such as *Suntory Minami-Alps Tennensui & Asa-zumi Orange* (flavored water) and *Premium Boss* (canned RTD coffee), also performed favorably; and cost reductions surpassed initial expectations.

In the overseas segment, net sales were ¥535.0 billion, up 32.3%, and segment profit was ¥64.4 billion, up 27.4%, thereby achieving results largely as planned, thanks to the inclusion of the newly established Lucozade Ribena Suntory Limited and the bolstering of existing businesses.

In Europe, we saw an increase in sales and profit thanks to the good start of the Lucozade Ribena Suntory Group and the improved profitability of the Orangina Schweppes Group.

In Asia, despite facing a harsh economic environment, we achieved profit as planned, due primarily to a strong performance in Vietnam, market reforms in other countries and regions, and our continued cost control efforts.

Thanks to these initiatives, the segment saw an increase in profit in existing sales.

As for the 2015 forecast, we expect net sales of ¥1,300.0 billion, up 3.4%; operating income of ¥92.0 billion, up 7.0%; and net income of ¥42.0 billion, up15.9%.

We anticipate the global operating environment to become even more uncertain going forward. In Japan, key factors are an increasingly price-conscious consumer mindset following the consumption tax hike, rising raw material prices, and worsening market conditions; while the key overseas factors are the economic slump and fierce competition in the markets of Europe and Asia.

Regardless, we will further strengthen our business foundation and continue to grow by taking initiatives to reduce manufacturing costs, strengthen our distribution network, and reinforce core brands.

* Results for Suntory's soft drink sales volume in Japan

Management Strategies for 2015–2017

In the past two years, companywide net sales increased approximately 30%, while operating income increased almost 50%.

In the Japan segment, we have made progress in implementing reforms. As a result, segment profit has increased approximately 30%. In the overseas segment, M&A initiatives and the reinforcement of core brands in existing areas of operation contributed to net sales increasing over 70% and segment profit increasing over 50%. Overseas net sales now account for 43% of companywide net sales.

While we have yielded concrete results, new challenges have also emerged; however, by strengthening our business foundation, we will realize further growth going forward.

In light of our accomplishments, as well as the harsh operating environment and challenges that are before us, we have developed new management strategies for the period from 2015 to 2017. We will continue to deliver products that meet consumer demand by expanding on the management strategies we have already implemented. In doing so, we will implement the following three strategies.

The first is to focus on core geographical areas. We will identify approximately 20 countries and regions, including existing areas of operation such as Japan, France, and the United Kingdom as well as new markets in Asia and Africa. As a result, we are working toward realizing solid growth in existing areas of operations and accelerated growth in emerging markets.

The second is to create brands backed by the consumer and establish a strong market presence in each geographical area. We will strengthen our existing brands and develop new demand by launching products that offer new value. In addition, we will develop and strengthen local distribution and production capabilities to reliably deliver products into the hands of consumers. Also, we will continue efforts to reduce manufacturing costs so that we are able to make new investments in pursuit of sustainable growth.

The third is to promote integrated development by further enhancing collaboration within the Group while leveraging sustainable growth in every country and region where we do business.

One way of doing this is to foster a "Global Challenge Brand," which entails selecting brands from existing core brands to distribute to consumers around the world and develop them for the global market. We have three key targets for the period covered from 2015 to 2017.

Key targets

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

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

Net sales
Aim for continued growth

(In comparison to 2014 figures, on an existing business and currency-neutral basis)

Improving Shareholder Value

We place priority on capital expenditures and other strategic investments that lead to sustainable profit growth and improved corporate value. Moreover, we recognize an appropriate shareholder return as one of our most important management tasks. While giving due consideration to maintaining a stable return and enhancing internal reserves to prepare for the future, we are pursuing a shareholder return policy that gives comprehensive consideration to business results and future funding needs.

Looking forward, we will consider increasing the payout ratio (target is 30% or more of net income before amortization of goodwill) depending on such factors as our need for funds and progress in profit growth.

In 2014, the annual dividend was ¥60 per share, an increase of ¥2, excluding a special ¥5 dividend to commemorate our Tokyo Stock Exchange listing. In 2015, we forecast the annual dividend of ¥66 per share, an increase of ¥6. Although we are anticipating the business environment to become even more severe, we will make every effort to realize steady profit growth, thereby meeting shareholder expectations.

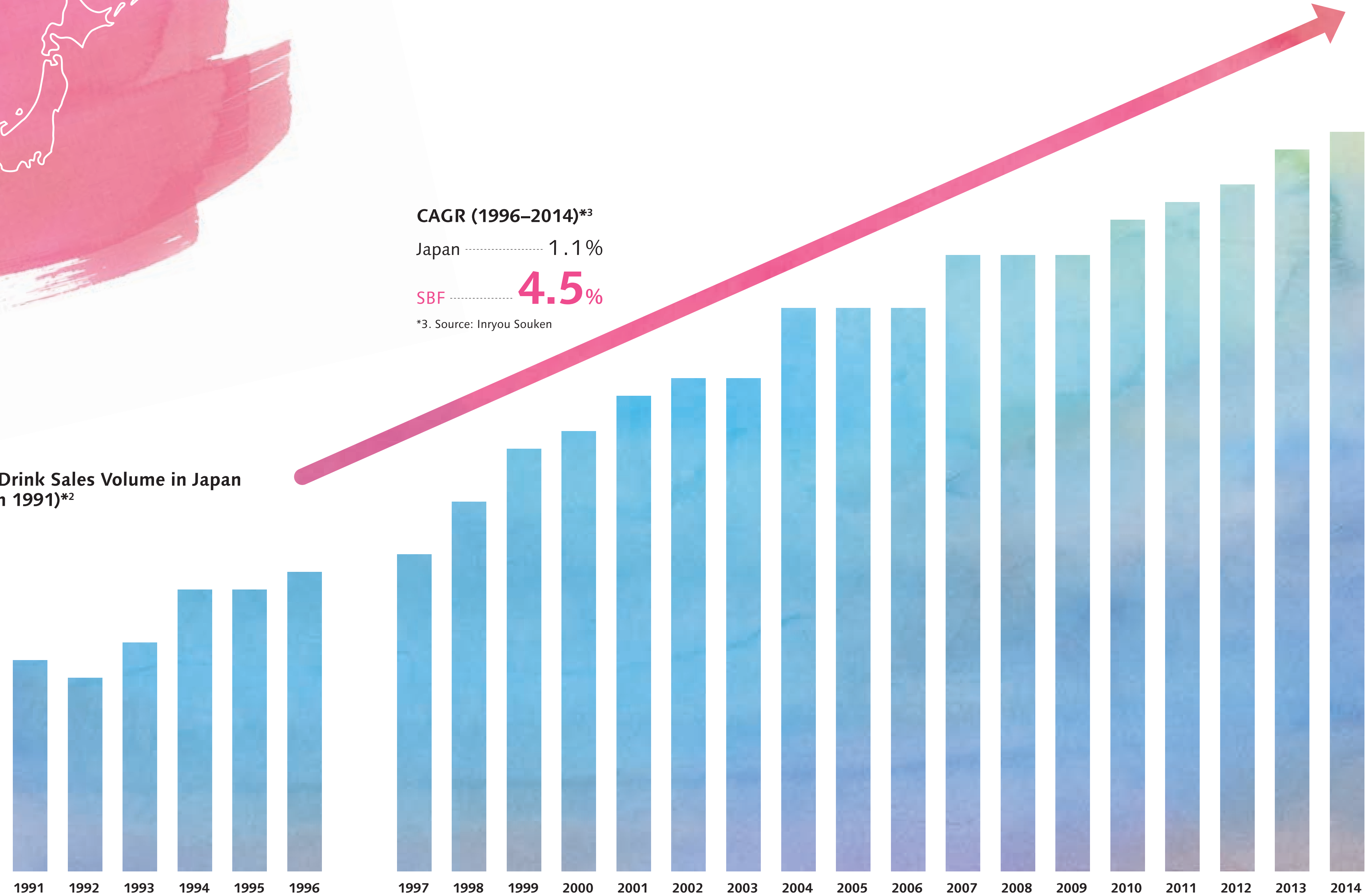
Nobuhiro Torii
President & Chief Executive Officer,
Member of the Board,
Representative Director

Strategy in Japan

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

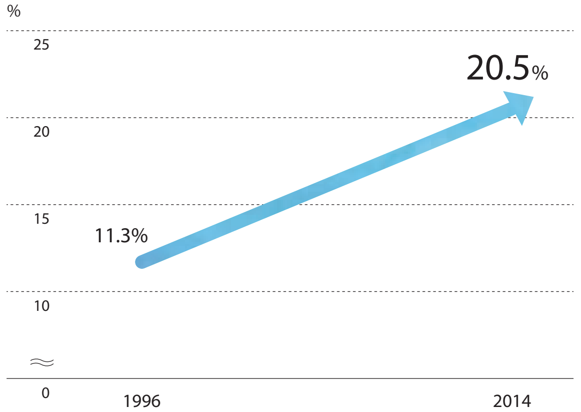
We have increased our sales volume in the soft drink market in Japan for more than 20 years. In the past 18 years, our growth has outperformed the Japanese market growth rate as we have expanded our market share. Today, we hold a 20.5%*1 share of the soft drink market in Japan. We have attained this market position by continuing to boldly propose innovative new soft drinks in a host of different product categories to consumers, in an effort to swiftly respond to their changing needs and tastes over the years. Looking ahead, we will work to make our strong brands even stronger as we pursue the top market position in Japan.

Soft Drink Sales Volume in Japan (From 1991)*2



*2. Results for Suntory's soft drink sales volume in Japan

Soft Drink Market Share in Japan*1



*1. 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*
2013 *Iyemon Tokucha*

"Promoting Seven Core Brands"

We are focusing our management resources on the following seven core brands: *Suntory Tennensui*, *Boss*, *Iyemon*, *Pepsi*, *Suntory Oolong Tea*, *Green DAKARA*, and *Orangina*. In 2014, we achieved increases in the sales volume of these seven brands by 5% and their composition of overall sales volume was 76%.

Sales volume: 76% of total

In 2014, it was estimated that the overall soft drink market in Japan slightly declined compared to the previous year. This was due to various factors, such as the influence of unseasonable summer weather and a delayed recovery in consumer sentiment after the consumption tax hike. Guided by the notion of offering unique and premium products that meet the needs and tastes of consumers to enrich their everyday life, we made efforts to reinforce core brands as well as develop new demand. As a result, our sales volume surpassed that of the previous year for the 22nd consecutive year*1.

We have identified *Suntory Tennensui, Boss, Iyemon, Pepsi, Suntory Oolong Tea, Green DAKARA*, and *Orangina* as our seven core brands, and as such, we have invested a significant amount of management resources into further strengthening their brand equity.

FOSHU (Foods for Specified Health Uses) drinks are high-value-added products. *Iyemon Tokucha*, which not only helps to reduce stored body fat but is also delicious, performed very well. Accordingly, total sales volume for FOSHU drinks increased 45%, surpassing that of the previous year. Thanks to these results, we have contributed to market expansion and established a strong position in the domestic FOSHU drink market.

We also took various initiatives to improve profitability. In addition to improving the product mix by strengthening sales of FOSHU drink products, we also continued to make innovations in reducing manufacturing costs through such means as reducing the weight of PET bottles and reducing the amount of cardboard used for packaging.

Thanks to these initiatives, net sales for the Japan segment were ¥722.3 billion, up 0.8%, and segment profit was ¥46.6 billion, up 2.7%.

In 2015, we forecast continued uncertainties in the Japanese soft drink market due to an increased price consciousness among consumers as a result of factors such as the consumption tax hike. However, in addition to reinforcing our seven core brands, SBF will strive to develop new demand by launching products that offer new value, as well as high-value-added products that accurately reflect the needs and tastes of consumers.

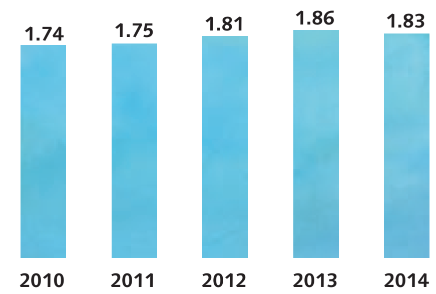
We will also introduce new products that offer new value through pursuing innovation in R&D and production technologies. To this end, we will invest in R&D initiatives, marketing, and production facilities, and we will continue cost reduction initiatives to generate capital for growth investments going forward.

*1. Results for Suntory's soft drink sales volume in Japan

Market trend in Japan

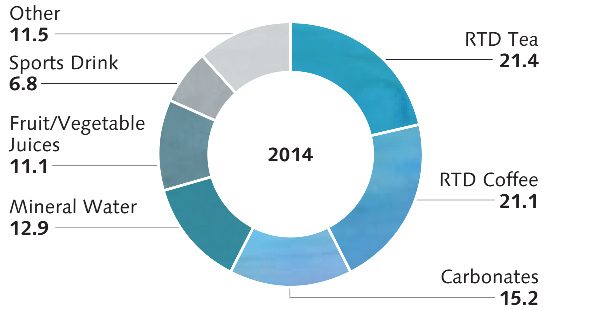
Soft Drink Market Size in Japan*2

billion cases



Soft Drink Market Share in Japan by Category*2

%



*2. Source: Inryou Souken

"Developing New Demand"

–Iyemon Tokucha–

At SBF, we are taking initiatives to further expand our business by developing new demand through the development and launch of new high-value-added products. In this section, we will introduce *Iyemon Tokucha* as an example.

Iyemon Tokucha is one of our FOSHU drinks. The majority of FOSHU drinks in the market to date worked to make fat more difficult to absorb when drank together with a meal. However, *Iyemon Tokucha* is the first FOSHU drink that focuses on mechanisms that assist with the breakdown of stored body fat. Therefore, it is suitable to drink during work or exercise, or in a variety of other settings outside of regular meals. It also possesses a delicious taste that the consumer will not tire of drinking on a daily basis.

2014 Sales
12 million cases

This accomplishment is the result of the R&D capabilities that the Suntory Group has cultivated over the years. During our continued research on polyphenols, we discovered that quercetin glucoside, a type of polyphenol commonly found in vegetables and fruits such as onions, broccoli, and apples, works to support the breakdown of body fat.

At SBF, we had a desire to develop a FOSHU drink that not only reduced body fat, but also possessed a delicious taste that consumers could enjoy on a daily basis. With that desire, we worked for approximately seven years from the start of initial research to perfect such a drink through repeated trial and error. As a result of those efforts, we developed *Iyemon Tokucha*, which contains quercetin glucoside.

FOSHU

FOSHU (Foods for Specified Health Uses) refers to foods and drinks 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 great deal of attention in the past few years and is expected to expand further going forward.

With its value proposition as a drink that has efficacy and delicious taste, we actively carried out advertising and marketing activities to support *Iyemon Tokucha*. As a result, the sales volume of *Iyemon Tokucha* exceeded 12 million cases in 2014, in only the second year since its launch, thereby making it the number one FOSHU tea drink in the Japanese market*1.

In 2015, in addition to further strengthening *Iyemon Tokucha*, we plan to increase the total sales volume of our FOSHU drink products 9%. To this end, we will launch new FOSHU drink products and reintroduce *Suntory Black Oolong Tea*, the pioneer of our FOSHU drinks, and thereby drive growth in the FOSHU drink market in Japan.

*1. INTAGE SRI data; FOSHU tea drink market; sales of *Iyemon Tokucha* for Jan.–Dec. 2014 (Total of supermarkets, convenience stores, and drug stores)

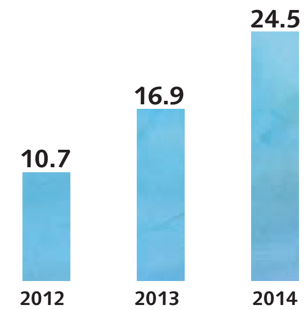
FOSHU Lineup

In addition to *Iyemon Tokucha*, our lineup of FOSHU drinks also includes *Suntory Black Oolong Tea, Suntory Goma Mugicha, Pepsi Special,* and *Boss Green*. Thanks to the good sales of *Iyemon Tokucha*, the total sales volume for FOSHU drinks was 24.5 million cases, up 45% year on year. This is about half of the share of the entire FOSHU drink market in Japan*2.

*2. Excluding FOSHU drinks for intestinal regulation; company estimate

SBF's FOSHU Drink Sales Volume

million cases



From left:
Suntory Black Oolong Tea
Pepsi Special
Suntory Goma Mugicha
Boss Green

"Exploring New Horizons"

–*Suntory Tennensui*–

At SBF, we seek to further expand our business by leveraging the strength of our brands to develop new products that offer new value to consumers in a variety of product categories. In this section, we will introduce the latest initiatives implemented with our *Suntory Tennensui* brand.

With "natural and healthy" becoming keywords when describing the soft drink needs and tastes of Japanese consumers, the market for mineral, flavored, and sugar-free carbonated water is expected to expand in the years to come.

The No. 1* position
in the mineral water market

At SBF, we have positioned *Suntory Tennensui* as one of our core brands in our business in Japan, and as such, we promote its unique brand value, such as "cool, clear, delicious taste" and "natural and healthy." Currently, *Suntory Tennensui* is the top brand in the domestic mineral water market*.

Leveraging the strong brand equity of *Suntory Tennensui*, we have made strides in offering new value to consumers in new product categories, such as sparkling water and flavored water.

In 2013, we launched *Suntory Minami-Alps Tennensui Sparkling* and *Suntory Minami-Alps Tennensui Sparkling Lemon*, thereby contributing to the further expansion of the sugar-free carbonated water market.

In 2014, we launched *Suntory Minami-Alps Tennensui & Asa-zumi Orange*, a flavored water using natural ingredients, including 100% organic orange juice. With its distinctive taste, *Suntory Minami-Alps Tennensui & Asa-zumi Orange* has been well-received by consumers.

In 2015, we will launch a new product, *Suntory Minami-Alps Tennensui & Yogurina*, which will leverage the strength of the *Suntory Tennensui* brand, as well as our innovative production technologies and R&D capabilities. In doing so, we will create a new product category in the water beverage market.

Moving forward, we seek to further expand our business by continuing to leverage the strong brand equity of *Suntory Tennensui* to offer new value to consumers.

* INTAGE SRI data; mineral water market; sales of *Suntory Tennensui* for Jan.–Dec. 2014 (Total of supermarkets, convenience stores, and drug stores)

Mineral Water

Suntory Minami-Alps Tennensui

Sparkling Water

Suntory Minami-Alps Tennensui Sparkling

Suntory Minami-Alps Tennensui Sparkling Lemon

Flavored Water

Suntory Minami-Alps Tennensui & Asa-zumi Orange

Suntory Minami-Alps Tennensui & Yogurina

"Continuing to Evolve"

–*Boss*–

The needs and tastes of consumers change with the times. At SBF, we seek to further expand our business by offering products that match with these changes and continuing to constantly evolve our brands. In this section, we will introduce the latest initiatives that we are taking with our long-selling canned RTD coffee brand *Boss*, which has continued to grow for over 20 years since its launch.

The concept behind the innovation of *Boss* was to create "The Worker's *AIBO**." Under this concept, we created the beverage, its name, and its packaging to give birth to *Boss*, a canned RTD coffee with a strong appeal with consumers. Upon its launch in 1992, *Boss* was embraced by Japanese businesspeople facing a fierce economic recession. In its first three months, *Boss* became a best-selling hit product, recording a sales volume of over 10 million cases.

To respond to the ever-changing needs and tastes of consumers, we have created new product categories for canned RTD coffee, such as *Boss Zeitaku Bito, Boss Muto Black, and Boss Café au Lait,* in addition to the standard *Boss Rainbow Mountain Blend*. We have always worked to continue to evolve the *Boss* brand, implementing various ideas such as creating interesting TV commercials and sales promotions.

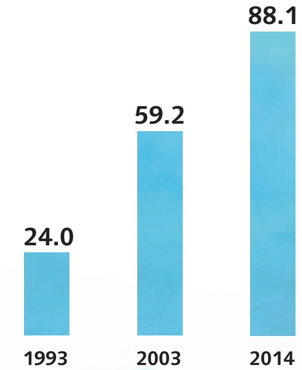
In 2014, we implemented a new production method that leverages our technological capabilities to create the richest flavor in a *Boss* product. Calling the product *Premium Boss*, its launch helped greatly to grow the *Boss* brand even further.

In 2015, we have launched the brand-new product *Premium Boss Black* to the bottle-shaped can RTD coffee market. Under the "further evolution of canned RTD coffee" theme, we will extensively engage in marketing activities to further strengthen the *Boss* brand, starting with collective renewal of the brand's core products. In doing so, we plan on revitalizing the domestic canned RTD coffee market.

Moving forward, we will continue our efforts to evolve the *Boss* brand to meet the tastes and needs of consumers.

Boss **Sales Volume**

million cases



Evolution of *Boss*

1992–1997

Launched *Boss* canned RTD coffee as "The Worker's *AIBO**"

* AIBO: A reliable partner with long years of experience that can be trusted

2002–2003

Implemented major product renewal in the 10th year since its launch, introducing new flavors and expanding the product lineup

Today

Implemented brand strategy focused on five major product categories represented by *Boss Rainbow Mountain Blend, Boss Zeitaku Bito, Boss Muto Black, Boss Café au Lait,* and *Premium Boss*

Strategy Overseas

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 (the Cerebos Group). 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 operating base in Europe.

On December 31, 2013, we acquired the two brands *Lucozade* and *Ribena* in the United Kingdom (the Lucozade Ribena Suntory Group). We have rapidly expanded our business foundations overseas as we prepare to become a leading player in the global soft drink industry.

M&A Track Record

Europe | Asia | Oceania | Americas

1980 PepCom Industries, Inc.

1990 Cerebos Group

1999 Pepsi Bottling Ventures Group

2009 Frucor Group

2009 Orangina Schweppes Group

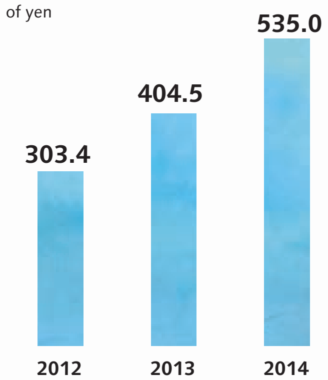
2011 Suntory Garuda Group

2013 Suntory PepsiCo Vietnam Beverage Co., Ltd.

2013 Lucozade Ribena Suntory Group

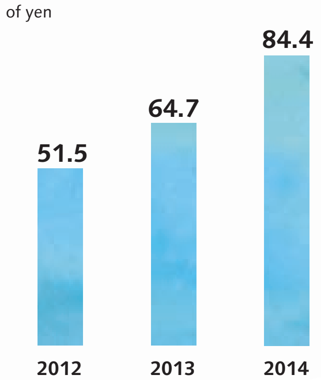
Sales (overseas)

billions of yen



EBITDA (overseas)

billions of yen



Europe

In 2014, Lucozade Ribena Suntory Limited started operations, thereby helping to grow our business scale in Europe considerably. We conducted marketing activities focused primarily on core brands, such as *Orangina* and *Schweppes* in France and Spain as well as *Lucozade* and *Ribena* in the United Kingdom. In addition, we strengthened our sales structure in Spain for the on-premise market. Moreover, with the aim of growing our operations in Europe as a whole, we made strides in creating synergy among Group companies in Europe and optimizing our regional management base, particularly in production and sales. As part of these efforts, we transferred sales operations for *Orangina* and energy drink *V* in the United Kingdom, which were previously carried out under a consignment agreement, over to Lucozade Ribena Suntory Limited. As a result, net sales were ¥256.5 billion, up 65.5%, and segment profit was ¥39.5 billion, up 45.1%.

In 2015, we assume severe economic environment in Europe to continue. However, in order to add even more value to the *Orangina*, *Schweppes*, and *Lucozade* brands, we will strengthen our marketing activities. For *Orangina*, for example, in addition to revamping marketing efforts in France, we will also reinforce marketing activities of the brand in the United Kingdom. In addition, using the expertise of our business in Spain as a model, we will reinforce our business in on-premise market such as hotels, bars, and restaurants in France and the United Kingdom. In Spain, we will begin collaboration with PepsiCo, Inc. to further strengthen our business in the on-premise market.

We will also set our focus on core regions in Africa to advance the creation of our new regional sales structure.

GROUP COMPANIES

ORANGINA SCHWEPPES
A SUNTORY GROUP COMPANY

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

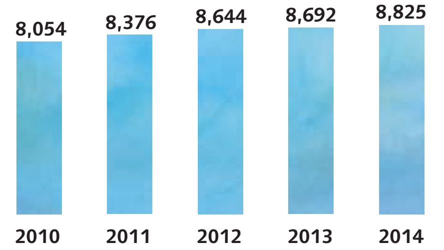
LUCOZADE RIBENA
SUNTORY

Newly established Lucozade Ribena Suntory Limited is home to two of the U.K.'s leading soft drink brands and a renowned supplier of soft drink brands in the U.K. market. In addition, *Lucozade* is a best-selling sports drink and energy drink in the United Kingdom.

Market trend in France

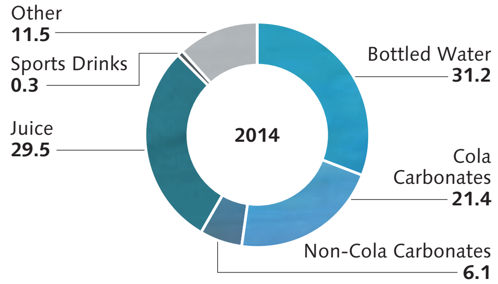
Soft Drink Market Size in France*

€ mn



Soft Drink Market Share in France by Category*

%

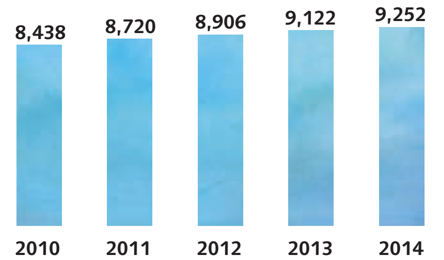


* Source: Euromonitor 2015, Off-trade Value RSP

Market trend in United Kingdom

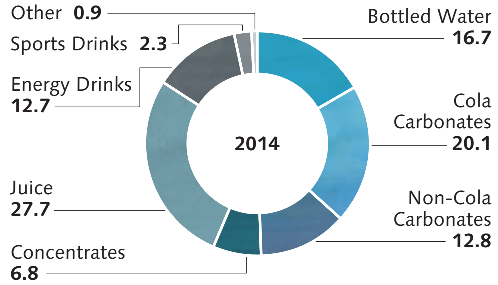
Soft Drink Market Size in United Kingdom*

£ mn



Soft Drink Market Share in United Kingdom by Category*

%



* Source: Euromonitor 2015, Off-trade Value RSP

Asia

In 2014, we aggressively made efforts to expand business in each country and region we operate in Asia by introducing new products and strengthening our business foundation. Although our business was affected by the unstable economic environment in Thailand and Indonesia, sales in Vietnam were favorable and the sales of Suntory brand products, such as *TEA+ Oolong Tea* increased. In addition, we made business reforms and strengthened cost management in other countries and regions. As a result, net sales were ¥154.5 billion, up 16.5%, and segment profit was ¥10.4 billion, up 13.4%.

In 2015, despite concerns of a slump in the economic growth of emerging nations, we aim to expand our business at a pace that surpasses market growth by focusing efforts on core brands and seek to solidify our position in the markets of Southeast Asia. In the health foods business, we will focus on marketing activities for the Cerebos Group's *BRAND's Essence of Chicken*, a leading health food supplement celebrating its 180th anniversary. In the soft drink business, we have been expanding *TEA+ Oolong Tea* and *MYTEA Oolong Tea*, our Suntory brand oolong teas, in Southeast Asia. Going forward, we will strive to grow the sales volume of these brands by approximately 1.5 times.

Additionally, we will strengthen our distribution foundations. In Vietnam, for example, where we will start operation of our new production lines, we will reinforce our sales force and endeavor to maintain double-digit sales growth. In Indonesia, we will advance the reconstruction of our sales structure to better identify changing market conditions. From the current fiscal year, we have established a sales structure in Malaysia. Starting with sales of *Ribena*, we have set our sights on expanding sales of Suntory brand products in Malaysia at the earliest timing.

GROUP COMPANY

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, Malaysia, and Singapore, with the products *Essence of Chicken* and *Bird's Nest*, sold under the flagship brand *BRAND'S*. The Cerebos Group will concentrate on *BRAND'S* to consolidate its position in Southeast Asia.

Our Product –*BRAND'S Essence of Chicken*–

The *BRAND'S* legacy started in 1835 when Henderson William Brand, the royal chef of Buckingham Palace in London, created a fat-free, easily digested chicken consommé that later became a huge commercial success widely recognized as *BRAND'S Essence of Chicken*. After 180 years since its launch, *BRAND'S Essence of Chicken* is still widely trusted and relied upon around the world and across generations. In addition, more than 20 scientific papers have been published supporting its efficacy.
The findings show that consuming *BRAND'S Essence of Chicken* improves mental concentration and memory, a fact concurred and supported by independent scientists.

Expanding the Sales Area in Asia

We have steadily developed our soft drink business in Vietnam, Indonesia, and Thailand. Taking advantage of our acquisition of the *Lucozade* and *Ribena* brands at the end of 2013, we also established new locations in Malaysia, Hong Kong, and Singapore in 2015. With the help of these newly established locations, we are further expanding the regional soft drink business and creating synergies among Group companies in the Asian region.

GROUP COMPANIES

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 PepsiCo brand carbonated beverages *Pepsi* and *7UP*, the energy drink *Sting*, along with Suntory brand *TEA+ Oolong Tea* and *C.C.Lemon*.

SUNTORY GARUDA

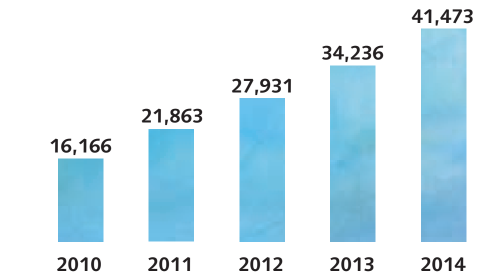
PT Suntory Garuda Beverage (headquartered in Jakarta, Indonesia) was established in 2011 as a joint venture with the GarudaFood Group, an Indonesian food and beverage group. In addition to the jelly drink *Okky*, SBF has launched *Mirai*, the first Suntory brand green tea in Indonesia, along with *MYTEA Oolong Tea*.

The Suntory Garuda Group will expand its business scale by continuing to strengthen the Garuda brand and launching Suntory brand products.

Market trend in Vietnam

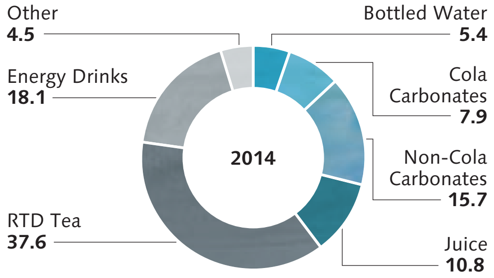
Soft Drink Market Size in Vietnam*

VND bn



Soft Drink Market Share in Vietnam by Category*

%

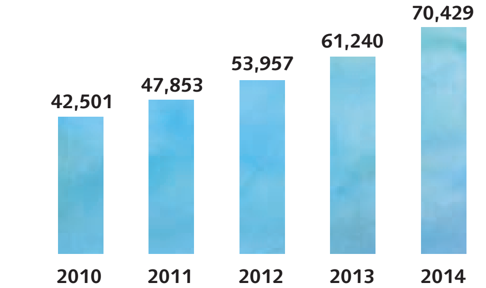


* Source: Euromonitor 2015, Off-trade Value RSP

Market trend in Indonesia

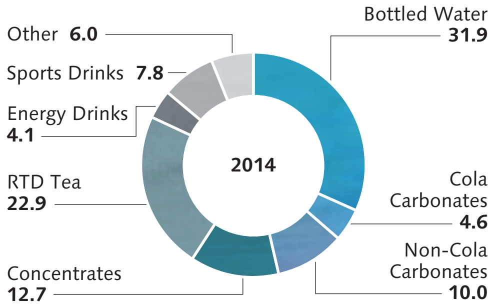
Soft Drink Market Size in Indonesia*

IDR bn



Soft Drink Market Share in Indonesia by Category*

%



* Source: Euromonitor 2015, Off-trade Value RSP

Oceania

In 2014, the Frucor Group worked to revitalize its leading energy drink *V*; it also expanded its product lineup by launching *OVI*, its first Suntory brand product, in September. In addition, the group enhanced its R&D functions in New Zealand in order to further enhance its regional product development capabilities.

As a result, net sales were ¥44.5 billion, up 8.6%. However, segment profit was ¥5.6 billion, down 10.1%. The cause of this decrease was the exchange rates for the Australian and New Zealand dollars, with the value of the New Zealand dollar appreciating and the cost of goods purchased rising in Australia.

In 2015, we forecast competition to continue to intensify in this segment. However, in addition to reinforcing the Frucor Group's *V* as a leading brand in the energy drink category, we will make efforts to expand the Frucor Group's brand portfolio, including Suntory brands, and reduce costs. In this way, we will strive to improve profitability.

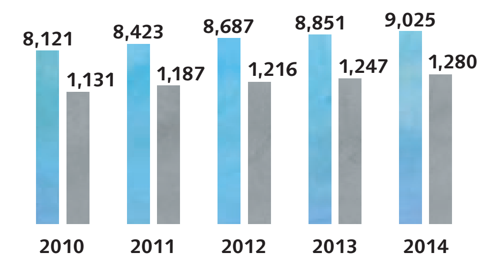
GROUP COMPANY

In 2009, SBF acquired the Frucor Group, which operates a soft drink business, mainly in Oceania. In addition to its flagship energy drink product, *V*, the group has a strong brand in its *Just Juice* line of fruit juice products.

Going forward, we will reinforce the Frucor Group's position as a leader in the energy drink category in Oceania. With bottling operations for PepsiCo brand beverages in New Zealand, the group will also pursue growth in the carbonates category.

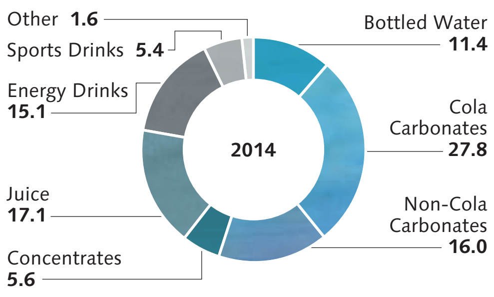
Market trend in Oceania

Soft Drink Market Size in Australia and New Zealand*



Soft Drink Market Share in New Zealand by Category*

%



* Source: Euromonitor 2015, Off-trade Value RSP

Americas

In 2014, Pepsi Bottling Ventures LLC improved business efficiency in sales and distribution and further strengthened PepsiCo brand products, primarily in the U.S. state of North Carolina. In addition, increased efficiency from sales area reorganization carried out in June 2013 contributed to the segment's positive results. Accordingly, net sales were ¥79.5 billion, up 4.7%, and segment profit was ¥8.8 billion, up 12.4%.

In 2015, we will work to grow our portfolio in the field of non-carbonated beverages in addition to continuing to enhance carbonated beverages, and work to increase sales and profit.

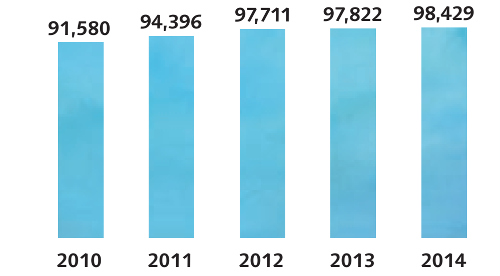
GROUP COMPANY

In 1980, the Suntory Group acquired PepCom Industries, Inc. and commenced a bottling business in the United States. 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.

Market trend in United States

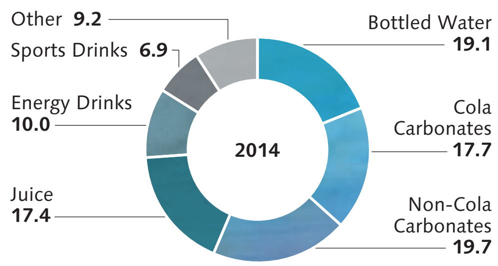
Soft Drink Market Size in United States*

US$ mn



Soft Drink Market Share in United States by Category*

%



* Source: Euromonitor 2015, Off-trade Value RSP

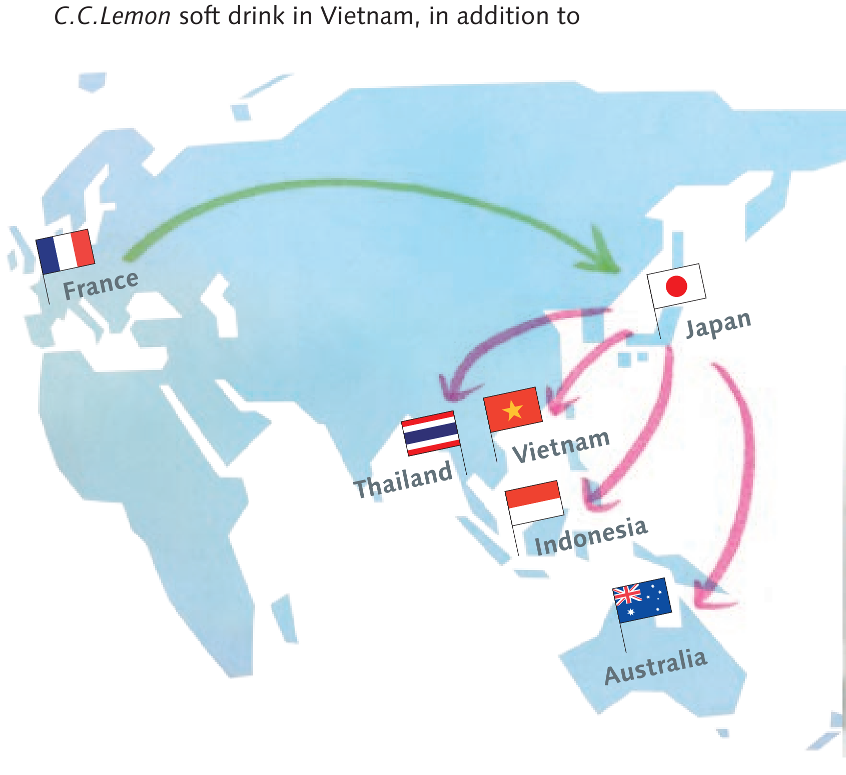
"Launching Brands Across Regions"

As an initiative of our overseas strategy, we are using our R&D technology, which we have accumulated both in Japan and overseas, to develop new products and expand them globally. In this section, we will introduce some example cases as part of this initiative.

In order to leverage our business foundation, which has expanded through the acquisition of brands such as *Lucozade* and *Ribena*, to its maximum potential, we will create top-line synergies by expanding Group brands and product development capabilities globally.

In 2012, we launched the French soft drink *Orangina* in Japan, which we acquired in 2009. Additionally, in 2013, we launched *TEA+ Oolong Tea* and *MYTEA Oolong Tea* in Southeast Asia, leveraging the technologies we used to make *Suntory Oolong Tea* in Japan. In 2014, we launched the Japanese *C.C.Lemon* soft drink in Vietnam, in addition to launching *OVI* in Australia, a hydration drink that leverages the technologies used to make Japanese functional drinks.

SBF is creating these top-line synergies using various methods. One method we use is expanding brands such as *Orangina* and *C.C.Lemon* under the same name in different countries and regions. Another method we use is leveraging Suntory's product development technologies to develop brands using brand names and packaging tailored to the specific country or region, such as *TEA+ Oolong Tea* and *OVI*.



Case 1 *Orangina*

Originating in France, *Orangina* has been tailored to suit consumers in Japan, where it is now produced and marketed. In addition, Suntory has combined its technologies with those of the Orangina Schweppes Group to create *Lemongina*, a carbonated beverage with a lemon flavor, which was launched in March 2015.

Case 2 *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.

Case 3 *C.C. Lemon*

In July 2014, we launched the vitamin C carbonated beverage *C.C.Lemon* in Vietnam. Originally released in 1994 in Japan, the drink has been extremely popular among a wide range of consumers. Similar to the *C.C.Lemon* sold in Japan, the drink contains vitamin C, but its taste is tailored to suit the Vietnamese palate. The packaging, however, is designed based on the Japanese product label bearing the *C.C.Lemon* branding.

Case 4 *OVI*

OVI is a hydration beverage launched in Australia in September 2014. This product is the Suntory brand's first soft drink launched in the Australian market. Using production technologies fostered in the development of Japanese functional drinks, *OVI* contains an antioxidant (sourced from green tea), making it a great-tasting, healthy hydration beverage.

CSR Approach and Initiatives

We are working together with the wider Suntory Group to promote environmental management and contribute to the formation of a sustainable society. As a company that is supported by the blessings of nature, it is also our duty to strengthen our efforts toward the environment throughout the entire lifecycle of our products. To do so, we have established our own "Target toward 2020" environmental plan under the umbrella of the Suntory Group's "Environmental Vision toward 2050." All parts of the Suntory Group not only engage in environmental conservation activities, we are also expanding CSR activities globally, such as through developing the next generation and contributing to local communities*.

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

RECOGNITION OF OUR EFFORTS TOWARD REDUCING OUR ENVIRONMENTAL IMPACT

SBF actively engages in activities to reduce the environmental impact within our value chain, while still keeping in mind consumer usability. These activities were recognized by our inclusion on the Climate Disclosure Leadership Index (CDLI) and the Climate Performance Leadership Index (CPLI) in the CDP Japan500 Climate Change 2014 report. Additionally, we have received various external awards, such as the Minister of the Environment Award for Contributions to the Promotion of a Recycling-Oriented Society, also in 2014. Moving forward, we will continue to promote effective environmental management activities in order to pass on a sustainable global environment to the next generation.

CDP CLIMATE DISCLOSURE LEADER 2014

CDP CLIMATE PERFORMANCE LEADER 2014

INITIATIVES FOR REDUCING OUR ENVIRONMENTAL IMPACT

Container and Packaging Materials

Based on the 3Rs (reduce, reuse, and recycle), we are developing environmentally friendly containers and packaging materials. We are taking steps to reduce CO_2 emissions by decreasing the weight of our PET bottles and bottle caps, making thinner product labels, and using raw materials that have a low impact on the environment. In addition, the Orangina Schweppes Group only uses 100% recyclable packaging (PET bottles, aluminum, metal, and glass), and is aiming to be known as the brand that gives the most consideration to promoting recycling to the consumer.

Distribution

In distribution, we are advancing various measures to reduce our environmental impact, such as transporting large amounts all at once via a modal shift, introducing a highly efficient truck transportation system, and participating in the planning of a large-scale natural gas truck promotion project. At Pepsi Bottling Ventures LLC in the United States, we have adopted vehicles and a delivery system that contribute to energy conservation and CO_2 reduction. We are also achieving reduced fuel consumption by shortening delivery times.

Recycling

We have created a B-to-B (bottle-to-bottle) mechanical recycling system that uses recycled PET bottles to make new ones. We are also developing product labels with materials made from recycled PET bottles and designing packaging that is easier to recycle. Additionally, at Pepsi Bottling Ventures LLC, manufacturing plants act as recycling centers, as part of our efforts to control the amount of waste and reduce disposal costs.

Reduction and Recycling of Waste

We are committed to reducing the by-products and waste emissions generated at SBF plants in Japan, and recycling resources 100%. At the Frucor Group, we are encouraging recycling in public areas and investing in research and development that will lay a foundation for initiatives in local container recycling. At the Cerebos Group, we are creating opportunities to deepen the understanding of energy-saving activities among employees through the introduction of waste reduction and recycling programs.

Reducing Amounts of Water Used

Using water responsibly is the most important activity for the Suntory Group. At SBF plants, a large amount of water is required not just for use as a raw material in production, but also for cleaning production equipment and cooling down products before packing. In addition to strict water conservation, we also are reducing the amount of water used by optimizing cleaning processes and carefully recycling and reusing water. Moreover, the Suntory Group prevents water pollution by using voluntary standards that are stricter than legal regulations to manage waste water. At the Orangina Schweppes Group, for example, we are strengthening our water conservation systems, and at Pepsi Bottling Ventures LLC, we are striving to advance effective-use-of-water initiatives by reusing waste water and investing in clean water systems.

Vending Machines

With the desire to further reduce our impact on the environment, we collaborated with vending machine manufactures to develop “Ultra Energy Saving Vending Machines (Eco Active Machines),” which offer the lowest energy consumption in Japan*. From 2014, we have been commencing the gradual introduction of these machines, which consume roughly half the electricity of conventional “heat-pump vending machines (2013 model).”

* 420 kWh/y, the lowest annual energy consumption in Japan among the primary 25 machines offered by major vending machine manufacturers in Japan as of April 2014 (according to research conducted by Suntory Foods Limited)

INITIATIVES FOR CONTRIBUTIONS TO COMMUNITIES AND DEVELOPING THE NEXT GENERATION

Frucor Group –Hunger for Making Drinks Better–

At the Frucor Group, with our established mission that reflects our “Hunger for Making Drinks Better,” we offer reduced and no-sugar versions of six of our iconic brands. Aside from water, all of our product labels display the daily percentage of energy intake. In 2014, we continued to invest heavily in research and development with the completion of a newly constructed state-of-the-art R&D center, as we further advance the development of reduced and no-sugar beverages.

Cerebos Group –Support for ChildAid Asia–

At the Cerebos Group, we are focusing our efforts on activities that contribute to the local community and enrich the lives of community members. As a part of that effort, we actively support the activities of ChildAid Asia, a cultural exchange project between the children of Japan and countries and regions in other parts of Asia. In January 2014, the ChildAid Asia 2014 forum was held at Suntory Hall in Tokyo and included the Third ChildAid Asia Concert. The Cerebos Group is involved in various other initiatives that contribute to local communities and has won awards as a leading CSR business due to these efforts.

Suntory PepsiCo Vietnam Beverage Co., Ltd. –11 Years of Support for the Dynamic Contest, a Support Program for Education–

As part of our efforts to contribute to the development of human resources that support sustainable growth in Vietnam, Suntory PepsiCo Vietnam Beverage Co., Ltd. has served continuously for the past 11 years as the main sponsor of the Dynamic Contest, a program to support the education of students who aspire for a career in management. Top performers in the contest are awarded an opportunity to meet the top management of Suntory PepsiCo Vietnam Beverage Co., Ltd. and prominent figures in the financial world in Vietnam, as well as exchange knowledge and culture with international students. Also, our employees actively visit orphanages and facilities for the disabled in poor local communities and donate company products to them. In this way, Suntory PepsiCo Vietnam Beverage Co., Ltd. engages in a wide range of CSR activities.

Corporate Governance

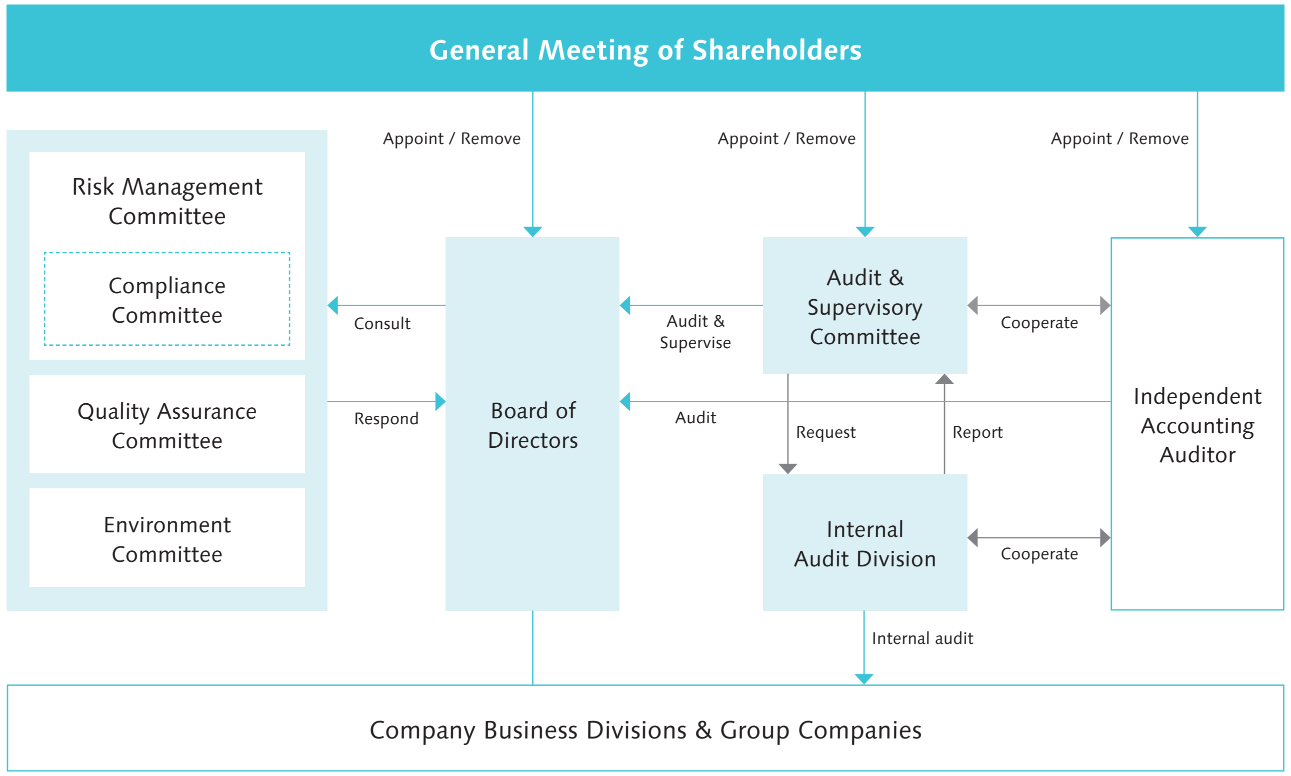
Basic Policy on Corporate Governance

Suntory Beverage & Food ("SBF") and its subsidiaries (collectively, "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. In June, 2015, we established our basic policy on corporate governance. Under this policy, we will progress corporate governance in a creative manner in order to improve our corporate value.

Basic Policy on Corporate Governance URL below:
http://www.suntory.com/softdrink/ir/management/governance.html

Overview of Corporate Governance Framework

SBF's corporate governance framework comprises the Board of Directors, the Audit & Supervisory Committee, and Independent Accounting Auditor. The number of Directors should be twenty or less pursuant to the Articles of Incorporation. As of May 1, 2015, we have eleven Directors (including three Audit & Supervisory Committee members), and three of these Directors (including two Audit & Supervisory Committee members) are Outside Directors.



Board of Directors

(1) Board of Directors
The Board of Directors holds regular meetings once a month and extraordinary meetings as the need arises. The board discusses and makes decisions on important management matters such as business plans and SBF's organizational structure. It also receives reports regarding business execution at Group companies, which it uses to conduct oversight. 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.
(2) Audit & Supervisory Committee
The Audit & Supervisory Committee, consisting of three Audit & Supervisory Committee members (including two Outside Directors), performs audits on Directors' performance of duties and other general performance of duties relating to the Group's management, in accordance with the internal control system.
(3) Independent Accounting Auditor
SBF has selected Deloitte Touche Tohmatsu LLC as its Independent Accounting Auditor. The Independent Accounting Auditor provides advice and instructions to SBF from a third-party standpoint regarding the appropriateness and legal compliance of SBF's accounts and related internal control systems.
(4) Internal Audits
SBF has established an Auditing Department that acts as the Internal Audit Division. Auditing Department conducts audits of SBF and its Group companies to ensure business operations are being conducted in an appropriate manner.
(5) Coordination among Audit & Supervisory Committee, Independent Accounting Auditor, and Internal Audit Division
Audit & Supervisory Committee members, Independent Accounting Auditor and the Internal Audit Division hold meetings as necessary to report and exchange opinions on internal control.
(6) Risk Management Committee, etc.
The Risk Management Committee and the Quality Assurance Committee manage important risks relating to the business performance and quality of the entire Group in a comprehensive and systematic manner. Furthermore, the Compliance Committee, a subordinate body, establishes and promotes the compliance structure of the entire Group, including our Group companies.

Internal Control System

SBF has decided on the following internal control system in order to ensure the appropriateness of business operations.

(1) System to ensure the performance of the Group and Group subsidiaries Directors' and Executive Officers' (hereinafter referred to as "Directors and Executive Officers") and Employees' duties conform to laws, regulations, and the articles of incorporation

1. The Group shares the beliefs set forth in our corporate philosophy, "In Harmony with People and Nature." As international corporate citizens, the Group respects the rules of civil society and places the highest priority on compliance. As we expand our business activities, each Director, Executive Officer, and Employee of the Group will make decisions as corporate citizens based on social ethics.
2. To implement the above philosophy in our business operations, every Director, Executive Officer, and Employee shall respect compliance and social ethics, and base their standard of conduct on the Group's corporate ethics. The Directors and Executive Officers shall take the initiative in complying with laws, regulations, the articles of incorporation, and corporate ethics, and actively make efforts to maintain and improve management based on compliance.
3. To ensure that the Group's Directors, Executive Officers, and Employees perform their duties in compliance with laws, regulations, and the articles of incorporation, the Group has established the Compliance Committee, a subordinate body of the Risk Management Committee. The Compliance Committee promotes group-wide compliance activities and deliberates important issues related to compliance promotion. Moreover, the Compliance Committee and the General Affairs Department conduct regular compliance education and training activities, as well as work to establish and promote a group-wide compliance system.
4. The Risk Management Committee and Compliance Committee shall report the details of discussed matters and compliance activities to the Board of Directors and the Audit & Supervisory Committee in a timely manner.
5. In the case that a Director and Executive Officer discovers an issue related to the Group's compliance, the Director and Executive Officer shall report the issue promptly to the Compliance Committee. Moreover, compliance hotlines are established both inside and

outside the Group to allow Employees to directly report compliance issues. After making efforts to secure information on the issue, the Compliance Committee when receiving a report an issues, shall investigate the details. As necessary, the Compliance Committee shall consult with related departments to take corrective action and establish measures to prevent reoccurrence. These measures shall then be enforced group-wide.
6. As necessary, a Director shall be dispatched to Group companies to oversee the appropriateness of business execution and decision making. As necessary, this Director shall work in coordination with related departments to provide Group companies with advice, guidance, and support.
7. As necessary, a corporate auditor shall be dispatched to Group companies to conduct an audit.
8. An Auditing Department has been established and shall conduct internal audits relating to compliance and the appropriateness of business execution. The Auditing Department shall report the results of internal audits to the Audit & Supervisory Committee and the President and Representative Director in a timely manner.
9. The Group shall establish and maintain internal control systems to ensure the appropriateness of its financial reporting.
10. The Directors and Executive Officers 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' and Executive Officers' duties

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

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

1. The Group's basic policy for risk management shall be determined by the Board of Directors.
2. Each Director and Executive Officer shall be responsible for taking measures against risks that occur in business execution. Material risks shall be analyzed and evaluated, and plans for improvement shall be discussed and determined by the Board of Directors.
3. Risks related to group management, such as quality risks pertaining to the Group as a whole and risks related to business execution throughout the Group, shall each be managed comprehensively and collectively by the Risk Management Committee and Quality Assurance Committee. In addition, these committees shall establish rules, formulate guidelines, and conduct training activities to manage such risks as necessary.
4. As for newly arising material risks, Directors who can respond to such risks with a sense of responsibility will be promptly appointed to the Board of Directors, and measures against these risks shall be determined by such Directors.

(4) System to ensure the efficient performance of duties by Group Directors

1. The Group's basic management policies shall be determined by the Board of Directors.
2. The Group's Directors and Executive Officers shall establish company-wide goals to be shared among Directors, Executive Officers, and Employees. Directors shall work to determine efficient methods for achieving company-wide goals, such as appropriately allocating specific goals and authority to business divisions.
3. The Directors in charge shall confirm the progress of the achievement of goals and shall be required to report specific measures being taken to achieve the goals at Board of Directors meetings.
4. Each Director shall be in charge of their duties appropriately and engage in efficient decision making based on internal regulations for responsibilityand authority.

(5) System for Directors and Executive Officers of Group companies to report matters relating to business execution to the Group

1. Business execution of Group companies shall be reported regularly to the Executive Committee and the Board of Directors.
2. Directors and Executive Officers in charge of Group companies shall request reports on business execution from Group companies as necessary.
3. In the internal regulations for responsibility and authority, Group companies shall be obligated to report to and cooperate with the Group, or receive approval from the Board of Directors, on certain matters relating to management at Group companies.
4. The Auditing Department shall report the results of internal audits of Group companies to the President and Representative Director in a timely manner.

(6) System to ensure the appropriateness of business operations of the Group and its Parent company

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

(7) Matters regarding Directors and Employees who are requested to assist with the duties of the Supervisory Committee (excluding Directors who are Members of the Audit & Supervisory committee), matters regarding the independence of such Directors and Employees from the Audit & Supervisory Committee, and matters regarding the provision of effective instructions to such Employees.

1. Directors and Employees of the Auditing Department shall assist with the duties of the Audit & Supervisory Committee. The transfer and evaluation of Auditing Department Directors and Employees shall be conducted with respect to the opinions of the Audit & Supervisory Committee. The independence of such Directors and Employees from other Directors (excluding Directors who are Members of the Audit & Supervisory Committee) shall be ensured.
2. In the case that a Director or an Employee of the Auditing Department is requested to assist with the duties of the Audit & Supervisory Committee, such Directors or Employees shall strictly follow the direction and commands of the Audit & Supervisory Committee.

(8) System for Directors (excluding Directors who are Members of the Audit & Supervisory Committee), Executive Officers, Employees, and auditors of the Group (or equivalent persons) to report to the Audit & Supervisory Committee, as well as persons who receive reports from Directors, Executive Officers, Employees, and auditors of the Group to report to the Audit & Supervisory Committee, and system for other reports to the Audit & Supervisory Committee

1. The President and Representative Director and Group Directors shall report on their business execution at Board of Directors meetings as necessary.
2. In the case that the Audit & Supervisory Committee requests a report on a business or conducts an investigation of a business or property, the Directors (excluding Directors who are Members of the Audit & Supervisory Committee), Executive Officers, and Employees of the Group shall respond to the request or investigation promptly and accurately.
3. In the case that a Director (excluding Director who are Member of the Audit & Supervisory Committee), Executive Officer, and Employee discovers any incident that could bring harm to the Group, such as a violation of laws or regulations, the Director, Executive Officer, and Employee shall immediately report the incident to the Audit & Supervisory Committee.
4. The Auditing Department and the Risk Management Committee shall regularly report the results of internal audits of Group companies, as well as the status of any other activities, to the Audit & Supervisory Committee.
5. The General Affairs Department shall regularly report the status of internal reporting at Group companies to the Audit & Supervisory Committee.

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

Directors (excluding Directors who are Members of the Audit & Supervisory Committee), Executive Officers, and Employees of the Group shall be able to submit reports directly to the Audit & Supervisory Committee. Internal regulations prohibit disadvantageous treatment of any Director, Executive Officer, and Employee due to their submission of reports.

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

1. In the case that the Audit & Supervisory Committee requests prepayment or repayment of expenses resulting from its business execution based on Article 399, Paragraph 2, Item 4 of the Companies Act, excluding cases where such expenses or debts are not necessary for said business execution, such expenses and debts shall be promptly recorded.
2. In the case that the Audit & Supervisory Committee independently requests the use of external specialists for its business execution, excluding cases were such a request is not necessary for said business execution, SBF shall cover the expenses.
3. The Audit & Supervisory Committee shall work to ensure that information is exchanged between auditors of Group companies (or equivalent persons), the Auditing Department, and themselves, and that a mutual understanding is shared by all parties.
4. The Audit & Supervisory Committee shall provide regular opportunities for the exchange of opinions with the President and Representative Director and the Independent Accounting Auditor.

Outside Directors and Members of the Audit and Supervisory Committee

(1) Selection of Outside Directors and Members of the Audit & Supervisory Committee

The Outside Directors shall express their opinions based on their experience and insight as corporate managers or their expert viewpoints as researchers, attorneys, and so forth, and thereby aid in appropriate decision making and oversight of business execution by the Board of Directors. As of the issue date of this report, SBF had three Outside Directors.

Outside Director Yukari Inoue possess an abundance of experience and knowledge, and a high level of insight as a corporate manager. She provides constructive advice and appropriate oversight from an objective and neutral position during deliberation of agenda items at meetings of the Board of Directors and in other settings. Accordingly, SBF believes that she is properly qualified for the post of Outside Director.

Outside Director and Member of the Audit & Supervisory Committee Yukihiko Uehara possesses extensive knowledge and a high level of insight as a researcher in the fields of marketing and management strategy. As an Outside Director and Member of the Audit & Supervisory Committee, SBF is anticipating his constructive advice and appropriate oversight from an objective and neutral position during deliberation of agenda items at meetings of the Board of Directors and in other settings.

Outside Director and Member of the Audit & Supervisory Committee Harumichi Uchida possesses an abundance of experience, extensive knowledge, and a high level of insight as an attorney who is well-versed in the field of corporate law. As an Outside Director and Member of the Audit & Supervisory Committee, SBF is anticipating his constructive advice and appropriate oversight from an objective and neutral position during deliberation of agenda items at meetings of the Board of Directors and in other settings.

(2) Related-party interests between SBF and Outside Directors

Outside Director Yukari Inoue is the Managing Director of Japan & Korea Kellogg, and serves as an Outside Director for JC Comsa Corporation. Although SBF conducts beverage-related transactions with Kellogg Company, the Parent company of Japan & Korea Kellogg, these transactions carry no monetary importance. In addition, there are no special related-party interests between SBF and JC Comsa Corporation.

Outside Director and Member of the Audit & Supervisory Committee Yukihiko Uehara is the Chairman of the Distribution Economics Institute of Japan (DEIJ), and serves as an Outside Director for INTAGE HOLDINGS Inc. Although SBF conducts transactions related to market research with both DEIJ and INTAGE HOLDINGS Inc., these transactions carry no monetary importance. Moreover, there are no special related-party interests between SBF and these entities.

Outside Director and Member of the Audit & Supervisory Committee Harumichi Uchida is an attorney with Mori Hamada & Matsumoto, and serves as an Outside Auditor for both Daifuku Co., Ltd. and Sumitomo Dainippon Pharma Co., Ltd. Although SBF conducts transactions related to attorney work with Mori Hamada & Matsumoto, these transactions carry no monetary importance. In addition, there are no special related-party interests between SBF and these entities.

(3) Selection standards for Outside Directors

SBF selects Outside Directors 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 Directors serve in an executive capacity.

SBF has registered Outside Directors Yukari Inoue and Yukihiko Uehara as independent officers with the Tokyo Stock Exchange, as stipulated by the Tokyo Stock Exchange.

(4) Liability limitation agreements

SBF has entered into liability limitation agreements with each Outside Director 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 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 Directors 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 Members of the Audit & Supervisory Committee

Compensation amounts for Directors are held within the limits set in advance at an extraordinary meeting of shareholders. Compensation for each Director (excluding Directors who are Members of the Audit & Supervisory Committee) is determined at the discretion of the Board of Directors, and compensation for each Audit & Supervisory Committee member is determined at the discretion of the Audit & Supervisory Committee. Details of the compensation amounts are as follows:

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

	Millions of yen			
	Total compensation and other remuneration	Total by compensation and remuneration category		Number of eligible Directors
category		Basic compensation	Bonuses	
Directors (excluding the Outside Director)	434	261	172	10
Outside Director	12	12	—	1

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		Total compensation amount
Name	Category	Basic compensation	Bonuses	
Nobuhiro Torii	Director	70	46	116

(3) Policy on determining the amount of compensation for Executive Officers

Directors' (excluding Directors who are Members of the Audit & Supervisory Committee)compensation comprises a basic salary (monthly, fixed amount) and bonuses (annual, performance linked). When determining compensation amounts, ample consideration is given to motivating the Directors to improve SBF's performance and corporate value and enabling SBF to secure high-quality human resources. The system used to determine compensation amounts references survey data from specialist external institutions and is designed to provide an appropriate level of compensation based on each Director's role and responsibilities, as well as internal or external status. The amounts for bonuses are primarily determined by an index based on SBF's consolidated operating income. Bonuses are not paid to Outside Directors.

In principle, Audit & Supervisory Committee members' compensation comprises only a basic salary (monthly, fixed amount). Full-time Audit & Supervisory Committee members' compensation includes a bonus (annual, performance linked) in addition to the basic salary, in consideration of their contribution to SBF's performance. When determining compensation amounts, ample consideration is given to enabling SBF to secure high-quality human resources. Referencing survey data from specialist external institutions, compensation for each Audit & Supervisory Committee member is determined at the discretion of the Audit & Supervisory Committee, and is based on internal or external status. The amounts for bonuses are primarily determined by an index based on SBF's consolidated operating income.

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

Compensation of the Independent Accounting Auditor

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

	Millions of yen			
	Fiscal year ended December 31, 2013		Fiscal year ended December 31, 2014	
Category	Compensation for audit certification activities	Compensation for non-audit activitiesn	Compensation for audit certification activities	Compensation for non-audit activities
Suntory Beverage & Food Limited	50	74	50	15
Consolidated subsidiaries	18	—	29	—
Total	68	74	79	15

Investor Relations Activities

The Corporate Communication (CC) Division is in charge of investor relations activities. SBF holds Presentations on financial results (second-quarter and year-end) given by the President and Represenive Director or the Chief Financial Officer. In addition, SBF holds several one-on-one meetings with institutional investors in major cities in Europe, the United States, and Asia each year. Presentations at these meetings are also given by the President and Representive Director, the Chief Financial Officer or members of the CC division. In principle, important disclosure materials for investors is provided entirely in English and is posted on SBF's website at the same time as, or promptly after, the Japanese-language materials are disclosed.

Board of Directors

As of May 1, 2015

President & Chief Executive Officer, Member of the Board, Representative Director
Nobuhiro Torii

Executive Vice President & Chief Operating Officer, Member of the Board
Yoshihiko Kakimi

Executive Vice President & Chief Operating Officer, Member of the Board
Saburo Kogo

Senior Managing Director, Member of the Board
Nobuhiro Kurihara

Director, Member of the Board
Masato Tsuchida

Director, Member of the Board
Yasuhiko Kamada

Director, Member of the Board
Shinichiro Hizuka

Director, Member of the Board
Outside Director
Yukari Inoue

Director and Member of the Audit and Supervisory Committee
Seiichiro Hattori

Outside Director and Member of the Audit and Supervisory Committee
Yukihiko Uehara

Outside Director and Member of the Audit and Supervisory Committee
Harumichi Uchida

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

Operating Environment and Initiatives in the Fiscal Year Ended December 31, 2014

In the fiscal year ended December 31, 2014, the global economy experienced a gradual recovery, despite signs of weakness in certain business areas. The Japanese economy also continued on its course of moderate recovery, although improvements in consumer spending came to a standstill.

Amid these circumstances, the Suntory Beverage & Food Limited Group ("the Group") worked to introduce unique, high-quality products that accurately grasp the needs and tastes of consumers. Under the idea of bringing happiness and wellness into everyday life, we engaged in initiatives to further reinforce our core brands and to create new demand. We also aimed for further profit growth in both our Japan and overseas segments. In addition, utilizing the expertise of each the Group company, we worked to improve quality group-wide and made efforts to reinforce our earnings capacity through cost innovation.

In the Japan segment, amid a downturn in the overall market compared to the previous year due to the consumption tax increase in April and unseasonable summer weather, the Group was able to maintain sales volumes at about the same level as the previous year. The performance of *Suntory Tennensui* and *Boss*, the pillars of our core brands, helped to drive sales overall. In addition, high-value-added products such as *Iyemon Tokucha* also performed favorably. Also, in order to further profit growth, the Group promoted reforms to strengthen its business structure, such as introducing both cost reductions and more-effective marketing spending.

In the overseas segment, in addition to the reinforcement of core brands in each area of operation, the start of operations at Lucozade Ribena Suntory Limited and the favorable performance in sales volume at Suntory PepsiCo Vietnam Beverage Co., Ltd. allowed for the Group to further expand its business scale. In Europe, the Group endeavored to build a more efficient business foundation to create synergies between the Orangina Schweppes Group and Lucozade Ribena Suntory Limited. In Asia, the Group undertook initiatives to further enhance product development and marketing functions, as well as manufacturing systems.

Analysis of Results of Operations

In the fiscal year ended December 31, 2014, net sales increased 12.1% year on year, to ¥1,257.3 billion. Gross profit rose 10.4% year on year, to ¥683.1 billion.

Selling, general, and administrative expenses amounted to ¥597.1 billion. Operating income rose 18.2% year on year, to ¥86.0 billion. The operating margin improved 0.4 of a percentage point from the previous year, to 6.8%.

Other expenses–net increased 50.6% year on year, to ¥15.5 billion, primarily due to increased restructuring charges.

As a result of the above, net income rose 16.2%, to ¥36.2 billion. In addition, basic net income per share was ¥117.28.

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, 2014, EBITDA was ¥161.1 billion, an increase of 15.3% year on year. EBITDA for the Japan segment was ¥76.7 billion, an increase of 2.2% year on year, and ¥84.4 billion for the overseas segment, an increase of 30.5% year on year.

Segment Performance

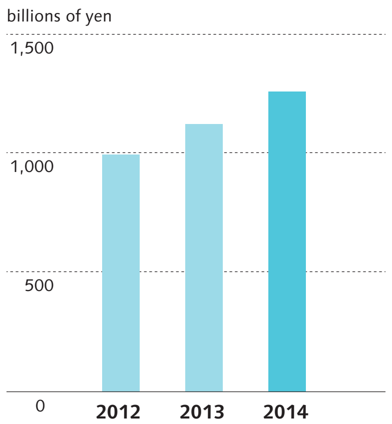
Japan Segment

Net sales: ¥722.3 billion (+0.8% YoY)
Segment profit: ¥46.6 billion (+2.7% YoY)
EBITDA: ¥76.7 billion (+2.2% YoY) (Reference)

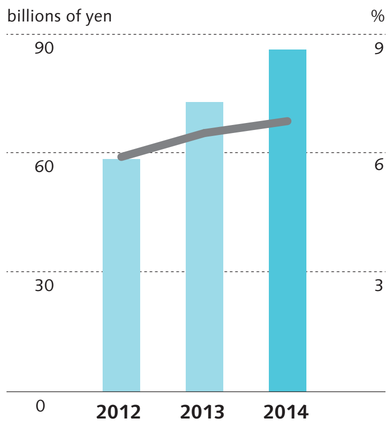
In the Japan segment, the Group promoted the unique brand value of *Suntory Tennensui*, such as its "cool, clear, delicious taste," and the fact that it is "natural and healthy." As a result, *Suntory Minami-Alps Tennensui Sparkling* and *Suntory Minami-Alps Tennensui Sparkling Lemon* performed solidly, and the overall sales volume for the *Suntory Tennensui* brand greatly surpassed the sales volume of the previous year.

In the *Boss* canned RTD coffee range, in addition to a strong performance from core products *Boss Rainbow Mountain Blend, Boss Zeitaku Bito, Boss Muto Black*, and *Boss Café au Lait*, the Group introduced a new production method that leveraged its technological capabilities to create *Premium Boss*, which also performed favorably since its launch in September. As a result, overall sales volume for the *Boss* brand grew considerably.

Net Sales

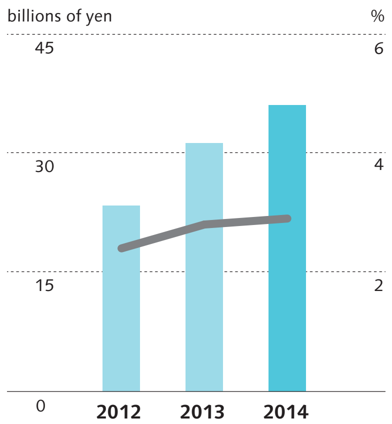


Operating Income and Operating Margin



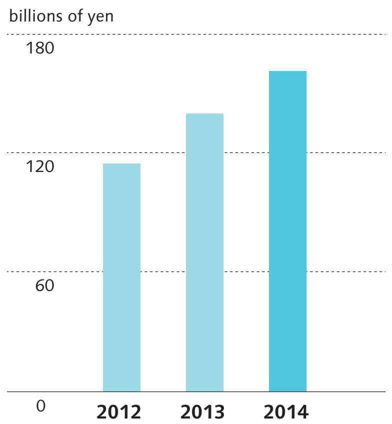
■ Operating Income (left scale)
■ Operating Margin (right scale)

Net Income and Net Margin

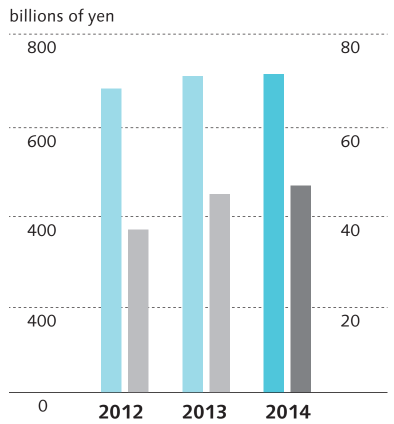


■ Net Income (left scale)
■ Net Margin (right scale)

EBITDA



Sales and Segment Profit (Japan)



■ Sales (left scale)
■ Segment Profit (right scale)

As for the *Iyemon* brand, in the second year since its launch, the FOSHU (Foods for Specified Health Uses) drink *Iyemon Tokucha* continued to perform solidly, achieving a sales volume that exceeded 12 million cases. Accordingly, the overall sales volume for the *Iyemon* brand grew significantly.

In the *Pepsi* product lineup, the Group redesigned the packaging and revamped the flavor of *Pepsi Nex Zero*. It also expanded advertising activities for *Pepsi Nex Zero* that garnered much attention, allowing for the brand to maintain a sales volume of nearly the same level as the previous year.

Although the Group continued to focus its efforts on marketing activities for *Suntory Oolong Tea*, sales volume was slightly down year on year.

Green DAKARA brand drinks became further recognized as rehydration drinks that prevent heatstroke in summer and counter dryness in winter. In addition, the *Green DAKARA Yasashii Mugicha* barley tea performed solidly, resulting in an overall brand sales volume that greatly exceeded that of the previous year.

The Group launched a 1.2 liter bottle for the carbonated *Orangina* fruit drink to meet the diverse needs of consumers. As a result, the sales volume of *Orangina* increased substantially.

Amid the circumstance of a rising consumer preference for healthy foods and drinks, FOSHU products are attracting a great amount of attention. The Group worked to continue to drive the market expansion of FOSHU drinks, and as a result, secured a firm market position. The Group complemented *Iyemon Tokucha* with *Boss Green, Suntory Black Oolong Tea, Suntory Goma Mugicha*, and *Pepsi Special*. Accordingly, the overall sales volume for FOSHU drinks greatly surpassed that of the previous year.

As for initiatives to improve profitability, the Group enhanced its product lineup by reinforcing sales of FOSHU drinks. In addition, the Group continued to implement innovation in reducing manufacturing costs through such means as reducing the weight of PET bottles and reducing the amount of cardboard used for packaging.

Overseas Segment

Net sales: ¥535.0 billion (+32.3% YoY)
Segment profit: ¥64.4 billion (+27.4% YoY)
EBITDA: ¥84.4 billion (+30.5% YoY) (Reference)

In the overseas segment, due to Lucozade Ribena Suntory Limited starting operations, the Group was able to greatly expand its business scale in Europe. In addition, the Group carried out marketing activities focused on core brands, such as *Orangina* and *Schweppes* in France and Spain, and *Lucozade* and *Ribena* in the United Kingdom. Starting with manufacturing and sales, the Group endeavored to create synergies and optimize its business foundation in an effort to drive growth throughout its areas of operation in Europe. As another part of these efforts, beginning in July, the Group transferred sales operations for *Orangina* and energy drink *V* in the United Kingdom, which were previously carried out under a consignment agreement, over to Lucozade Ribena Suntory Limited.

With respect to Asia, the Group aggressively made efforts to expand business operations in each country and region it operates in Asia by introducing new products and strengthening its business foundation. Although business continued to be affected by the unstable economic environment in Thailand and Indonesia, the Group made efforts to expand sales of Suntory products such as *MYTEA Oolong Tea* in Indonesia and *TEA+ Oolong Tea* in Vietnam.

In Oceania, the Frucor Group worked to revitalize its core brand *V*; and it also expanded its product lineup by launching *OVI*, its first Suntory brand's soft drink, in September. Moreover, the group enhanced its R&D functions in New Zealand in order to further enhance its product development capabilities.

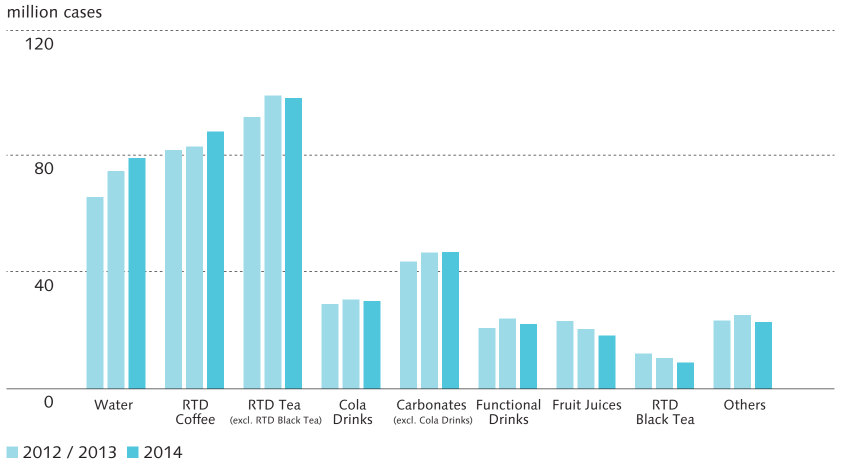
In the Americas, the Group worked to improve business efficiency in sales and distribution and further strengthened PepsiCo brand products, primarily in the U.S. state of North Carolina.

In addition to trying to expand sales in each area of operations overseas, the Group worked to extend the R&D technology it has accumulated to date in Japan, as well as its expertise in improving costs, into the overseas segment. The Group also made efforts to further improve quality and enhance profitability.

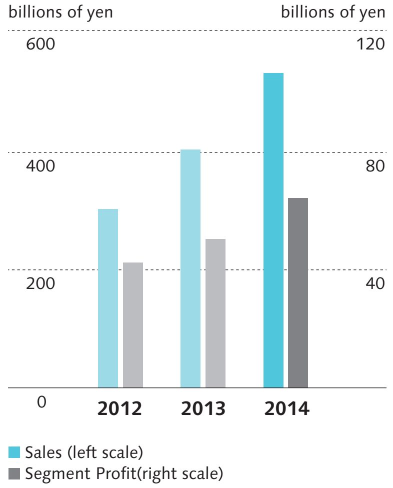
R&D Activities

The R&D divisions believe that great taste, underpinned by safety and reliability, lies at the heart of the value of each product. Accordingly, R&D divisions and departments established in Japan and overseas are working to develop high-value-added products. In the fiscal year ended December 31, 2014, R&D costs in the Japan segment and the overseas segment were ¥5.2 billion and ¥2.7 billion, respectively, resulting in total R&D costs of ¥7.9 billion.

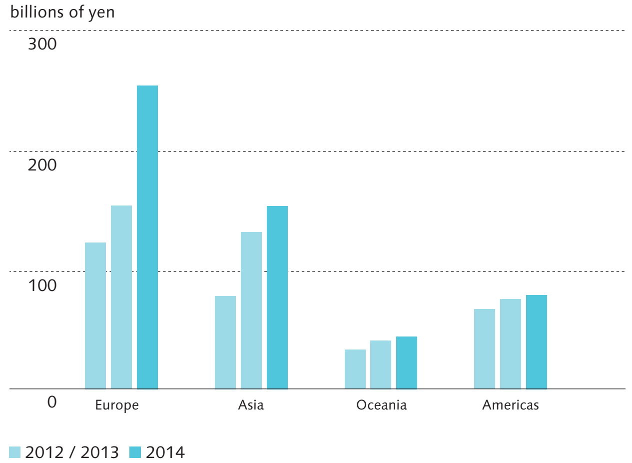
Sales Volume by Category (Japan)



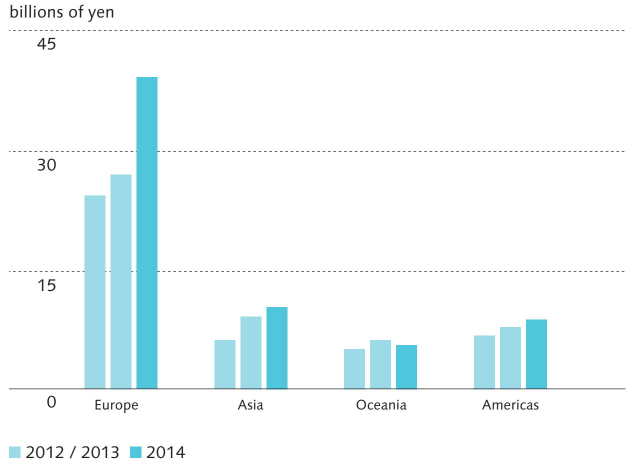
Sales and Segment Profit (Oversea)



Net Sales by Geographic Area (Overseas)



Segment Profit by Geographic Area (Overseas)



Analysis of Financial Condition

Total assets as of December 31, 2014, stood at ¥1,389.1 billion, an increase of ¥132.4 billion compared to December 31, 2013. Total current assets were ¥386.4 billion, up ¥103.1 billion, due mainly to increases in cash and cash equivalents and in inventories. Net property, plant and equipment amounted to ¥339.1 billion, up ¥26.3 billion, mainly due to increases in buildings and structures and in machinery, equipment and other. Furthermore, total investments and other assets stood at ¥663.5 billion, up ¥3.0 billion, mainly due to increases in investments in unconsolidated subsidiaries and associates and in investment securities.

Total liabilities stood at ¥753.5 billion, an increase of ¥89.7 billion compared to December 31, 2013. Total current liabilities were ¥354.7 billion, down ¥92.0 billion, mainly due to decreases in short-term borrowings and in the current portion of long-term debt.

Total long-term liabilities were ¥398.8 billion, up ¥181.7 billion, reflecting an increase in long-term debt.

Total equity stood at ¥635.6 billion, an increase of ¥42.7 billion compared to December 31, 2013, mainly due to an increase in accumulated other comprehensive income.

As a result of the above, the shareholders' equity ratio was 42.9%, and equity per share was ¥1,926.79.

Cash Flows

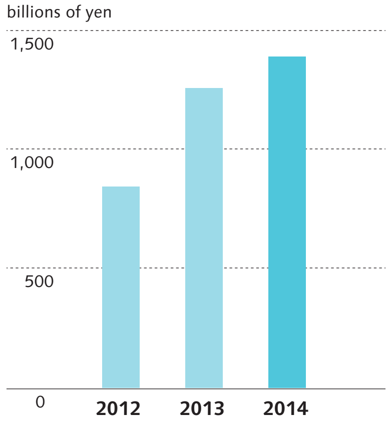
Cash and cash equivalents for the year ended December 31, 2014, stood at ¥105.5 billion, up ¥59.7 billion compared to the year ended December 31, 2013.

Due to an increase in notes and accounts receivable–trade to ¥21.8 billion, net cash provided by operating activities decreased ¥5.4 billion year on year, to ¥108.6 billion, despite income before income taxes and minority interests of ¥70.5 billion and depreciation and amortization of ¥50.0 billion.

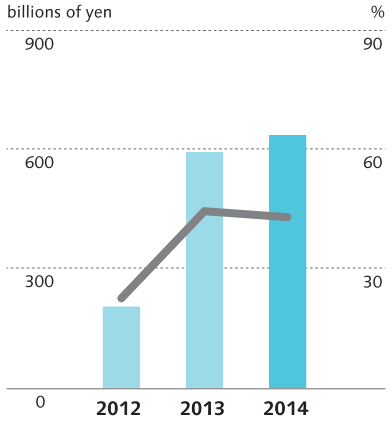
Due to acquisition of business of ¥220.1 billion in the previous year, net cash used in investing activities decreased ¥223.1 billion year on year, to ¥67.5 billion, despite purchases of property, plant, and equipment of ¥68.9 billion.

Due to a decrease in proceeds from issuance of common stocks of ¥275.5 billion in the previous year, net cash provided by financing activities decreased ¥176.7 billion year on year, to ¥13.7 billion, despite proceeds from long-term debt of ¥144.3 billion and proceeds from issuance of bonds of ¥39.8 billion.

Total Assets

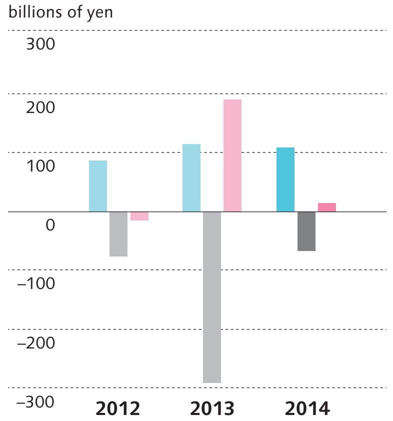


Equity and Shareholders' Equity Ratio



■ Equity (lest scale)
■ Shareholders' Equity Ratio (right scale)

Cash Flows



■ Net cash provided by operating activities
■ Net cash used in investing activities
■ Net cash provided by financial activities

Capital Expenditures

In the fiscal year ended December 31, 2014, the Group invested a total of ¥69.1 billion on capital expenditures to increase its manufacturing capacity, strengthen its sales capability, improve the quality of its products, and streamline its businesses.

In the Japan segment, the Group invested ¥31.9 billion on capital expenditures, primarily to increase its manufacturing capacity, streamline its businesses, and install new vending machines.

In the overseas segment, the Group invested ¥37.3 billion on capital expenditures, primarily to increase its manufacturing capacity and streamline its businesses.

Dividend Policy

The Group believes in the prioritization of strategic investments, as well as capital expenditures for the pursuit of sustainable revenue growth, in increasing the value of our business, which will benefit our shareholders. In addition, we view an appropriate shareholder return as one of our core management tasks. While giving due consideration to providing a stable return and maintaining robust internal reserves for the future, the Group intends 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 for net income before amortization of goodwill*. Looking to the medium and long-term, the Group also considers increasing the payout ratio depending on such factors as the need for funds and the progress in profit growth. The Group'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 at the annual general meeting of shareholders, while interim dividends are determined by the Board of Directors.

For the fiscal year under review, the Group declared an annual dividend of ¥60 per share, comprising an interim dividend of ¥29 per share.

As noted above, the Group uses internal reserves for strategic investments in future business expansion and capital expenditures to strengthen its core businesses. The Group'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. The dividend payments for the fiscal year under review are as follows.

Date of determination	Total dividend amount (millions of yen)	Dividend per share (yen)
August 5, 2014 Board of Directors	8,961	29
March 27, 2015 Ordinary general meeting of shareholders	9,579	31

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

Outlook for the Fiscal Year Ending December 31, 2015

The Group has expanded its business foundation through the listing of its shares on the Tokyo Stock Exchange and through conducting various M&A activities. Utilizing this business foundation, the Group aims to accelerate the pursuit of self-sustainable growth in each area of its operations while creating synergies and advancing comprehensive expansion. As a result, the Group has formulated management strategies for the 2015–2017 period. In the fiscal year ending December 31, 2015, in order to achieve success with these strategies, the Group will work to further solidify its business foundation both in Japan and overseas. In this way, the Group aspires for growth in profits and sales in each area of operation. For details on these initiatives, please refer to page 12 and 13.

In the fiscal year ending December 31, 2015, the above activities are expected to result in consolidated net sales of ¥1,300.0 billion, up 3.4%; operating income of ¥92.0 billion, up 7.0%; and net income of ¥42.0 billion, up 15.9%.

<Reference>
EBITDA (the sum of all segment profit and depreciation and amortization) is expected to be ¥170 billion, up 5.6% year on year, and net income before amortization of goodwill is expected to be ¥67 billion, up 9.3% year on year.

The main foreign exchange rates underlying this outlook for the current fiscal year are ¥135 against the euro and ¥120 against the U.S. dollar.

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 management strategies

We have developed the management strategies 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 plans to increase the rate of consumption tax from 8% to the current 10% in April 2017. 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.

(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, 2014, goodwill stood at ¥381.8 billion and trademarks were ¥199.9 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 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, steel cans and ends, glass bottles, PET bottles and caps, paperboard packaging, coffee beans, tea leaves, juice, fruit, sweeteners 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, epidemic, 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 CO2 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, Asia, Oceania, 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 introduced or 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. Conflict 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
Outsourcing of product shipping	Suntory Logistics Ltd.	Determined by discussions between the parties after considering the quality and market price of similar services
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 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

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 eight 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, Shinichiro Hizuka, a Director of ours, is also the Senior Managing Director of Suntory Holdings Limited. This appointment was made to reflect his many years of management experience and expertise in our management.

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, 2014, there were approximately 270 employees seconded to us from Suntory Holdings Limited. All of our employees at the level of manager and above are registered at us. 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.

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.

Consolidated Balance Sheet

Suntory Beverage & Food Limited and Consolidated Subsidiaries December 31, 2013 and 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2013	2014	2014
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 45,851	¥ 105,505	$ 875,197
Short-term investments (Note 4)	19	15	124
Notes and accounts receivable (Note 14):			
Trade	125,412	151,763	1,258,922
Other	17,532	23,133	191,895
Allowance for doubtful accounts	(321)	(354)	(2,937)
Inventories (Note 5)	67,655	74,888	621,219
Deferred tax assets (Note 9)	11,403	11,658	96,707
Other current assets	15,770	19,838	164,563
Total current assets	283,321	386,446	3,205,690
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Note 6)	40,032	41,831	347,001
Buildings and structures (Note 6)	102,966	111,170	922,190
Machinery, equipment, and other	478,702	509,612	4,227,391
Construction in progress	10,306	24,548	203,633
Lease assets (Note 13)	8,645	5,848	48,512
Total	640,651	693,009	5,748,727
Accumulated depreciation	(327,830)	(353,908)	(2,935,778)
Net property, plant, and equipment	312,821	339,101	2,812,949
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries and associates (Note 14)	9,004	9,879	81,949
Investment securities (Notes 4 and 14)	8,816	9,399	77,968
Long-term receivables	113	121	1,004
Long-term guarantee deposit	2,936	2,971	24,645
Goodwill (Note 11)	400,050	381,760	3,166,819
Trademarks	184,943	199,900	1,658,233
Deferred tax assets (Note 9)	3,479	3,483	28,893
Other	52,061	56,505	468,727
Allowance for doubtful accounts	(842)	(469)	(3,891)
Total investments and other assets	660,560	663,549	5,504,347
TOTAL	¥1,256,702	¥1,389,096	$11,522,986

See notes to consolidated financial statements

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2013	2014	2014
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 14)	¥ 122,901	¥ 32,254	$ 267,557
Current portion of long-term debt (Notes 6, 13, and 14)	51,304	23,422	194,293
Notes and accounts payable (Note 14):			
Trade	100,423	111,989	928,984
Other	90,190	92,340	765,989
Consumption taxes payable (Note 14)	3,559	6,122	50,784
Accrued income taxes (Notes 9 and 14)	11,227	14,456	119,917
Accrued expenses (Note 14)	46,439	55,791	462,804
Other current liabilities	20,594	18,277	151,612
Total current liabilities	446,637	354,651	2,941,940
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6, 13, and 14)	132,107	306,681	2,544,015
Liability for employees' retirement benefits (Note 7)	6,320	10,474	86,885
Retirement allowances for directors and Audit and Supervisory Board members	24	9	75
Long-term deposits payable	10,562	10,434	86,553
Deferred tax liabilities (Note 9)	58,908	63,030	522,854
Other	9,175	8,193	67,964
Total long-term liabilities	217,096	398,821	3,308,346
COMMITMENTS (Notes 13 and 15)			
EQUITY (Notes 8, 16, and 17):			
Common stock, authorized – 480,000,000 shares, and issued – 309,000,000 shares in 2013 and 2014	168,384	168,384	1,396,798
Capital surplus	192,702	192,702	1,598,523
Retained earnings	141,077	150,463	1,248,138
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	963	1,316	10,917
Deferred gain on derivatives under hedge accounting	265	606	5,027
Foreign currency translation adjustments	54,810	83,802	695,164
Defined retirement benefit plans	—	(1,897)	(15,736)
Total	558,201	595,376	4,938,831
Minority interests	34,768	40,248	333,869
Total equity	592,969	635,624	5,272,700
TOTAL	¥1,256,702	¥1,389,096	$11,522,986

See notes to consolidated financial statements

Consolidated Statement of Income

Suntory Beverage & Food Limited and Consolidated Subsidiaries
Year Ended December 31, 2013 and 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
NET SALES	¥1,121,362	¥1,257,280	$10,429,531
COST OF SALES (Note 10)	502,731	574,203	4,763,194
Gross profit	618,631	683,077	5,666,337
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 10, 11, 12, and 13)	545,915	597,127	4,953,355
Operating income	72,716	85,950	712,982
OTHER INCOME (EXPENSES):			
Interest and dividend income	487	476	3,949
Interest expense	(4,763)	(4,605)	(38,200)
Loss on disposal of property, plant, and equipment	(3,247)	(3,029)	(25,127)
Restructuring charges	(3,863)	(7,912)	(65,633)
Other – net	1,120	(388)	(3,218)
Other expenses – net	(10,266)	(15,458)	(128,229)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	62,450	70,492	584,753
INCOME TAXES (Note 9):			
Current	25,599	29,375	243,675
Deferred	473	387	3,210
Total income taxes	26,072	29,762	246,885
NET INCOME BEFORE MINORITY INTERESTS	36,378	40,730	337,868
MINORITY INTERESTS IN NET INCOME	5,182	4,490	37,246
NET INCOME	¥ 31,196	¥ 36,240	$ 300,622

	Yen		U.S. Dollars (Note 1)
	2013	2014	2014
AMOUNTS PER SHARE (Note 17):			
Net income – basic	¥118.79	¥117.28	$0.97
Cash dividends applicable to the year	58.00	60.00	0.50

See notes to consolidated financial statements

Consolidated Statement of Comprehensive Income

Suntory Beverage & Food Limited and Consolidated Subsidiaries
Year Ended December 31, 2013 and 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
NET INCOME BEFORE MINORITY INTERESTS	¥ 36,378	¥40,730	$337,868
OTHER COMPREHENSIVE INCOME (LOSS) (Note 16):			
Unrealized gain on available-for-sale securities	534	336	2,787
Deferred (loss) gain on derivatives under hedge accounting	(171)	341	2,829
Foreign currency translation adjustments	74,513	32,583	270,286
Share of other comprehensive income in associates	1,282	812	6,736
Total other comprehensive income	76,158	34,072	282,638
COMPREHENSIVE INCOME	¥112,536	¥74,802	$620,506
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥103,890	¥65,927	$546,885
Minority interests	8,646	8,875	73,621

See notes to consolidated financial statements

Consolidated Statement of Changes in Equity

Suntory Beverage & Food Limited and Consolidated Subsidiaries
Year Ended December 31, 2013 and 2014

					Millions of Yen Accumulated Other Comprehensive Income (Loss)	
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting
BALANCE AT JANUARY 1, 2013	432,000	¥ 30,000	¥ 54,395	¥122,609	¥ 430	¥ 436
Net income	—	—	—	31,196	—	—
Stock split (Note 8(b))	215,568,000	—	—	—	—	—
Issuance of common stock (Note 8(c))	93,000,000	138,384	138,384	—	—	—
Cash dividends, ¥59.79 per share (Note 8(b))	—	—	—	(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	—	—	—	—	533	(171)
BALANCE AT DECEMBER 31, 2013	309,000,000	168,384	192,702	141,077	963	265
Net income	—	—	—	36,240	—	—
Cash dividends, ¥87.00 per share	—	—	—	(26,883)	—	—
Put option granted to minority shareholders	—	—	—	29	—	—
Net change in the year	—	—	—	—	353	341
BALANCE AT DECEMBER 31, 2014	309,000,000	¥168,384	¥192,702	¥150,463	¥1,316	¥ 606

	Accumulated Other Comprehensive Income (Loss)				Millions of Yen
	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE AT JANUARY 1, 2013	¥(17,521)	¥ —	¥190,349	¥13,927	¥204,276
Net income	—	—	31,196	—	31,196
Stock split (Note 8(b))	—	—	—	—	—
Issuance of common stock (Note 8(c))	—	—	276,768	—	276,768
Cash dividends, ¥59.79 per share (Note 8(b))	—	—	(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	72,331	—	72,693	20,841	93,534
BALANCE AT DECEMBER 31, 2013	54,810	—	558,201	34,768	592,969
Net income	—	—	36,240	—	36,240
Cash dividends, ¥87.00 per share	—	—	(26,883)	—	(26,883)
Put option granted to minority shareholders	—	—	29	—	29
Net change in the year	28,992	(1,897)	27,789	5,480	33,269
BALANCE AT DECEMBER 31, 2014	¥ 83,802	¥(1,897)	¥595,376	¥40,248	¥635,624

					Thousands of U.S. Dollars (Note 1) Accumulated Other Comprehensive Income (Loss)	
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting
BALANCE AT DECEMBER 31, 2013	309,000,000	$1,396,798	$1,598,523	$1,170,278	$ 7,988	$2,198
Net income	—	—	—	300,622	—	—
Cash dividends, $0.72 per share	—	—	—	(223,003)	—	—
Put option granted to minority shareholders	—	—	—	241	—	—
Net change in the year	—	—	—	—	2,929	2,829
BALANCE AT DECEMBER 31, 2014	309,000,000	$1,396,798	$1,598,523	$1,248,138	$10,917	$5,027

	Accumulated Other Comprehensive Income (Loss)				Thousands of U.S. Dollars (Note 1)
	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE AT DECEMBER 31, 2013	$454,666	$ —	$4,630,451	$288,411	$4,918,862
Net income	—	—	300,622	—	300,622
Cash dividends, $0.72 per share	—	—	(223,003)	—	(223,003)
Put option granted to minority shareholders	—	—	241	—	241
Net change in the year	240,498	(15,736)	230,520	45,458	275,978
BALANCE AT DECEMBER 31, 2014	$695,164	$(15,736)	$4,938,831	$333,869	$5,272,700

See notes to consolidated financial statements

Consolidated Statement of Cash Flows

Suntory Beverage & Food Limited and Consolidated Subsidiaries
Year Ended December 31, 2013 and 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2014	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 62,450	¥ 70,492	$ 584,753
Adjustments for:			
Depreciation and amortization	43,719	50,032	415,031
Amortization of goodwill	23,211	25,075	208,005
Loss on disposal of property, plant, and equipment	3,247	3,029	25,127
Net gain on sales of property, plant, and equipment	(72)	(192)	(1,593)
Increase in notes and accounts receivable – trade	(2,906)	(21,816)	(180,971)
Increase in inventories	(4,682)	(3,813)	(31,630)
(Decrease) increase in notes and accounts payable – trade	(4,963)	8,220	68,187
Decrease in interest and dividends receivable	741	485	4,023
Increase in interest payable	163	617	5,118
Income taxes paid	(24,085)	(24,797)	(205,699)
Other – net	17,259	1,307	10,844
Net cash provided by operating activities	114,082	108,639	901,195
INVESTING ACTIVITIES:			
Net decrease in short-term loan receivables	25	—	—
Purchases of property, plant, and equipment	(59,658)	(68,905)	(571,589)
Proceeds from sales of property, plant, and equipment	2,248	1,334	11,066
Purchases of investment securities	(500)	(12)	(100)
Proceeds from sales of investment securities	2	3	25
Purchases of investments in subsidiaries resulting in changes in consolidation scope – net of cash acquired (Note 3)	(12,209)	—	—
Acquisition of business (Note 3)	(220,098)	—	—
Other – net	(423)	97	805
Net cash used in investing activities	(290,613)	(67,483)	(559,793)
FINANCING ACTIVITIES:			
Net decrease in short-term bank loans	(62,412)	(75,600)	(627,126)
Net increase (decrease) in commercial papers	16,000	(16,000)	(132,725)
Proceeds from long-term debt	57,759	144,281	1,196,856
Repayments of long-term loans	(78,966)	(47,198)	(391,522)
Proceeds from issuance of bonds	—	39,822	330,336
Repayments of lease obligations	(1,682)	(1,406)	(11,663)
Cash dividends	(12,915)	(26,883)	(223,003)
Cash dividends to minority shareholders	(2,841)	(3,345)	(27,748)
Proceeds from issuance of common stocks	275,466	—	—
Net cash provided by financing activities	190,409	13,671	113,405
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	5,912	4,827	40,042
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,790	59,654	494,849
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	26,061	45,851	380,348
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 45,851	¥105,505	$ 875,197

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

Suntory Beverage & Food Limited and Consolidated Subsidiaries

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 2013 consolidated financial statements to conform to the classifications used in 2014.

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 ¥120.55 to $1, the exchange rate at December 31, 2014. 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 Spirits Limited), a company founded in Osaka in 1899. The Parent and its subsidiaries (together, the "Suntory Group") produce and distribute various popular brands of beverages in various alcoholic and nonalcoholic beverage categories. The Company was established on January 23, 2009, and commenced the nonalcoholic 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 8(c)).

2. Summary o f Significant Accounting Policies

(a) Consolidation – The consolidated financial statements as of December 31, 2014, include the accounts of the Company and its 85 significant (83 in 2013) 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 seven (eight in 2013) associates are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associates 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 (the "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 that 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. However, 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, except for the following items that 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 systematicallyamortized 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. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

(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 and deposits in banks (including time deposits). 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. Trademarks whose useful lives are not determinable are not amortized and subject to impairment test. 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, defined contribution pension plans, and unfunded retirement benefit plans for employees (see Note 7).

The Group accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis mainly over 15 years within the average remaining service period. Past service costs are amortized on a straight-line basis mainly over 15 years within the average remaining service period.

In May 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 were 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 service period 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 prior annual period, 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 applied the revised accounting standard and guidance for retirement benefits for (1) and (2) above, effective December 31, 2014. As a result, liability for employees' retirement benefits of ¥10,474 million ($86,885 thousand) was recorded as of December 31, 2014, and accumulated other comprehensive income and minority interests for the year ended December 31, 2014, decreased by ¥1,897 million ($15,736 thousand) and ¥19 million ($158 thousand), respectively.

The Group expects to apply (3) above from the beginning of the annual period beginning on January 1, 2015, and is in the process of measuring the effects in future applicable periods.

(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 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) Research and Development Costs – Research and development 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.

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 statement 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.

(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 statement 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 statement 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 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

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, 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. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

(2) Presentation of the consolidated balance sheet

In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

(3) Presentation of the consolidated statement of income

In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

(4) 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 provisional amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is 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.

(5) Acquisition-related costs

Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance 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 from the beginning of annual periods beginning on or after April 1, 2014, except for the "presentation changes in the consolidated financial statements." In case of earlier application, all accounting standards and guidance above, except for the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" is permitted. In retrospective application of the revised standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs," accumulated effects of retrospective adjustments for all "transactions with noncontrolling interest" and "acquisition-related costs" which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" shall be applied prospectively from the beginning of the year of the first-time application. 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 standards and guidance for "provisional accounting treatments for a business combination" is effective for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2014.

The Group expects to apply the revised accounting standards and guidance 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 accounting standards and guidance in future applicable periods.

3. Additional Information for Consolidated Statement of Cash Flows

During the year ended December 31, 2013, the Group acquired PEPSICO INTERNATIONAL - VIETNAM COMPANY (now, Suntory PepsiCo Vietnam Beverage Co., Ltd.). Assets and liabilities of the company and net cash used for the acquisition were as follows:

	Millions of Yen
Current assets	¥ 11,208
Noncurrent assets	27,774
Goodwill	2,937
Current liabilities	(8,111)
Noncurrent liabilities	(3,414)
Minority interests	(13,454)
Total acquisition costs	16,940
Cash and cash equivalents	(4,731)
Net cash used for acquisition	¥ 12,209

On December 31, 2013, the Group acquired two nonalcoholic beverage brands of the United Kingdom, "Lucozade" and "Ribena," and related assets from GlaxoSmithKline plc. Assets acquired and cash used for the acquisition in 2013 were as follows:

	Millions of Yen
Current assets	¥ 8,585
Noncurrent assets including trademarks and other intangibles	202,837
Goodwill	8,676
Net cash used for acquisition	¥220,098

4. Short-Term Investments and Investment Securities

Short-term investments and investment securities as of December 31, 2013 and 2014, consisted of the following:

	Millions of Yen 2013	Millions of Yen 2014	Thousands of U.S. Dollars 2014
Short-term investments:			
Time deposits	¥ 19	¥ 15	$ 124
Investment securities:			
Equity securities	¥8,816	¥9,399	$77,968

The costs and aggregate fair values of marketable securities included in short-term investments and investment securities as of December 31, 2013 and 2014, were as follows:

	Millions of Yen					
	2013			2014		
	Acquisition Cost	Carrying Amounts	Unrealized Gain (Loss)	Acquisition Cost	Carrying Amounts	Unrealized Gain (Loss)
Available-for-sale securities:						
Carrying amounts exceeding their acquisition cost:						
Equity securities	¥1,479	¥2,957	¥1,478	¥1,487	¥3,532	¥2,045
Acquisition costs exceeding their carrying amounts:						
Equity securities	109	85	(24)	112	103	(9)
Total	¥1,588	¥3,042	¥1,454	¥1,599	¥3,635	¥2,036

	Thousands of U.S. Dollars 2014		
	Acquisition Cost	Carrying Amounts	Unrealized Gain (Loss)
Available-for-sale securities:			
Carrying amounts exceeding their acquisition cost:			
Equity securities	$12,335	$29,299	$16,964
Acquisition costs exceeding their carrying amounts:			
Equity securities	929	854	(75)
Total	$13,264	$30,153	$16,889

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2013 and 2014, were as follows:

	Carrying Amounts		
	Millions of Yen 2013	Millions of Yen 2014	Thousands of U.S. Dollars 2014
Available-for-sale:			
Equity securities	¥5,774	¥5,764	$47,815

Sales of securities classified as available-for-sale securities for the years ended December 31, 2013 and 2014, were as follows:

	Millions of Yen 2013	Millions of Yen 2014	Thousands of U.S. Dollars 2014
Amount sold	¥ 2	¥ 3	$25
Total gain on sale	1	1	8
Total loss on sale	(0)	—	—

5. Inventories

Inventories as of December 31, 2013 and 2014, consisted of the following:

	Millions of Yen 2013	Millions of Yen 2014	Thousands of U.S. Dollars 2014
Finished products	¥40,141	¥42,255	$350,518
Work in process	2,991	3,554	29,482
Raw materials and supplies	24,523	29,079	241,219
Total	¥67,655	¥74,888	$621,219

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings as of December 31, 2013 and 2014, consisted of the following:

	Millions of Yen 2013	Millions of Yen 2014	Thousands of U.S. Dollars 2014
Short-term loans, principally from the Parent and banks, weighted-average rates of 1.08% as of December 31, 2013, and 2.25% as of December 31, 2014	¥106,901	¥32,254	$267,557
Commercial papers, weighted-average rate of 0.08% as of December 31, 2013	16,000	—	—
Short-term borrowings	¥122,901	¥32,254	$267,557

Long-term debt as of December 31, 2013 and 2014, consisted of the following:

	Millions of Yen 2013	Millions of Yen 2014	Thousands of U.S. Dollars 2014
Publicly offered corporate bonds, due 2019 through 2024, rates ranging from 0.26% to 0.70%	¥ —	¥ 40,000	$ 331,813
Loans, from banks and other financial institutions, due through 2021, rates ranging from 0.00% to 9.35%:			
Unsecured	179,218	286,835	2,379,386
Obligations under finance leases	4,193	3,268	27,109
Total	183,411	330,103	2,738,308
Less current portion	51,304	23,422	194,293
Long-term debt - less current portion	¥132,107	¥306,681	$2,544,015

Annual maturities of long-term debt excluding finance leases, as of December 31, 2014, were as follows:

Years Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 22,435	$ 186,105
2016	97,966	812,659
2017	72,687	602,961
2018	40,134	332,924
2019 and thereafter	93,613	776,550
Total	¥326,835	$2,711,199

The carrying amounts of assets pledged as collateral for long-term bank loans of ¥750 million ($6,221 thousand) as of December 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥4,768	$39,552
Buildings and structures – net of accumulated depreciation	1,448	12,012
Total	¥6,216	$51,564

7. 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, defined contribution pension plans, and unfunded retirement benefit plans for employees. Several subsidiaries account for their defined benefit obligations and related past service costs using the simplified valuation method.

Year Ended December 31, 2013

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

	Millions of Yen
Projected benefit obligation	¥(23,826)
Fair value of plan assets	17,055
Unfunded retirement benefit obligation	(6,771)
Unrecognized actuarial loss	1,483
Unrecognized past service cost	(1,032)
Net liability	¥ (6,320)

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

	Millions of Yen
Service cost	¥1,234
Interest cost	361
Expected return on plan assets	(374)
Amortization of actuarial loss	151
Amortization of past service cost	(145)
Net periodic benefit costs	1,227
Contributions to the defined contribution pension plans	916
Total	¥2,143

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

Assumptions used for the year ended December 31, 2013, were set forth as follows:

Discount rate	Mainly 1.7%
Expected return on plan assets	Mainly 2.5%
Amortization period of past service cost	Mainly 15 years
Recognition period of actuarial loss	Mainly 15 years

Year Ended December 31, 2014

Defined Benefit Plan

(1) The changes in defined benefit obligation for the year ended December 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥23,826	$197,644
Current service cost	1,463	12,136
Interest cost	414	3,434
Actuarial losses	3,764	31,224
Benefits paid	(547)	(4,538)
Past service cost	54	448
Amounts due to changes of valuation method	426	3,534
Others	308	2,555
Balance at end of year	¥29,708	$246,437

(2) The changes in plan assets for the year ended December 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥17,055	$141,477
Expected return on plan assets	429	3,559
Actuarial gains	868	7,200
Contributions from the employer	1,233	10,228
Benefits paid	(220)	(1,825)
Others	(131)	(1,087)
Balance at end of year	¥19,234	$159,552

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of December 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 24,058	$ 199,569
Plan assets	(19,234)	(159,552)
	4,824	40,017
Unfunded defined benefit obligation	5,650	46,868
Net liability arising from defined benefit obligation	¥ 10,474	$ 86,885

	Millions of Yen	Thousands of U.S. Dollars
Liability for employees' retirement benefits	¥10,474	$86,885
Net liability arising from defined benefit obligation	¥10,474	$86,885

(4) The components of net periodic benefit costs for the year ended December 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥1,463	$12,136
Interest cost	414	3,434
Expected return on plan assets	(429)	(3,559)
Recognized actuarial losses	459	3,808
Amortization of past service cost	(74)	(614)
Loss due to changes of valuation method	426	3,534
Net periodic benefit costs	¥2,259	$18,739

The loss due to changes of valuation method was included in other expenses in the consolidated statement of income for the year ended December 31, 2014.

(5) Accumulated other comprehensive income on defined retirement benefit plans (amount before income tax effect) as of December 31, 2014, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized past service cost	¥ (905)	$ (7,507)
Unrecognized actuarial losses	3,880	32,186
Total	¥2,975	$24,679

(6) Plan assets as of December 31, 2014, were as follows:

(a) Components of planned assets

Plan assets consisted of the following:

Debt investments	38%
Equity investments	16
Insurance assets (general account)	14
Cash and cash equivalents	1
Others	31
Total	100%

(b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the current and future portfolio, investment performance history, long-term investment policies, and market trends of the plan assets.

Assumptions mainly used for the year ended December 31, 2014, were set forth as follows:

Discount rate	0.8%
Expected rate of return on plan assets	2.5%

Defined Contribution Plan

Contributions to the defined contribution plans made by the Group were ¥1,589 million ($13,181 thousand) for the year ended December 31, 2014.

8. 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. EPS and dividends were calculated as if the stock split had taken place at the beginning of the fiscal year ended December 31, 2013.

(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 per share. The total amount of ¥288,300 million payment was completed on July 2, 2013. The Company received net proceeds of ¥276,768 million with the purchase price of ¥2,976 per share after deducting underwriting commissions.

9. 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 38.0% for the years ended December 31, 2013 and 2014.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of December 31, 2013 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Deferred tax assets:			
Tax loss carryforwards	¥ 7,690	¥ 2,538	$ 21,054
Accrued expenses	5,985	5,692	47,217
Unrealized profit	3,629	3,750	31,107
Investments in subsidiaries	2,937	2,893	23,998
Liability for employees' retirement benefits	1,834	3,570	29,614
Other	6,134	6,349	52,667
Total gross deferred tax assets	28,209	24,792	205,657
Valuation allowance	(7,467)	(1,981)	(16,433)
Net deferred tax assets	20,742	22,811	189,224
Deferred tax liabilities:			
Intangible assets	(37,726)	(41,201)	(341,775)
Investments in subsidiaries	(21,691)	(23,329)	(193,521)
Property, plant, and equipment	(2,254)	(2,465)	(20,448)
Reserves for advanced depreciation of noncurrent assets	(1,508)	(1,471)	(12,202)
Other	(2,560)	(2,263)	(18,772)
Total deferred tax liabilities	(65,739)	(70,729)	(586,718)
Net deferred tax liabilities	¥(44,997)	¥(47,918)	$(397,494)

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, 2013 and 2014, was as follows:

	2013	2014
Normal effective statutory tax rate	38.0%	38.0%
Income not taxable for income tax purposes	(3.8)	(2.4)
Differences in tax rate of overseas consolidated subsidiaries	(1.9)	(7.1)
Amortization of goodwill	12.3	11.8
Other – net	(2.9)	1.9
Actual effective tax rate	41.7%	42.2%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38.0% to 35.6%. The effect of this change on the consolidated financial statements for the year ended December 31, 2014, is immaterial.

10. Research And Development Costs

Research and development costs charged to income were ¥6,856 million and ¥7,896 million ($65,500 thousand) for the years ended December 31, 2013 and 2014, respectively.

11. Amortization of Goodwill

Amortization of goodwill was ¥23,211 million and ¥25,075 million ($208,005 thousand) for the years ended December 31, 2013 and 2014, respectively.

12. Advertising Costs

Advertising costs were ¥44,374 million and ¥53,710 million ($445,541 thousand) for the years ended December 31, 2013 and 2014, respectively.

13. 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, 2013 and 2014, included in selling, general, and administrative expenses amounted to ¥6,894 million and ¥8,921 million ($74,002 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			
	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

	Millions of Yen			
	2014			
	Buildings and Structures	Machinery and Equipment	Others	Total
Acquisition cost	¥ 186	¥ 9,508	¥ 1	¥ 9,695
Accumulated depreciation	(146)	(5,787)	(1)	(5,934)
Net leased property	¥ 40	¥ 3,721	¥ 0	¥ 3,761

	Thousands of U.S. Dollars			
	2014			
	Buildings and Structures	Machinery and Equipment	Others	Total
Acquisition cost	$ 1,543	$ 78,872	$ 8	$ 80,423
Accumulated depreciation	(1,211)	(48,005)	(8)	(49,224)
Net leased property	$ 332	$ 30,867	$ 0	$ 31,199

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Due within one year	¥ 813	¥ 723	$ 5,998
Due after one year	3,797	3,075	25,508
Total	¥4,610	¥3,798	$31,506

Depreciation expense and interest expense for finance leases as of December 31, 2013 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Depreciation expense	¥1,099	¥808	$6,703
Interest expense	58	42	348

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.

Minimum rental commitments under noncancelable operating leases as of December 31, 2013 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Due within one year	¥ 7,133	¥ 7,934	$ 65,815
Due after one year	22,913	24,811	205,815
Total	¥30,046	¥32,745	$271,630

14. Financial Instruments and Related Disclosures

(1) Group policy for financial instruments

The Company primarily invests cash surpluses, if any, in low-risk financial instruments and does not invest for trading or speculative purposes. The Company, depending on the market condition at the time, uses short-term bank loans or commercial paper for short-term cash demands and long-term bank loans or corporate bonds to satisfy long-term cash demands.

Consolidated subsidiaries in Japan utilize the finance system provided by the Company. The system satisfies the subsidiaries' short-term cash demands and investments of cash surplus, if any.

Consolidated subsidiaries in overseas primarily invest cash surpluses, if any, in low-risk financial instruments and do not invest for trading or speculative purposes. The overseas subsidiaries utilize either (or both) the finance system provided by the Company, or (and) bank loans, depending on the market condition at the time, to satisfy their 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 associates 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 15 for more details 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 15 for details 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.

(a) Fair value of financial instruments

December 31, 2013	Carrying Amount	Fair Value	Unrealized Gain (Loss)
	Millions of Yen		
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)

December 31, 2014	Carrying Amount	Fair Value	Unrealized Gain (Loss)
	Millions of Yen		
Cash and cash equivalents	¥105,505	¥105,505	¥ —
Notes and accounts receivable – trade	151,763	151,763	—
Notes and accounts receivable – other	23,133	23,133	—
Investment securities	3,635	3,635	—
Total	¥284,036	¥284,036	¥ —
Short-term borrowings	¥32,254	¥ 32,254	¥ —
Current portion of long-term debt	23,422	23,458	(36)
Notes and accounts payable – trade	111,989	111,989	—
Notes and accounts payable – other	92,340	92,340	—
Consumption taxes payable	6,122	6,122	—
Accrued income taxes	14,456	14,456	—
Accrued expenses	55,791	55,791	—
Long-term debt	306,681	312,351	(5,670)
Total	¥643,055	¥648,761	¥(5,706)

(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 15 for the information on the fair value of derivatives.

December 31, 2014	Carrying Amount	Fair Value	Unrealized Gain (Loss)
	Thousands of U.S. Dollars		
Cash and cash equivalents	$ 875,197	$ 875,197	$ —
Notes and accounts receivable – trade	1,258,922	1,258,922	—
Notes and accounts receivable – other	191,895	191,895	—
Investment securities	30,153	30,153	—
Total	$2,356,167	$2,356,167	$ —
Short-term borrowings	$ 267,557	$ 267,557	$ —
Current portion of long-term debt	194,293	194,591	(298)
Notes and accounts payable – trade	928,984	928,984	—
Notes and accounts payable – other	765,989	765,989	—
Consumption taxes payable	50,784	50,784	—
Accrued income taxes	119,917	119,917	—
Accrued expenses	462,804	462,804	—
Long-term debt	2,544,015	2,591,049	(47,034)
Total	$5,334,343	$5,381,675	$(47,332)

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 of derivatives is included in Note 15.

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Investments in unconsolidated subsidiaries and associates	¥9,004	¥9,879	$81,949
Investments in equity instruments that do not have a quoted market price in an active market	5,774	5,764	47,815

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

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
	Millions of Yen			
Cash and cash equivalents	¥ 45,851	¥—	¥—	¥—
Notes and accounts receivable – Trade	125,412	—	—	—
Notes and accounts receivable – Other	17,532	—	—	—
Total	¥188,795	¥—	¥—	¥—

December 31, 2014	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
	Millions of Yen			
Cash and cash equivalents	¥105,505	¥—	¥—	¥—
Notes and accounts receivable – Trade	151,763	—	—	—
Notes and accounts receivable – Other	23,133	—	—	—
Total	¥280,401	¥—	¥—	¥—

December 31, 2014	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
	Thousands of U.S. Dollars			
Cash and cash equivalents	$ 875,197	$—	$—	$—
Notes and accounts receivable – Trade	1,258,922	—	—	—
Notes and accounts receivable – Other	191,895	—	—	—
Total	$2,326,014	$—	$—	$—

Please see Note 6 for annual maturities of long-term debt and Note 13 for obligations under finance leases.

15. 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.

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

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

(1) Foreign currency-related derivatives

December 31, 2013	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain
	Millions of Yen			
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)

Millions of Yen

December 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain
Forward exchange contracts to:				
Buy:				
USD	¥11,341	¥253	¥109	¥109
EUR	1,833	—	(31)	(31)
SGD	2,535	—	(70)	(70)
AUD	1,433	—	(26)	(26)
Other	50	—	1	1
Sell:				
USD	563	—	(22)	(22)
THB	2,359	—	(62)	(62)
HKD	533	—	(26)	(26)
NZD	207	—	0	0

Thousands of U.S. Dollars

December 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss) Gain
Forward exchange contracts to:				
Buy:				
USD	$94,077	$2,099	$ 904	$ 904
EUR	15,205	—	(257)	(257)
SGD	21,029	—	(581)	(581)
AUD	11,887	—	(216)	(216)
Other	415	—	8	8
Sell:				
USD	4,670	—	(182)	(182)
THB	19,569	—	(514)	(514)
HKD	4,421	—	(216)	(216)
NZD	1,717	—	0	0

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

(2) Interest- and currency-related derivatives

Millions of Yen

December 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss)
Interest rate and currency swaps:				
JPY payment, USD receipt				
Fixed payment and floating receipt	¥1,782	¥—	¥(23)	¥(23)
JPY payment, NZD receipt				
Fixed payment and floating receipt	1,367	—	(38)	(38)
JPY payment, GBP receipt				
Fixed payment and floating receipt	466	—	(2)	(2)

Thousands of U.S. Dollars

December 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized (Loss)
Interest rate and currency swaps:				
JPY payment, USD receipt				
Fixed payment and floating receipt	$14,782	$—	$ (191)	$(191)
JPY payment, NZD receipt				
Fixed payment and floating receipt	11,340	—	(315)	(315)
JPY payment, GBP receipt				
Fixed payment and floating receipt	3,866	—	(17)	(17)

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

(b) Derivative transactions to which hedge accounting is applied

(1) Foreign currency-related derivatives

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

Millions of Yen

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payable	¥5,048	¥—	¥362
EUR	Payable	1,137	—	(34)
Sell:				
AUD	Receivable	3,367	—	118
Currency options:				
Call options, purchased:				
USD	Payable	3,053	—	
Premium		(52)	—	259

Thousands of U.S. Dollars

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payable	$41,875	$—	$3,003
EUR	Payable	9,432	—	(282)
Sell:				
AUD	Receivable	27,930	—	979
Currency options:				
Call options, purchased:				
USD	Payable	25,326	—	
Premium		(431)	—	2,148

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

The following foreign currency forward contracts were not measured at fair value, but the hedged items (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 14 and are not shown in the table below:

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	—	—

Millions of Yen

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payables	¥1,055	¥—	¥—
EUR	Payables	208	—	—

Thousands of U.S. Dollars

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payables	$8,752	$—	$—
EUR	Payables	1,725	—	—

(2) Interest-related derivatives

Millions of Yen

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed payment and floating receipt	Short-term loans	¥6,750	¥—	¥1

Thousands of U.S. Dollars

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed payment and floating receipt	Short-term loans	$55,993	$—	$0

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

The following interest rate swaps were not measured at market value, but the differential paid or received under the swap agreements was recognized and included in interest expense or income as described in Note 2(u). The fair values of such interest rate swaps were included in those of hedged items (long-term debt) in Note 14, and were not shown in the table below:

Millions of Yen

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed payment and floating receipt	Long-term debt	¥20,249	¥20,249	¥—

Thousands of U.S. Dollars

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed payment and floating receipt	Long-term debt	$167,972	$167,972	$—

(3) Interest- and currency-related derivatives

The following interest rate and currency swaps that qualify for hedge accounting and meet specific matching criteria were not measured at market value but the differential paid or received under the swap agreements was recognized and included in interest expense or income. In addition, the fair values of such interest rate swaps were included in those of hedged items (long-term debt) in Note 14.

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	¥—
Buy EUR, sell USD				
Fixed payment and floating receipt	Long-term debt	23,479	23,479	—

Millions of Yen

December 31, 2014	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	¥—
Buy EUR, sell USD				
Fixed payment and floating receipt	Long-term debt	23,479	23,479	—
Buy GBP, sell USD				
Fixed payment and floating receipt	Long-term debt	74,246	64,121	—

Thousands of U.S. Dollars

December 31, 2014	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	$244,737	$244,737	$—
Buy EUR, sell USD				
Fixed payment and floating receipt	Long-term debt	194,766	194,766	—
Buy GBP, sell USD				
Fixed payment and floating receipt	Long-term debt	615,894	531,904	—

(4) Commodity-related derivatives

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)

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

16. Comprehensive Income

The components of other comprehensive income for the years ended December 31, 2013 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 807	¥ 544	$ 4,513
Reclassification adjustments to profit or loss	(1)	1	8
Amount before income tax effect	806	545	4,521
Income tax effect	(272)	(209)	(1,734)
Total	¥534	¥ 336	$ 2,787
Deferred (loss) gain on derivatives under hedge accounting:			
(Losses) gains arising during the year	¥ (493)	¥ 658	$ 5,458
Reclassification adjustments to profit or loss	117	(189)	(1,568)
Amount before income tax effect	(376)	469	3,890
Income tax effect	205	(128)	(1,061)
Total	¥ (171)	¥ 341	$ 2,829
Foreign currency translation adjustments:			
Gains arising during the year	¥74,500	¥32,583	$270,286
Reclassification adjustments to profit or loss	13	—	—
Total	¥74,513	¥32,583	$270,286
Share of other comprehensive income in associates:			
Gains arising during the year	1,282	812	6,736
Total other comprehensive income	¥76,158	¥34,072	$282,638

17. Subsequent Event

Appropriation of Retained Earnings

The following appropriation of retained earnings as of December 31, 2014, is expected to be approved at the Company's shareholders' meeting to be held on March 27, 2015:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥31.00 ($0.26) per share	¥9,579	$79,461

18. Segment Information

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				
	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 associates accounted for by the equity method	—	8,744	8,744	—	8,744
Increase in property, plant, and equipment and intangible assets	34,427	218,253	252,680	—	252,680

	Millions of Yen				
	2014				
	Japan	Overseas	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	¥722,304	¥ 534,976	¥1,257,280	¥ —	¥1,257,280
Intersegment sales or transfers	—	1,240	1,240	(1,240)	—
Total	¥722,304	¥ 536,216	¥1,258,520	¥ (1,240)	¥1,257,280
Segment profit	¥ 46,625	¥ 64,400	¥ 111,025	¥(25,075)	¥ 85,950
Segment assets	¥365,399	¥1,023,697	¥1,389,096	¥ —	¥1,389,096
Others:					
Depreciation and amortization	¥ 30,029	¥ 20,003	¥ 50,032	¥ —	¥ 50,032
Amortization of goodwill	110	24,965	25,075	—	25,075
Investments in associates accounted for by the equity method	—	9,637	9,637	—	9,637
Increase in property, plant, and equipment and intangible assets	31,886	37,255	69,141	—	69,141

	Thousands of U.S. Dollars				
	2014				
	Japan	Overseas	Total	Reconciliations	Consolidated
Sales:					
Sales to external customers	$5,991,738	$4,437,793	$10,429,531	$ —	$10,429,531
Intersegment sales or transfers	—	10,286	10,286	(10,286)	—
Total	$5,991,738	$4,448,079	$10,439,817	$ (10,286)	$10,429,531
Segment profit	$ 386,769	$ 534,218	$ 920,987	$(208,005)	$ 712,982
Segment assets	$3,031,099	$8,491,887	$11,522,986	$ —	$11,522,986
Others:					
Depreciation and amortization	$ 249,100	$ 165,931	$ 415,031	$ —	$ 415,031
Amortization of goodwill	912	207,093	208,005	—	208,005
Investments in associates accounted for by the equity method	—	79,942	79,942	—	79,942
Increase in property, plant, and equipment and intangible assets	264,504	309,042	573,546	—	573,546

"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, 2013 and 2014:

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

Millions of Yen

2014	Japan	Overseas	Total
Segment profit	¥46,625	¥64,400	¥111,025
Add: Depreciation and amortization	30,029	20,003	50,032
EBITDA	¥76,654	¥84,403	¥161,057

Thousands of U.S. Dollars

2014	Japan	Overseas	Total
Segment profit	$386,769	$534,218	$ 920,987
Add: Depreciation and amortization	249,100	165,931	415,031
EBITDA	$635,869	$700,149	$1,336,018

(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.

Europe: Europe, Africa
Asia: East Asia, Southeast Asia
Oceania: Oceania
Americas: North America

Millions of Yen

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

Millions of Yen

2014	Europe	Asia	Oceania	Americas	Total
Sales:					
Sales to external customers	¥256,470	¥154,502	¥44,465	¥79,539	¥534,976
Intersegment sales or transfers	1,240	—	—	—	1,240
Total	¥257,710	¥154,502	¥44,465	¥79,539	¥536,216
Segment profit	¥ 39,535	¥ 10,430	¥ 5,586	¥ 8,849	¥ 64,400
Add: Depreciation and amortization	8,350	7,110	1,447	3,096	20,003
EBITDA	¥ 47,885	¥ 17,540	¥ 7,033	¥11,945	¥ 84,403

Thousands of U.S. Dollars

2014	Europe	Asia	Oceania	Americas	Total
Sales:					
Sales to external customers	$2,127,499	$1,281,642	$368,851	$659,801	$4,437,793
Intersegment sales or transfers	10,286	—	—	—	10,286
Total	$2,137,785	$1,281,642	$368,851	$659,801	$4,448,079
Segment profit	$ 327,955	$ 86,520	$ 46,338	$ 73,405	$ 534,218
Add: Depreciation and amortization	69,266	58,980	12,003	25,682	165,931
EBITDA	$ 397,221	$ 145,500	$ 58,341	$ 99,087	$ 700,149

(e) Relevant information

Sales by geographic area were as follows:

Millions of Yen

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

Millions of Yen

2014	Japan	Europe	Asia	Oceania	Americas	Total
Sales	¥722,304	¥250,505	¥127,163	¥77,769	¥79,539	¥1,257,280

Thousands of U.S. Dollars

2014	Japan	Europe	Asia	Oceania	Americas	Total
Sales	$5,991,738	$2,078,017	$1,054,857	$645,118	$659,801	$10,429,531

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

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

Millions of Yen

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

Millions of Yen

2014	Japan	Europe	Asia	Oceania	Americas	Total
Property, plant, and equipment	¥152,245	¥76,035	¥62,901	¥23,618	¥24,302	¥339,101

Thousands of U.S. Dollars

2014	Japan	Europe	Asia	Oceania	Americas	Total
Property, plant, and equipment	$1,262,920	$630,734	$521,783	$195,919	$201,593	$2,812,949

(g) Significant impairment loss on noncurrent assets

Millions of Yen

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

Millions of Yen

2014	Japan	Overseas	Total
Impairment losses on noncurrent assets	¥41	¥90	¥131

Thousands of U.S. Dollars

2014	Japan	Overseas	Total
Impairment losses on noncurrent assets	$340	$747	$1,087

(h)Information regarding balance of goodwill by reportable segment

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

	Millions of Yen		
	2014		
	Japan	Overseas	Total
Goodwill	¥940	¥380,820	¥381,760

	Thousands of U.S. Dollars		
	2014		
	Japan	Overseas	Total
Goodwill	$7,798	$3,159,021	$3,166,819

19. 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, 2013 and 2014:

		Millions of Yen	Thousands of U.S. Dollars
	2013	2014	2014
Loans due to:			
Parent	¥128,209	¥—	$—
Interest payment:			
Parent	1,868	—	—

The balances due to or from these related parties as of December 31, 2013 and 2014, were as follows:

		Millions of Yen	Thousands of U.S. Dollars
	2013	2014	2014
Loans due to:			
Parent:			
Short-term	¥ 99,199	¥ —	$ —
Current portion of long-term debt	29,010	—	—
Total	¥128,209	¥ —	$ —
Accounts payable:			
Suntory Business Expert Limited	¥ 60,862	¥56,632	$469,780
Accrued expenses:			
Suntory Business Expert Limited	15,325	15,882	131,746

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
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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, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, 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, 2014, 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, 2015

Member of
Deloitte Touche Tohmatsu Limited

Corporate Overview

As of December 31, 2014

Company Name:	Suntory Beverage & Food Limited
President & Chief Executive Officer, Member of the Board,Representative Director:	Nobuhiro Torii
Head Office:	3-1-1 Kyobashi, Chuo-ku, Tokyo 104-0031, Japan
Established:	January 2009
Capital:	¥168,384 million
Employees:	19,375 (as of December 31, 2014)

Group Companies

[Japan]

SUNTORY FOODS LIMITED
Suntory Beverage Service Limited
Suntory Products Limited

[Europe]

Suntory Beverage & Food Europe
- Orangina Schweppes Group
- Lucozade Ribena Suntory Group

[Asia]

Suntory Beverage & Food Asia
- Cerebos Group
- Suntory Garuda Group
- Suntory PepsiCo Vietnam Beverage Co., Ltd.
- TIPCO F&B CO., LTD

[Oceania]

Frucor Group

[Americas]

Pepsi Bottling Ventures Group

Suntory Beverage & Food Limited Online Investor Information

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

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

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

Stock Overview

As of December 31, 2014

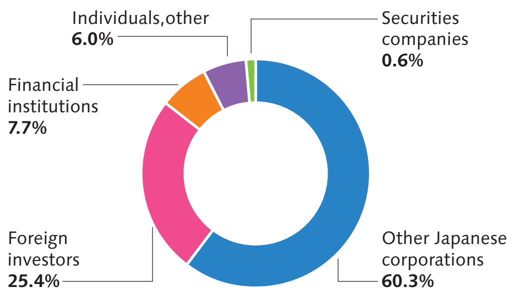
Stock Code:	2587
Date of Listing:	July 3, 2013
Stock Listing:	First Section of Tokyo Stock Exchange
Fiscal Year:	January 1 – December 31
Authorized Shares:	480,000,000 shares
Issued Shares:	309,000,000 shares
Number of Shareholders:	63,884
Ordinary General Meeting of Shareholders:	March (Record date: 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	9,725	3.1
HSBC BANK PLC A/C ABU DHABI INVESTMENT AUTHORITY	6,928	2.2
STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02	5,039	1.6
Japan Trustee Services Bank, Ltd. (Trust Account)	4,561	1.4
BBH FOR MATTHEWS ASIA DIVIDEND FUND	4,148	1.3
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,929	1.2
CITIBANK, N.A. –NY, AS DEPOSITARY BANK FOR DEPOSITARY SHARE HOLDERS	2,961	0.9
JP MORGAN CHASE BANK 385632	2,537	0.8
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	1,997	0.6

Composition of Shareholders

Year ended December 31



Other Japanese corporations	60.3%
Foreign investors	25.4%
Financial institutions	7.7%
Individuals, other	6.0%
Securities companies	0.6%

SUNTORY BEVERAGE & FOOD