
Suntory Holdings Limited and Consolidated Subsidiaries

*Financial Statements for the
Year Ended December 31, 2009, and
Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Suntory Holdings Limited:

We have audited the accompanying consolidated balance sheet of Suntory Holdings Limited (the "Company") and consolidated subsidiaries (collectively, the "Group") as of December 31, 2009, and the related consolidated statements of income, changes in equity, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suntory Holdings Limited and consolidated subsidiaries as of December 31, 2009, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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 conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

March 29, 2010

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Balance Sheet
December 31, 2009

	Millions of Yen	Thousands of U.S. Dollars (Note 1)		Millions of Yen	Thousands of U.S. Dollars (Note 1)
ASSETS			LIABILITIES AND EQUITY		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and bank deposits (Note 4)	¥ 142,725	\$ 1,549,674	Short-term borrowings (Note 8)	¥ 90,662	\$ 984,387
Short-term investments (Note 5)	581	6,308	Current portion of long-term debt (Note 8)	54,191	588,393
Notes and accounts receivable:			Notes and accounts payable:		
Trade	220,615	2,395,385	Trade	127,442	1,383,735
Other	16,817	182,595	Unconsolidated subsidiaries and affiliates	348	3,779
Allowance for doubtful accounts	(1,951)	(21,183)	Other	93,039	1,010,195
Inventories (Note 6)	161,742	1,756,156	Liquor tax and consumption taxes payable	50,977	553,496
Deferred tax assets (Note 12)	20,754	225,342	Accrued income taxes (Note 12)	23,220	252,117
Other current assets	24,298	263,823	Accrued expenses	75,840	823,453
			Other current liabilities	39,032	423,800
Total current assets	<u>585,581</u>	<u>6,358,100</u>			
			Total current liabilities	<u>554,751</u>	<u>6,023,355</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 7 and 8):					
Land	85,650	929,967	LONG-TERM LIABILITIES:		
Buildings and structures	317,481	3,447,134	Long-term debt (Note 8)	513,592	5,576,460
Machinery, equipment and other	590,563	6,412,193	Liability for employee retirement benefits (Note 9)	10,192	110,662
Construction in progress	17,071	185,353	Retirement allowances for directors and corporate auditors	784	8,513
Lease assets	9,890	107,383	Long-term deposits payable	35,645	387,025
Total	1,020,655	11,082,030	Deferred tax liabilities (Note 12)	46,840	508,578
Accumulated depreciation	(631,947)	(6,861,530)	Other	10,837	117,666
Net property, plant and equipment	<u>388,708</u>	<u>4,220,500</u>	Total long-term liabilities	<u>617,890</u>	<u>6,708,904</u>
INVESTMENTS AND OTHER ASSETS:			COMMITMENTS AND CONTINGENT LIABILITIES		
Investments in unconsolidated subsidiaries and affiliates	36,811	399,685	(Notes 14, 15 and 16)		
Investment securities (Note 5)	63,089	685,005	EQUITY (Notes 10 and 18):		
Long-term receivables	5,537	60,119	Common stock, authorized - 1,305,600,000 shares, and issued - 687,136,196 shares	70,000	760,043
Long-term guarantee deposit	33,351	362,117	Stock acquisition rights	24	261
Goodwill	441,768	4,796,612	Retained earnings	357,719	3,884,028
Other	77,647	843,073	Unrealized gain on available-for-sale securities	11,368	123,431
Allowance for doubtful accounts	(4,212)	(45,732)	Deferred loss on derivatives under hedge accounting	(680)	(7,383)
			Foreign currency translation adjustments	(9,659)	(104,875)
Total investments and other assets	<u>653,991</u>	<u>7,100,879</u>	Total	<u>428,772</u>	<u>4,655,505</u>
			Minority interests	26,867	291,715
			Total equity	<u>455,639</u>	<u>4,947,220</u>
TOTAL ASSETS	<u>¥1,628,280</u>	<u>\$17,679,479</u>	TOTAL LIABILITIES AND EQUITY	<u>¥1,628,280</u>	<u>\$17,679,479</u>

The accompanying notes are an integral part of this statement.

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended December 31, 2009

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
NET SALES	¥1,550,720	\$16,837,351
COST OF SALES	<u>807,419</u>	<u>8,766,765</u>
Gross profit	743,301	8,070,586
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>659,757</u>	<u>7,163,485</u>
Operating income	<u>83,544</u>	<u>907,101</u>
OTHER INCOME (EXPENSES):		
Interest and dividend income	3,304	35,874
Interest expense	(6,139)	(66,656)
Foreign currency exchange gain	591	6,417
Impairment loss (Note 7)	(5,100)	(55,375)
Other, net	<u>(7,954)</u>	<u>(86,362)</u>
Other expenses, net	<u>(15,298)</u>	<u>(166,102)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>68,246</u>	<u>740,999</u>
INCOME TAXES (Note 12):		
Current	31,338	340,261
Deferred	<u>(1,681)</u>	<u>(18,252)</u>
Total income taxes	29,657	322,009
INCOME BEFORE MINORITY INTERESTS	38,589	418,990
MINORITY INTERESTS IN NET INCOME	<u>5,923</u>	<u>64,310</u>
NET INCOME	<u>¥ 32,666</u>	<u>\$ 354,680</u>
	<u>Yen</u>	<u>U.S. Dollars (Note 1)</u>
AMOUNTS PER SHARE (Notes 2(t) and 17):		
Net income - Basic	¥47.54	\$0.52
Net income - Diluted	47.54	0.52
Cash dividends applicable to the year	7.00	0.08

The accompanying notes are an integral part of this statement.

Suntory Holdings Limited and Consolidated Subsidiaries

**Consolidated Statement of Changes in Equity
Year Ended December 31, 2009**

	Thousands Outstanding Number of Shares of Common Stock	Millions of Yen									
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available-for- sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE AT JANUARY 1, 2009 (Note 1)	687,136	¥30,000	¥ 5,511	¥13	¥370,331	¥14,804	¥(3,465)	¥(23,417)	¥393,777	¥28,053	¥421,830
Increase (decrease) by stock transfer (Note 3)	-	40,000	(5,511)	-	(34,489)	-	-	-	-	-	-
Effect of changes in accounting policies applied to foreign subsidiaries (Note 2(b))	-	-	-	-	(6,543)	-	-	1,460	(5,083)	(2,690)	(7,773)
Net income	-	-	-	-	32,666	-	-	-	32,666	-	32,666
Cash dividends, ¥6.00 per share (Note 2(t))	-	-	-	-	(4,122)	-	-	-	(4,122)	-	(4,122)
Net decrease resulting from change of scope of consolidation	-	-	-	-	(124)	-	-	-	(124)	-	(124)
Net change in the year	-	-	-	11	-	(3,436)	2,785	12,298	11,658	1,504	13,162
BALANCE AT DECEMBER 31, 2009	<u>687,136</u>	<u>¥70,000</u>	<u>¥ -</u>	<u>¥24</u>	<u>¥357,719</u>	<u>¥11,368</u>	<u>¥ (680)</u>	<u>¥ (9,659)</u>	<u>¥428,772</u>	<u>¥26,867</u>	<u>¥455,639</u>

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Unrealized Gain on Available-for- sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE AT JANUARY 1, 2009 (Note 1)	\$ 325,733	\$ 59,837	\$ 141	\$ 4,020,966	\$ 160,738	\$ (37,622)	\$ (254,256)	\$ 4,275,537	\$ 304,592	\$ 4,580,129
Increase (decrease) by stock transfer (Note 3)	434,310	(59,837)	-	(374,473)	-	-	-	-	-	-
Effect of changes in accounting policies applied to foreign subsidiaries (Note 2(b))	-	-	-	(71,042)	-	-	15,852	(55,190)	(29,207)	(84,397)
Net income	-	-	-	354,680	-	-	-	354,680	-	354,680
Cash dividends, \$0.07 per share (Note 2(t))	-	-	-	(44,756)	-	-	-	(44,756)	-	(44,756)
Net decrease resulting from change of scope of consolidation	-	-	-	(1,347)	-	-	-	(1,347)	-	(1,347)
Net change in the year	-	-	120	-	(37,307)	30,239	133,529	126,581	16,330	142,911
BALANCE AT DECEMBER 31, 2009	<u>\$ 760,043</u>	<u>\$ -</u>	<u>\$ 261</u>	<u>\$ 3,884,028</u>	<u>\$ 123,431</u>	<u>\$ (7,383)</u>	<u>\$ (104,875)</u>	<u>\$ 4,655,505</u>	<u>\$ 291,715</u>	<u>\$ 4,947,220</u>

The accompanying notes are an integral part of this statement.

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended December 31, 2009

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥ 68,246	\$ 740,999
Adjustments for:		
Depreciation and amortization	39,623	430,217
Amortization of goodwill	5,848	63,496
Impairment loss	5,100	55,375
Net loss on sales and evaluation of investment securities and other investments	510	5,537
Loss on sales and disposal of property, plant and equipment	4,283	46,504
Gain on sales and disposal of property, plant and equipment	(857)	(9,305)
Increase in notes and accounts receivable - trade	(2,875)	(31,216)
Decrease in inventories	1,834	19,913
Decrease in notes and accounts payable - trade	(4,261)	(46,265)
Increase in liquor tax and consumption taxes payable	3,868	41,998
Decrease in interest and dividend receivable	359	3,898
Increase in interest payable	582	6,319
Income taxes paid	(25,269)	(274,365)
Other, net	5,748	62,411
Net cash provided by operating activities	<u>102,739</u>	<u>1,115,516</u>
INVESTING ACTIVITIES:		
Increase in time deposits	(30,050)	(326,276)
Proceeds from sales of short-term investments	446	4,843
Net decrease in short-term receivables	312	3,388
Purchases of property, plant and equipment	(56,605)	(614,604)
Proceeds from sales of property, plant and equipment	2,374	25,776
Purchases of investment securities	(1,107)	(12,020)
Proceeds from sales of investment securities	1,170	12,704
Purchases of investments in subsidiaries resulting in change of scope of consolidation (Note 4)	(302,304)	(3,282,345)
Payments for transfer of business	(3,605)	(39,142)
Other, net	465	5,048
Net cash used in investing activities	<u>(388,904)</u>	<u>(4,222,628)</u>
FINANCING ACTIVITIES:		
Net increase in short-term bank loans and commercial paper	55,515	602,769
Proceeds from long-term debt	234,278	2,543,735
Payments of long-term debt	(163,551)	(1,775,798)
Proceeds from repayments of sub-participation loan	651	7,068
Proceeds from bonds	146,438	1,589,989
Redemption of bonds	(20,290)	(220,304)
Repayments of lease obligations	(849)	(9,218)
Cash dividends	(4,123)	(44,767)
Cash dividends to minority shareholders	(4,432)	(48,122)
Other, net	(8)	(86)
Net cash provided by financing activities	<u>243,629</u>	<u>2,645,266</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(1,236)	(13,420)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(43,772)	(475,266)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 1)	156,182	1,695,787
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION	<u>246</u>	<u>2,671</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 4)	<u>¥ 112,656</u>	<u>\$ 1,223,192</u>

The accompanying notes are an integral part of this statement.

Suntory Holdings Limited and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Year Ended December 31, 2009

1. BASIS OF PRESENTING 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 conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Suntory Holdings 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 ¥92.10 to \$1, the exchange rate at December 31, 2009. 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 pure holding company which was established on February 16, 2009 through a method of stock transfer in which all the shares of the former Suntory Limited (now, Suntory Liquors Limited), a company founded in Osaka in 1899 as an unincorporated enterprise under the name of Torii Shoten, were transferred to the Company. The purpose of such stock transfer was to create a new management system in which management of the group would be separated from the operating businesses of the group. The stock transfer from the former Suntory Limited to the Company on February 16, 2009 was a transaction between entities under common control, which was eliminated in consolidation, and therefore had no effect on the consolidated financial statements, except for common stock, capital surplus and retained earnings, which were adjusted to reflect the newly established Company's equity components. Accordingly, the accompanying consolidated financial statements are prepared to keep continuity with those of the former Suntory Limited for the year ended December 31, 2008, and the consolidated statement of income and consolidated statement of cash flows include the Company and its subsidiaries' income and cash flows, respectively, for twelve months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Consolidation** - The consolidated financial statements as of December 31, 2009 include the accounts of the Company and its 161 significant 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 fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 1 unconsolidated subsidiary and 12 affiliates are accounted for by the equity method.

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

The differences of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition are being amortized over a period of 5 to 20 years, or if immaterial, are charged to income when incurred.

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: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Group applied this accounting standard effective at the beginning of this fiscal year. The Group adjusted the beginning balance of retained earnings as if this accounting standard had been retrospectively applied.

- (c) **Business Combination** - On October 31, 2003, the Business Accounting Council (the "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" (revised on November 15, 2007). 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.

On November 12, 2009, the Group acquired all of the outstanding shares of Orangina Schweppes Holdings S.à.r.l. ("OSH") and accounted for it by the purchase method of accounting. The excess of the cost of the acquisition over the fair value of the net assets of OSH is systematically being amortized over 20 years. The Group also acquired seven other companies, and all of them are accounted for by the purchase method.

- (d) **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 equivalents include cash on hand, deposits in banks (including time deposits). The Group considers all time deposits with an original maturity of six months or less to be cash equivalents. Generally, such time deposits can be withdrawn at any time without penalty or diminution of the principal amount.

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

Non-marketable 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 to income.

- (g) **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.
- (h) **Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is mainly computed by the straight-line method. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 17 years for machinery, equipment and others. 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.

Effective for the year ended December 31, 2009, the Company and its consolidated domestic subsidiaries changed the estimated economic useful lives for certain property, plant and equipment in accordance with the Japanese revised corporate tax code. The effect of this change was not material.

- (i) **Intangible Assets** - Intangible assets are amortized primarily by the straight-line method. Purchased software for internal use and software development costs are amortized based on the straight-line method over an estimated useful life of 5 years.
- (j) **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 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.
- (k) **Employee Retirement and Pension Plans** - Under the terms of retirement plans of the Company and its domestic consolidated subsidiaries, substantially all employees are entitled to lump-sum payments at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, basic salary at the time of retirement and cause of retirement. The Group accounts for the liability for retirement benefit based on projected benefit obligations and plan assets at the balance sheet date.

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

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

- (l) **Retirement Allowances for Directors and Corporate Auditors** - Upon retirement, directors and corporate auditors of the Company's domestic subsidiaries and directors of certain foreign subsidiaries are also qualified to receive lump-sum payments based on the companies' policies.

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at the balance sheet date.

- (m) **Research and Development Costs** - Research and development costs are charged to expense as incurred.

- (n) **Consumption Taxes** - Consumption taxes are excluded from the revenue and expense accounts which are subject to such taxes.

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

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in 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 be accounted for as operating lease transactions with "as if capitalized" information disclosed in the notes to the lessee's financial statements.

Also, under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information is disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee should be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee should be recognized as investments in lease.

The Group applied the revised accounting standard effective at the beginning of this fiscal year. The Group 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. The effect of this change was not material.

- (p) **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 laws to the temporary differences.
- (q) **Foreign Currency Transactions** - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at 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.

- (r) **Foreign Currency Financial Statements** - The balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at 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 were shown as "Foreign currency translation adjustments" in a separate component of equity.

- (s) **Derivatives and Hedge Activities** - The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange, interest rates, and commodity prices. These derivative financial instruments are utilized by the Group to reduce foreign currency exchange, interest rate and commodity price volatility risks. 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: a) 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 b) 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 employed to hedge foreign exchange exposures for import purchases are measured at the fair value and the unrealized gains/losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at the fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

Interest rate swaps, except for certain swaps described below, which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as deferred gain (loss) under hedge accounting in a separate component of equity. Those 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 are recognized and included in interest expense or income.

The commodity forward contracts which qualified for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as deferred gain (loss) under hedge accounting in a separate component of equity.

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

Diluted net income per share reflects the potential dilution that could occur if stock acquisition rights were exercised.

Cash dividends per share presented in the accompanying consolidated statement of income is dividends applicable to the respective year including dividends to be paid after the end of the year. Cash dividends presented in the accompanying consolidated statement of changes in equity was approved at the former Suntory Limited's shareholders meeting held on March 31, 2009 as an appropriation of retained earnings of the company.

(u) ***New Accounting Pronouncements***

Business Combinations - On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations". Major accounting changes under this accounting standard are as follows;

- (1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as an uniting-of-interests. The revised standard requires accounting for such business combinations by the purchase method and the pooling of interests method of accounting is no longer allowed.
- (2) The current accounting standard accounts for the research and development costs to be charged to expense as incurred. Under the revised standard, an in-process research and development costs acquired in a business combination are capitalized as an intangible asset.
- (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010, with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of Accounting Policies Applied to Foreign Affiliated Companies for the Equity Method - The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows a company to apply the equity method for the financial statements of its foreign affiliates which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments". The new standard requires adjustments to be made to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States 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 the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010, with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations - On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations", and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset, and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement, and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

This standard is effective for fiscal years beginning on or after April 1, 2010, with early adoption permitted for fiscal years beginning on or before March 31, 2010.

3. BUSINESS COMBINATION

(a) *Common Control Transaction*

Establishment of the Company through Stock Transfer

The Company was established on February 16, 2009 as a pure holding company through a method of stock transfer in which all the shares of the former Suntory Limited (now, Suntory Liquors Limited), which engaged in the production and sales of foods and alcoholic beverages, were transferred to the Company. The transaction is based on a provision under the Companies Act, Article 772, Paragraph 1 and was undertaken as part of the Group's reorganization. The Group aims to become a "General Global Alcoholic Beverage and Foods Company" by the reorganization, and for the further continuation of growth and maximization of the corporate value of the entire group. The Group has established a new group management system by dividing group management from business operations. The stock transfer was accounted for as a transaction between entities under common control in accordance with the BAC Statement of Opinion "Accounting for Business Combinations" (issued on October 31, 2003) and ASBJ Guidance No. 10, "Accounting Standard for Business Divestitures" (revised on November 15, 2007).

(b) *Purchase Method of Accounting*

On November 12, 2009, the Company acquired all of the outstanding shares of Orangina Schweppes Holdings S.à.r.l. for total cash consideration, including expenses, of ¥222,047 million (\$2,410,933 thousand). Accordingly, the Company acquired 100% of OSH's voting rights. OSH manufactures and sells soft drinks. The purpose of the acquisition is to expand the food business in Europe by making OSH a 100% subsidiary of the Company.

The Company accounted for this business combination by the purchase method of accounting. Goodwill, resulting primarily from expectations of future profits from business operations, was recorded in connection with the acquisition totaled ¥102,209 million (\$1,109,766 thousand), and will be systematically amortized over 20 years. The deemed acquisition date is December 31, 2009, and OSH's income and cash flows are not included in the Company's consolidated financial statements for the year ended December 31, 2009.

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date are as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Current assets	¥ 34,834	\$ 378,215
Non-current assets	<u>266,182</u>	<u>2,890,143</u>
Total assets acquired	<u>¥301,016</u>	<u>\$ 3,268,358</u>
Current liabilities	¥ 50,233	\$ 545,418
Non-current liabilities	<u>130,896</u>	<u>1,421,241</u>
Total liabilities assumed	<u>¥181,129</u>	<u>\$ 1,966,659</u>

The effect to the Group's sales and operating income for the year ended December 31, 2009, if the business combination had been completed at the beginning of the year, would be as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Sales	¥138,000	\$ 1,498,371
Operating income	11,300	122,693

The pro forma information was calculated based on OSH's sales and operating income for the year ended December 31, 2009. The amortization of goodwill was included in the calculation of operating income as if the acquisition had been completed at the beginning of the current fiscal year. Note that the pro forma information shown above was unaudited.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2009 consisted of the following:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Cash and bank deposits	¥142,725	\$ 1,549,674
Deposits with original maturity of over six months	<u>(30,069)</u>	<u>(326,482)</u>
Cash and cash equivalents	<u>¥112,656</u>	<u>\$ 1,223,192</u>

Reconciliation from Assets Acquired and Liabilities Assumed to Cash Flows used in Acquisitions

During the year ended December 31, 2009, the Group acquired all of the outstanding shares of OSH and seven other companies. The assets, liabilities and minority interests related to these acquisitions and reconciliation between the acquisition cost and net cash used for the acquisitions were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 42,932	\$ 466,145
Non-current assets	345,961	3,756,363
Goodwill	122,853	1,333,909
Current liabilities	(57,846)	(628,078)
Non-current liabilities	(132,132)	(1,434,658)
Minority interests	(38)	(413)
Total acquisition costs	<u>321,730</u>	<u>3,493,268</u>
Cash and cash equivalents of the acquired companies	(19,391)	(210,543)
Acquired companies' outstanding shares held by the Group before the acquisitions	<u>(35)</u>	<u>(380)</u>
Net cash used in the acquisitions	<u>¥ 302,304</u>	<u>\$ 3,282,345</u>

5. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of December 31, 2009 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars		
	Carrying Amounts	Market Value	Unrealized Gain (Loss)	Carrying Amounts	Market Value	Unrealized Gain (Loss)
Held-to-maturity:						
Carrying amounts exceed their acquisition cost:						
Government bonds	¥ 10	¥ 10	¥ 0	\$ 108	\$ 108	\$ 0
Corporate bonds	382	386	4	4,148	4,191	43
Subtotal	<u>392</u>	<u>396</u>	<u>4</u>	<u>4,256</u>	<u>4,299</u>	<u>43</u>
Acquisition costs exceed their carrying amounts:						
Corporate bonds	191	187	(4)	2,074	2,031	(43)
Subtotal	<u>191</u>	<u>187</u>	<u>(4)</u>	<u>2,074</u>	<u>2,031</u>	<u>(43)</u>
Total	<u>¥583</u>	<u>¥583</u>	<u>¥ 0</u>	<u>\$6,330</u>	<u>\$6,330</u>	<u>\$ 0</u>
	Millions of Yen			Thousands of U.S. Dollars		
	Acquisition Cost	Carrying Amounts	Unrealized Gain (Loss)	Acquisition Cost	Carrying Amounts	Unrealized Gain (Loss)
Available-for-sale securities:						
Carrying amounts exceed their acquisition cost:						
Equity securities	¥23,983	¥43,877	¥19,894	\$ 260,402	\$ 476,406	\$ 216,004
Acquisition costs exceed their carrying amounts:						
Equity securities	5,878	4,380	(1,498)	63,822	47,557	(16,265)
Total	<u>¥29,861</u>	<u>¥48,257</u>	<u>¥18,396</u>	<u>\$324,224</u>	<u>\$ 523,963</u>	<u>\$ 199,739</u>

Sales of securities classified as available-for-sale securities for the year ended December 31, 2009 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Amount sold	¥832	\$9,034
Total gain on sale	11	119
Total loss on sale	4	43

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of December 31, 2009 were as follows:

	<u>Carrying Amounts</u>	
	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Available-for-sale:		
Equity securities	¥14,405	\$ 156,406
Debt securities	25	271
Investments in limited partnerships	<u>400</u>	<u>4,343</u>
Total	<u>¥14,830</u>	<u>\$ 161,020</u>

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at December 31, 2009 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>	
	<u>Due in One Year or Less</u>	<u>Due after One Year through Five Years</u>	<u>Due in One Year or Less</u>	<u>Due after One Year through Five Years</u>
Government bonds	¥ -	¥10	\$ -	\$ 109
Corporate bonds	573	-	6,221	-
Others	<u>8</u>	<u>10</u>	<u>87</u>	<u>109</u>
Total	<u>¥581</u>	<u>¥20</u>	<u>\$6,308</u>	<u>\$ 218</u>

6. INVENTORIES

Inventories at December 31, 2009 consisted of the following:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Finished products	¥ 56,140	\$ 609,555
Semi-finished products	73,065	793,322
Work in process	10,861	117,926
Raw materials and supplies	<u>21,676</u>	<u>235,353</u>
Total	<u>¥161,742</u>	<u>\$ 1,756,156</u>

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment for the year ended December 31, 2009 and, as a result, recognized an impairment loss of ¥5,100 million (\$55,375 thousand) as other expense for certain rental property, idle assets and business property, and the carrying amounts of the relevant assets were written down to recoverable amounts. The details are as follows:

<u>Location</u>	<u>Use</u>	<u>Type</u>
Inagi City in Tokyo, Other 10 locations	Idle asset	Machinery, equipment and others
Inagi City in Tokyo, Other 1 location	Business property (Foods segment)	Buildings and structures, etc.
Higashiosaka City in Osaka, Other 60 locations	Business property (Other segment)	Assets held under lease, etc.
Tenri City in Nara, Other 1 location	Rental property	Land, etc.

The recoverable amounts of these assets or asset groups were the higher of the discounted cash flows from the continued use and eventual disposition of the assets or the net selling price at disposition. The discount rates used for computation of present values of future cash flows ranged from 4 to 5%.

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at December 31, 2009 consisted of the following:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Short-term loans, principally from banks, weighted average rate of 1.25%	¥88,162	\$ 957,242
Commercial paper, weighted average rate of 0.18%	<u>2,500</u>	<u>27,145</u>
Total	<u>¥90,662</u>	<u>\$ 984,387</u>

Long-term debt at December 31, 2009 consisted of the following:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Publicly-offered corporate bonds, due 2010 through 2014, rates ranging from 0.79% to 2.40%	¥149,000	\$ 1,617,807
Euro yen bonds, due 2010 through 2023, rates ranging from 0.00% to 3.01%	61,561	668,415
Euro bonds, due 2014, rate of 1.32%	1,980	21,498
Euro US dollar bonds, due 2014, rates ranging from 0.68% to 0.74%	5,361	58,208
Unsecured corporate bonds, due 2010 through 2011, rates ranging from 0.81% to 1.27%	128	1,390
Loans from banks and other institutions, due through 2021, rates ranging from 0.00% to 4.85%, with:		
Collateralized	13,500	146,580
Unsecured	326,375	3,543,702
Obligations under finance leases	9,878	107,253
Total	<u>567,783</u>	<u>6,164,853</u>
Less current portion	<u>54,191</u>	<u>588,393</u>
Long-term debt, less current portion	<u>¥513,592</u>	<u>\$ 5,576,460</u>

Annual maturities of long-term debt excluding finance leases at December 31, 2009 were as follows:

<u>Year Ending December 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2010	¥ 53,005	\$ 575,516
2011	65,717	713,540
2012	94,747	1,028,740
2013	49,448	536,894
2014 and thereafter	<u>294,988</u>	<u>3,202,910</u>
Total	<u>¥557,905</u>	<u>\$ 6,057,600</u>

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥267 million (\$2,900 thousand) and the above collateralized long-term debt of ¥13,500 million (\$146,580 thousand) at December 31, 2009 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Property, plant and equipment - net of accumulated depreciation	¥20,426	\$ 221,781
Others	<u>2,708</u>	<u>29,402</u>
Total	<u>¥23,134</u>	<u>\$ 251,183</u>

9. RETIREMENT AND PENSION PLANS

The liability for employee retirement benefits at December 31, 2009 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥(101,172)	\$(1,098,502)
Fair value of plan assets	86,968	944,278
Unfunded retirement benefit obligation	(14,204)	(154,224)
Unrecognized actuarial loss	28,205	306,243
Unrecognized prior service cost	(5,892)	(63,974)
Prepaid pension cost	(18,301)	(198,707)
Net liability	<u>¥ (10,192)</u>	<u>\$ (110,662)</u>

The components of net periodic benefit costs for the year ended December 31, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 4,104	\$ 44,560
Interest cost	2,308	25,060
Expected return on plan assets	(1,974)	(21,433)
Amortization of actuarial loss	2,248	24,408
Amortization of prior service cost	(554)	(6,015)
Net periodic benefit costs	6,132	66,580
Loss on transfer to a defined contribution pension plan	2,091	22,703
Total	<u>¥ 8,223</u>	<u>\$ 89,283</u>

Assumptions used for the year ended December 31, 2009 were set forth as follows:

Discount rate	Mainly 2.0%~2.5%
Expected return on assets	Mainly 0%~3.0%
Recognition period of prior service cost	Mainly 15 years
Recognition period of actuarial loss	Mainly 15 years

10. EQUITY

Since May 1, 2006, Japanese companies have been 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:

(a) 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 Board of Directors, (2) having independent auditors, (3) having Board of Corporate Auditors, 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.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends 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 total aggregate amount of legal reserve and additional paid-in capital equals 25% of 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.

(c) 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 specific formula. Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now 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.

11. STOCK OPTION PLANS

The stock options outstanding as of December 31, 2009 were as follows:

	2000 Plan	2001 Plan	2002 Plan	2004 Plan
Grantees	2 directors and 80 employees of a subsidiary	2 directors and 81 employees of a subsidiary	2 directors and 73 employees of a subsidiary	2 directors and 5 employees of a subsidiary
Type of stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	990,000	1,450,000	1,108,000	569,000
Exercise price (Singapore dollars)	2.54	2.54	1.72	3.04
Exercisable period	March 23, 2002 - March 22, 2010	March 19, 2003 - March 18, 2011	March 28, 2004 - March 27, 2012	March 18, 2006 - March 17, 2014

Non-vested (number of shares):

Outstanding at the beginning of the year	-	-	-	-
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Vested during the year	-	-	-	-
Outstanding at the end of the year	-	-	-	-

Vested (number of shares):

Outstanding at the beginning of the year	178,000	310,000	52,000	308,000
Vested during the year	-	-	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	(4,000)	-	-	-
Outstanding at the end of the year	174,000	310,000	52,000	308,000
Weighted-average market price (Singapore dollars)	-	-	-	-

	2006 Plan	2007 Plan	2008 Plan	2009 Plan
Grantees	3 directors and 14 employees of a subsidiary	3 directors and 19 employees of a subsidiary	3 directors and 21 employees of a subsidiary	3 directors and 21 employees of a subsidiary
Type of stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	543,000	639,000	766,000	916,000
Exercise price (Singapore dollars)	3.20	3.45	3.83	2.52
Exercisable period	December 16, 2007 - December 15, 2015	December 22, 2008 - December 21, 2016	March 17, 2010 - March 16, 2018	March 17, 2011 - March 16, 2019

Non-vested (number of shares):

Outstanding at the beginning of the year	-	626,000	752,000	-
Granted during the year	-	-	-	916,000
Forfeited during the year	-	-	(88,000)	(22,000)
Vested during the year	-	(626,000)	-	-
Outstanding at the end of the year	-	-	664,000	894,000

Vested (number of shares):

Outstanding at the beginning of the year	372,000	-	-	-
Vested during the year	-	626,000	-	-
Exercised during the year	(3,000)	-	-	-
Forfeited during the year	(35,000)	(84,000)	-	-
Outstanding at the end of the year	334,000	542,000	-	-
Weighted-average market price (Singapore dollars)	2.37	-	-	-

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the year ended December 31, 2009.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2009 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Deferred tax assets:		
Tax loss carryforwards	¥ 14,969	\$ 162,530
Accrued expenses	8,199	89,023
Temporary differences in investments in subsidiaries	5,737	62,291
Impairment loss	5,043	54,756
Pension liabilities	3,379	36,688
Unrealized profit	3,676	39,913
Accrued bonuses	3,085	33,496
Other	<u>13,051</u>	<u>141,705</u>
Total gross deferred tax assets	57,139	620,402
Valuation allowance	<u>(15,952)</u>	<u>(173,203)</u>
Net deferred tax assets	41,187	447,199
Deferred tax liabilities:		
Intangible assets	(16,190)	(175,787)
Net unrealized holding gains on securities	(7,003)	(76,037)
Prepaid pension cost	(7,199)	(78,165)
Property, plant and equipment	(5,739)	(62,313)
Reserve for reduction entry of fixed assets	(4,381)	(47,568)
Other	<u>(11,974)</u>	<u>(130,011)</u>
Total gross deferred tax liabilities	<u>(52,486)</u>	<u>(569,881)</u>
Net deferred tax liabilities	<u>¥(11,299)</u>	<u>\$(122,682)</u>

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended December 31, 2009 was as follows:

Normal effective statutory tax rate	40.7%
Expenses not deductible for income tax purposes	3.1
Other	<u>(0.3)</u>
Actual effective tax rate	<u>43.5%</u>

13 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to expense were ¥13,690 million (\$148,643 thousand) for the year ended December 31, 2009.

14. LEASES

(a) 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 year ended December 31, 2009 amounted to ¥13,191 million (\$143,225 thousand).

Pro Forma Information for the Year Ended December 31, 2009

As discussed in Note 2(o), the Group accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and other information, on a "as if capitalized" basis for the year ended December 31, 2009 was as follows:

	Millions of Yen		
	Machinery and Equipment	Other	Total
Acquisition cost	¥40,070	¥55,857	¥95,927
Accumulated depreciation	11,352	27,504	38,856
Accumulated impairment loss	26	2,213	2,239
Net leased property	<u>¥28,692</u>	<u>¥26,140</u>	<u>¥54,832</u>

	Thousands of U.S. Dollars		
	Machinery and Equipment	Other	Total
Acquisition cost	\$ 435,071	\$ 606,482	\$ 1,041,553
Accumulated depreciation	123,258	298,631	421,889
Accumulated impairment loss	282	24,029	24,311
Net leased property	<u>\$ 311,531</u>	<u>\$ 283,822</u>	<u>\$ 595,353</u>

Obligations under finance leases at December 31, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥13,929	\$ 151,238
Due after one year	<u>44,885</u>	<u>487,351</u>
Total	<u>¥58,814</u>	<u>\$ 638,589</u>

Allowance for impairment loss on leased property of ¥2,172 million (\$23,583 thousand) as of December 31, 2009 is not included in obligations under finance leases.

Depreciation expense, interest expense and other information for finance leases for the year ended December 31, 2009 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Depreciation expense	¥11,493	\$ 124,788
Interest expense	1,687	18,317
Reversal of allowance for impairment loss on leased property	67	727
Impairment loss	2,171	23,572

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

The minimum rental commitments under noncancelable operating leases at December 31, 2009 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Due within one year	¥ 8,451	\$ 91,759
Due after one year	<u>44,224</u>	<u>480,174</u>
Total	<u>¥52,675</u>	<u>\$ 571,933</u>

(b) As Lessor

The Group subleases certain buildings and structures.

Total lease revenue under finance leases for the year ended December 31, 2009 amounted to ¥6 million (\$65 thousand).

Pro Forma Information for the Year Ended December 31, 2009

As discussed in Note 2(o), the Company accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense on a "as if capitalized" basis for the year ended December 31, 2009 was as follows:

	<u>Buildings and Structures</u>	
	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Acquisition cost	¥130	\$ 1,412
Accumulated depreciation	<u>100</u>	<u>1,086</u>
Net leased property	<u>¥ 30</u>	<u>\$ 326</u>

The lessor's receivables under finance leases at December 31, 2009 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Due within one year	¥ 6	\$ 65
Due after one year	<u>20</u>	<u>217</u>
Total	<u>¥26</u>	<u>\$ 282</u>

The imputed interest income portion is included in the above lessor's receivables under finance leases, since the total of lessor's receivables under finance leases and estimated residual value accounted for a small proportion of operating receivables at the balance sheet date.

Depreciation expense under finance leases for the year ended December 31, 2009 was as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Depreciation expense	¥3	\$33

The minimum lease receivables under noncancelable operating leases at December 31, 2009 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Due within one year	¥ 123	\$ 1,336
Due after one year	<u>945</u>	<u>10,260</u>
Total	<u>¥1,068</u>	<u>\$ 11,596</u>

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 control environment policies, which include procedures for risk assessment for the approval, reporting and monitoring of transactions involving derivative financial instruments. The policy states that the Group 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 and commodity forward contracts. The Group is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency and interest and commodity price; however, the Group does not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

The foreign currency forward exchange contracts outstanding at December 31, 2009, were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Foreign currency forward exchange contracts to:						
Buy:						
USD	¥1,807	¥(183)	¥(183)	\$19,620	\$(1,987)	\$(1,987)
EUR	3,971	(12)	(12)	43,116	(130)	(130)
GBP	481	4	4	5,223	43	43
SGD	466	34	34	5,060	369	369
Other	256	6	6	2,780	65	65
Sell:						
NZD	1,944	(65)	(65)	21,107	(706)	(706)
THB	402	2	2	4,365	22	22
Other	198	(2)	(2)	2,150	(22)	(22)
Foreign currency options:						
Call options, purchased:						
USD	235	-	-	2,552	-	-
Premium	3	0	(3)	33	2	(31)
EUR	810	-	-	8,795	-	-
Premium	15	0	(15)	163	4	(159)
GBP	290	-	-	3,149	-	-
Premium	7	4	(3)	76	47	(29)

Derivative financial instruments which qualify for hedge accounting for the year ended December 31, 2009 are excluded from the disclosure of the above market value information.

16. CONTINGENT LIABILITIES

The Group was contingently liable for an in-substance defeasance on bonds in the amount of ¥10,500 million (\$114,007 thousand) at December 31, 2009.

The Group was contingently liable for factoring of receivables with recourse in the amount of ¥38,827 million (\$421,574 thousand) at December 31, 2009.

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended December 31, 2009 is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted Average Shares	EPS	
Basic EPS				
Net income available to common shareholders	<u>¥32,666</u>	<u>687,136</u>	<u>¥47.54</u>	<u>\$0.52</u>
Effect of Dilutive Securities				
Stock acquisition rights	<u>3</u>	<u>-</u>		
Diluted EPS				
Net income for computation	<u>¥32,663</u>	<u>687,136</u>	<u>¥47.54</u>	<u>\$0.52</u>

18. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings as of March 30, 2010 was approved at the Company's shareholders meeting held on March 29, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.00 (\$0.08) per share	¥4,810	\$52,226

19. SEGMENT INFORMATION

The Group has defined that they operate in the following three industry segments:

- Foods industry segment consists of beverage, health beverage, health food, processed food and other.
- Liquor industry segment consists of beer, chu-hai and cocktail, whisky and spirits, shochu, wine and other.
- Other segment consists of restaurants, fitness club, flower seeding and other.

Information about industry segments, geographic segments and sales to foreign customers of the Group for the year ended December 31, 2009, was as follows:

(a) Industry Segments

(1) Sales and operating income

	Millions of Yen				Consolidated
	Foods	Liquor	Other	Eliminations/ Corporate	
Sales to customers	¥861,065	¥557,703	¥131,952	¥ -	¥1,550,720
Intersegment sales	427	234	42,406	(43,067)	-
Total sales	861,492	557,937	174,358	(43,067)	1,550,720
Operating expenses	777,272	537,865	170,087	(18,048)	1,467,176
Operating income	¥ 84,220	¥ 20,072	¥ 4,271	¥(25,019)	¥ 83,544

	Thousands of U.S. Dollars				Consolidated
	Foods	Liquor	Other	Eliminations/ Corporate	
Sales to customers	\$ 9,349,240	\$ 6,055,407	\$ 1,432,704	\$ -	\$16,837,351
Intersegment sales	4,636	2,541	460,434	(467,611)	-
Total sales	9,353,876	6,057,948	1,893,138	(467,611)	16,837,351
Operating expenses	8,439,435	5,840,012	1,846,764	(195,961)	15,930,250
Operating income	\$ 914,441	\$ 217,936	\$ 46,374	\$(271,650)	\$ 907,101

(2) Total assets, depreciation, impairment loss and capital expenditures

	Millions of Yen				Consolidated
	Foods	Liquor	Other	Eliminations/ Corporate	
Total assets	¥924,036	¥421,126	¥101,269	¥181,849	¥1,628,280
Depreciation	25,404	8,730	3,912	1,577	39,623
Impairment loss	610	50	4,440	-	5,100
Capital expenditures	46,026	10,340	8,098	757	65,221

	Thousands of U.S. Dollars				
	Foods	Liquor	Other	Eliminations/ Corporate	Consolidated
Total assets	\$10,032,964	\$4,572,486	\$1,099,555	\$1,974,474	\$17,679,479
Depreciation	275,830	94,788	42,476	17,123	430,217
Impairment loss	6,623	543	48,209	-	55,375
Capital expenditures	499,739	112,269	87,927	8,219	708,154

Corporate general and administrative expenses that are not allocated to specific segments are included in "Eliminations/Corporate". Corporate assets, not allocated to specific segments are included in "Eliminations/Corporate", consist primarily of cash and deposits, investments in securities and the headquarter's assets.

(b) Geographic Segments

	Millions of Yen					
	Japan	Asia Oceania	Americas	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	¥1,337,184	¥131,875	¥70,270	¥ 11,391	¥ -	¥1,550,720
Interarea transfer	1,285	1,170	331	2,426	(5,212)	-
Total sales	1,338,469	133,045	70,601	13,817	(5,212)	1,550,720
Operating expenses	1,246,074	125,064	63,636	12,569	19,833	1,467,176
Operating income	¥ 92,395	¥ 7,981	¥ 6,965	¥ 1,248	¥ (25,045)	¥ 83,544
Total assets	¥ 756,035	¥173,926	¥64,068	¥445,573	¥188,678	¥1,628,280

	Thousands of U.S. Dollars					
	Japan	Asia Oceania	Americas	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	\$14,518,827	\$1,431,868	\$762,975	\$ 123,681	\$ -	\$16,837,351
Interarea transfer	13,952	12,704	3,594	26,341	(56,591)	-
Total sales	14,532,779	1,444,572	766,569	150,022	(56,591)	16,837,351
Operating expenses	13,529,576	1,357,915	690,945	136,472	215,342	15,930,250
Operating income	\$ 1,003,203	\$ 86,657	\$ 75,624	\$ 13,550	\$ (271,933)	\$ 907,101
Total assets	\$ 8,208,849	\$1,888,447	\$695,635	\$4,837,927	\$2,048,621	\$17,679,479

Corporate general and administrative expenses that are not allocated to specific segments are included in "Eliminations/Corporate". Corporate assets, not allocated to specific segments are included in "Eliminations/Corporate", consist primarily of cash and deposits, investments in securities and the headquarter's assets.

(c) Sales to Foreign Customers

	Millions of Yen			
	Asia Oceania	Americas	Europe	Total
Overseas sales	¥132,010	¥70,273	¥11,438	¥213,721

	Thousands of U.S. Dollars			
	Asia Oceania	Americas	Europe	Total
Overseas sales	\$1,433,333	\$763,008	\$124,191	\$2,320,532
