Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended December 31, 2014, and Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Suntory Holdings Limited:

We have audited the accompanying consolidated balance sheet of Suntory Holdings Limited and 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 Holdings Limited and 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. 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

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Balance Sheet
December 31, 2014

ASSETS	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 199,308	¥ 418,630	$ 1,653,322
Short-term investments (Note 5)	26	26	216
Notes and accounts receivable (Note 15):			
Trade	376,397	287,241	3,122,331
Other	56,582	25,660	469,365
Allowance for doubtful accounts	(2,283)	(876)	(18,938)
Inventories (Note 6)	452,875	224,135	3,756,740
Deferred tax assets (Note 10)	40,390	22,876	335,048
Other current assets	42,960	30,143	356,366
Total current assets	1,166,255	1,007,835	9,674,450
PROPERTY, PLANT, AND EQUIPMENT:			
Land (Note 7)	107,363	94,761	890,610
Buildings and structures (Note 7)	391,376	362,180	3,246,586
Machinery, equipment and other (Note 7)	875,296	763,999	7,260,854
Construction in progress	39,322	15,784	326,188
Lease assets (Notes 7 and 14)	12,355	18,657	102,489
Total	1,425,712	1,255,381	11,826,727
Accumulated depreciation	(749,106)	(728,112)	(6,214,068)
Net property, plant, and equipment	676,606	527,269	5,612,659
INVESTMENTS AND OTHER ASSETS:			
Investments in unconsolidated subsidiaries and associates (Note 15)	48,276	41,299	400,465
Investment securities (Notes 5 and 15)	74,121	75,003	614,857
Long-term receivables	2,123	2,160	17,611
Long-term guarantee deposit	20,131	30,040	166,993
Goodwill (Note 13)	1,118,704	409,293	9,280,000
Trademarks	1,323,907	184,943	10,982,223
Deferred tax assets (Note 10)	9,477	6,924	78,615
Other	98,827	91,591	819,800
Allowance for doubtful accounts	(1,889)	(2,286)	(15,670)
Total investments and other assets	2,693,677	838,967	22,344,894
TOTAL	¥ 4,536,538	¥ 2,374,071	$ 37,632,003

LIABILITIES AND EQUITY	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 15)	¥ 50,019	¥ 43,500	$ 414,923
Current portion of long-term debt (Notes 7, 14, 15, and 16)	50,625	166,936	419,950
Notes and accounts payable (Note 15):			
Trade	209,015	159,055	1,733,845
Unconsolidated subsidiaries and associates	1,642	1,335	13,621
Other	182,244	162,790	1,511,771
Liquor tax and consumption taxes payable (Note 15)	73,798	57,204	612,178
Accrued income taxes (Notes 10 and 15)	22,298	34,393	184,969
Accrued expenses (Note 15)	112,991	73,905	937,296
Other current liabilities	77,046	60,912	639,120
Total current liabilities	779,678	760,030	6,467,673
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 14, 15, and 16)	1,953,374	397,619	16,203,849
Liability for employees' retirement benefits (Note 8)	36,372	11,001	301,717
Retirement allowances for directors and Audit and Supervisory Board members	684	298	5,674
Long-term deposits payable	38,497	38,295	319,344
Deferred tax liabilities (Note 10)	453,924	80,104	3,765,442
Other	83,253	29,998	690,610
Total long-term liabilities	2,566,104	557,315	21,286,636
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 16)			
EQUITY (Notes 9 and 18):			
Common stock, authorized - 1,305,600,000 shares, and issued - 687,136,196 shares in 2014 and 2013	70,000	70,000	580,672
Capital surplus	(20,739)	(21,109)	(172,037)
Retained earnings	692,850	666,067	5,747,408
Treasury stock - at cost: 3,830,748 shares in 2014 and 4,900,748 shares in 2013	(2,605)	(3,332)	(21,609)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	20,322	20,611	168,577
Deferred gain on derivatives under hedge accounting	1,240	1,374	10,286
Foreign currency translation adjustments	132,380	34,400	1,098,134
Defined retirement benefit plans	(11,425)	-	(94,774)
Total	882,023	768,011	7,316,657
Minority interests	308,733	288,715	2,561,037
Total equity	1,190,756	1,056,726	9,877,694
TOTAL	¥ 4,536,538	¥ 2,374,071	$ 37,632,003

See notes to consolidated financial statements.

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended December 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET SALES	¥ 2,455,250	¥ 2,040,204	$ 20,367,068
COST OF SALES (Note 11)	1,244,470	1,015,376	10,323,269
Gross profit	1,210,780	1,024,828	10,043,799
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 11, 12, 13, and 14)	1,046,027	898,269	8,677,121
Operating income	164,753	126,559	1,366,678
OTHER INCOME (EXPENSES):			
Interest and dividend income	6,821	3,554	56,582
Interest expense	(19,179)	(8,321)	(159,096)
Dilution gain from changes in equity interest	-	131,384	-
Gain on sales of investments in subsidiaries and associates	12,519	45,490	103,849
Acquisition-related costs (Note 3)	(8,941)	-	(74,168)
Restructuring charges	(16,157)	(1,607)	(134,027)
Other, net (Note 13)	(13,585)	(11,233)	(112,691)
Other (expenses) income, net	(38,522)	159,267	(319,551)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	126,231	285,826	1,047,127
INCOME TAXES (Note 10):			
Current	60,365	60,488	500,747
Deferred	3,565	12,951	29,574
Total income taxes	63,930	73,439	530,321
NET INCOME BEFORE MINORITY INTERESTS	62,301	212,387	516,806
MINORITY INTERESTS IN NET INCOME	23,937	16,812	198,565
NET INCOME	¥ 38,364	¥ 195,575	$ 318,241

	Yen		U.S. Dollars (Note 1)
	2014	2013	2014
AMOUNTS PER SHARE (Note 2(v)):			
Net income - basic	¥56.20	¥286.67	$0.47
Cash dividends applicable to the year	12.00	17.00	0.10

See notes to consolidated financial statements.

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended December 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	¥ 62,301	¥ 212,387	$ 516,806
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized (loss) gain on available-for-sale securities	(161)	10,656	(1,336)
Deferred gain (loss) on derivatives under hedge accounting	4	(560)	33
Foreign currency translation adjustments	116,704	89,132	968,096
Share of other comprehensive (loss) income in associates	(427)	1,522	(3,541)
Total other comprehensive income	116,120	100,750	963,252
COMPREHENSIVE INCOME	¥ 178,421	¥ 313,137	$ 1,480,058
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥135,919	¥268,058	$1,127,491
Minority interests	42,502	45,079	352,567

See notes to consolidated financial statements.

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended December 31, 2014

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income (Loss)						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE AT JANUARY 1, 2013	687,136	¥ 70,000	¥ (20,583)	¥ 477,810	¥ (3,332)	¥ 10,350	¥ 1,902	¥ (28,350)	¥ -	¥ 507,797	¥ 25,901	¥ 533,698
Net income	-	-	-	195,575	-	-	-	-	-	195,575	-	195,575
Cash dividends, ¥11.00 per share (Note 2(v))	-	-	-	(7,505)	-	-	-	-	-	(7,505)	-	(7,505)
Changes in consolidation scope	-	-	-	308	-	-	-	-	-	308	-	308
Put option granted to minority shareholders	-	-	-	(121)	-	-	-	-	-	(121)	-	(121)
Changes in foreign subsidiaries interest in their subsidiaries (Note 9)	-	-	(526)	-	-	-	-	-	-	(526)	-	(526)
Net change in the year	-	-	-	-	-	10,261	(528)	62,750	-	72,483	262,814	335,297
BALANCE AT DECEMBER 31, 2013	687,136	70,000	(21,109)	666,067	(3,332)	20,611	1,374	34,400	-	768,011	288,715	1,056,726
Net income	-	-	-	38,364	-	-	-	-	-	38,364	-	38,364
Cash dividends, ¥17.00 per share (Note 2(v))	-	-	-	(11,598)	-	-	-	-	-	(11,598)	-	(11,598)
Disposal of treasury stock	-	-	370	-	727	-	-	-	-	1,097	-	1,097
Put option granted to minority shareholders	-	-	-	17	-	-	-	-	-	17	-	17
Net change in the year	-	-	-	-	-	(289)	(134)	97,980	(11,425)	86,132	20,018	106,150
BALANCE AT DECEMBER 31, 2014	687,136	¥ 70,000	¥ (20,739)	¥ 692,850	¥ (2,605)	¥ 20,322	¥ 1,240	¥ 132,380	¥ (11,425)	¥ 882,023	¥ 308,733	¥ 1,190,756

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income (Loss)						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE AT DECEMBER 31, 2013	$ 580,672	$ (175,106)	$ 5,525,235	$ (27,640)	$ 170,974	$ 11,398	$ 285,359	$ -	$ 6,370,892	$ 2,394,981	$ 8,765,873
Net income	-	-	318,241	-	-	-	-	-	318,241	-	318,241
Cash dividends, $0.14 per share (Note 2(v))	-	-	(96,209)	-	-	-	-	-	(96,209)	-	(96,209)
Disposal of treasury stock	-	3,069	-	6,031	-	-	-	-	9,100	-	9,100
Put option granted to minority shareholders	-	-	141	-	-	-	-	-	141	-	141
Net change in the year	-	-	-	-	(2,397)	(1,112)	812,775	(94,774)	714,492	166,056	880,548
BALANCE AT DECEMBER 31, 2014	$ 580,672	$ (172,037)	$ 5,747,408	$ (21,609)	$ 168,577	$ 10,286	$ 1,098,134	$ (94,774)	$ 7,316,657	$ 2,561,037	$ 9,877,694

See notes to consolidated financial statements.

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 126,231	¥ 285,826	$ 1,047,127
Adjustments for:			
Depreciation and amortization	81,764	63,403	678,258
Amortization of goodwill	53,789	24,093	446,197
Gain on sales of investments in subsidiaries and associates	(12,519)	(45,490)	(103,849)
Dilution gain from changes in equity interest	-	(131,384)	-
Loss on disposal of property, plant and equipment	4,361	4,537	36,176
Increase in notes and accounts receivable – trade	(41,611)	(11)	(345,176)
Decrease (increase) in inventories	216	(11,640)	1,791
Increase (decrease) in notes and accounts payable – trade	22,136	(3,473)	183,625
Increase in liquor tax and consumption tax payable	9,230	1,274	76,566
Income taxes paid	(92,935)	(41,471)	(770,925)
Other, net	7,024	20,839	58,265
Net cash provided by operating activities	157,686	166,503	1,308,055
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(105,125)	(90,012)	(872,045)
Proceeds from sales of property, plant, and equipment	6,552	3,027	54,350
Purchases of investment securities	(5,229)	(854)	(43,376)
Proceeds from sales of investment securities	3,390	176	28,121
Purchases of investments in subsidiaries	(1,491)	(481)	(12,368)
Proceeds from sales of investments in subsidiaries and associates	-	95,854	-
Purchase of investments in subsidiaries resulting in change in consolidation scope – net of cash acquired (Notes 3 and 4)	(1,388,964)	(13,914)	(11,521,891)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	16,785	-	139,237
Acquisition of business (Note 4)	-	(220,098)	-
Other, net	358	10,808	2,970
Net cash used in investing activities	(1,473,724)	(215,494)	(12,225,002)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term bank loans and commercial papers	5,057	(20,828)	41,949
Proceeds from long-term bank loans	1,107,425	45,935	9,186,437
Repayments of long-term bank loans	(60,834)	(36,395)	(504,637)
Proceeds from disposal of treasury stock	1,098	-	9,108
Proceeds from issuance of bonds	168,710	-	1,399,502
Redemption of bonds	(110,885)	(15,250)	(919,826)
Repayments of lease obligations	(3,042)	(3,103)	(25,234)
Cash dividends	(11,598)	(7,505)	(96,209)
Cash dividends to minority shareholders	(17,957)	(6,152)	(148,959)
Proceeds from issuance of common stocks to minority shareholders	-	275,466	-
Net cash provided by financing activities	1,077,974	232,168	8,942,131
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	18,742	7,342	155,471
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(219,322)	190,519	(1,819,345)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	418,630	228,111	3,472,667
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 199,308	¥ 418,630	$ 1,653,322

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
As of and for the Year Ended December 31, 2014

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 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 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 ¥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 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 Spirits Limited), a company founded in Osaka in 1899 as an unincorporated enterprise under the name of Torii Shoten, were transferred to the Company in connection with the reorganization of Suntory Group. The Company and its consolidated subsidiaries operate alcoholic and nonalcoholic beverage business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation - The consolidated financial statements as of December 31, 2014, include the accounts of the Company and its 273 (180 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 25 (22 in 2013) associates are accounted for by the equity method in 2014. Investment in one unconsolidated subsidiary in 2013 was also accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associates are stated at cost. Even if the consolidation or 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 excess of the acquisition cost over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over periods of five to 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 indefinite useful lives are not amortized and subject to impairment testing.

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 to 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 such 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 allowed 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 research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

(e) ***Cash Equivalents*** - 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 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.

(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 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 to income.

(h) ***Allowance for Doubtful Accounts*** - The allowance for doubtful accounts is stated at 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 by the straight-line method. The range of useful lives is principally from three to 50 years for buildings and structures and from two 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.

(j) ***Intangible Assets*** **-** Intangible assets are amortized primarily using the straight-line method except for acquired intangible assets with indefinite useful lives. 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 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) ***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.

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 over 15 years within the average remaining service period. Past service costs are amortized on a straight-line basis 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 the 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 ¥36,372 million ($301,717 thousand) and asset for employees' retirement benefits of ¥272 million ($2,256 thousand) were recorded as of December 31, 2014, and accumulated other comprehensive income and minority interests for the year ended December 31, 2014, decreased by ¥11,425 million ($94,774 thousand) and ¥751 million ($6,230 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 domestic subsidiaries and directors of certain foreign subsidiaries are also qualified to receive lump-sum payments based on the 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 consolidated 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, or the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(o) 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 in the consolidated 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 January 1, 2009. In addition, the Group continues to account for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

(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.

The Company has adopted the consolidated taxation system in Japan, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries since the fiscal year ended December 31, 2012.

(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 consolidated 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 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 consolidated 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" in accumulated other comprehensive income in a separate component of equity.

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

(u) ***Derivatives and Hedge Activities*** - The Group uses derivative financial instruments and payables denominated in foreign currencies to manage its exposures to fluctuations of receivables, payables and net investments in subsidiaries and associates 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, 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 and 3) for payables and derivatives used for hedging net investment in subsidiaries and associates, if the qualify for hedge accounting, unrealized foreign exchange gains/losses on payables and gains, or losses on derivatives, are deferred and included in the foreign currencies translation adjustments. 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, and the unrealized gains/losses are deferred under hedge accounting in a separate component of equity until the underlying transactions are completed.

Trade payables and deposits 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 and meet specific criteria.

Interest rate swaps, except for certain swaps described below, which qualify for hedge accounting are measured at market value at the consolidated 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 is recognized and included in interest expense or income.

Interest and currency rate 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.

The commodity swap contracts, which qualify for hedge accounting, are measured at market value at the consolidated 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.

(v) ***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.

Cash dividends per share presented in the accompanying consolidated statement of income represents 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 following revision of accounting standards, the new policy is applied retrospectively, unless the revised accounting standards include specific transitional provisions, in which case the 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

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

(2) Acquisition-related costs

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

(3) Provisional accounting treatment for business combinations

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 adjustments to provisional amounts recorded in a business combination are recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(4) *Presentation of the consolidated balance sheet*

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

(5) *Presentation of the consolidated statement of income*

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

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

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

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

3. BUSINESS COMBINATION

(1) Acquisition of Beam Inc.

On May 1, 2014, the Group acquired Beam Inc. ("Beam"), a company incorporated in Illinois, U.S.A. The acquisition was carried out by merging SUS Merger Sub Limited ("SUS"), a wholly owned subsidiary of the Company in the U.S. established for the purpose of the acquisition, with Beam (the "Merger"). Based on the Merger agreement entered into by the Company, SUS, and Beam, the Merger took the form of an absorption-type merger with Beam as a surviving company and SUS as an absorbed company, and Beam became a wholly owned subsidiary of the Company as a result of the Merger. Upon the Merger, all issued and outstanding common shares of Beam were converted into the right to receive \$83.5 in cash for each share without interest. Beam has changed its name to Beam Suntory Inc. ("Beam Suntory") at the date of the acquisition.

The Group aims to achieve global growth in the U.S. and various other countries around the world by selling strong brands of both companies, expanding distribution networks and deepening the exchange of technologies between the two companies.

The purchase price of the acquisition totaled ¥1,423,053 million (\$11,804,670 thousand), including direct acquisition-related costs of ¥3,513 million (\$29,141 thousand). In addition, the Group recorded ¥8,941 million (\$74,168 thousand) of acquisition-related costs as other expenses in the year ended December 31, 2014. The Group recorded goodwill of ¥657,429 million (\$5,453,579 thousand) and trademarks of ¥980,319 million (\$8,132,053 thousand). Goodwill is amortized over 20 years by the straight-line method starting from the acquisition date. A majority of trademarks are deemed to have indefinite useful lives and will not be amortized.

Assets acquired and liabilities assumed at the acquisition date were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 308,932	$ 2,562,688
Non-current assets	1,093,304	9,069,299
Current liabilities	77,568	643,451
Long-term liabilities	559,044	4,637,445

Pro Forma Information, Which Reflects the Impact of the Acquisition of Beam

If the acquisition had been completed on January 1, 2014, the beginning of the year ended December 31, 2014, net sales, operating income, income before income taxes and minority interests and net income would have increased by approximately ¥91,400 million ($758,192 thousand), approximately ¥4,800 million ($39,818 thousand), approximately ¥9,600 million ($79,635 thousand), and approximately ¥2,400 million ($19,909 thousand), respectively, for the accompanying statement of income for the year ended December 31, 2014, respectively. The pro forma information includes amortization of goodwill and other intangible assets as if the acquisition had been completed at the beginning of the year ended December 31, 2014. The pro forma information is neither audited nor reviewed.

(2) Absorption-Type Company Split Involving the Beer Business of Suntory Liquors Limited

On August 11, 2014, Suntory Liquors Limited (now, Suntory Spirits Limited), the Group's wholly owned subsidiary operating both beer and spirits businesses made a resolution at a meeting of the Board of Directors to split its beer and any other businesses not associated with the spirits business in the form of an absorption type-split. Suntory Beer Limited, a newly incorporated wholly owned subsidiary of the Group, made a resolution at a shareholder's meeting held on the same day to succeed the business. The split was taken as a part of the Group's reorganization of the alcoholic business. The transaction became effective on October 1, 2014.

Based on ASBJ Statement No. 21 issued on December 26, 2008 and the *Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures* (ASBJ Guidance No. 10, December 26, 2008), the transaction was treated and accounted for as a transaction under common control.

4. ADDITIONAL INFORMATION FOR CONSOLIDATED STATEMENT OF CASH FLOWS

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
Cash used for acquisition	¥ 220,098

As disclosed in Note 3, the Group acquired Beam Inc. on May 1, 2014. Assets and liabilities of the acquired company and net cash used for the acquisition were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 308,932	$ 2,562,688
Noncurrent assets	1,093,304	9,069,299
Goodwill	657,429	5,453,579
Current liabilities	(77,568)	(643,451)
Long-term liabilities	(559,044)	(4,637,445)
Total acquisition costs	1,423,053	11,804,670
Cash and cash equivalents of the acquired company	(34,089)	(282,779)
Net cash used for acquisition	¥ 1,388,964	$ 11,521,891

5. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Short-term investments:			
Time deposits	¥ 24	¥ 24	$ 199
Corporate bonds	2	2	17
Total	¥ 26	¥ 26	$ 216
Investment securities:			
Equity securities	¥ 73,894	¥ 74,834	$ 612,974
Corporate bonds	5	8	41
Other	222	161	1,842
Total	¥ 74,121	¥ 75,003	$ 614,857

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

	Millions of Yen					
	2014			2013		
	Acquisition Cost	Carrying Amount	Unrealized Gain (Loss)	Acquisition Cost	Carrying Amount	Unrealized Gain (Loss)
Available-for-sale securities:						
Carrying amounts exceeding their acquisition cost:						
Equity securities	¥ 22,363	¥ 55,163	¥ 32,800	¥ 29,665	¥ 61,852	¥ 32,187
Acquisition costs exceeding their carrying amounts:						
Equity securities	6,895	5,807	(1,088)	373	331	(42)
Total	¥ 29,258	¥ 60,970	¥ 31,712	¥ 30,038	¥ 62,183	¥ 32,145

	Thousands of U.S. Dollars		
	2014		
	Acquisition Cost	Carrying Amount	Unrealized Gain (Loss)
Available-for-sale securities:			
Carrying amounts exceeding their acquisition cost:			
Equity securities	$ 185,508	$ 457,594	$ 272,086
Acquisition costs exceeding their carrying amounts:			
Equity securities	57,196	48,171	(9,025)
Total	$ 242,704	$ 505,765	$ 263,061

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Available for sale:			
Equity securities	¥ 12,923	¥ 12,651	$ 107,200
Corporate bonds	8	10	66
Investments in limited partnerships	222	161	1,842
Total	¥ 13,153	¥ 12,822	$ 109,108

6. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Finished and semifinished products	¥ 386,448	¥ 169,935	$ 3,205,707
Work in process	14,200	12,744	117,794
Raw materials and supplies	52,227	41,456	433,239
Total	¥ 452,875	¥ 224,135	$ 3,756,740

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of December 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Short-term loans, principally from banks, weighted-average rates of 3.14% as of December 31, 2014, and 3.62% as of December 31, 2013	¥ 50,019	¥ 27,500	$ 414,923
Commercial paper, weighted-average rate of 0.08% as of December 31, 2013	-	16,000	-
Short-term borrowings	¥ 50,019	¥ 43,500	$ 414,923

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Publicly offered corporate bonds, due 2015 through 2024, rates ranging from 0.26% to 1.71%	¥ 75,000	¥ 112,000	$ 622,148
Euro yen bonds, due 2015 through 2023, rates ranging from 0.41% to 2.88%	5,000	31,500	41,477
Euro bonds, due 2014, rate of 0.73%	-	2,176	-
Euro U.S. dollar bonds, due 2019, rates ranging from 0.63% to 0.70%	24,110	5,891	200,000
U.S. dollar bonds, due to 2016 through 2036, rates of 1.65% to 8.63%	361,242	-	2,996,616
Interest deferrable and early redeemable subordinated bonds, due 2071, rates ranging from 1.23% to 1.64%	21,700	21,700	180,008
Loans from banks and other institutions, due through 2071, rates ranging from 0.00% to 9.35%, with:			
Collateralized	1,426	1,687	11,829
Unsecured	1,506,815	376,629	12,499,502
Obligations under finance leases	8,706	12,972	72,219
Total	2,003,999	564,555	16,623,799
Less current portion	50,625	166,936	419,950
Long-term debt, less current portion	¥ 1,953,374	¥ 397,619	$ 16,203,849

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	¥ 48,755	$ 404,438
2016	132,682	1,100,639
2017	305,268	2,532,294
2018	232,360	1,927,499
2019	244,109	2,024,961
2020 and thereafter	1,032,119	8,561,749
Total	¥ 1,995,293	$ 16,551,580

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt of ¥1,426 million ($11,829 thousand) as of December 31, 2014 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 4,834	$ 40,100
Buildings and structures – net of accumulated depreciation	1,989	16,499
Machinery, equipment and other – net of accumulated depreciation	146	1,211
Total	¥ 6,969	$ 57,810

8. 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. The employees' retirement benefit trusts are established for certain funded defined benefit pension plans, and securities held in those trusts are qualified as plan assets. Several subsidiaries account for their defined benefit obligations and related past service costs using the simplified valuation method.

Year Ended December 31, 2014

Defined Benefit Plans

(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	¥ 114,182	$ 947,175
Current service cost	4,515	37,453
Interest cost	3,519	29,191
Actuarial losses	19,120	158,606
Benefits paid	(5,883)	(48,801)
Increase due to consolidation of acquired subsidiaries	54,413	451,373
Others	8,988	74,559
Balance at end of year	¥ 198,854	$ 1,649,556

(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	¥ 108,214	$ 897,669
Expected return on plan assets	4,136	34,309
Actuarial gains	5,457	45,268
Contributions from the employer	5,763	47,806
Benefits paid	(6,723)	(55,769)
Increase due to consolidation of acquired subsidiaries	39,799	330,145
Others	6,109	50,676
Balance at end of year	¥ 162,755	$ 1,350,104

(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	¥ 184,267	$ 1,528,552
Plan assets	(162,755)	(1,350,104)
	21,512	178,448
Unfunded defined benefit obligation	14,587	121,004
Net liability arising from defined benefit obligation	¥ 36,099	$ 299,452

	Millions of Yen	Thousands of U.S. Dollars
Liability for employees' retirement benefits	¥ 36,372	$ 301,717
Asset for retirement benefits	(273)	(2,265)
Net liability arising from defined benefit obligation	¥ 36,099	$ 299,452

(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	¥ 4,515	$ 37,453
Interest cost	3,519	29,191
Expected return on plan assets	(4,136)	(34,309)
Recognized actuarial losses	2,561	21,244
Amortization of past service cost	(690)	(5,724)
Others	425	3,526
Net periodic benefit costs	¥ 6,194	$ 51,381

(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	¥ (7,723)	$ (64,064)
Unrecognized actuarial losses	26,685	221,360
Total	¥ 18,962	$ 157,296

(6) Plan assets as of December 31, 2014

a. Components of plan assets

Plan assets consisted of the followings:

Debt investments	36%
Equity investments	30
Insurance assets (general accounts)	9
Others	25
Total	100%

The employees' retirement benefit trusts consists of 9% of the plan assets.

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

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

Discount rate	0.8% - 8.0%
Expected rate of return on plan assets	0% - 7.2%

Defined Contribution Plan

Contributions to the defined contribution plans made by the Group were ¥3,670 million ($30,444 thousand) for the year ended December 31, 2014.

Year Ended December 31, 2013

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

	Millions of Yen
Projected benefit obligation	¥ (114,182)
Fair value of plan assets	108,214
Unfunded retirement benefit obligation	(5,968)
Unrecognized past service cost	(8,439)
Unrecognized actuarial loss	15,157
Prepaid pension cost	(11,751)
Net liability	¥ (11,001)

The components of net periodic benefit costs are as follows:

	Millions of Yen
Service cost	¥ 4,135
Interest cost	1,835
Expected return on plan assets	(2,213)
Recognized actuarial loss	2,987
Amortization of past service cost	(660)
Net periodic benefit costs	¥ 6,084
Contributions to the defined contribution pension plans	1,181
Total	¥ 7,265

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

Discount rate	1.7% - 2.0%
Expected rate of return on plan assets	0% - 3.0%
Recognition period of past service cost	Mainly 15 years
Recognition period of actuarial loss	Mainly 15 years

9. EQUITY

(1) 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:

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 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.

b. 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.

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 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.

(2) Changes in foreign subsidiaries' interests in their subsidiaries

Foreign subsidiaries preparing their financial statements in accordance with either IFRS or U.S. GAAP account for any changes in their interests in subsidiaries, in the case of not resulting in losing control of their subsidiaries, as capital transactions, whereas such changes are accounted for as goodwill or as profit or loss under current Japanese GAAP. The Group accounts for the changes as capital surplus in accordance with PITF No. 18.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.0% for the years ended December 31, 2014 and 2013.

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Tax loss carryforwards	¥ 22,729	¥ 12,027	$ 188,544
Accrued expenses	15,579	11,205	129,233
Impairment loss	3,027	4,037	25,110
Unrealized profit	4,637	3,835	38,465
Accrued bonuses	3,397	3,474	28,179
Liability for employees' retirement benefits	13,081	3,429	108,511
Other	28,173	15,052	233,704
Total gross deferred tax assets	90,623	53,059	751,746
Valuation allowance	(19,776)	(14,391)	(164,048)
Net deferred tax assets	70,847	38,668	587,698
Deferred tax liabilities:			
Intangible assets	(410,928)	(37,725)	(3,408,776)
Temporary differences in investments in subsidiaries	(23,871)	(22,135)	(198,017)
Net unrealized holding gains on securities	(10,902)	(11,083)	(90,436)
Property, plant, and equipment	(25,383)	(8,535)	(210,560)
Prepaid pension cost	-	(4,115)	-
Other	(7,024)	(6,350)	(58,266)
Total gross deferred tax liabilities	(478,108)	(89,943)	(3,966,055)
Net deferred tax liabilities	¥ (407,261)	¥ (51,275)	$ (3,378,357)

Reconciliations between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended December 31, 2014 and 2013, were as follows:

	2014	2013
Normal effective statutory tax rate	38.0%	38.0%
Amortization of goodwill	15.2	2.8
Valuation allowance	3.2	(3.0)
Dilution gain from changes in equity interest	-	(13.2)
Income not taxable for income tax purposes	(2.5)	(0.6)
Differences in tax rate of overseas consolidated subsidiaries	(5.4)	(0.1)
Other – net	2.1	1.8
Actual effective tax rate	50.6%	25.7%

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.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥19,349 million ($160,506 thousand) and ¥17,997 million for the years ended December 31, 2014 and 2013, respectively.

12. ADVERTISING COSTS

Advertising costs were ¥108,810 million ($902,613 thousand) and ¥83,771 million for the years ended December 31, 2014 and 2013, respectively.

13. AMORTIZATION OF GOODWILL

Amortization of goodwill included in the selling, general, and administration costs was ¥48,327 million ($400,888 thousand) and ¥24,093 million for the years ended December 31, 2014 and 2013, respectively. In addition, amortization of goodwill of ¥5,462 million ($45,309 thousand) was included in the other expenses.

14. LEASES

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, 2014 and 2013, included in the selling, general, and administrative expenses amounted to ¥21,040 million ($174,533 thousand) and ¥18,373 million, respectively.

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

ASBJ Statement No. 13, *Accounting Standard for Lease Transactions*, 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			
	2014			
	Buildings and Structures	Machinery and Equipment	Other	Total
Acquisition cost	¥ 240	¥ 30,676	¥ 61	¥ 30,977
Accumulated depreciation	(179)	(19,071)	(57)	(19,307)
Accumulated impairment loss	-	(2)	-	(2)
Net leased property	¥ 61	¥ 11,603	¥ 4	¥ 11,668

	Millions of Yen			
	2013			
	Buildings and Structures	Machinery and Equipment	Other	Total
Acquisition cost	¥ 17,764	¥ 33,692	¥ 286	¥ 51,742
Accumulated depreciation	(8,769)	(18,923)	(234)	(27,926)
Accumulated impairment loss	(1,462)	(9)	(17)	(1,488)
Net leased property	¥ 7,533	¥ 14,760	¥ 35	¥ 22,328

	Thousands of U.S. Dollars			
	2014			
	Buildings and Structures	Machinery and Equipment	Other	Total
Acquisition cost	$ 1,991	$ 254,467	$ 506	$ 256,964
Accumulated depreciation	(1,485)	(158,199)	(473)	(160,157)
Accumulated impairment loss	-	(17)	-	(17)
Net leased property	$ 506	$ 96,251	$ 33	$ 96,790

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 3,945	¥ 3,973	$ 32,725
Due after one year	7,682	20,222	63,725
Total	¥ 11,627	¥ 24,195	$ 96,450

Allowance for impairment loss on leased property of ¥1,027 million as of December 31, 2013, was not included in obligations under finance leases.

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Depreciation expense	¥ 2,934	¥ 3,902	$ 24,338
Interest expense	513	589	4,255
Reversal of allowance for impairment loss on leased property	1,025	114	8,503

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 15,553	¥ 14,601	$ 129,017
Due after one year	62,307	58,706	516,856
Total	¥ 77,860	¥ 73,307	$ 645,873

As Lessor

The Group subleases certain buildings and structures.

The minimum lease receivables under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 281	¥ 170	$ 2,331
Due after one year	584	651	4,844
Total	¥ 865	¥ 821	$ 7,175

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group primarily invests cash surpluses, if any, in low-risk financial instruments and does not invest for trading or speculative purposes. The Group, 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. 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, commercial paper, and corporate bonds are used to fund the Group's ongoing operations or investments. A part of such debts are 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, of payables derived from the Group's normal business, such as purchases of raw or packaging material, and imports of goods; risks from changes in foreign currency exchange rates of capital transactions denominated in foreign currencies and dividends receivables; risks from changes in foreign currency exchange rates of net investments in subsidiaries and associates; and risks from changes in variable interest rates and foreign exchange rates of bank loans and corporate bonds. The Group does not enter into derivatives for trading or speculative purposes. Please see Note 16 for more details about derivatives.

(3) Risk management for financial instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a 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 counterparty to high credit rating financial institutions. Please see Note 16 for details about derivatives.

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

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

Interest rate swaps, interest rate options, and interest rate and currency swaps are used to manage exposure to market risks from changes in interest rates or in foreign exchange rates of loan payables and bond payables.

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 positions 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 Treasury department executes derivative transactions based on the 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 execution. The Group Treasury department also reviews consolidated subsidiaries' derivative transactions based on the internal guidelines before the transaction, and reviews reports from those subsidiaries after the execution of the transaction. The Group has established segregation of duties in the Group Treasury department by separating execution of derivative transactions from a back office that performs reconciliation and risk evaluations. The balance and risk status of the transactions, including consolidated subsidiaries, have been periodically reported to management by the Group Treasury department.

Liquidity Risk Management

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

(4) *Fair values of financial instruments*

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

(a) Fair value of financial instruments

	Millions of Yen		
December 31, 2014	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 199,308	¥ 199,308	¥ -
Notes and accounts receivable – trade	376,397	376,397	-
Investment securities	60,970	60,970	-
Total	¥ 636,675	¥ 636,675	¥ -
Short-term borrowings	¥ 50,019	¥ 50,019	¥ -
Current portion of long-term debt	50,625	50,740	(115)
Notes and accounts payable – trade	209,015	209,015	-
Notes and accounts payable – other	182,244	182,244	-
Liquor tax and consumption taxes payable	73,798	73,798	-
Accrued income taxes	22,298	22,298	-
Accrued expenses	112,991	112,991	-
Long-term debt	1,953,374	1,956,114	(2,740)
Total	¥ 2,654,364	¥ 2,657,219	¥ (2,855)
December 31, 2013			
Cash and cash equivalents	¥ 418,630	¥ 418,630	¥ -
Notes and accounts receivable – trade	287,241	287,241	-
Investment securities	62,183	62,183	-
Total	¥ 768,054	¥ 768,054	¥ -
Short-term borrowings	¥ 43,500	¥ 43,500	¥ -
Current portion of long-term debt	166,936	168,340	(1,404)
Notes and accounts payable – trade	159,055	159,055	-
Notes and accounts payable – other	162,790	162,790	-
Liquor tax and consumption taxes payable	57,204	57,204	-
Accrued income taxes	34,393	34,393	-
Accrued expenses	73,905	73,905	-
Long-term debt	397,619	401,685	(4,066)
Total	¥ 1,095,402	¥ 1,100,872	¥ (5,470)

December 31, 2014	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	$ 1,653,322	$ 1,653,322	$ -
Notes and accounts receivable – trade	3,122,331	3,122,331	-
Investment securities	505,765	505,765	-
Total	$ 5,281,418	$ 5,281,418	$ -
Short-term borrowings	$ 414,923	$ 414,923	$ -
Current portion of long-term debt	419,950	420,904	(954)
Notes and accounts payable – trade	1,733,845	1,733,845	-
Notes and accounts payable – other	1,511,771	1,511,771	-
Liquor tax and consumption taxes payable	612,178	612,178	-
Accrued income taxes	184,969	184,969	-
Accrued expenses	937,296	937,296	-
Long-term debt	16,203,849	16,226,578	(22,729)
Total	$ 22,018,781	$ 22,042,464	$ (23,683)

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

The carrying values of cash and cash equivalents, receivables and payables, short-term borrowings, liquor tax and consumption taxes payable, accrued income taxes, and accrued expenses 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. The information on the fair value for marketable and investment securities by classification is included in Note 5.

Long-term debt

The fair values of long-term debt are 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 16.

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

	Carrying Amount Millions of Yen 2014	Carrying Amount Millions of Yen 2013	Carrying Amount Thousands of U.S. Dollars 2014
Investments in unconsolidated subsidiaries and associates	¥ 48,276	¥41,299	$ 400,465
Investments in equity instruments that do not have a quoted market price in an active market	12,923	12,651	107,200
Corporate bonds	5	7	41
Investments in limited partnerships	222	162	1,842

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

	Millions of Yen			
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
Cash and cash equivalents	¥ 199,308	¥ -	¥ -	¥ -
Notes and accounts receivable – trade	376,397	-	-	-
Investment securities:				
Corporate bonds	2	5	-	-
Total	¥ 575,707	¥ 5	¥ -	¥ -

	Thousands of U.S. Dollars			
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
Cash and cash equivalents	$ 1,653,322	$ -	$ -	$ -
Notes and accounts receivable – trade	3,122,331	-	-	-
Investment securities:				
Corporate bonds	17	41	-	-
Total	$ 4,775,670	$ 41	$ -	$ -

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

16. DERIVATIVES AND HEDGING ACTIVITIES

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

The Group is exposed to certain market risks arising from its forward exchange contracts, swap agreements, currency option contracts, and commodity price swap contracts. The Group is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency 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.

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

(1) Foreign currency-related derivatives

	Millions of Yen			
December 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts to:				
Buy:				
USD	¥ 20,993	¥ 2,532	¥ 510	¥ 510
GBP	2,453	-	(1)	(1)
EUR	6,561	-	(86)	(86)
SGD	3,881	-	(54)	(54)
Other	2,176	-	(33)	(33)
Sell:				
USD	8,268	-	(284)	(284)
GBP	6,434	-	(111)	(111)
EUR	38,559	-	492	492
SGD	5,043	-	(87)	(87)
Other	11,909	-	(56)	(56)
Currency options:				
Put options, purchased:				
TWD	461	-		
Premium	14	-	(8)	(8)
Currency swaps:				
JPY payment, USD receipt	2,552	-	(1,395)	(1,395)
JPY payment, EUR receipt	508	508	(229)	(229)
JPY payment, RMB receipt	1,633	1,633	(385)	(385)

	Millions of Yen			
December 31, 2013	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts to:				
Buy:				
USD	¥ 11,158	¥ -	¥ 6	¥ 6
EUR	649	-	48	48
SGD	2,666	-	(47)	(47)
JPY	904	-	(78)	(78)
Other	597	-	(12)	(12)
Sell:				
GBP	102,068	-	(4,102)	(4,102)
Other	992	-	31	31
Currency swaps:				
JPY payment, EUR receipt	32,440	508	(3,082)	(3,082)
JPY payment, USD receipt	2,552	2,552	(927)	(927)
JPY payment, GBP receipt	386	-	(22)	(22)
JPY payment, RMB receipt	1,633	1,633	(232)	(232)

	Thousands of U.S. Dollars			
December 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts to:				
Buy:				
USD	$ 174,144	$ 21,004	$ 4,231	$ 4,231
GBP	20,348	-	(8)	(8)
EUR	54,426	-	(713)	(713)
SGD	32,194	-	(448)	(448)
Other	18,051	-	(274)	(274)
Sell:				
USD	68,586	-	(2,356)	(2,356)
GBP	53,372	-	(921)	(921)
EUR	319,859	-	4,081	4,081
SGD	41,833	-	(722)	(722)
Other	98,789	-	(465)	(465)
Currency options:				
Put options, purchased:				
TWD	3,824	-		
Premium	116	-	(66)	(66)
Currency swaps:				
JPY payment, USD receipt	21,170	-	(11,572)	(11,572)
JPY payment, EUR receipt	4,214	4,214	(1,900)	(1,900)
JPY payment, RMB receipt	13,546	13,546	(3,194)	(3,194)

(2) Interest-related derivatives

	Millions of Yen			
December 31, 2013	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	¥1,477	¥ -	¥(19)	¥(19)

(3) Interest and currency-related derivatives

December 31, 2014	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Interest rate and currency swaps:				
Buy USD, sell JPY Fixed-rate payment, floating-rate receipt	¥ 1,782	¥ -	¥ (23)	¥ (23)
Buy GBP, sell JPY Fixed-rate payment, floating-rate receipt	466	-	(2)	(2)
Buy RMB, sell JPY Fixed-rate payment, floating-rate receipt	1,027	1,027	(173)	(173)
Buy NZD, sell JPY Fixed-rate payment, floating-rate receipt	1,367	-	(38)	(38)

December 31, 2014	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Interest rate and currency swaps:				
Buy USD, sell JPY Fixed-rate payment, floating-rate receipt	$ 14,782	$ -	$ (191)	$ (191)
Buy GBP, sell JPY Fixed-rate payment, floating-rate receipt	3,866	-	(17)	(17)
Buy RMB, sell JPY Fixed-rate payment, floating-rate receipt	8,519	8,519	(1,435)	(1,435)
Buy NZD, sell JPY Fixed-rate payment, floating-rate receipt	11,340	-	(315)	(315)

(b) Derivative transactions to which hedge accounting is applied

(1) Foreign currency-related derivatives

		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	¥ 10,499	¥ -	¥ 1,057
EUR	Payable	12,392	-	756
Other	Payable	3,466	-	194
Sell:				
GBP	Receivable	2,294	-	(47)
AUD	Receivable	7,188	-	397
Other	Receivable	2,732	-	13
Currency options:				
Call options, purchased:				
USD	Payable	10,384	-	
Premium		(185)	-	612
EUR	Payable	7,554	-	
Premium		(122)	-	181
Other	Payable	851	-	
Premium		(12)	-	62
Put options, sold:				
EUR	Payable	366	-	
Premium		-	-	0
Currency swaps:				
JPY payment, USD receipt	Net investments in subsidiaries and associates	293,900	293,900	(37,044)

		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	¥ 12,050	¥ -	¥ 493
EUR	Payable	8,692	-	782
Other	Payable	1,942	-	151
Sell:				
AUD	Receivable	2,308	-	135
GBP	Receivable	981	-	(1)
Currency options:				
Call options, purchased:				
USD	Payable	4,794	-	
Premium		(104)	-	113
EUR	Payable	5,474	-	
Premium		(109)	-	267
Other	Payable	813	-	
Premium		(19)	-	40
Put options, sold:				
EUR	Payable	1,233	-	
Premium		-	-	17

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Thousands of U.S. Dollars			
Forward exchange contracts to:				
Buy:				
USD	Payable	$ 87,092	$ -	$ 8,768
EUR	Payable	102,796	-	6,271
Other	Payable	28,752	-	1,609
Sell:				
GBP	Receivable	19,029	-	(390)
AUD	Receivable	59,627	-	3,293
Other	Receivable	22,663	-	108
Currency options:				
Call options, purchased:				
USD	Payable	86,139	-	
Premium		(1,535)	-	5,077
EUR	Payable	62,663	-	
Premium		(1,012)	-	1,501
Other	Payable	7,059	-	
Premium		(100)	-	514
Put options, sold:				
EUR	Payable	3,036	-	
Premium		-	-	0
Currency swaps:				
JPY payment, USD receipt	Net investments in subsidiaries and associates	2,437,993	2,437,993	(307,292)

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

December 31, 2014	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Millions of Yen			
Forward exchange contracts to:				
Buy:				
USD	Payable	¥ 1,944	¥ -	¥ -
GBP	Payable	884	-	-
EUR	Payable	548	-	-
Currency swaps:				
USD payment, JPY receipt	Long-term debt	109,120	109,120	-

	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
December 31, 2013				
Forward exchange contracts to:				
Buy:				
USD	Payable	¥ 712	¥ -	¥ -
EUR	Payable	408	-	-
GBP	Payable	451	-	-
Sell:				
USD	Foreign currency deposit	48,630	-	-
RMB	Foreign currency deposit	52,049	-	-
EUR	Foreign currency deposit	15,008	-	-

December 31, 2014	Hedged Item	Thousands of U.S. Dollars Contract Amount	 Contract Amount Due after One Year	 Fair Value
Forward exchange contracts to:				
Buy:				
USD	Payable	$ 16,126	$ -	$ -
GBP	Payable	7,333	-	-
EUR	Payable	4,546	-	-
Currency swaps:				
USD payment, JPY receipt	Long-term debt	905,185	905,185	-

(2) Interest-related derivatives

December 31, 2014	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥211,886	¥203,287	¥(2,460)
Floating-rate payment, fixed-rate receipt	Long-term debt	72,330	72,330	1,812

December 31, 2013	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥8,743	¥8,743	¥(352)

December 31, 2014	Hedged Item	Thousands of U.S. Dollars Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	$1,757,661	$1,686,329	$(20,406)
Floating-rate payment, fixed-rate receipt	Long-term debt	600,000	600,000	15,031

The following interest rate swaps were not remeasured 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 that of hedged items (i.e., long-term debt) in Note 15, and were not shown in the table below:

December 31, 2014	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps:				
Floating-rate payment, fixed-rate receipt	Long-term debt	¥80,000	¥80,000	¥ -
Fixed-rate payment, floating-rate receipt	Long-term debt	91,618	91,618	-

December 31, 2013	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps:				
Floating-rate payment, fixed-rate receipt	Long-term debt	¥120,000	¥80,000	¥ -
Fixed-rate payment, floating-rate receipt	Long-term debt	38,927	17,000	-

December 31, 2014	Hedged Item	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Floating-rate payment, fixed-rate receipt	Long-term debt	$663,625	$663,625	$ -
Fixed-rate payment, floating-rate receipt	Long-term debt	760,000	760,000	-

(3) Interest and currency-related derivatives

The following interest rate and currency swaps were not remeasured at market value, but the differential paid or received under the swap agreements was recognized and included in interest expense or income, and long-term debt denominated in a foreign currency was translated at the contracted rates as described in Note 2(u). The fair values of such interest rate swaps were included in that of hedged items (i.e., long-term debt) in Note 15, and were not shown in the table below:

December 31, 2014	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate and currency swaps:				
Buy JPY, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	¥211,923	¥211,923	¥ -
Buy GBP, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	74,246	64,121	-
Buy EUR, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	24,332	24,332	-

December 31, 2013	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate and currency swaps:				
Buy EUR, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	¥29,725	¥24,332	¥ -
Buy JPY, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	61,923	61,923	-

December 31, 2014	Hedged Item	Thousands of U.S. Dollars Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate and currency swaps:				
Buy JPY, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	$1,757,968	$1,757,968	$ -
Buy GBP, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	615,894	531,904	-
Buy EUR, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	201,842	201,842	-

(4) Commodity-related derivatives

December 31, 2013	Hedged Item	Millions of Yen 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.

17. COMPREHENSIVE INCOME

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized (loss) gain on available-for-sale securities:			
(Loss) gain arising during the year	¥ (568)	¥ 16,550	$ (4,712)
Reclassification adjustments to profit or loss	234	(228)	1,941
Amount before income tax effect	(334)	16,322	(2,771)
Income tax effect	173	(5,666)	1,435
Total	¥ (161)	¥ 10,656	$ (1,336)
Deferred gain (loss) on derivatives under hedge accounting:			
Gain (loss) arising during the year	¥ 487	¥ (751)	$ 4,040
Reclassification adjustments to profit or loss	(410)	(244)	(3,401)
Amount before income tax effect	77	(995)	639
Income tax effect	(73)	435	(606)
Total	¥ 4	¥ (560)	$ 33
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 116,704	¥ 94,403	$ 968,096
Reclassification adjustments to profit or loss	-	(5,271)	-
Total	¥ 116,704	¥ 89,132	$ 968,096
Share of other comprehensive income in associates:			
Gains arising during the year	¥ (427)	¥ 1,522	$ (3,541)
Total other comprehensive income	¥ 116,120	¥ 100,750	$ 963,252

18. SUBSEQUENT EVENT

Appropriations 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 26, 2015:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥12.00 ($0.10) per share	¥8,200	$68,022

19. 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*, the Company 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.

(1) Description of reportable segments

The Group's reportable segments are those for which separately 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. The Group consists of "Beverages and Foods," "Alcoholic Beverage," and "Other" segments. "Beverages and Foods" consists of nonalcoholic beverages, healthy drinks, processed foods, and other products. "Alcoholic Beverage" consists of spirts, beer, wine, and other alcoholic beverages. "Others" consists of China business, healthy foods, ice cream, restaurants, flowers, and other. Upon the reorganization disclosed in Note 3(2), the Group has changed its "Beer & Spirits" segment to "Alcoholic Beverage" segment by including wine business from "Other." The segment information for the year ended December 31, 2013, is also disclosed using the new operating segments.

(2) 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."

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

	Millions of Yen					
	2014					
	Reportable Segment					
	Beverages and Foods	Alcoholic Beverage	Others	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥ 1,249,281	¥ 891,498	¥ 314,471	¥ 2,455,250	¥ -	¥ 2,455,250
Intersegment sales or transfers	9,087	4,307	10,025	23,419	(23,419)	-
Total	¥ 1,258,368	¥ 895,805	¥ 324,496	¥ 2,478,669	¥ (23,419)	¥ 2,455,250
Segment profit	¥ 104,141	¥ 61,726	¥ 30,438	¥ 196,305	¥ (31,552)	¥ 164,753
Segment assets	¥ 1,388,394	¥ 2,865,721	¥ 189,542	¥ 4,443,657	¥ 92,881	¥ 4,536,538
Other:						
Depreciation and amortization	¥ 51,687	¥ 20,550	¥ 7,882	¥ 80,119	¥ 1,645	¥ 81,764
Amortization of goodwill	25,075	23,061	191	48,327	-	48,327
Investments in associates accounted for by the equity method	9,637	10,281	211	20,129	-	20,129
Increase in property, plant, and equipment and intangible assets	70,690	1,762,794	8,914	1,842,398	3,401	1,845,799

	Millions of Yen					
	2013					
	Reportable Segment					
	Beverages and Foods	Alcoholic Beverage	Others	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥ 1,114,275	¥ 635,203	¥ 290,726	¥ 2,040,204	¥ -	¥ 2,040,204
Intersegment sales or transfers	7,026	3,516	10,734	21,276	(21,276)	-
Total	¥ 1,121,301	¥ 638,719	¥ 301,460	¥ 2,061,480	¥ (21,276)	¥ 2,040,204
Segment profit	¥ 91,330	¥ 39,213	¥ 27,818	¥ 158,361	¥ (31,802)	¥ 126,559
Segment assets	¥ 1,252,067	¥ 475,208	¥ 205,268	¥ 1,932,543	¥ 441,528	¥ 2,374,071
Other:						
Depreciation and amortization	¥ 45,262	¥ 8,844	¥ 7,704	¥ 61,810	¥ 1,593	¥ 63,403
Amortization of goodwill	23,211	631	251	24,093	-	24,093
Investments in associates accounted for by the equity method	8,744	10,413	219	19,376	-	19,376
Increase in property, plant, and equipment and intangible assets	254,148	15,976	14,436	284,560	3,397	287,957

	Thousands of U.S. Dollars					
	2014					
	Reportable Segment					
	Beverages and Foods	Alcoholic Beverage	Others	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	$ 10,363,177	$ 7,395,255	$ 2,608,636	$ 20,367,068	$ -	$ 20,367,068
Intersegment sales or transfers	75,380	35,728	83,160	194,268	(194,268)	-
Total	$ 10,438,557	$ 7,430,983	$ 2,691,796	$ 20,561,336	$ (194,268)	$ 20,367,068
Segment profit	$ 863,882	$ 512,036	$ 252,493	$ 1,628,411	$ (261,733)	$ 1,366,678
Segment assets	$ 11,517,163	$ 23,772,053	$ 1,572,310	$ 36,861,526	$ 770,477	$ 37,632,003
Other:						
Depreciation and amortization	$ 428,760	$ 170,469	$ 65,383	$ 664,612	$ 13,646	$ 678,258
Amortization of goodwill	208,005	191,298	1,584	400,887	-	400,887
Investment for associates accounted for by the equity method	79,942	85,284	1,750	166,976	-	166,976
Increase in property, plant, and equipment and intangible assets	586,396	14,622,928	73,944	15,283,268	28,213	15,311,481

Note: "Reconciliations" represent ¥(64) million ($(531) thousand) and ¥(70) million of eliminations of intersegment sales or transfers, and ¥31,616 million ($262,265 thousand) and ¥31,872 million of corporate general and administrative expenses that were not allocated to specific reportable segments for the years ended December 31, 2014 and 2013, respectively. Also, ¥(7,313) million ($(60,664) thousand) and ¥(7,032) million of eliminations of intersegment balances, and ¥100,194 million ($831,141 thousand) and ¥448,561 million of corporate assets, not allocated to specific reportable segments are included in "Reconciliations." The corporate assets consist primarily of cash and deposits, investments in securities, and headquarters' assets.

"Segment profit" represents operating income included in the consolidated statement of income.

(a) Relevant information by geographic area

	Millions of Yen				
	2014				
	Japan	Americas	Europe	Asia, Oceania and Other	Total
Sales	¥1,567,719	¥235,687	¥316,361	¥335,483	¥2,455,250
Property, plant, and equipment	307,030	114,688	129,916	124,972	676,606

	Millions of Yen				
	2013				
	Japan	Americas	Europe	Asia, Oceania and Other	Total
Sales	¥1,526,013	¥80,670	¥171,552	¥261,969	¥2,040,204
Property, plant, and equipment	309,052	23,434	89,764	105,019	527,269

	Thousands of U.S. Dollars				
	2014				
	Japan	Americas	Europe	Asia, Oceania and Other	Total
Sales	$13,004,720	$1,955,097	$2,624,314	$2,782,937	$20,367,068
Property, plant, and equipment	2,546,910	951,373	1,077,694	1,036,682	5,612,659

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

Americas··························· North America and Central America

Europe ···························· Europe, Middle East and Africa

Asia, Oceania and other ·········· Asia, Oceania and South America

(b) Information of goodwill by reportable segment

Balance of goodwill as of December 31, 2014 and 2013, was as follows:

	Millions of Yen			
	2014			
	Beverages and Foods	Alcoholic Beverage	Others	Total
Goodwill	¥381,760	¥732,736	¥4,208	¥1,118,704

	Millions of Yen			
	2013			
	Beverages and Foods	Alcoholic Beverage	Others	Total
Goodwill	¥400,050	¥5,517	¥3,726	¥409,293

	Thousands of U.S. Dollars			
	2014			
	Beverages and Foods	Alcoholic Beverage	Others	Total
Goodwill	$3,166,819	$6,078,275	$34,906	$9,280,000

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