

**KIRIN HOLDINGS COMPANY, LIMITED**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

# Consolidated Balance Sheets

Kirin Holdings Company, Limited and Consolidated Subsidiaries  
As of December 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2016	2015	2016
<b>Current assets</b>			
Cash and time deposits (Notes 20 and 22)	¥ 58,990	¥ 66,465	\$ 506,395
Notes and accounts receivable, trade (Note 22)	393,500	397,692	3,377,972
Merchandise and finished goods	135,335	153,901	1,161,773
Work in process	25,229	25,482	216,576
Raw materials and supplies	47,045	48,343	403,854
Deferred tax assets (Note 21)	30,179	29,396	259,069
Other	63,313	65,133	543,505
Allowance for doubtful accounts	(5,445)	(4,479)	(46,742)
Total current assets	748,148	781,933	6,422,422
<b>Non-current assets</b>			
Property, plant and equipment (Notes 3 and 4) (Net of accumulated depreciation and accumulated loss on impairment)			
Buildings and structures	216,422	215,260	1,857,859
Machinery, equipment and vehicles	231,427	234,980	1,986,668
Land (Note 26)	159,008	167,579	1,364,992
Construction in progress	52,371	52,671	449,575
Other	45,973	41,272	394,651
Total	705,204	711,763	6,053,772
Intangible assets			
Goodwill	228,983	269,215	1,965,688
Other	172,927	189,331	1,484,479
Total	401,910	458,546	3,450,167
Investments and other assets			
Investment securities (Notes 3, 14, 17 and 22)	396,057	408,888	3,399,922
Net defined benefit asset (Note 24)	9,432	9,891	80,968
Deferred tax assets (Note 21)	30,830	27,097	264,657
Other (Note 17)	61,800	50,968	530,517
Allowance for doubtful accounts	(5,216)	(5,317)	(44,776)
Total	492,904	491,528	4,231,298
Total non-current assets	1,600,018	1,661,839	13,735,239
<b>Total assets</b>	<b>¥2,348,166</b>	<b>¥2,443,773</b>	<b>\$20,157,661</b>

The accompanying notes are an integral part of these consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
<b>LIABILITIES AND NET ASSETS</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>
<b>Current liabilities</b>			
Notes and accounts payable, trade (Note 22)	¥ 135,801	¥ 142,052	\$ 1,165,773
Short-term loans payable and long-term debt with current maturities (Notes 3 and 22)	89,934	128,160	772,031
Commercial paper (Notes 3 and 22)	45,000	-	386,299
Bonds due within one year (Notes 3 and 22)	-	30,000	-
Liquor taxes payable (Note 22)	80,513	84,904	691,158
Income taxes payable (Note 22)	21,162	20,281	181,663
Allowance for employees' bonuses	7,911	5,460	67,911
Allowance for bonuses for directors and company auditors	228	87	1,957
Accrued expenses	119,154	120,475	1,022,868
Other	150,675	134,490	1,293,458
Total current liabilities	650,382	665,913	5,583,157
<b>Non-current liabilities</b>			
Bonds (Notes 3 and 22)	194,994	194,991	1,673,911
Long-term debt (Notes 3 and 22)	318,712	403,952	2,735,960
Deferred tax liabilities (Note 21)	49,348	55,899	423,624
Deferred tax liability due to land revaluation (Notes 21 and 26)	1,106	1,167	9,494
Retirement benefits for directors and company auditors	249	243	2,137
Reserve for repairs and maintenance of vending machines	3,263	2,964	28,010
Reserve for environmental measures	619	1,036	5,313
Reserve for loss on litigation	20,299	18,018	174,255
Allowance for loss on plants reorganization	2,988	3,203	25,650
Net defined benefit liability (Note 24)	67,390	59,034	578,504
Deposits received (Notes 3 and 22)	55,491	56,701	476,358
Other	37,236	42,563	319,649
Total non-current liabilities	751,700	839,775	6,452,914
<b>Total liabilities</b>	<b>1,402,082</b>	<b>1,505,689</b>	<b>12,036,071</b>
<b>Net assets</b>			
<b>Shareholders' equity</b> (Notes 18 and 19)			
Common stock			
Authorized - 1,732,026,000 shares in 2016 and 2015			
Issued - 914,000,000 shares in 2016 and 2015	102,045	102,045	875,997
Capital surplus	2	-	17
Retained earnings	629,024	545,711	5,399,811
Treasury stock, at cost			
1,484,147 shares in 2016 and 1,471,032 shares in 2015	(2,126)	(2,103)	(18,250)
Total shareholders' equity	728,945	645,653	6,257,575
<b>Accumulated other comprehensive income</b>			
Net unrealized gains on securities	60,170	59,836	516,525
Deferred gains or losses on hedges	(1,170)	2,396	(10,043)
Land revaluation difference (Note 26)	(1,959)	(2,020)	(16,816)
Foreign currency translation adjustments	(86,607)	(28,468)	(743,471)
Remeasurements of defined benefit plans (Note 24)	(18,716)	(13,555)	(160,666)
Total accumulated other comprehensive income	(48,282)	18,188	(414,473)
<b>Subscription rights to shares</b>	<b>562</b>	<b>430</b>	<b>4,824</b>
<b>Non-controlling interests</b>	<b>264,859</b>	<b>273,810</b>	<b>2,273,662</b>
<b>Total net assets</b>	<b>946,083</b>	<b>938,083</b>	<b>8,121,581</b>
<b>Total liabilities and net assets</b>	<b>¥2,348,166</b>	<b>¥2,443,773</b>	<b>\$20,157,661</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Income

Kirin Holdings Company, Limited and Consolidated Subsidiaries  
For the years ended December 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Sales</b>	<b>¥2,075,070</b>	<b>¥2,196,925</b>	<b>\$17,813,288</b>
Less liquor taxes	296,028	305,697	2,541,231
<b>Net sales</b>	<b>1,779,041</b>	<b>1,891,227</b>	<b>15,272,049</b>
<b>Cost of sales</b>	<b>861,664</b>	<b>923,156</b>	<b>7,396,892</b>
Gross profit	917,377	968,071	7,875,156
<b>Selling, general and administrative expenses (Note 6)</b>	<b>775,488</b>	<b>843,320</b>	<b>6,657,120</b>
Operating income	141,889	124,751	1,218,035
<b>Non-operating income</b>			
Interest income	2,668	2,776	22,903
Dividend income	2,695	3,762	23,135
Equity in earnings of affiliates	11,849	16,160	101,716
Other	3,676	7,156	31,556
Total	20,889	29,856	179,320
<b>Non-operating expenses</b>			
Interest expense	13,252	20,067	113,760
Loss on devaluation of derivatives	3,446	-	29,581
Other (Note 9)	5,403	6,340	46,381
Total	22,101	26,408	189,724
Ordinary income	140,676	128,199	1,207,622
<b>Special income</b>			
Gain on sale of property, plant and equipment and intangible assets (Note 7)	8,456	19,454	72,589
Gain on sale of investment securities (Note 14)	7,229	6,810	62,056
Gain on sale of shares of subsidiaries and affiliates	15,468	130	132,783
Gain on termination of license agreements (Note 10)	24,699	-	212,026
Gain on refund of foreign subsidiary's value added tax (Note 11)	9,649	-	82,831
Other	1,819	2,803	15,615
Total	67,321	29,198	577,912
<b>Special expenses</b>			
Loss on disposal of property, plant and equipment and intangible assets (Note 7)	3,325	3,162	28,543
Loss on sale of property, plant and equipment and intangible assets (Note 7)	2,185	878	18,756
Loss on impairment (Note 8)	473	123,385	4,060
Loss on devaluation of investment securities (Note 14)	529	34	4,541
Loss on sale of investment securities (Note 14)	289	-	2,480
Business restructuring expense (Note 12)	13,303	8,803	114,198
Other	7,128	3,710	61,189
Total	27,234	139,975	233,788
Income before income taxes	180,763	17,422	1,551,746
Income taxes — current	53,330	46,457	457,807
Income taxes — deferred	(6,233)	(544)	(53,506)
Total	47,097	45,913	404,300
Net income (loss)	133,666	(28,491)	1,147,446
Net income attributable to non-controlling interests	15,508	18,837	133,127
Net income (loss) attributable to owners of the parent	¥ 118,158	¥ (47,329)	\$ 1,014,318

	Yen		U.S. dollars (Note 1)
<b>Net income (loss) per share</b>			
Basic	¥ 129.49	¥ (51.87)	\$ 1.11
Diluted	129.47	-	1.11
Cash dividends per share applicable to the year	¥ 39.00	¥ 38.00	\$ 0.33

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Comprehensive Income

Kirin Holdings Company, Limited and Consolidated Subsidiaries

For the years ended December 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Net income (loss)</b>	<b>¥ 133,666</b>	<b>¥ (28,491)</b>	<b>\$ 1,147,446</b>
<b>Other comprehensive income (Note 13)</b>			
Net unrealized gains or losses on securities	(110)	10,386	(944)
Deferred gains or losses on hedges	(3,564)	1,569	(30,594)
Land revaluation difference	61	119	523
Foreign currency translation adjustments	(50,223)	(106,614)	(431,135)
Remeasurements of defined benefit plans	(6,445)	(273)	(55,326)
Share of other comprehensive income of entities accounted for by the equity method	(19,004)	4,695	(163,138)
Total other comprehensive income	(79,287)	(90,116)	(680,633)
<b>Comprehensive income</b>	<b>¥ 54,378</b>	<b>¥ (118,607)</b>	<b>\$ 466,804</b>
<b>Comprehensive income attributable to:</b>			
Owners of the parent	¥ 51,686	¥ (135,126)	\$ 443,694
Non-controlling interests	2,692	16,518	23,109

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Kirin Holdings Company, Limited and Consolidated Subsidiaries

For the years ended December 31, 2016 and 2015

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of January 1, 2015	¥102,045	¥81,417	¥848,381	¥(74,797)	¥957,047
Cumulative effects of changes in accounting policies	-	(81,417)	(147,697)	-	(229,115)
Restated balance as of January 1, 2015	¥102,045	¥ -	¥700,683	¥(74,797)	¥727,931
Changes of items during the period					
Dividends from surplus (Note 19)	-	-	(34,676)	-	(34,676)
Net loss attributable to owners of the parent	-	-	(47,329)	-	(47,329)
Acquisition of treasury stock (Note 19)	-	-	-	(34)	(34)
Disposal of treasury stock (Note 19)	-	0	-	2	3
Retirement of treasury stock (Note 19)	-	(72,726)	-	72,726	-
Transfer to capital surplus from retained earnings	-	72,897	(72,897)	-	-
Increase by merger	-	-	8	-	8
Change of scope of equity method	-	-	(76)	-	(76)
Change in shareholder's interest due to transaction with non-controlling interest	-	(136)	-	-	(136)
Capital increase of consolidated subsidiaries	-	(35)	-	-	(35)
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during the period	-	-	(154,971)	72,693	(82,277)
Balance as of January 1, 2016	¥102,045	¥ -	¥545,711	¥ (2,103)	¥645,653
Changes of items during the period					
Dividends from surplus (Note 19)	-	-	(34,675)	-	(34,675)
Net income attributable to owners of the parent	-	-	118,158	-	118,158
Acquisition of treasury stock (Note 19)	-	-	-	(24)	(24)
Disposal of treasury stock (Note 19)	-	0	-	1	1
Change of scope of consolidation	-	-	(11)	-	(11)
Change of scope of equity method	-	-	(158)	-	(158)
Change in shareholder's interest due to transaction with non-controlling interest	-	1	-	-	1
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during the period	-	2	83,312	(23)	83,291
Balance as of December 31, 2016	¥102,045	¥ 2	¥629,024	¥ (2,126)	¥728,945

The accompanying notes are an integral part of these consolidated financial statements.

	Millions of yen								
	Accumulated other comprehensive income						Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized gains on securities	Deferred gains or losses on hedges	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of January 1, 2015	¥49,556	¥ 827	¥(2,140)	¥ 110,259	¥ (13,716)	¥ 144,786	¥332	¥233,544	¥1,335,711
Cumulative effects of changes in accounting policies	-	-	-	(39,191)	-	(39,191)	-	169	(268,137)
Restated balance as of January 1, 2015	¥49,556	¥ 827	¥(2,140)	¥ 71,068	¥ (13,716)	¥ 105,595	¥332	¥233,713	¥1,067,573
Changes of items during the period									
Dividends from surplus (Note 19)	-	-	-	-	-	-	-	-	(34,676)
Net loss attributable to owners of the parent	-	-	-	-	-	-	-	-	(47,329)
Acquisition of treasury stock (Note 19)	-	-	-	-	-	-	-	-	(34)
Disposal of treasury stock (Note 19)	-	-	-	-	-	-	-	-	3
Retirement of treasury stock (Note 19)	-	-	-	-	-	-	-	-	-
Transfer to capital surplus from retained earnings	-	-	-	-	-	-	-	-	-
Increase by merger	-	-	-	-	-	-	-	-	8
Change of scope of equity method	-	-	-	-	-	-	-	-	(76)
Change in shareholder's interest due to transaction with non-controlling interest	-	-	-	-	-	-	-	-	(136)
Capital increase of consolidated subsidiaries	-	-	-	-	-	-	-	-	(35)
Net changes of items other than shareholders' equity	10,280	1,569	119	(99,537)	161	(87,406)	97	40,097	(47,212)
Total changes of items during the period	10,280	1,569	119	(99,537)	161	(87,406)	97	40,097	(129,490)
Balance as of January 1, 2016	¥59,836	¥ 2,396	¥(2,020)	¥ (28,468)	¥ (13,555)	¥ 18,188	¥430	¥273,810	¥ 938,083
Changes of items during the period									
Dividends from surplus (Note 19)	-	-	-	-	-	-	-	-	(34,675)
Net income attributable to owners of the parent	-	-	-	-	-	-	-	-	118,158
Acquisition of treasury stock (Note 19)	-	-	-	-	-	-	-	-	(24)
Disposal of treasury stock (Note 19)	-	-	-	-	-	-	-	-	1
Change of scope of consolidation	-	-	-	-	-	-	-	-	(11)
Change of scope of equity method	-	-	-	-	-	-	-	-	(158)
Change in shareholder's interest due to transaction with non-controlling interest	-	-	-	-	-	-	-	-	1
Net changes of items other than shareholders' equity	333	(3,567)	61	(58,139)	(5,160)	(66,471)	132	(8,951)	(75,290)
Total changes of items during the period	333	(3,567)	61	(58,139)	(5,160)	(66,471)	132	(8,951)	8,000
Balance as of December 31, 2016	¥60,170	¥ (1,170)	¥(1,959)	¥ (86,607)	¥ (18,716)	¥ (48,282)	¥562	¥264,859	¥ 946,083

The accompanying notes are an integral part of these consolidated financial statements.

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of January 1, 2016	<b>\$875,997</b>	<b>\$ -</b>	<b>\$4,684,616</b>	<b>\$ (18,053)</b>	<b>\$5,542,561</b>
Changes of items during the period					
Dividends from surplus (Note 19)	-	-	(297,665)	-	(297,665)
Net income attributable to owners of the parent	-	-	1,014,318	-	1,014,318
Acquisition of treasury stock (Note 19)	-	-	-	(206)	(206)
Disposal of treasury stock (Note 19)	-	0	-	8	8
Change of scope of consolidation	-	-	(94)	-	(94)
Change of scope of equity method	-	-	(1,356)	-	(1,356)
Change in shareholder's interest due to transaction with non-controlling interest	-	8	-	-	8
Net changes of items other than shareholders' equity	-	-	-	-	-
Total changes of items during the period	-	17	715,185	(197)	715,005
Balance as of December 31, 2016	<b>\$875,997</b>	<b>\$17</b>	<b>\$5,399,811</b>	<b>\$ (18,250)</b>	<b>\$6,257,575</b>



Thousands of U.S. dollars (Note 1)									
	Accumulated other comprehensive income						Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized gains on securities	Deferred gains or losses on hedges	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of January 1, 2016	\$513,657	\$ 20,568	\$(17,340)	\$ (244,381)	\$(116,361)	\$156,133	\$3,691	\$2,350,502	\$8,052,905
Changes of items during the period									
Dividends from surplus (Note 19)	-	-	-	-	-	-	-	-	(297,665)
Net income attributable to owners of the parent	-	-	-	-	-	-	-	-	1,014,318
Acquisition of treasury stock (Note 19)	-	-	-	-	-	-	-	-	(206)
Disposal of treasury stock (Note 19)	-	-	-	-	-	-	-	-	8
Change of scope of consolidation	-	-	-	-	-	-	-	-	(94)
Change of scope of equity method	-	-	-	-	-	-	-	-	(1,356)
Change in shareholder's interest due to transaction with non-controlling interest	-	-	-	-	-	-	-	-	8
Net changes of items other than shareholders' equity	2,858	(30,620)	523	(499,090)	(44,295)	(570,615)	1,133	(76,839)	(646,321)
Total changes of items during the period	2,858	(30,620)	523	(499,090)	(44,295)	(570,615)	1,133	(76,839)	68,675
Balance as of December 31, 2016	\$516,525	\$(10,043)	\$(16,816)	\$(743,471)	\$(160,666)	\$ (414,473)	\$4,824	\$2,273,662	\$8,121,581

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Cash Flows

Kirin Holdings Company, Limited and Consolidated Subsidiaries

For the years ended December 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 180,763	¥ 17,422	\$ 1,551,746
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	77,420	94,603	664,606
Loss on impairment	473	123,385	4,060
Amortization of goodwill	22,317	27,323	191,578
Interest and dividend income	(5,364)	(6,538)	(46,046)
Equity in (earnings) losses of affiliates	(11,849)	(16,160)	(101,716)
Interest expense	13,252	20,067	113,760
Gain on sale of property, plant and equipment and intangible assets	(8,456)	(19,454)	(72,589)
Loss on disposal and sale of property, plant and equipment and intangible assets	4,953	3,168	42,518
Gain on sale of investment securities	(7,229)	(6,810)	(62,056)
Gain on sale of shares of subsidiaries and affiliates	(15,468)	-	(132,783)
(Increase) decrease in notes and accounts receivable, trade	3,041	(6,942)	26,105
(Increase) decrease in inventories	14,760	(5,058)	126,706
Increase (decrease) in notes and accounts payable, trade	(3,377)	(4,978)	(28,989)
Increase (decrease) in liquor taxes payable	(4,119)	1,852	(35,359)
Increase (decrease) in consumption taxes payable	(4,571)	(8,785)	(39,239)
Increase (decrease) in deposits received	(5,441)	(2,872)	(46,707)
Other	10,588	(11,292)	90,891
<b>Sub-total</b>	<b>261,693</b>	<b>198,927</b>	<b>2,246,484</b>
Interest and dividends received	16,498	18,136	141,625
Interest paid	(9,874)	(13,114)	(84,762)
Income taxes paid	(41,848)	(32,938)	(359,241)
<b>Net cash provided by operating activities</b>	<b>226,468</b>	<b>171,011</b>	<b>1,944,098</b>
<b>Cash flows from investing activities</b>			
Payment for purchases of property, plant and equipment and intangible assets	(95,031)	(77,116)	(815,786)
Proceeds from sale of property, plant and equipment and intangible assets	20,190	32,332	173,319
Proceeds from transfer of business	-	12,809	-
Payment for acquisition of marketable securities and investment securities	(20,757)	(10,653)	(178,186)
Proceeds from sale and redemption of marketable securities and investment securities	16,183	19,868	138,921
Payment for acquisition of shares of newly consolidated subsidiaries (Note 20)	(106)	(52,877)	(909)
Other	2,000	4,977	17,168
<b>Net cash used in investing activities</b>	<b>(77,520)</b>	<b>(70,659)</b>	<b>(665,464)</b>
<b>Cash flows from financing activities</b>			
Increase (decrease) in short-term loans payable	(23,751)	(13,118)	(203,888)
Increase (decrease) in commercial paper	45,000	(83,994)	386,299
Proceeds from long-term debt	38,382	170,158	329,487
Repayment of long-term debt	(129,239)	(63,070)	(1,109,442)
Proceeds from issuance of bonds	-	15,000	-
Payment for redemption of bonds	(30,000)	(58,886)	(257,532)
Payment for acquisition of treasury stock	(60)	(246)	(515)
Cash dividends paid	(34,675)	(34,676)	(297,665)
Cash dividends paid to non-controlling interests	(8,498)	(6,495)	(72,950)
Other	(2,341)	(2,889)	(20,096)
<b>Net cash used in financing activities</b>	<b>(145,184)</b>	<b>(78,221)</b>	<b>(1,246,321)</b>
Effect of exchange rate changes on cash and cash equivalents	(6,363)	(2,326)	(54,622)
Net increase (decrease) in cash and cash equivalents	(2,600)	19,804	(22,319)
Cash and cash equivalents at beginning of year	60,336	40,730	517,950
Net increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(10)	(197)	(85)
<b>Cash and cash equivalents at end of year (Note 20)</b>	<b>¥ 57,725</b>	<b>¥ 60,336</b>	<b>\$ 495,536</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to Consolidated Financial Statements

Kirin Holdings Company, Limited and Consolidated Subsidiaries

For the years ended December 31, 2016 and 2015

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying consolidated financial statements have been prepared by using the accounts of consolidated foreign subsidiaries prepared in accordance with either IFRS or accounting principles generally accepted in the United States, together with adjustment for certain items which are required to be adjusted in the consolidation process. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars in the accompanying consolidated financial statements are included solely for the convenience of readers outside Japan, using the prevailing exchange rate on December 31, 2016, which was ¥116.49 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Fractions less than one million yen have been omitted. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sum of the individual amounts.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (1) CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and all significant subsidiaries that are controlled through substantial ownership of majority voting rights or through certain other means. All significant inter-company balances and transactions have been eliminated in the consolidation. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling interests, are evaluated using the fair value at the time when the Company acquired control of the respective subsidiaries.

Differences between the acquisition costs and the underlying net equities of investments in consolidated subsidiaries are recorded as goodwill in the consolidated balance sheets and amortized using the straight-line method over periods mainly between 15 and 20 years. Any immaterial amounts are fully recognized as expenses as incurred.

The number of consolidated subsidiaries as of December 31, 2016 was 188.

Major consolidated subsidiaries as of December 31, 2016 were as follows:

KIRIN Company, Limited, Kirin Brewery Company, Limited, Kirin Beer Marketing Company, Limited, Mercian Corporation, Kirin Beverage Company, Limited, Kirin Beverage Value Vendor Company, Limited, Lion Pty Limited, Brasil Kirin Holding S.A., and Kyowa Hakko Kirin Company, Limited.

Changes in the scope of consolidation during the year ended December 31, 2016 are as follows:

- (a) Due to new establishment, 1 subsidiary of Brasil Kirin Holding S.A., 2 subsidiaries of Kyowa Hakko Kirin Company, Limited, and 3 subsidiaries of Lion Pty Limited became consolidated subsidiaries.
- (b) Due to new acquisition, 1 subsidiary of Kyowa Hakko Kirin Company, Limited became a consolidated subsidiary.
- (c) Due to sale of all shares, 1 subsidiary of Brasil Kirin Holding S.A. was excluded from the consolidation scope.
- (d) Due to liquidation, 1 subsidiary of the Company, 2 subsidiaries of Kyowa Hakko Kirin Company, Limited, and 5 subsidiaries of Lion Pty Limited were excluded from the consolidation scope.
- (e) Due to mergers, 1 subsidiary of Kirin Beverage Company, Limited, 1 subsidiary of Kyowa Hakko Kirin Company, Limited, and 17 subsidiaries of Lion Pty Limited were excluded from the consolidation scope.
- (f) Due to a decrease in materiality, 2 subsidiaries of Kirin Beverage Company, Limited were excluded from the consolidation scope.

Certain subsidiaries, including Chiyoda Transportation Company, Limited, are excluded from the scope of consolidation because they are small in scale and the effect of their total assets, sales, and the Company's share of net income or losses and retained earnings on the accompanying consolidated financial statements is immaterial.

The fiscal year-end of Lion Pty Limited and its subsidiaries, and Myanmar Brewery Limited are September 30 and March 31, respectively. For Lion Pty Limited and its subsidiaries, the Company used the financial statements as of their fiscal year-end and for the year then ended for consolidation. For Myanmar Brewery Limited, the Company used the financial statements based on provisional settlement as of the fiscal year-end, September 30, of its intermediate parent company Kirin Holdings Singapore Pte, Ltd. The Company made necessary adjustments for major inter-company transactions between September 30 and December 31.

## **(2) EQUITY METHOD**

Investments in unconsolidated subsidiaries and affiliates (principally ownership interests of 20% to 50%) are accounted for by the equity method and, accordingly, are stated at purchase cost adjusted for equity earnings and losses of the investments after elimination of unrealized inter-company profits and losses from the date of acquisition of shares.

Differences between the acquisition costs and the underlying net equities of investments in unconsolidated subsidiaries and affiliates are included in investment securities in the consolidated balance sheets and amortized using the straight-line method over periods mainly between 15 and 20 years. Any immaterial amounts are fully recognized as expenses as incurred.

There was no unconsolidated subsidiary accounted for by the equity method as of December 31, 2016 and the number of affiliates accounted for by the equity method as of December 31, 2016 was 18.

Major affiliates which are accounted for by the equity method at December 31, 2016 are as follows:

San Miguel Brewery Inc., China Resources Kirin Beverages (Greater China) Company, Limited, Kirin-Amgen, Inc.

Changes in the scope of entities accounted for by the equity method during the year ended December 31, 2016 are as follows:

- (a) Due to new acquisition, 1 affiliate of Kirin Brewery Company, Limited and 2 affiliates of Lion Pty Limited became affiliates accounted for by the equity method.
- (b) Due to an increase in materiality, 1 affiliate of Mercian Corporation became an affiliate accounted for by the equity method.
- (c) Due to a decrease in materiality, 1 affiliate of the Company was excluded from the scope of application of the equity method.

Certain investments in unconsolidated subsidiaries, including Chiyoda Transportation Company, Limited, and affiliates including Diamond Sports Club Company, Limited, were not accounted for by the equity method and were stated at cost because the effect of the Company's share of their net income or losses and retained earnings on the accompanying consolidated financial statements is immaterial individually and as a whole.

Where the fiscal year-ends of the affiliated companies accounted for by the equity method are different from that of the Company, the Company mainly used their financial statements as of their fiscal year-ends and for the years then ended for applying the equity method.

The Company accounts for San Miguel Brewery Inc., China Resources Kirin Beverages (Greater China) Company, Limited and certain overseas affiliates (fiscal year ended December 31) by the equity method. It is difficult for the Company to prepare its consolidated financial statements based on the final year-end figures of the above companies due to the early disclosure of the consolidated business performance. As such, their financial statements are based on 12 months from the fourth quarter of the previous fiscal year to the third quarter of this fiscal year.

## **(3) FOREIGN CURRENCY TRANSLATION**

### **(a) Translation of accounts**

Foreign currency transactions are translated at the exchange rates prevailing at the date of the transactions. All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing on the balance sheet date. Gains and losses resulting from the translation are recognized in the consolidated statements of income as incurred.

### **(b) Financial statements denominated in foreign currencies**

Assets and liabilities in balance sheets of consolidated foreign subsidiaries are translated into Japanese yen at the year-end rate. Income statements of consolidated foreign subsidiaries are translated at the average rates. Exchange differences arising from the translation of the consolidated subsidiaries' accounts are recognized as foreign currency translation adjustments in other comprehensive income.

## **(4) CASH AND CASH EQUIVALENTS**

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with negligible risk of changes in value and maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

## **(5) MARKETABLE AND INVESTMENT SECURITIES**

The Company and its consolidated subsidiaries examine the intent of holding each security and classify those securities as (a) securities held for trading purposes, (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, or (d) all other securities that are not classified in any of the above categories ("available-for-sale securities"). The Company and its consolidated subsidiaries did not hold any security defined as (a) above as of December 31, 2016 and 2015.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliates that are not consolidated or accounted for by the equity method are stated at the moving-average cost. Available-for-sale securities with fair value are stated at fair value, as of the balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are calculated using the moving-average method. Available-for-sale securities without fair value are stated at the moving-average cost.

If the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, or available-for-sale securities declines significantly, such securities are reduced to the fair value and the difference between the fair value and the carrying amount is recognized as impairment loss in the consolidated statement of income in the period of the decline. For equity securities without fair value, if the net asset value of the investee declines significantly, such securities are reduced to the net asset value with the corresponding losses recognized as impairment loss in the consolidated statement of income in the period of the decline. In these cases, such fair value or the net asset value will be the carrying amount of the securities at the beginning of the following fiscal year.

#### **(6) INVENTORIES**

Merchandise, finished goods and semi-finished goods are mainly stated at the lower of cost determined by the periodic average method and net realizable value. Raw materials, containers and supplies are mainly stated at the lower of cost determined by the moving-average method and net realizable value. Cost of uncompleted construction contracts is stated at cost determined by the specific identification method.

#### **(7) ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The Company and its consolidated subsidiaries provide allowance for doubtful accounts in an amount sufficient to cover probable losses on collection. The allowance for doubtful accounts consists of the estimated uncollectible amounts with respect to certain identified doubtful receivables and an amount calculated using the actual historic percentage of collection losses.

#### **(8) PROPERTY, PLANT AND EQUIPMENT (excluding leased assets)**

Property, plant and equipment are stated at cost net of accumulated depreciation and accumulated loss on impairment. Depreciation for the Company and most of its consolidated subsidiaries is calculated using the straight-line method. Depreciation for certain consolidated subsidiaries is calculated using the declining-balance method. Useful lives and the residual values for the Company and its consolidated domestic subsidiaries are mainly based on the methods provided by the Japanese Income Tax Law.

#### **(9) INTANGIBLE ASSETS (excluding leased assets)**

The Company and its consolidated domestic subsidiaries amortize intangible assets using the straight-line method. Consolidated foreign subsidiaries mainly adopt the straight-line method over 20 years.

#### **(10) ALLOWANCE FOR EMPLOYEES' BONUSES**

The Company and its consolidated subsidiaries provide allowance for employees' bonuses based on the estimated amounts payable.

#### **(11) ALLOWANCE FOR BONUSES FOR DIRECTORS AND COMPANY AUDITORS**

The Company and its consolidated subsidiaries provide allowance for bonuses for directors and company auditors based on the estimated amounts payable.

#### **(12) NET DEFINED BENEFIT LIABILITY**

In calculating retirement benefit obligation, benefit formula attribution is used for attributing projected benefit obligation for the period up to the end of the current fiscal year.

Past service costs are amortized by the straight-line method over a certain number of years (5 - 15 years) within the average of the remaining years of service to be performed by the employees at the time of accrual.

Actuarial gains and losses are amortized by the straight-line method over a certain number of years (10 - 15 years) within the average of the estimated remaining years of service to be performed by the employees at the time of accrual, beginning from the following fiscal year.

#### **(13) RETIREMENT BENEFITS FOR DIRECTORS AND COMPANY AUDITORS**

Provision for retirement benefits for directors and company auditors represents the full accrued amount of such retirement benefit obligations as of the balance sheet date calculated in accordance with the policies of the Company and its consolidated subsidiaries.

#### **(14) RESERVE FOR REPAIRS AND MAINTENANCE OF VENDING MACHINES**

Consolidated subsidiaries of Kirin Beverage Company, Limited provide reserve for repairs and maintenance of vending machines by estimating the necessary repair and maintenance costs in the future and allocating the costs over a reasonable period. The actual expenditure is deducted from the balance of the reserve on the consolidated balance sheets.

#### **(15) RESERVE FOR ENVIRONMENTAL MEASURES**

The Company and its consolidated subsidiaries provide reserve for environmental measures based on the estimated amounts payable.

#### **(16) RESERVE FOR LOSS ON LITIGATION**

Consolidated subsidiaries of the Company in Brazil provide reserve for estimated losses to be incurred on tax litigation and other matters.

**(17) ALLOWANCE FOR LOSS ON PLANTS REORGANIZATION**

The Company and its consolidated subsidiaries provide allowance for reasonably estimated losses to be incurred in connection with plants reorganization.

**(18) RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses for the improvement of existing products or the development of new products, including basic research and fundamental development costs, are recognized in the consolidated statements of income in the year when incurred. The total amount of research and development expenses, included in cost of sales and selling, general and administrative expenses, was ¥62,921 million (\$540,140 thousand) and ¥61,337 million for the years ended December 31, 2016 and 2015, respectively.

**(19) LIQUOR TAXES**

The amounts of liquor taxes stated in the consolidated statements of income represent the liquor taxes on the sale of liquor products.

**(20) INCOME TAXES**

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 of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

**(21) APPLICATION OF CONSOLIDATED TAXATION REGIME**

Consolidated taxation regime is applied by the Company and certain consolidated subsidiaries.

**(22) CONSUMPTION TAXES**

Consumption taxes are excluded from the revenue and expense accounts which are subject to such taxes.

**(23) LEASES**

Depreciation of finance leases for which ownership of the leased assets is not transferred to the lessee is calculated by the straight-line method over the period of lease terms without residual value.

**(24) DERIVATIVES AND HEDGE ACCOUNTING**

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains and losses in the consolidated statements of income unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains and losses resulting from changes in fair value of derivative financial instruments as “Deferred gains or losses on hedges” in accumulated other comprehensive income in the accompanying consolidated balance sheets until the related gains and losses on the hedged items are recognized.

If forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

- (a) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
  - 1) the difference, if any, between the amount in Japanese yen of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the carrying amount of the receivable or payable is recognized in the consolidated statements of income in the period which includes the inception date, and
  - 2) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.  
(“Appropriation treatment”)
- (b) If a forward foreign exchange contract is executed to hedge a forecasted transaction denominated in a foreign currency, the forecasted transaction will be recorded using the contracted forward rate on recognition, and no gains or losses on the forward foreign exchange contract are recognized. (“Deferral hedge accounting”)

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed. (“Special treatment”)

Interest rate swaps that hedge transactions between consolidated companies are stated at fair value and the changes in the fair value are recognized as income or loss in the consolidated statement of income for the period.

## Hedging instruments and hedged items

The following summarizes hedging derivative financial instruments used by the Company and its consolidated subsidiaries and the items hedged:

Hedging instruments	Hedged items
Forward foreign exchange contracts, currency swap contracts, and others	Receivables and payables in foreign currency, forecasted transactions in foreign currency
Interest rate swap contracts, and others	Interest on loans receivable and payable
Commodity swap contracts, and others	Commodity prices

The Company and its consolidated subsidiaries use derivative financial instruments mainly for the purpose of mitigating (i) fluctuation risk of foreign currency exchange rates with respect to receivables and payables in foreign currency and forecasted transactions in foreign currency, (ii) fluctuation risk of interest rates with respect to loans receivable and payable, and (iii) fluctuation risk of commodity prices of raw materials and others.

The Company and its consolidated subsidiaries evaluate hedging effectiveness semi-annually by comparing the cumulative changes in cash flows from, or the changes in fair value of, hedged items with the corresponding changes in the hedging derivative instruments.

## (25) AMOUNTS PER SHARE OF COMMON STOCK

Net income per share is computed based upon the average number of shares of common stock outstanding during the period.

Net income per share (diluted) is not required to state in case of net loss per share.

Cash dividends per share have been presented on an accruals basis and include dividends to be approved after the balance sheet date, but applicable to the year then ended.

## (26) CHANGES IN ACCOUNTING POLICIES WHICH ARE DIFFICULT TO DISTINGUISH FROM CHANGES IN ACCOUNTING ESTIMATES

(Changes in depreciation method for property, plant and equipment and changes in useful lives)

With respect to the depreciation method for property, plant and equipment, the Company and its consolidated subsidiaries that belong to the Japan Integrated Beverages Business had previously adopted the declining-balance method except for buildings (excluding building fixtures) acquired on or after April 1, 1998, which were depreciated using the straight-line method. However, starting from the year ended December 31, 2016, the method has been changed to the straight-line method for all assets.

At the companies that belong to the Japan Integrated Beverages Business, stable operation has become possible with appropriate production capacity to meet demand, as a result of the optimization of production capacity through the concentration of manufacturing sites and other means. Accordingly, the depreciation method has been reviewed in conjunction with the formulation of the Medium-Term Business Plan 2016-2018. Consequently, as stable operation of existing domestic facilities is anticipated, the Company has determined that the allocation of costs through depreciation over the useful life on a straight-line basis would be more appropriate for the companies that belong to the Japan Integrated Beverages Business.

In addition, this change will contribute to unification of the accounting policies adopted by the Group companies, including those overseas, and enhance the comparability among the Group companies.

At the same time, the useful lives for certain property, plant and equipment have been revised.

As a result of this change, for the year ended December 31, 2016, operating income, ordinary income and income before income taxes increased by ¥10,153 million (\$87,157 thousand), as compared to the amounts calculated by the previous method.

## (27) CHANGES IN PRESENTATION

(Changes associated with the application of the Revised Accounting Standard for Business Combinations and other standards)

The Company has applied the provisions stated in Paragraph 39 of the “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013). Accordingly, the presentation of net income and other related items was changed and the presentation of minority interests was changed to non-controlling interests. In order to reflect these changes in presentation, reclassifications were made to the consolidated financial statements for the year ended December 31, 2015.

## (28) ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

(Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016))

### (1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a necessary review was conducted following the framework of Japanese Institution of Certified Public Accountants Audit Committee Report No. 66 “Audit Treatment on Determining the Recoverability of Deferred Tax Assets,” whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- 1) Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- 2) Category requirements for (Category 2) and (Category 3)
- 3) Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- 4) Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- 5) Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(2) Planned application date

The Company plans to apply the guidance from the beginning of the year ending December 31, 2017.

(3) Effect of the application of the guidance

The effect is under assessment at the time of preparation of the accompanying consolidated financial statements.

### (29) RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements for the year ended December 31, 2015 to conform to the presentation for the year ended December 31, 2016.

## 3. SHORT-TERM LOANS PAYABLE, COMMERCIAL PAPER, LONG-TERM DEBT, BONDS AND OTHER LONG-TERM LIABILITIES

Short-term loans payable outstanding as of December 31, 2016 and 2015 consisted of the following:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Unsecured	¥ 4,327	¥29,910	\$ 37,144
Secured	13,133	11,871	112,739
Total short-term loans payable	¥17,460	¥41,781	\$149,884

Average annual interest rates on outstanding short-term loans payable as of December 31, 2016 and 2015 were 2.96% and 2.39%, respectively.

Long-term debt and bonds as of December 31, 2016 and 2015 consisted of the following:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Loans principally from banks and insurance companies, with average rate of 1.74% for current portion, and maturing from 2018 to 2027 with average rate of 1.00% for non-current portion	¥ 391,186	¥ 490,331	\$ 3,358,107
0.505% coupon debentures in yen, due in 2016	-	30,000	-
1.69% coupon debentures in yen, due in 2018	69,998	69,996	600,892
1.639% coupon debentures in yen, due in 2019	50,000	50,000	429,221
1.86% coupon debentures in yen, due in 2020	19,995	19,994	171,645
1.239% coupon debentures in yen, due in 2021	40,000	40,000	343,377
0.603% coupon debentures in yen, due in 2025	15,000	15,000	128,766
Less current maturities	(72,474)	(116,378)	(622,147)
Total long-term debt and bonds	¥ 513,706	¥ 598,944	\$ 4,409,872

The non-current portion of loans includes loans of a consolidated subsidiary whose fiscal year-end is September 30 which differs from that of the Company.

The above balances of loans include secured loans of ¥22,971 million (\$197,192 thousand) and ¥32,228 million as of December 31, 2016 and 2015, respectively.

Other interest-bearing debt as of December 31, 2016 and 2015 consisted of the following:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Finance lease obligation – current (at an average interest rate of 2.41% in 2016 and 1.26% in 2015)	¥ 1,967	¥ 1,969	\$ 16,885
Finance lease obligation – non-current (at an average interest rate of 1.82% in 2016 and 1.26% in 2015, maturing from 2018 to 2023)	5,663	5,703	48,613
Commercial paper (at an average interest rate of -0.00% in 2016)	45,000	-	386,299
Deposits received (at an average interest rate of 1.02% in 2016 and 1.05% in 2015)	¥55,491	¥56,701	\$476,358



Deposits received on the accompanying consolidated balance sheets include non-interest-bearing deposits.

The above balance of deposits received includes a secured portion of ¥60 million (\$515 thousand) and ¥66 million as of December 31, 2016 and 2015, respectively.

The aggregate annual maturities of long-term debt, bonds and finance lease obligation as of December 31, 2016 were as follows:

	Amount	
	(Millions of yen)	(Thousands of U.S. dollars)
Years ending December 31,		
2017	¥ 74,441	\$ 639,033
2018	127,561	1,095,038
2019	100,176	859,953
2020	117,212	1,006,197
2021	92,655	795,390
2022 and thereafter	81,763	701,888
Total	¥593,810	\$5,097,519

Deposits received are not included in the above schedule of annual maturities, as there is no fixed maturity period for these deposits.

As of December 31, 2016 and 2015, assets pledged as collateral for the above secured liabilities were as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Property, plant and equipment	¥46,132	¥50,680	\$396,016
Investment securities	659	798	5,657
	¥46,791	¥51,479	\$401,673

Deposits received relating to construction were recognized at the amortized cost of ¥7,779 million (\$66,778 thousand) and ¥8,805 million as of December 31, 2016 and 2015, respectively, in accordance with the accounting standard for financial instruments.

## 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost net of accumulated depreciation and accumulated loss on impairment in the consolidated balance sheets, and are summarized as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 555,316	¥ 551,155	\$ 4,767,070
Machinery, equipment and vehicles	943,822	947,561	8,102,171
Land	159,008	167,579	1,364,992
Construction in progress	52,371	52,671	449,575
Other	188,471	185,650	1,617,915
Total	1,898,991	1,904,618	16,301,751
Accumulated depreciation	(1,193,786)	(1,192,854)	(10,247,969)
Net of property, plant and equipment	¥ 705,204	¥ 711,763	\$ 6,053,772

Amounts deducted from property, plant and equipment due to subsidies received from governments and others are as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 183	¥ 60	\$ 1,570
Machinery, equipment and vehicles	1,575	845	13,520
Other	1,247	1,790	10,704
Total	¥3,007	¥2,696	\$25,813

## 5. CONTINGENT LIABILITIES

As of December 31, 2016 and 2015, the Company and its consolidated subsidiaries were contingently liable as guarantors of loan obligations of unconsolidated subsidiaries, affiliates, employees and others for the amount of ¥2,642 million (\$22,680 thousand) and ¥3,470 million, respectively. The Company and its consolidated subsidiaries were also contingently liable for notes receivable discounted for the amount of ¥26 million as of December 31, 2015.

Consolidated subsidiaries of the Company in Brazil are in tax-related litigation with the tax authority over ICMS (State Value-Added Tax), PIS (Social Integration Program), COFINS (Social Security Contribution) and others, in addition to labor-related litigation and civil lawsuits. Although “Reserve for loss on litigation” has been recorded in order to provide for the estimated losses on these litigation and lawsuits, ¥60,636 million (\$520,525 thousand) and ¥48,988 million associated with tax-related litigation, ¥12,404 million (\$106,481 thousand) and ¥12,262 million associated with labor-related litigation and ¥6,198 million (\$53,206 thousand) and ¥5,407 million associated with civil lawsuits have not been recorded as reserves as of December 31, 2016 and 2015, respectively, because the risks of losses in the future are classified by management as only possible upon consideration of the individual risks of each contingent event based on the opinion of outside legal advisers.

## 6. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended December 31, 2016 and 2015 were as follows:

	Years ended December 31,		Year ended December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Sales promotion	¥205,369	¥244,424	\$1,762,975
Freight	71,506	72,211	613,838
Advertising	62,940	68,825	540,303
Retirement benefit expenses	11,934	13,327	102,446
Salaries and wages of employees	149,128	151,642	1,280,178
Research and development	62,874	61,250	539,737
Depreciation and amortization	34,899	40,952	299,587
Preferential treatment for special taxation measures of foreign subsidiaries	(11,965)	(16,019)	(102,712)

(Impact from the change in terms for certain sales promotion expenses)

From April 1, 2016, Kirin Beverage Company, Limited, the Company’s consolidated subsidiary, has changed the terms for certain sales promotion expenses offered to customers to be paid based on the quantity of shipments. Given this change, such sales promotion expenses, which were previously recorded as “Selling, general and administrative expenses,” have been deducted from “Sales” from the second quarter of the current fiscal year.

As a result of this change, for the year ended December 31, 2016, “Sales” and “Selling, general and administrative expenses” both decreased by ¥33,896 million (\$290,977 thousand).

## 7. SALE AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Gains or losses on sale and disposal of property, plant and equipment and intangible assets consist of the following:

	Years ended December 31,		Year ended December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Gain on sale of property, plant and equipment and intangible assets:			
Buildings and structures	¥ 527	¥ 2,597	\$ 4,523
Machinery, equipment and vehicles	242	243	2,077
Land	5,991	16,327	51,429
Other	1,694	285	14,542
Total	8,456	19,454	72,589
Loss on sale of property, plant and equipment and intangible assets:			
Buildings and structures	1,336	504	11,468
Machinery, equipment and vehicles	716	155	6,146
Land	46	162	394
Other	86	55	738
Total	2,185	878	18,756
Loss on disposal of property, plant and equipment and intangible assets:			
Buildings and structures	848	737	7,279
Machinery, equipment and vehicles	1,559	2,065	13,383
Other	917	359	7,871
Total	¥ 3,325	¥ 3,162	\$ 28,543

## 8. LOSS ON IMPAIRMENT

### Year ended December 31, 2016

The Company and its consolidated subsidiaries classified property, plant and equipment and intangible assets into groups based on the respective type of business, which are the units for making investment decisions. However, certain goodwill of foreign subsidiaries including Australian subsidiaries was classified into groups of units which represent the lowest level at which the goodwill is monitored for internal management purposes. For idle properties, each property is considered to constitute a group. Headquarters and welfare facilities are classified as corporate assets because they do not generate cash flows independent from other assets or group of assets.

The Company and its consolidated subsidiaries recognized loss on impairment for certain groups of assets as follows:

Use	Location	Type of assets
Assets used for business (Japan Integrated Beverages Business)	Sayama-shi, Saitama	Buildings and structures, machinery, equipment and vehicles and other assets
Assets used for business (Oceania Integrated Beverages Business)	Australia	Machinery, equipment and vehicles, others in property, plant and equipment and other assets
Assets used for business (Other Businesses)	Sayama-shi, Saitama	Buildings and structures, machinery, equipment and vehicles and other assets
Idle properties	Nagaizumi-cho, Shizuoka and 5 others	Land, machinery, equipment and vehicles and other assets

Carrying amounts of certain assets were devalued to their recoverable amount or memorandum value because (i) with respect to some assets used for Japan Integrated Beverages Business and Other Businesses, a resolution was passed to dissolve and liquidate a subsidiary engaged in the chilled beverages production business, (ii) Australian subsidiary in Oceania Integrated Beverages Business decided to sell a subsidiary engaged in the wine business in Australia and accordingly revalued its relevant assets used for business, and (iii) the fair value of idle properties substantially declined compared to their carrying value. As a result, the Company recognized loss on impairment of ¥473 million (\$4,060 thousand), business restructuring expense of ¥3,805 million (\$32,663 thousand) and “Other” of ¥767 million (\$6,584 thousand) recorded under special expenses in the consolidated statement of income for such devaluation, comprising ¥3,030 million (\$26,010 thousand) for machinery, equipment and vehicles, ¥1,093 million (\$9,382 thousand) for others in property, plant and equipment, ¥715 million (\$6,137 thousand) for buildings and structures, ¥171 million (\$1,467 thousand) for land and ¥37 million (\$317 thousand) for others in intangible assets.

The recoverable value of each group of assets is the higher of net selling price (fair value less cost to sell or appraised value) or value in use.

### ***Year ended December 31, 2015***

The Company and its consolidated subsidiaries classified property, plant and equipment and intangible assets into groups based on the respective type of business, which are the units for making investment decisions. However, certain goodwill of foreign subsidiaries including Australian subsidiaries was classified into groups of units which represent the lowest level at which the goodwill is monitored for internal management purposes. For idle properties, each property is considered to constitute a group. Headquarters and welfare facilities are classified as corporate assets because they do not generate cash flows independent from other assets or group of assets.

The Company and its consolidated subsidiaries recognized loss on impairment for certain groups of assets as follows:

Use	Location	Type of assets
Assets used for business (Japan Integrated Beverages Business)	Chiyoda-ku and Toshima-ku, Tokyo	Buildings and structures, others in intangible assets and other assets
Assets used for business (Oceania Integrated Beverages Business)	Australia	Machinery, equipment and vehicles, land, and other assets
Assets used for business (Other Overseas Integrated Beverages Business)	Brazil and one other	Goodwill, others in intangible assets, machinery, equipment and vehicles, and other assets
Rental assets (Pharmaceuticals and Bio-chemicals Business)	Hofu-shi, Yamaguchi	Land
Idle properties	Sakai-shi, Osaka and 16 others	Land, buildings and structures, and other assets

Carrying amounts of certain assets were devalued to their recoverable amount or memorandum value because (i) some assets used for Japan Integrated Beverages Business were judged that there was no prospect of recovering investments due to decline in profitability, (ii) Australian subsidiary in Oceania Integrated Beverages Business decided to integrate production facilities for assets used for business, (iii) assets used for business of Brazilian subsidiary in Other Overseas Integrated Beverages Business was revalued in accordance with International Financial Reporting Standards in response to sharp decline in sales volume due to intensifying competition and increase in raw material costs due to weakening local currency, (iv) some assets used for Pharmaceuticals and Bio-chemicals Business was judged that there was no prospect of recovering investments due to the change in usage of assets from assets used for business to assets used for lease and (v) the fair value of idle properties substantially declined compared to their carrying value. As a result, the Company recognized loss on impairment of ¥123,385 million and business restructuring expense of ¥767 million recorded under special expenses in the consolidated statement of income for such devaluation, comprising ¥71,623 million for goodwill, ¥43,607 million for intangible assets and others, ¥5,450 million for land, ¥2,777 million for machinery, equipment and vehicles, ¥361 million for tools, furniture and fixtures, ¥301 million for buildings and structures and ¥30 million for construction in progress.

The recoverable amount of each group of assets is the higher of net selling price (fair value less cost to sell or appraised value) or value in use calculated by discounting future cash flows at a discount rate of 5.0 % for the Company and consolidated domestic subsidiaries. Discount rates of 12.4% to 14.8% were used for the calculation of value in use of assets recorded at consolidated foreign subsidiaries depending on the situation of each subsidiary.

## **9. FOREIGN CURRENCY TRANSLATION GAIN OR LOSS**

For the year ended December 31, 2016, loss on currency swaps and forward foreign exchange contracts that are carried to hedge the foreign exchange rate fluctuation risks for loans receivable in foreign currencies and others amounting to ¥9,638 million (\$82,736 thousand) is included in “Other” under non-operating expenses after offsetting net foreign currency translation gain.

For the year ended December 31, 2015, gain on currency swaps and forward foreign exchange contracts that are carried to hedge the foreign exchange rate fluctuation risks for loans receivable in foreign currencies and others amounting to ¥5,303 million is included in “Other” under non-operating expenses after offsetting net foreign currency translation loss.

## **10. GAIN ON TERMINATION OF LICENSE AGREEMENTS**

Gain on termination of license agreements is recorded by Lion Pty Limited, a consolidated subsidiary of the Company, following the termination of license agreements for sales of imported beer in Australia.

## **11. GAIN ON REFUND OF FOREIGN SUBSIDIARY’S VALUE ADDED TAX**

Gain on refund of foreign subsidiary’s value added tax represents a tax refund including overdue interest received based on the favorable outcome of litigation brought against the tax authority by consolidated subsidiaries of the Company in Brazil in connection with the refund of value-added tax (taxes levied on industrial products) paid.

## 12. BUSINESS RESTRUCTURING EXPENSE

For the years ended December 31, 2016 and 2015, business restructuring expense included additional employees' retirement benefits of ¥5,137 million (\$44,098 thousand) and ¥2,784 million and expense for plants reorganization of ¥3,777 million (\$32,423 thousand) and ¥2,061 million, respectively, at consolidated subsidiaries.

## 13. OTHER COMPREHENSIVE INCOME

Amounts reclassified to net income (loss) for the years ended December 31, 2016 and 2015 that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Years ended December 31,		Year ended December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Net unrealized gains on securities:			
Increase (decrease) during the year	¥ 1,276	¥ 17,955	\$ 10,953
Reclassification adjustments	(7,047)	(6,914)	(60,494)
Amount before tax effect	(5,771)	11,040	(49,540)
Tax effect	(5,660)	654	(48,587)
Sub-total	(110)	10,386	(944)
Deferred gains or losses on hedges:			
Increase (decrease) during the year	(3,822)	2,110	(32,809)
Reclassification adjustments	(835)	293	(7,167)
Amount before tax effect	(4,658)	2,404	(39,986)
Tax effect	(1,093)	834	(9,382)
Sub-total	(3,564)	1,569	(30,594)
Land revaluation difference:			
Tax effect	61	119	523
Foreign currency translation adjustments:			
Increase (decrease) during the year	(50,223)	(106,614)	(431,135)
Reclassification adjustments	-	-	-
Sub-total	(50,223)	(106,614)	(431,135)
Remeasurements of defined benefit plans:			
Increase (decrease) during the year	(11,586)	(5,504)	(99,459)
Reclassification adjustments	2,753	4,983	23,632
Amount before tax effect	(8,833)	(520)	(75,826)
Tax effect	(2,387)	(246)	(20,491)
Sub-total	(6,445)	(273)	(55,326)
Share of other comprehensive income of entities accounted for by the equity method:			
Increase (decrease) during the year	(19,004)	4,775	(163,138)
Reclassification adjustments	-	(79)	-
Sub-total	(19,004)	4,695	(163,138)
Total other comprehensive income	¥(79,287)	¥(90,116)	\$(680,633)

# 14. INFORMATION ON SECURITIES

The following tables summarize acquisition costs and carrying amount.

## 1. Available-for-sale marketable securities with fair value

	December 31, 2016					
	Carrying amount	Cost	Difference	Carrying amount	Cost	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
(1) Securities with carrying amount exceeding acquisition cost						
Equity securities	¥147,725	¥62,450	¥85,275	\$1,268,134	\$536,097	\$732,037
Bonds						
Governmental/municipal bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Other	3,901	3,869	32	33,487	33,213	274
Other	-	-	-	-	-	-
Sub-total	151,627	66,319	85,308	1,301,631	569,310	732,320
(2) Securities with carrying amount not exceeding acquisition cost						
Equity securities	6,004	8,010	(2,006)	51,540	68,761	(17,220)
Bonds						
Governmental/municipal bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Other	-	-	-	-	-	-
Sub-total	6,004	8,010	(2,006)	51,540	68,761	(17,220)
Total	¥157,632	¥74,330	¥83,301	\$1,353,180	\$638,080	\$715,091

	December 31, 2015		
	Carrying amount	Cost	Difference
	(Millions of yen)		
(1) Securities with carrying amount exceeding acquisition cost			
Equity securities	¥153,309	¥63,325	¥89,984
Bonds			
Governmental/municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	5,538	5,509	29
Other	-	-	-
Sub-total	158,848	68,834	90,014
(2) Securities with carrying amount not exceeding acquisition cost			
Equity securities	4,326	4,774	(447)
Bonds			
Governmental/municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Sub-total	4,326	4,774	(447)
Total	¥163,174	¥73,608	¥89,566

## 2. Total sale of available-for-sale securities

	Years ended December 31,		Year ended December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Amount of equity securities sold	¥13,551	¥24,301	\$116,327
Total gain on sale	7,229	6,810	62,056
Total loss on sale	289	-	2,480

## 3. Carrying amount of major equity securities for which fair values are deemed extremely difficult to assess

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Available-for-sale securities			
Unlisted equity securities	¥ 9,861	¥15,416	\$84,651
Other	1,573	1,685	13,503
Total	¥11,434	¥17,101	\$98,154

## 4. Impairment loss on investment securities

Impairment losses of ¥529 million (\$4,541 thousand) and ¥34 million were recognized in the consolidated statements of income as “Loss on devaluation of investment securities” for available-for-sale securities for the years ended December 31, 2016 and 2015, respectively. Where the fair value of available-for-sale securities has declined by more than 30% from their costs, the value of those securities is considered to have “substantially declined” and impairment loss on those securities are recognized in the consolidated statements of income, unless the value is considered recoverable. For available-for-sale securities for which fair values are deemed extremely difficult to assess, when the value of those securities has declined by more than 50% from their costs, the value of those securities is considered to have “substantially declined” and the loss on impairment on those securities are recognized in the consolidated statements of income, except for cases where the recoverability of the value of those securities in the future is supported by reasonable grounds.

# 15. SEGMENT INFORMATION

## 1. Summary of reportable segments

### (1) Method of deciding reportable segments

The reportable segments of the Kirin Group are constituent units of the Group whose separate financial information is readily available, which are periodically examined by the Board for the purpose of deciding the allocation of management resources and evaluating the business results.

The Kirin Group comprises, under a holding company structure, various business companies including KIRIN Company, Limited engaging in the “Japan Integrated Beverages” business, Lion Pty Limited engaging in the “Oceania Integrated Beverages” business, Brasil Kirin Holding S.A. and other companies engaging in the “Other Overseas Integrated Beverages” business, and Kyowa Hakko Kirin Company, Limited engaging in the “Pharmaceuticals and Bio-chemicals” business. Each of these business companies work out a comprehensive strategy applicable to their products and services and carries out their business activities.

Consequently, the Kirin Group has identified four reportable segments, namely, “Japan Integrated Beverages,” “Oceania Integrated Beverages,” “Other Overseas Integrated Beverages,” and “Pharmaceuticals and Bio-chemicals,” by grouping each company after considering the similarities in economic characteristics and other factors.

### (2) Types of products and services classified in each reportable segment

“Japan Integrated Beverages” conducts production and sale of alcohol beverages, such as beer, *happo-shu* (low-malt beer), new genre, whiskey, spirits and soft drinks, and includes business such as engineering and logistics.

“Oceania Integrated Beverages” conducts production and sale of beer, whiskey, spirits, dairy products, fruit juice, and other products, in the Oceania region.

“Other Overseas Integrated Beverages” conducts production and sale of beer, soft drinks, and other products, in overseas other than the Oceania region.

“Pharmaceuticals and Bio-chemicals” conducts production and sale of pharmaceutical products, biochemical products, and other products.

“Japan Integrated Beverages” includes certain overseas companies.

## 2. Basis of measurement of sales, income or loss, assets and other item amounts by reportable segment

The accounting method for the business segments that are reported is generally the same as described in Note 2 “SIGNIFICANT ACCOUNTING POLICIES.”

The segment income figures stated in the reportable segments are based on operating income.

The inter-segment sales or the transfers are based on actual market prices.

(Changes in depreciation method for property, plant and equipment and changes in useful lives)

As noted in Note 2 (26), with respect to the depreciation method for property, plant and equipment, the Company and its consolidated subsidiaries that belong to the “Japan Integrated Beverages” segment had previously adopted the declining-balance method except for buildings (excluding building fixtures) acquired on or after April 1, 1998, which were depreciated using the straight-line method. However, starting from the year ended December 31, 2016, the method has been changed to the straight-line method for all assets. In addition, useful lives of certain property, plant and equipment have also been changed.

As a result of this change, as compared to the amounts calculated by the previous method, segment income for the year ended December 31, 2016 increased by ¥10,021 million (\$86,024 thousand) in the “Japan Integrated Beverages” segment, and ¥132 million (\$1,133 thousand) in the “Others” segment.

### (c) Information about sales, income or loss, assets and other item amounts by reportable segment

Year ended December 31, 2016							
	Reportable Segment				Others (Note 1)	Adjustment (Note 2)	Amount recorded in the consolidated financial statements (Note 3)
	Integrated Beverages			Pharmaceuticals and Bio-chemicals			
	Japan	Oceania	Overseas - other				
(Millions of yen)							
Sales							
Unaffiliated customers	¥1,153,254	¥372,553	¥188,886	¥335,733	¥24,642	¥ -	¥2,075,070
Less liquor taxes	296,028	-	-	-	-	-	296,028
Net sales	857,225	372,553	188,886	335,733	24,642	-	1,779,041
Inter-segment	10,209	131	195	7,285	899	(18,722)	-
Total sales	867,434	372,685	189,081	343,019	25,542	(18,722)	1,779,041
Segment income	67,230	42,835	474	34,747	3,331	(6,729)	141,889
Segment assets	821,639	422,110	510,598	720,754	35,663	(162,599)	2,348,166
Other items							
Depreciation and amortization	23,020	16,320	14,084	23,029	986	(22)	77,420
Amortization of goodwill	172	10,730	1,880	9,533	-	-	22,317
Investments in equity-method affiliates	14,459	4,527	151,269	58,386	-	-	228,642
Increase of property, plant and equipment and intangible assets	31,305	24,341	11,062	32,036	3,994	(223)	102,516



Year ended December 31, 2016							
	Reportable Segment					Adjustment (Note 2)	Amount recorded in the consolidated financial statements (Note 3)
	Integrated Beverages			Pharmaceuticals and Bio-chemicals	Others (Note 1)		
	Japan	Oceania	Overseas - other				
(Thousands of U.S. dollars)							
Sales							
Unaffiliated customers	\$9,900,025	\$3,198,154	\$1,621,478	\$2,882,075	\$211,537	\$ -	\$17,813,288
Less liquor taxes	2,541,231	-	-	-	-	-	2,541,231
Net sales	7,358,786	3,198,154	1,621,478	2,882,075	211,537	-	15,272,049
Inter-segment	87,638	1,124	1,673	62,537	7,717	(160,717)	-
Total sales	7,446,424	3,199,287	1,623,152	2,944,621	219,263	(160,717)	15,272,049
Segment income	577,131	367,713	4,069	298,283	28,594	(57,764)	1,218,035
Segment assets	7,053,300	3,623,572	4,383,191	6,187,260	306,146	(1,395,819)	20,157,661
Other items							
Depreciation and amortization	197,613	140,097	120,903	197,690	8,464	(188)	664,606
Amortization of goodwill	1,476	92,110	16,138	81,835	-	-	191,578
Investments in equity-method affiliates	124,122	38,861	1,298,557	501,210	-	-	1,962,760
Increase of property, plant and equipment and intangible assets	268,735	208,953	94,960	275,010	34,286	(1,914)	880,041

Notes:

1. "Others" includes food business, such as dairy products and others.
2. The adjustments are as follows:
  - (1) The negative ¥6,729 million (\$57,764 thousand) adjustment in segment income includes ¥649 million (\$5,571 thousand) in inter-segment eliminations and negative ¥7,379 million (\$63,344 thousand) in corporate expenses not attributable to any reportable segment. The corporate expenses are mainly group administrative expenses incurred in the Company, a pure holding company.
  - (2) The negative ¥162,599 million (\$1,395,819 thousand) adjustment in segment assets includes negative ¥410,209 million (\$3,521,409 thousand) in inter-segment asset and liability eliminations and ¥247,610 million (\$2,125,590 thousand) in corporate assets not attributable to any reportable segment. Corporate assets mainly consist of surplus funds (cash), long-term investments (investment securities) of the Company, and assets which belong to the administrative department of the Company, a pure holding company.
  - (3) The negative ¥22 million (\$188 thousand) adjustment in depreciation and amortization mainly consists of depreciation and amortization regarding inter-segment asset and liability eliminations.
  - (4) The negative ¥223 million (\$1,914 thousand) adjustment in increase of property, plant and equipment and intangible assets consists of the negative ¥349 million (\$2,995 thousand) of inter-segment asset and liability eliminations and ¥125 million (\$1,073 thousand) of acquisition of property, plant and equipment related to corporate assets.
3. Segment income is reconciled to operating income in the consolidated statements of income.

Year ended December 31, 2015							
	Reportable Segment				Others (Note 1)	Adjustment (Note 2)	Amount recorded in the consolidated financial statements (Note 3)
	Integrated Beverages			Pharmaceuticals and Bio-chemicals			
	Japan	Oceania	Overseas - other				
(Millions of yen)							
Sales							
Unaffiliated customers	¥1,191,554	¥438,620	¥185,548	¥355,777	¥25,424	¥ -	¥2,196,925
Less liquor taxes	305,697	-	-	-	-	-	305,697
Net sales	885,857	438,620	185,548	355,777	25,424	-	1,891,227
Inter-segment	4,839	116	313	8,538	1,057	(14,866)	-
Total sales	890,696	438,737	185,862	364,316	26,482	(14,866)	1,891,227
Segment income (loss)	47,994	48,078	(14,818)	46,819	3,860	(7,182)	124,751
Segment assets	780,827	465,447	500,091	735,313	36,966	(74,873)	2,443,773
Other items							
Depreciation and amortization	34,147	19,424	16,621	23,126	1,138	144	94,603
Amortization of goodwill	216	12,151	4,631	10,323	-	-	27,323
Investments in equity-method affiliates	3,738	4,331	169,838	53,442	192	-	231,543
Increase of property, plant and equipment and intangible assets	30,148	23,094	29,685	19,054	1,241	480	103,705

Notes:

1. "Others" includes food business, such as dairy products and others.

2. The adjustments are as follows:

- (1) The negative ¥7,182 million adjustment in segment income (loss) includes ¥386 million in inter-segment eliminations and negative ¥7,568 million in corporate expenses not attributable to any reportable segment. The corporate expenses are mainly group administrative expenses incurred in the Company, a pure holding company.
- (2) The negative ¥74,873 million adjustment in segment assets includes negative ¥344,298 million in inter-segment asset and liability eliminations and ¥269,425 million in corporate assets not attributable to any reportable segment. Corporate assets mainly consist of surplus funds (cash), long-term investments (investment securities) of the Company, and assets which belong to the administrative department of the Company, a pure holding company.
- (3) The ¥144 million adjustment in depreciation and amortization mainly consists of depreciation and amortization of corporate assets.
- (4) The ¥480 million adjustment in increase of property, plant and equipment and intangible assets consists of ¥397 million of inter-segment asset and liability eliminations and ¥82 million of acquisition of property, plant and equipment related to corporate assets.

3. Segment income (loss) is reconciled to operating income in the consolidated statements of income.

#### 4. Related Information

##### (1) Information by product and service

Information is omitted since similar information is disclosed in the segment information.

##### (2) Information by region

###### (a) Sales

Year ended December 31, 2016									
Japan	Oceania	Brazil	Others	Total	Japan	Oceania	Brazil	Others	Total
(Millions of yen)					(Thousands of U.S. dollars)				
¥1,395,029	¥365,990	¥119,986	¥194,063	¥2,075,070	\$11,975,525	\$3,141,814	\$1,030,011	\$1,665,919	\$17,813,288

Year ended December 31, 2015				
Japan	Oceania	Brazil	Others	Total
(Millions of yen)				
¥1,435,742	¥429,203	¥136,464	¥195,514	¥2,196,925

Note: Sales are classified by country or area based on customer location.

###### (b) Property, plant and equipment

December 31, 2016									
Japan	Oceania	Brazil	Others	Total	Japan	Oceania	Brazil	Others	Total
(Millions of yen)					(Thousands of U.S. dollars)				
¥364,877	¥169,398	¥112,322	¥58,605	¥705,204	\$3,132,260	\$1,454,184	\$964,220	\$503,090	\$6,053,772

December 31, 2015				
Japan	Oceania	Brazil	Others	Total
(Millions of yen)				
¥367,208	¥177,002	¥108,967	¥58,584	¥711,763

##### (3) Information by major customer

Year ended December 31, 2016			
Name of customer	Sales	Related segment	
	(Thousands of U.S. dollars)		
	(Millions of yen)	dollars)	
Mitsubishi Shokuhin Company, Limited	¥218,970	\$1,879,732	Japan Integrated Beverages

There is no major unaffiliated customer which accounts for 10% or more of the net sales on the consolidated statements of income for the year ended December 31, 2015.

##### (4) Information about loss on impairment of non-current assets by reportable segment

Year ended December 31, 2016							
Reportable Segment				Pharmaceuticals and Bio-chemicals	Others	Adjustment	Total
Integrated Beverages							
Japan	Oceania	Overseas – other					
(Millions of yen)							
Loss on impairment	¥-	¥-	¥-	¥335	¥137	¥-	¥473

Year ended December 31, 2016							
Reportable Segment				Pharmaceuticals and Bio-chemicals	Others	Adjustment	Total
Integrated Beverages							
Japan	Oceania	Overseas – other					
(Thousands of U.S. dollars)							
Loss on impairment	\$-	\$-	\$-	\$2,875	\$1,176	\$-	\$4,060

Notes:

1. In addition, loss on impairment of ¥3,805 million (\$32,663 thousand) which was recognized in the “Oceania Integrated Beverages” segment is included in “Business restructuring expense” and loss on impairment of ¥767 million (\$6,584 thousand) which was recognized in the “Japan Integrated Beverages” segment is included in “Other” in “Special expenses” in the consolidated statement of income.
2. “Others” includes food business, such as dairy products and others.

Year ended December 31, 2015							
	Reportable Segment			Pharmaceuticals and Bio-chemicals	Others	Adjustment	Total
	Integrated Beverages		Overseas – other				
	Japan	Oceania					
	(Millions of yen)						
Loss on impairment	¥4,053	¥93	¥113,476	¥5,762	¥-	¥-	¥123,385

Note:

1. In addition, loss on impairment of ¥767 million which was recognized in the “Oceania Integrated Beverages” segment is included in “Business restructuring expense” in “Special expenses” in the consolidated statement of income.

(5) Information about amortization of goodwill and remaining goodwill balance by reportable segment

December 31, 2016							
	Reportable Segment			Pharmaceuticals and Bio-chemicals	Others	Adjustment	Total
	Integrated Beverages		Overseas – other				
	Japan	Oceania					
(Millions of yen)							
Balance at the end of current period	¥1,037	¥102,300	¥25,717	¥99,927	¥-	¥-	¥228,983

December 31, 2016							
	Reportable Segment				Others	Adjustment	Total
	Integrated Beverages			Pharmaceuticals and Bio-chemicals			
	Japan	Oceania	Overseas – other				
(Thousands of U.S. dollars)							
Balance at the end of current period	\$8,902	\$878,186	\$220,765	\$857,816	\$-	\$-	\$1,965,688

Note: Information about amortization of goodwill is omitted since the information is disclosed in 3. Information about sales, income or loss, assets and other item amounts by reportable segment.

December 31, 2015							
	Reportable Segment			Pharmaceuticals and Bio-chemicals	Others	Adjustment	Total
	Integrated Beverages		Overseas – other				
	Japan	Oceania					
	(Millions of yen)						
Balance at the end of current period	¥1,210	¥121,065	¥29,179	¥117,759	¥-	¥-	¥269,215

Note: Information about amortization of goodwill is omitted since the information is disclosed in 3. Information about sales, income or loss, assets and other item amounts by reportable segment.

(6) Information about gain on negative goodwill by reportable segment

There are no material amounts to report for the years ended December 31, 2016 and 2015.

## 16. LEASE TRANSACTIONS

### 1. Finance leases-Lessee

Finance leases, except for those leases under which the ownership of the leased assets is considered to be transferred to the lessee, whose inception dates were on or before December 31, 2008, are accounted for in the same manner as operating leases. The details are omitted due to immateriality.

### 2. Operating leases

The Company and its consolidated subsidiaries have lease commitments under non-cancelable operating leases as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
As a lessee			
Due within one year	¥ 7,643	¥ 8,328	\$ 65,610
Due over one year	27,726	33,042	238,011
Total	¥ 35,369	¥ 41,370	\$303,622
As a lessor			
Due within one year	¥ 315	¥ 350	\$ 2,704
Due over one year	2,669	3,087	22,911
Total	¥ 2,985	¥ 3,438	\$ 25,624

## 17. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in unconsolidated subsidiaries and affiliates as of December 31, 2016 and 2015 were as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Investment securities (Shares)	¥230,892	¥234,150	\$1,982,075
Investment securities (Bonds)	1,541	1,653	13,228
Investments and other assets—other (Equity interests other than shares)	297	297	2,549
Of which, investment in jointly controlled companies	60,568	55,682	519,941

## 18. SHAREHOLDERS' EQUITY

Under the Japanese Corporation Law (“the Law”) and related regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board, designate an amount not exceeding one-half of the price of the new shares as additional paid-in-capital, which is included in capital surplus.

In cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in-capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

# 19. NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Year ended December 31, 2016

## 1. Type and number of shares outstanding and treasury stock

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of January 1, 2016	914,000,000	1,471,032
Increase during the period	-	14,029
Decrease during the period	-	914
Number of shares as of December 31, 2016	914,000,000	1,484,147

Notes:

- Increase in the number of treasury stock was due to the following reason:
  - Acquisition of less-than-one-unit shares: 14,029 shares
- Decrease in the number of treasury stock was due to the following reasons:
  - Sales of less-than-one-unit shares: 914 shares

## 2. Subscription rights to shares and treasury subscription rights to shares

Description of subscription rights	Subscription rights as stock options
Type of shares for subscription rights	-
Number of shares for subscription rights	
Number of shares as of January 1, 2016	-
Increase during the period	-
Decrease during the period	-
Number of shares as of December 31, 2016	-
Amount outstanding as of December 31, 2016	¥562 million (\$4,824 thousand)

## 3. Matters related to dividends

(1) Dividend payments

Approvals by the Annual General Meeting of Shareholders held on March 30, 2016 were as follows:

Dividend on common stock

- Total amount of dividend ¥17,338 million (\$148,836 thousand)
- Dividend per share ¥19.00 (\$0.16)
- Record date December 31, 2015
- Effective date March 31, 2016

Approvals by the Board Meeting held on August 4, 2016 were as follows:

Dividend on common stock

- Total amount of dividend ¥17,337 million (\$148,828 thousand)
- Dividend per share ¥19.00 (\$0.16)
- Record date June 30, 2016
- Effective date September 6, 2016

(2) Dividends whose record date is attributable to, but to be effective after, the year

The Company received the approval at the Annual General Meeting of Shareholders held on March 30, 2017 as follows:

Dividend on common stock

- Total amount of dividend ¥18,250 million (\$156,665 thousand)
- Source of dividends Retained earnings
- Dividend per share ¥20.00 (\$0.17)
- Record date December 31, 2016
- Effective date March 31, 2017

# 1. Type and number of shares outstanding and treasury stock

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of January 1, 2015	965,000,000	52,452,089
Increase during the period	-	20,833
Decrease during the period	51,000,000	51,001,890
Number of shares as of December 31, 2015	914,000,000	1,471,032

Notes:

1. Decrease in the number of shares outstanding was due to the following reason:

- Retirement of treasury stock based on the resolution of the Board: 51,000,000 shares

2. Increase in the number of treasury stock was due to the following reason:

- Acquisition of less-than-one-unit shares: 20,833 shares

3. Decrease in the number of treasury stock was due to the following reasons:

- Sales of less-than-one-unit shares: 1,890 shares

- Retirement of treasury stock based on the resolution of the Board: 51,000,000 shares

# 2. Subscription rights to shares and treasury subscription rights to shares

Description of subscription rights	Subscription rights as stock options
Type of shares for subscription rights	-
Number of shares for subscription rights	
Number of shares as of January 1, 2015	-
Increase during the period	-
Decrease during the period	-
Number of shares as of December 31, 2015	-
Amount outstanding as of December 31, 2015	¥430 million

# 3. Matters related to dividends

(1) Dividend payments

Approvals by the Annual General Meeting of Shareholders held on March 27, 2015 were as follows:

Dividend on common stock

a. Total amount of dividend	¥17,338 million
b. Dividend per share	¥19.00
c. Record date	December 31, 2014
d. Effective date	March 30, 2015

Approvals by the Board Meeting held on August 5, 2015 were as follows:

Dividend on common stock

a. Total amount of dividend	¥17,338 million
b. Dividend per share	¥19.00
c. Record date	June 30, 2015
d. Effective date	September 2, 2015

(2) Dividends whose record date is attributable to, but to be effective after, the year

The Company received the approval at the Annual General Meeting of Shareholders held on March 30, 2016 as follows:

Dividend on common stock

a. Total amount of dividend	¥17,338 million
b. Source of dividends	Retained earnings
c. Dividend per share	¥19.00
d. Record date	December 31, 2015
e. Effective date	March 31, 2016

## 20. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

### 1. Reconciliation of cash

Reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows is as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and time deposits	¥58,990	¥66,465	\$506,395
Marketable securities	3,901	5,538	33,487
Fixed term deposits over three months	(1,265)	(6,128)	(10,859)
Equity securities, bonds and others with maturities exceeding three months	(3,901)	(5,538)	(33,487)
Cash and cash equivalents	¥57,725	¥60,336	\$495,536

### 2. Assets and liabilities of newly consolidated subsidiaries by acquisition of shares

#### *Year ended December 31, 2016*

Information about assets and liabilities of newly consolidated subsidiaries by acquisition of shares is omitted since there is no materiality.

#### *Year ended December 31, 2015*

Assets and liabilities of newly consolidated subsidiaries by acquisition of shares at the inception of their consolidation, related acquisition cost and net expenditure for acquisition of shares for the year ended December 31, 2015 are as follows:

	December 31,
	2015
	(Millions of yen)
Current assets	¥ 18,832
Non-current assets	62,825
Goodwill	28,361
Current liabilities	(4,518)
Non-current liabilities	(9,138)
Non-controlling interests	(30,600)
Acquisition cost of shares	65,761
Cash and cash equivalents of the acquired companies	(12,883)
Payment for acquisition of shares of newly consolidated subsidiaries	¥ 52,877



## 21. INCOME TAXES

Significant components of deferred tax assets and liabilities as of December 31, 2016 and 2015 were as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Goodwill recognized by a foreign subsidiary for tax purposes*	¥ 30,442	¥ 32,880	\$ 261,327
Loss carried forward	66,059	56,337	567,078
Net defined benefit liability	21,214	20,027	182,110
Depreciation	7,714	10,027	66,220
Deemed dividend	7,422	7,523	63,713
Deferred assets	6,234	6,234	53,515
Retirement benefit trust	5,992	6,242	51,437
Long-term accrued expenses	3,542	4,293	30,406
Other	80,492	76,839	690,977
Sub-total	229,115	220,404	1,966,821
Less valuation allowance	(129,192)	(121,370)	(1,109,039)
Total deferred tax assets	¥ 99,923	¥ 99,034	\$ 857,781

\*Goodwill recognized by a foreign subsidiary for tax purposes relates to a merger between Brazilian subsidiaries.

Deferred tax liabilities:			
Adjustment of carrying amount based on fair value	¥ (35,901)	¥ (36,623)	\$ (308,189)
Net unrealized gains on securities	(22,307)	(28,059)	(191,492)
Reserve for deferred gains on sale of property	(8,186)	(8,701)	(70,272)
Revaluation of property of foreign subsidiaries	(7,669)	(8,518)	(65,833)
Other	(14,879)	(16,563)	(127,727)
Total deferred tax liabilities	(88,944)	(98,466)	(763,533)
Net deferred tax assets (liabilities)	¥ 10,979	¥ 567	\$ 94,248

Deferred tax asset due to land revaluation:			
Deferred tax asset due to land revaluation	¥ 546	¥ 576	\$ 4,687
Less valuation allowance	(546)	(576)	(4,687)
Total deferred tax asset due to land revaluation	¥ -	¥ -	\$ -

Deferred tax liability due to land revaluation:			
Deferred tax liability due to land revaluation	¥ (1,106)	¥ (1,167)	\$ (9,494)
Net deferred tax liability due to land revaluation	¥ (1,106)	¥ (1,167)	\$ (9,494)

Deferred tax assets and liabilities were included in the consolidated balance sheets as of December 31, 2016 and 2015 as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Current assets — Deferred tax assets	¥ 30,179	¥ 29,396	\$ 259,069
Non-current assets — Deferred tax assets	30,830	27,097	264,657
Current liabilities — Other	(682)	(27)	(5,854)
Non-current liabilities — Deferred tax liabilities	(49,348)	(55,899)	(423,624)

The Company is subject to a national corporate tax, an inhabitant tax and deductible enterprise tax, which in the aggregate resulted in the statutory tax rate of approximately 32.2% and 35.6% for the years ended December 31, 2016 and 2015, respectively.

The following table summarizes significant differences between the statutory tax rate and the effective tax rate for the years ended December 31, 2016 and 2015:

	2016	2015
	(%)	(%)
Statutory tax rate	33.1	35.6
Adjustments		
Permanent difference – expenses	2.4	18.9
Permanent difference – income	(0.2)	(3.4)
Amortization of intangible assets	4.7	63.9
Impairment of goodwill	-	138.5
Equity in earnings of affiliates	(2.2)	(33.6)
Change in valuation allowance	(4.8)	118.0
Tax benefits of foreign subsidiaries	(2.2)	(30.4)
Difference in tax rate between the Company and its consolidated subsidiaries	(0.9)	12.6
Reduction of deferred tax assets due to change in tax rate	0.8	16.4
Tax credits	(2.7)	(36.2)
Effect of consolidation journal entries	(1.9)	(34.6)
Others	0.0	(2.2)
Effective tax rate	26.1	263.5

Following the enactment by the Diet of the “Partial Revision of Income Tax Act, etc.” (Act No. 15 of 2016) and the “Partial Revision of Local Tax Act, etc.” (Act No. 13 of 2016) on March 29, 2016, and the “Act for Partial Revision to the Partial Revision, etc. of Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security” (Act No. 85 of 2016) and the “Act for Partial Revision to the Partial Revision, etc. of Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security” (Act No. 86 of 2016) on November 18, 2016, the statutory tax rate will be lowered from years beginning on or after April 1, 2016. As a result, the statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities as of December 31, 2016 was changed from the previous 32.2% to 30.9% for temporary differences expected to be eliminated during years beginning on January 1, 2017 and January 1, 2018, and 30.6% for temporary differences expected to be eliminated during years beginning on or after January 1, 2019.

As a result of this change, as of and for the year ended December 31, 2016, net amount of deferred tax assets decreased by ¥974 million (\$8,361 thousand). Additionally, income taxes-deferred, net unrealized gains on securities, remeasurements of defined benefit plans, and deferred gains or losses on hedges increased by ¥1,384 million (\$11,880 thousand), ¥1,144 million (\$9,820 thousand), ¥737 million (\$6,326 thousand), and ¥2 million (\$17 thousand), respectively.

In addition, deferred tax liability due to land revaluation and land revaluation difference both decreased by ¥61 million (\$523 thousand).

## 22. FINANCIAL INSTRUMENTS

### 1. Overview of financial instruments

#### (1) Policy for financial instruments

The basic policy of the Company and its consolidated subsidiaries is to effectively obtain necessary funds according to changes in business environment. Currently, funds are mainly obtained through bank borrowings, and issuance of commercial paper and bonds. Temporary surplus funds are invested in highly secure financial assets such as time deposits. Derivatives are used, not for speculative purpose, but to avoid the risks mentioned below.

#### (2) Types of financial instruments and related risks

Trade receivables, such as notes and accounts receivable, trade, are exposed to customer credit risk. Trade receivables denominated in foreign currencies arising from global business development are exposed to foreign currency exchange risk. Marketable securities and investment securities, which mainly consist of stocks issued by companies with which the Company and its consolidated subsidiaries have business relationships, are exposed to market risk.

Substantially all trade payables, such as notes and accounts payable, trade, have payment due dates within one year. Some trade payables denominated in foreign currencies arising from import of raw materials are exposed to foreign currency exchange risk.

The purpose of short-term loans payable and commercial paper is mainly to fund short-term working capital and the purpose of long-term debt and bonds is mainly to fund necessary amounts for investments and long-term working capital. Some loans payable bear variable interest rates and are exposed to interest rate fluctuation risk.

Regarding derivatives, the Company and its consolidated subsidiaries enter into forward foreign exchange contracts, currency swaps and other instruments for the purpose of hedging foreign currency exchange risk deriving from trade receivables and payables denominated in foreign currencies and loans to group companies, and interest rate swaps for the purpose of hedging interest rate fluctuation risk deriving from interest payments on debt. Please refer to Note 2 (24) for hedging instruments and hedged items, hedging policy and method to evaluate hedging effectiveness.

#### (3) Risk management for financial instruments

##### (a) Monitoring of credit risk (the default risk for customers and counterparties)

In accordance with the internal policies of the Company and its consolidated subsidiaries for managing credit risk arising from trade receivables, each related sales division monitors credit worthiness of their main customers and counterparties on a periodical basis and monitors due dates and outstanding balances by individual customer. In addition, the Company and its consolidated subsidiaries are making efforts to quickly identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Company and its consolidated subsidiaries believe that the credit risk of derivatives is insignificant as it enters into derivatives only with financial institutions which have a high credit rating.

##### (b) Monitoring of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

Regarding trade receivables and payables denominated in foreign currencies, the Company and its consolidated subsidiaries generally utilize forward foreign exchange contracts and other instruments to hedge the foreign currency exchange risks identified for each currency on a monthly basis. Currency swaps are utilized to mitigate interest rate risk on loans denominated in foreign currencies which are made to foreign subsidiaries. In addition, interest rate swaps are utilized to mitigate interest rate fluctuation risk deriving from interest payments on debt.

For marketable securities and investment securities, the Company and its consolidated subsidiaries periodically review their fair values and the financial position of the issuers. Additionally, the Company and its consolidated subsidiaries continuously evaluate whether securities other than those classified as held-to-maturity should be maintained taking into account their fair values and relationships with the issuers.

In conducting and managing derivative transactions, the division in charge of each derivative transaction follows the internal management policies, which define delegation of authority and position limits. Actual transaction data are regularly reported to the Director of Financial Division.

##### (c) Monitoring of liquidity risk related to fund procurement (the risk that the Company and its consolidated subsidiaries may not be able to meet their obligations on scheduled due dates)

In order to manage liquidity risk, the Company and its consolidated subsidiaries timely prepare and update cash flow plans based upon the report from each division and maintain fund liquidity.

#### (4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price. When no quoted market price is available, fair value is reasonably estimated. Since various variable assumptions are reflected in estimating the fair value, different assumptions could result in different fair values. In addition, the notional amounts of derivatives as stated at 2. Fair values of financial instruments on the following page do not reflect the actual market risk exposure involved in derivative transactions.

## 2. Fair values of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of December 31, 2016 and 2015, their fair values, and the differences. Financial instruments whose fair values are deemed extremely difficult to assess are not included.

	December 31, 2016					
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
<b>Assets</b>						
(1) Cash and time deposits	¥ 58,990	¥ 58,990	¥ -	\$ 506,395	\$ 506,395	\$ -
(2) Notes and accounts receivable, trade	393,500	393,500	-	3,377,972	3,377,972	-
(3) Marketable and investment securities						
Available-for-sale securities	157,632	157,632	-	1,353,180	1,353,180	-
<b>Total assets</b>	<b>610,123</b>	<b>610,123</b>	<b>-</b>	<b>5,237,556</b>	<b>5,237,556</b>	<b>-</b>
<b>Liabilities</b>						
(1) Notes and accounts payable, trade	135,801	135,801	-	1,165,773	1,165,773	-
(2) Short-term loans payable and long-term debt with current maturities	89,934	89,934	-	772,031	772,031	-
(3) Commercial paper	45,000	45,000	-	386,299	386,299	-
(4) Bonds due within one year	-	-	-	-	-	-
(5) Liquor taxes payable	80,513	80,513	-	691,158	691,158	-
(6) Income taxes payable	21,162	21,162	-	181,663	181,663	-
(7) Bonds	194,994	202,081	7,087	1,673,911	1,734,749	60,837
(8) Long-term debt	318,712	324,407	5,695	2,735,960	2,784,848	48,888
<b>Total liabilities</b>	<b>886,118</b>	<b>898,901</b>	<b>12,783</b>	<b>7,606,816</b>	<b>7,716,550</b>	<b>109,734</b>
Derivative transactions (*)	¥ (15,167)	¥ (15,167)	¥ -	\$ (130,200)	\$ (130,200)	\$ -

(\*) Derivatives are stated as the net of assets and liabilities. The figures in parentheses indicate net liabilities.

	December 31, 2015		
	Carrying amount	Fair value	Difference
	(Millions of yen)		
<b>Assets</b>			
(1) Cash and time deposits	¥ 66,465	¥ 66,465	¥ -
(2) Notes and accounts receivable, trade	397,692	397,692	-
(3) Marketable and investment securities			
Available-for-sale securities	163,174	163,174	-
<b>Total assets</b>	<b>627,331</b>	<b>627,331</b>	<b>-</b>
<b>Liabilities</b>			
(1) Notes and accounts payable, trade	142,052	142,052	-
(2) Short-term loans payable and long-term debt with current maturities	128,160	128,160	-
(3) Commercial paper	-	-	-
(4) Bonds due within one year	30,000	30,093	93
(5) Liquor taxes payable	84,904	84,904	-
(6) Income taxes payable	20,281	20,281	-
(7) Bonds	194,991	204,079	9,087
(8) Long-term debt	403,952	409,473	5,520
<b>Total liabilities</b>	<b>1,004,343</b>	<b>1,019,044</b>	<b>14,701</b>
Derivative transactions (*)	¥ 5,365	¥ 5,365	¥ -

(\*) Derivatives are stated as the net of assets and liabilities. The figures in parentheses indicate net liabilities.

Notes:

1. Fair value measurement of financial instruments, including securities and derivatives

Assets

(1) Cash and time deposits and (2) Notes and accounts receivable, trade

The fair value of these items approximates their carrying amount because of their short-term nature.

(3) Marketable and investment securities

The fair values of equity securities are measured based on quoted market prices. The fair values of bond securities are measured by the quoted market prices or the prices obtained from financial institutions. Please refer to Note 14 for matters relating to securities by categories.

Liabilities

(1) Notes and accounts payable, trade, (2) Short-term loans payable and long-term debt with current maturities, (3) Commercial paper, (5) Liquor taxes payable, and (6) Income taxes payable

The fair value of these items approximates their carrying amount because of their short-term nature.

(4) Bonds due within one year, (7) Bonds

The fair value of bonds is based on the market price, when market prices are readily available. The fair value of bonds without market price is measured as the present value, calculated by discounting the combined total of principal and interest by a rate with the current maturity and credit risk taken into account.

(8) Long-term debt

The fair value of long-term debt is measured as the present value, calculated by discounting the combined total of principal and interest by an assumed interest rate for similar new borrowings. However, for long-term debt which is the hedged item for interest rate swaps and certain hedging criteria are met, the present value is calculated by discounting the combined total of principal and interest translated at the rates of relevant interest rate swaps. For long-term debt which is the hedged item for derivative transactions for which appropriation treatment has been applied, the combined total of principal and interest is considered as yen-denominated fixed interest borrowing.

2. Carrying amounts of financial instruments for which fair values are deemed extremely difficult to assess are as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Investment securities			
a. Unlisted equity securities (Equity securities issued by affiliates and others)	¥230,892	¥234,150	\$1,982,075
b. Unlisted equity securities (Available-for-sale securities)	9,861	15,416	84,651
c. Other	1,573	1,685	13,503
Investment and other assets - other			
Investments in equity of affiliates and others	297	297	2,549
Deposits received	55,491	56,701	476,358

The fair values of these items are not shown in the table above because their market prices are not available and the fair values are deemed extremely difficult to assess.

3. Redemption schedules for monetary receivables and marketable securities with maturities as of December 31, 2016 and 2015 are as follows:

	December 31, 2016							
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	(Millions of yen)				(Thousands of U.S. dollars)			
Cash and time deposits	¥ 58,990	¥ -	¥-	¥-	\$ 506,395	\$ -	\$-	\$-
Notes and accounts receivable, trade	393,500	-	-	-	3,377,972	-	-	-
Marketable and investment securities								
Available-for-sale securities with maturity								
Debt securities (others)	3,901	-	-	-	33,487	-	-	-
<b>Total</b>	<b>¥456,392</b>	<b>¥ -</b>	<b>¥-</b>	<b>¥-</b>	<b>\$3,917,864</b>	<b>\$ -</b>	<b>\$-</b>	<b>\$-</b>

  

	December 31, 2015			
	Due within 1 year	1 to 5 years	5 to 10 years	Over 10 years
	(Millions of yen)			
Cash and time deposits	¥ 66,465	¥ -	¥-	¥-
Notes and accounts receivable, trade	397,692	-	-	-
Marketable and investment securities				
Available-for-sale securities with maturity				
Debt securities (others)	3,294	2,243	-	-
<b>Total</b>	<b>¥467,451</b>	<b>¥2,243</b>	<b>¥-</b>	<b>¥-</b>

4. Redemption schedules for bonds, long-term debt and other interest bearing liabilities as of December 31, 2016 and 2015 are as follows:

	December 31, 2016					
	Due within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 Years	Over 5 years
	(Millions of yen)					
Short-term loans payable and long-term debt with current maturities	¥ 89,934	¥ -	¥ -	¥ -	¥ -	¥ -
Commercial paper	45,000	-	-	-	-	-
Bonds	-	69,998	50,000	19,995	40,000	15,000
Long-term debt	-	55,746	48,556	96,151	52,072	66,184
<b>Total</b>	<b>¥ 134,934</b>	<b>¥ 125,744</b>	<b>¥ 98,556</b>	<b>¥ 116,147</b>	<b>¥ 92,072</b>	<b>¥ 81,184</b>

  

	December 31, 2016					
	Due within 1 year	1 to 2 years	2 to 3 Years	3 to 4 years	4 to 5 Years	Over 5 years
	(Thousands of U.S. dollars)					
Short-term loans payable and long-term debt with current maturities	\$ 772,031	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial paper	386,299	-	-	-	-	-
Bonds	-	600,892	429,221	171,645	343,377	128,766
Long-term debt	-	478,547	416,825	825,401	447,008	568,151
<b>Total</b>	<b>\$ 1,158,331</b>	<b>\$ 1,079,440</b>	<b>\$ 846,046</b>	<b>\$ 997,055</b>	<b>\$ 790,385</b>	<b>\$ 696,918</b>

  

	December 31, 2015					
	Due within 1 year	1 to 2 years	2 to 3 Years	3 to 4 years	4 to 5 years	Over 5 years
	(Millions of yen)					
Short-term loans payable and long-term debt with current maturities	¥128,160	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds due within one year	30,000	-	-	-	-	-
Bonds	-	-	69,996	50,000	19,994	55,000
Long-term debt	-	79,518	55,658	67,904	80,094	120,776
<b>Total</b>	<b>¥158,160</b>	<b>¥ 79,518</b>	<b>¥ 125,655</b>	<b>¥ 117,904</b>	<b>¥ 100,088</b>	<b>¥ 175,776</b>

## 23. DERIVATIVE TRANSACTIONS

1. Notional amount and fair value of derivative transactions for which hedge accounting has not been applied for the years ended December 31, 2016 and 2015 are summarized as follows:

Currency-related transactions

December 31, 2016									
Classification	Type of transaction	Notional amount	Portion due after one year included therein	Fair value	Unrealized gain (loss)	Notional amount	Portion due after one year included therein	Fair value	Unrealized gain (loss)
(Millions of yen)					(Thousands of U.S. dollars)				
Non-market transactions	Forward foreign exchange contracts								
	Sell								
	USD	¥ 3,646	¥ -	¥ (315)	¥ (315)	\$ 31,298	\$ -	\$ (2,704)	\$ (2,704)
	EUR	1,490	-	(76)	(76)	12,790	-	(652)	(652)
	KRW	1,854	-	(128)	(128)	15,915	-	(1,098)	(1,098)
	TWD	732	-	(67)	(67)	6,283	-	(575)	(575)
	GBP	436	-	(17)	(17)	3,742	-	(145)	(145)
	Buy								
	USD	397	-	34	34	3,408	-	291	291
	KRW	150	-	5	5	1,287	-	42	42
	TWD	1	-	0	0	8	-	0	0
	Currency option								
	Sell								
	Call - USD	5,481	-	(20)	(20)	47,051	-	(171)	(171)
	Put - USD	15,167	3,723	(2,484)	(2,484)	130,200	31,959	(21,323)	(21,323)
	Buy								
	Call - USD	5,481	-	80	80	47,051	-	686	686
	Currency swap								
	Receive JPY, pay USD	6,824	-	77	77	58,580	-	661	661
	Receive JPY, pay GBP	16,218	-	404	404	139,222	-	3,468	3,468
	Receive JPY, pay THB	6,417	-	(806)	(806)	55,086	-	(6,919)	(6,919)
Total		¥64,302	¥ 3,723	¥ (3,314)	¥ (3,314)	\$ 551,995	\$ 31,959	\$ (28,448)	\$ (28,448)

Fair value is based on the prices obtained from forward exchange market or financial institutions.

December 31, 2015					
Classification	Type of transaction	Notional amount	Portion due after one year included therein	Fair value	Unrealized gain (loss)
(Millions of yen)					
Non-market transactions	Forward foreign exchange contracts				
	Sell				
	USD	¥ 5,551	¥-	¥ 48	¥ 48
	EUR	1,848	-	22	22
	KRW	1,900	-	0	0
	TWD	999	-	7	7
	GBP	795	-	36	36
	Buy				
	EUR	53	-	(0)	(0)
	KRW	2	-	(0)	(0)
	TWD	0	-	(0)	(0)
	Currency swap				
	Receive JPY, pay USD	5,658	-	(9)	(9)
	Receive JPY, pay GBP	20,806	-	338	338
	Receive JPY, pay THB	5,813	-	84	84
Total		¥ 43,430	¥-	¥ 528	¥ 528

Fair value is based on the prices obtained from forward exchange market or financial institutions.

#### Commodity-related transactions

December 31, 2016									
Classification	Type of transaction	Notional amount	Portion due after one year included therein	Fair value	Unrealized gain (loss)	Notional amount	Portion due after one year included therein	Fair value	Unrealized gain (loss)
(Millions of yen)					(Thousands of U.S. dollars)				
Non-market transactions	Commodity swap								
	Receive floating, pay fixed	¥6,868	¥2,271	¥34	¥34	\$58,957	\$19,495	\$291	\$291
Total		¥6,868	¥2,271	¥34	¥34	\$58,957	\$19,495	\$291	\$291

There was no applicable transaction for the year ended December 31, 2015.



2. The notional amount and fair value of derivative transactions for which hedge accounting has been applied are summarized as follows:

Currency-related transactions

December 31, 2016							
Type of transaction	Hedged item	Notional amount	Portion due after one year included therein	Fair value	Notional amount	Portion due after one year included therein	Fair value
(Millions of yen)					(Thousands of U.S. dollars)		
<u>Derivative transactions for which deferral hedge accounting has been applied</u>							
Forward foreign exchange contracts	Forecasted transactions in foreign currency						
Sell							
NZD		¥ 7,567	¥ -	¥ (32)	\$ 64,958	\$ -	\$ (274)
Other		61	-	4	523	-	34
Buy							
USD		15,236	1,178	(848)	130,792	10,112	(7,279)
EUR		2,107	-	(35)	18,087	-	(300)
NZD		117	-	(1)	1,004	-	(8)
GBP		136	-	(22)	1,167	-	(188)
SGD		74	-	(1)	635	-	(8)
JPY		37,600	-	(10,758)	322,774	-	(92,351)
Currency swap	Short-term loans payable						
Receive USD, pay BRL		3,500	-	(247)	30,045	-	(2,120)
<u>Derivative transactions for which appropriation treatment has been applied</u>							
Currency swap	Long-term debt						
Receive USD, pay JPY		157,786	117,786	Note 2	1,354,502	1,011,125	Note 2
Total		¥ 224,189	¥ 118,965	¥ (11,942)	\$1,924,534	\$ 1,021,246	\$(102,515)

Notes:

1. Fair value is based on the prices obtained from forward exchange market or financial institutions.
2. Forward foreign exchange contracts for which appropriation treatment has been applied are accounted for together with long-term debt designated as the hedged item. Therefore, their fair values are included in the fair value of the hedged long-term debt.

December 31, 2015

Type of transaction	Hedged item	Notional amount	Portion due after one year included therein	Fair value
(Millions of yen)				
<u>Derivative transactions for which deferral hedge accounting has been applied</u>				
Forward foreign exchange contracts	Forecasted transactions in foreign currency			
Sell				
USD		¥ 32,364	¥ 12,054	¥ (3,759)
EUR		550	-	(58)
NZD		1,286	-	203
GBP		152	-	(20)
Other		61	-	(1)
Buy				
USD		77,827	23,352	7,241
EUR		2,828	-	172
NZD		120	-	1
GBP		157	-	7
SGD		100	-	(0)
JPY		20,000	-	1,422
Currency swap	Short-term loans payable			
Receive USD, pay BRL		3,064	-	(50)

Derivative transactions for which appropriation treatment has been applied

Currency swap	Long-term debt			
Receive USD, pay JPY		142,044	142,044	Note 2
Total		¥ 280,557	¥ 177,452	¥ 5,157

Notes:

1. Fair value is based on the prices obtained from forward exchange market or financial institutions.
2. Forward foreign exchange contracts for which appropriation treatment has been applied are accounted for together with long-term debt designated as the hedged item. Therefore, their fair values are included in the fair value of the hedged long-term debt.

## Interest-rate related transactions

December 31, 2016

December 31, 2010							
Type of transaction	Hedged item	Notional amount	Portion due after one year included therein	Fair value	Notional amount	Portion due after one year included therein	Fair value
(Millions of yen)					(Thousands of U.S. dollars)		
<u>Derivative transactions for which special treatment has been applied</u>							
Interest rate swap	Long-term debt						
Receive floating, pay fixed		¥276,786	¥217,786	Note 2	\$2,376,049	\$1,869,568	Note 2
Total		¥276,786	¥217,786	¥-	\$2,376,049	\$1,869,568	\$-

Notes:

1. Fair value is based on the prices obtained from financial institutions.
2. Interest rate swaps for which special treatment has been applied are accounted for together with long-term debt designated as the hedged item. Therefore, their fair values are included in the fair value of the hedged long-term debt.

December 31, 2015

Type of transaction	Hedged item	Notional amount	Portion due after one year included therein	Fair value
(Millions of yen)				
<u>Derivative transactions for which special treatment has been applied</u>				
Interest rate swap	Long-term debt			
Receive floating, pay fixed		¥309,644	¥261,044	Note 2
Total		¥309,644	¥261,044	¥-

Notes:

1. Fair value is based on the prices obtained from financial institutions.
2. Interest rate swaps for which special treatment has been applied are accounted for together with long-term debt designated as the hedged item. Therefore, their fair values are included in the fair value of the hedged long-term debt.

## December 31, 2016

December 31, 2010							
Type of transaction	Hedged item	Notional amount	Portion due after one year included therein	Fair value	Notional amount	Portion due after one year included therein	Fair value
(Millions of yen)				(Thousands of U.S. dollars)			
<u>Derivative transactions for which deferral hedge accounting has been applied</u>							
Commodity swap	Sugar						
Receive floating, pay fixed		¥351	¥250	¥55	\$3,013	\$2,146	\$472
Total		¥351	¥250	¥55	\$3,013	\$2,146	\$472

Note: Fair value is based on the prices obtained from financial institutions.

## December 31, 2015

Type of transaction	Hedged item	Notional amount	Portion due after one year included therein	Fair value
(Millions of yen)				
<u>Derivative transactions for which deferral hedge accounting has been applied</u>				
Commodity swap	Sugar			
Receive floating, pay fixed		¥ 604	¥ -	¥ (38)
Commodity swap	Aluminum			
Receive floating, pay fixed		6,852	1,008	(281)
Total		¥7,456	¥1,008	¥(320)

Note: Fair value is based on the prices obtained from financial institutions.

## 24. EMPLOYEES' PENSION AND RETIREMENT BENEFITS

The Company and its consolidated subsidiaries provide three types of contributory defined benefit plans, namely: lump-sum severance payment plan; defined benefit corporate pension plan; and employees' pension fund plan. The Company and several consolidated subsidiaries provide defined contribution plans and/or defined benefit plans. Extra payments may be added upon retirement of employees.

Net defined benefit liability and retirement benefit expenses of certain consolidated subsidiaries are calculated by a simplified method.

### Defined Benefit Plans

(1) The changes in retirement benefit obligation for the years ended December 31, 2016 and 2015 were as follows:

	Year ended December 31,		Year ended December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Balance as of January 1	¥ 308,236	¥ 321,457	\$ 2,646,029
Cumulative effect of changes in accounting policies	-	6,489	-
Restated balance	308,236	327,946	2,646,029
Current service costs	11,957	12,154	102,644
Interest cost	2,276	2,433	19,538
Actuarial (gains) losses	11,948	(212)	102,566
Benefits paid	(18,474)	(20,239)	(158,588)
Past service costs	(859)	(22)	(7,374)
Changes due to partial termination of plans	(1,010)	(14,122)	(8,670)
Other	(93)	296	(798)
Balance as of December 31	¥ 313,981	¥ 308,236	\$ 2,695,347

(2) The changes in plan assets for the years ended December 31, 2016 and 2015 were as follows:

	Year ended December 31,		Year ended December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Balance as of January 1	¥ 259,093	¥ 267,804	\$ 2,224,165
Expected return on plan assets	6,115	6,171	52,493
Actuarial gains (losses)	(955)	(1,864)	(8,198)
Employer contributions	6,592	9,256	56,588
Benefits paid	(13,392)	(13,130)	(114,962)
Changes due to partial termination of plans	(955)	(9,677)	(8,198)
Other	(473)	533	(4,060)
Balance of December 31	¥ 256,022	¥ 259,093	\$ 2,197,802

(3) Reconciliation between the balances of retirement benefit obligation and plan assets as of December 31, 2016 and 2015 and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet were as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Funded retirement benefit obligation	¥ 266,134	¥ 264,447	\$ 2,284,608
Plan assets	(256,022)	(259,093)	(2,197,802)
	10,111	5,354	86,797
Unfunded retirement benefit obligation	47,847	43,788	410,739
Net liability (asset) recorded in the consolidated balance sheet	¥ 57,958	¥ 49,142	\$ 497,536
Net defined benefit liability	¥ 67,390	¥ 59,034	\$ 578,504
Net defined benefit asset	(9,432)	(9,891)	(80,968)
Net liability (asset) recorded in the consolidated balance sheet	¥ 57,958	¥ 49,142	\$ 497,536

(4) The components of retirement benefit expenses for the years ended December 31, 2016 and 2015 were as follows:

	Year ended December 31,		Year ended December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Current service costs	¥ 11,957	¥ 12,154	\$ 102,644
Interest cost	2,276	2,433	19,538
Expected return on plan assets	(6,115)	(6,171)	(52,493)
Amortization of actuarial gains and losses	3,675	5,478	31,547
Amortization of past service costs	(926)	(882)	(7,949)
Other	187	159	1,605
Retirement benefit expenses of defined benefit plans	¥ 11,055	¥ 13,172	\$ 94,900

Note: In addition to the above retirement benefit expenses, additional employees' retirement benefits and others were recognized as "Business restructuring expense" in special expenses, amounting to ¥5,137 million (\$44,098 thousand) and ¥2,784 million for the years ended December 31, 2016 and 2015, respectively.

(5) Remeasurements of defined benefit plans recorded under other comprehensive income

The components of remeasurements of defined benefit plans (before tax effects) recorded under other comprehensive income were as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized past service costs	¥ 572	¥ (1,472)	\$ 4,910
Unrecognized actuarial gains and losses	(9,405)	952	(80,736)
Total	¥ (8,833)	¥ (520)	\$ (75,826)

(6) Remeasurements of defined benefit plans recorded under accumulated other comprehensive income

The components of remeasurements of defined benefit plans (before tax effects) recorded under accumulated other comprehensive income were as follows:

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized past service costs	¥ (3,241)	¥ (2,669)	\$ (27,822)
Unrecognized actuarial gains and losses	30,951	21,545	265,696
Total	¥ 27,709	¥ 18,876	\$ 237,865

(7) Plan assets

a. Plan assets consisted of the following:

	December 31,	
	2016	2015
Equity securities	23%	23%
Bonds	35%	32%
General life insurance account	33%	34%
Alternative investments	5%	6%
Other	4%	5%
Total	100%	100%

Plan assets include 8% and 7% held by retirement benefit trust established under certain lump-sum severance payment plans as of December 31, 2016 and 2015, respectively.

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

The long-term expected rate of return on plan assets is determined considering the current and expected allocation of plan assets and the current and expected long-term rates of return on those components of plan assets.

(8) Actuarial assumptions used for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	2015
Discount rate	Mainly 0.3%-0.6%	Mainly 0.3%-1.1%
Long-term expected rate of return on plan assets	Mainly 2.0%-3.0%	Mainly 2.0%-3.0%

**Defined Contribution Plans**

The amounts of the required contribution to the defined contribution plans of the Company and consolidated subsidiaries for the years ended December 31, 2016 and 2015 were ¥7,795 million (\$66,915 thousand) and ¥7,302 million, respectively.

## 25. STOCK OPTIONS

### 1. Expenses related to stock option plans

Expenses related to stock option plans for the years ended December 31, 2016 and 2015 recorded in selling, general and administrative expenses in the consolidated statements of income were ¥132 million (\$1,133 thousand) and ¥120 million, respectively.

### 2. Stock options outstanding as of December 31, 2016 are as follows:

#### Consolidated Subsidiary (Kyowa Hakko Kirin Company, Limited)

Stock option	Grantees' position	Number of options granted	Date of grant	Exercise price
2005 Stock Option	6 directors 13 managing officers	Common stock 133,000 shares	June 28, 2005	¥1 (\$0.008)
2006 Stock Option	7 directors 11 managing officers	Common stock 111,000 shares	June 29, 2006	¥1 (\$0.008)
2009 Stock Option	6 directors 8 managing officers	Common stock 93,000 shares	June 26, 2009	¥1 (\$0.008)
2010 Stock Option	6 directors 11 managing officers	Common stock 85,000 shares	April 1, 2010	¥1 (\$0.008)
2011 Stock Option	6 directors 14 managing officers	Common stock 119,000 shares	April 1, 2011	¥1 (\$0.008)
2012 Stock Option	5 directors 17 managing officers	Common stock 126,000 shares	April 27, 2012	¥1 (\$0.008)
2013 Stock Option	5 directors 17 managing officers	Common stock 129,000 shares	March 23, 2013	¥1 (\$0.008)
2014 Stock Option	5 directors 16 managing officers	Common stock 98,000 shares	March 21, 2014	¥1 (\$0.008)
2015 Stock Option	5 directors 16 managing officers	Common stock 82,000 shares	March 21, 2015	¥1 (\$0.008)
2016 Stock Option	5 directors 17 managing officers	Common stock 76,000 shares	March 24, 2016	¥1 (\$0.008)

Stock option	Vesting condition	Applicable period of service	Exercisable period
2005 Stock Option	No provisions	No provisions	June 29, 2005 - June 28, 2025
2006 Stock Option	No provisions	No provisions	June 30, 2006 - June 28, 2026
2009 Stock Option	No provisions	No provisions	June 27, 2009 - June 25, 2029
2010 Stock Option	No provisions	No provisions	April 2, 2010 - March 24, 2030
2011 Stock Option	No provisions	No provisions	April 2, 2011 - March 24, 2031
2012 Stock Option	No provisions	No provisions	April 28, 2012 - March 22, 2032
2013 Stock Option	No provisions	No provisions	March 24, 2013 - March 22, 2033
2014 Stock Option	No provisions	No provisions	March 22, 2014 - March 20, 2034
2015 Stock Option	No provisions	No provisions	March 22, 2015 - March 20, 2035
2016 Stock Option	No provisions	No provisions	March 26, 2016 - March 24, 2036

Note: Number of subscription rights to shares is expressed in number of shares to be issued upon exercise.

#### Number and movement of stock options

The following tables are based on the stock options which existed as of December 31, 2016. The number of stock options is expressed in number of shares to be issued upon exercise.

#### Number of stock options

	2005 Stock Option	2006 Stock Option	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Non-vested										
Outstanding at December 31, 2015	-	-	-	-	-	-	-	-	-	-
Granted	-	-	-	-	-	-	-	-	-	76,000
Forfeited	-	-	-	-	-	-	-	-	-	-
Vested	-	-	-	-	-	-	-	-	-	76,000
Outstanding at December 31, 2016	-	-	-	-	-	-	-	-	-	-
Vested										
Outstanding at December 31, 2015	6,000	5,000	12,000	24,000	55,000	84,000	96,000	88,000	82,000	-
Vested	-	-	-	-	-	-	-	-	-	76,000
Exercised	-	-	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	-	-	-	-
Outstanding at December 31, 2016	6,000	5,000	12,000	24,000	55,000	84,000	96,000	88,000	82,000	76,000

Price information of stock options as of December 31, 2016

	2005 Stock Option	2006 Stock Option	2009 Stock Option	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
Exercise price (yen)	1	1	1	1	1	1	1	1	1	1
Average market price of the stock at the time of exercise (yen)	-	-	-	-	-	-	-	-	-	-
Fair valuation price at the date of grant (yen)	-	705	1,014	940	741	786	1,003	956	1,539	1,757

3. Method of estimating the fair value of stock options

The fair value of the 2016 Stock Option is estimated using the Black-Scholes model. The following assumptions were used to determine the fair value.

Share price variability (Note 1)	11.7%
Projected remaining period (Note 2)	1 year
Projected dividend (Note 3)	¥25 per share
Risk-free interest rate (Note 4)	0.07%

Notes:

1. Calculated based on share price results over one year (from March 2015 to February 2016).
2. Calculated by subtracting the average years of service of present office holders from the average years of service of retirees over the past five years.
3. The projected dividend for the year ended December 31, 2016.
4. The rate of return on government bonds over the projected remaining period.

4. Method of reflecting expirations

Actual expirations are used because reasonable estimations of the future expirations are difficult.

## 26. REVALUATION OF LAND

Kirin Beverage Company, Limited, a consolidated subsidiary, revalued land used for business on December 31, 2001 pursuant to the Law Concerning Land Revaluation (enacted on March 31, 1998) (“the Law”) and related revision of the Law (effective March 31, 2001).

Due to revaluation of land, the revaluation difference attributable to the interests held by the Company was accounted for as “Land revaluation difference” in net assets.

Revaluation was performed by adjusting the road rating pursuant to Article 2, Item 4 of the Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land (“the Ordinance”) enacted on March 31, 1998. Where the road rating was not provided, adjusted valuation for real estate tax prescribed in Article 2, Item 3 of the Ordinance was used.

	December 31, 2016	December 31, 2015	December 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Difference between the fair value and carrying amount of the revalued land	¥3,429	¥4,249	\$29,436



## 27. RELATED PARTY TRANSACTIONS

### 1. Transactions with related parties

Disclosure is omitted since there are no material related party transactions.

### 2. Notes relating to the parent company and major affiliate

Summarized financial information of major affiliate

As of December 31, 2016 and 2015, San Miguel Brewery Inc. (“San Miguel”), whose fiscal year-end is December 31, is the major affiliate of the Company. San Miguel’s summarized financial information is shown below. The balance sheet items are based on the position as of the third quarter end of San Miguel, and the statement of income items are based on the results of the 12 month period from the previous fourth quarter to the current third quarter of San Miguel, which are the amounts used in preparing the consolidated financial statements of the Company.

	December 31,		December 31,
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Total current assets	¥ 62,622	¥ 59,118	\$ 537,574
Total non-current assets	121,276	150,351	1,041,085
Total deferred assets	20,902	22,848	179,431
Total current liabilities	27,755	22,842	238,260
Total non-current liabilities	78,278	104,849	671,971
Total net assets	98,767	104,624	847,858
Sales	221,059	218,452	1,897,665
Income before income taxes	53,423	54,653	458,605
Net income	36,611	36,769	314,284

## 28. SUBSEQUENT EVENTS

(Transfer of shares of Brasil Kirin Holding S.A.)

The Company resolved to transfer all shares in Brasil Kirin Holding S.A. (“Brasil Kirin”), the Company’s consolidated subsidiary, at the Board Meeting held on February 13, 2017, and concluded a share transfer agreement with Bavaria S.A. (a subsidiary of Heineken International B.V.; “Bavaria”) on the same date.

### 1. Reason for share transfer

In accordance with the “Kirin Group 2016-2018 Medium-Term Business Plan” announced on February 15, 2016, Brasil Kirin focused on improving profitability through self-revitalization as the first priority and achieved certain results. Meanwhile, in consideration of such factors as various risks associated with the Brazilian economy, the stagnation in the beer and non-alcoholic beverages markets and competitive environment, the Company reached a conclusion that Brasil Kirin has its limits in independently transforming itself into a stable and highly profitable business, and therefore decided to transfer the shares to Bavaria, which also develops the beer business in Brazil, based on the judgment that it would be beneficial for the future development of Brasil Kirin

### 2. Name of the company to which the shares are transferred

Bavaria S.A.

### 3. Name of the subsidiary, description of business and details of transactions with the Company

Name	Brasil Kirin Holding S.A.
Description of business	Production and sale of beer and non-alcoholic beverages
Details of transactions with the Company	Consignment of management guidance service

4. Number of shares to be transferred, transfer price and the status of shares held after the transfer

Number of shares held before the transfer	185,278,687,490 shares (Ratio of shares held: 100%)
Number of shares to be transferred	185,278,687,490 shares (Ratio of shares held: 100%)
Number of shares held after the transfer	0 shares (Ratio of shares held: 0%)
Transfer price	BRL2,200 million (approximately ¥77.0 billion) *1 BRL1 = ¥35.00 *2 The above-mentioned transfer price may be adjusted based on the agreement.

5. Name of the segment in which the subsidiary is included for the segment information disclosure

Other Overseas Integrated Beverages Business

The date of transfer and gains or losses resulting from the transfer have not yet determined since the conditions for the transfer of the shares stipulate that the transaction is subject to examination and approval by the relevant authorities.



## **Independent Auditor's Report**

To the Board of Directors of  
Kirin Holdings Company, Limited:

We have audited the accompanying consolidated financial statements of Kirin Holdings Company, Limited (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **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 misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, 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, we consider 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, while the objective of the financial statement audit is 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 present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at December 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to the following:

1. As discussed in Note 2 (26) "CHANGES IN ACCOUNTING POLICIES WHICH ARE DIFFICULT TO DISTINGUISH FROM CHANGES IN ACCOUNTING ESTIMATES" to the consolidated financial statements, with respect to the depreciation method for property, plant and equipment, the Company and its consolidated subsidiaries that belong to the Japan Integrated Beverages Business had previously adopted the declining-balance method except for buildings (excluding building fixtures) acquired on or after April 1, 1998, which were depreciated using the straight-line method. However, starting from the year ended December 31, 2016, the method has been changed to the straight-line method for all assets. At the same time, the useful lives for certain property, plant and equipment have been revised.
2. As discussed in Note 28 "SUBSEQUENT EVENTS" to the consolidated financial statements, the Company resolved to transfer all shares in Brasil Kirin Holding S.A., the Company's consolidated subsidiary, at the Board Meeting held on February 13, 2017, and concluded a share transfer agreement on the same date. The conditions for the transfer of the shares stipulate that the transaction is subject to examination and approval by the relevant authorities.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

March 30, 2017  
Tokyo, Japan