Disclosed Information on the Internet at the Time of Notifying Convocation of the 178th Ordinary General Meeting of Shareholders

All matters above are provided to shareholders of the Company on the website of the Company on the Internet (http://www.kirinholdings.co.jp/english/ir/) in accordance with all laws and Article 15 of the Articles of Incorporation of the Company.

Kirin Holdings Company, Limited

Notes to Consolidated Financial Statements

Significant Accounting Policies

1. Consolidation

(1) Consolidated subsidiaries: 188 companies

Major consolidated subsidiaries: 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 Ltd, Brasil Kirin Holding S.A., Kyowa Hakko Kirin Co., Ltd.

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 Co., Ltd, and 3 subsidiaries of Lion Pty Ltd became consolidated subsidiaries.
(b) Due to new acquisition, 1 subsidiary of Kyowa Hakko Kirin Co., Ltd 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 Co., Ltd, and 5 subsidiaries of Lion Pty Ltd were excluded from the consolidation scope.
(e) Due to mergers, 1 subsidiary of Kirin Beverage Company, Limited, 1 subsidiary of Kyowa Hakko Kirin Co., Ltd, and 17 subsidiaries of Lion Pty Ltd 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.

(2) Major unconsolidated subsidiary: Chiyoda Transportation Co., Ltd.

Certain subsidiaries, including Chiyoda Transportation Co., Ltd., 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 consolidated financial statements is immaterial.

2. Equity method

(1) Unconsolidated subsidiaries accounted for by the equity method: No companies

(2) Affiliated companies accounted for by the equity method: 18 companies

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

Changes in the scope of application of 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 Ltd 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.

(3) Certain investments in unconsolidated subsidiaries including Chiyoda Transportation Co., Ltd. and affiliates including Diamond Sports Club Co., Ltd. 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.

(4) Where 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.

(5) 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. Fiscal year-ends of consolidated subsidiaries

The fiscal year-end of Lion Pty Ltd and its subsidiaries, and Myanmar Brewery Limited are September 30 and March 31, respectively.

For Lion Pty Ltd 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 Kirin Holdings Singapore Pte, Ltd., which holds the shares of Myanmar Brewery Limited directly. The Company made necessary adjustments for major transactions between September 30 and December 31.

4. Accounting policies

(1) Measurement of significant assets

(a) Marketable and investment securities

1) Held-to-maturity debt securities are stated at amortized cost.

2) Available-for-sale securities with fair market value are stated at fair market 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 computed using the moving-average method.

3) Available-for-sale securities without fair market value are stated at the moving-average cost.

(b) Derivative financial instruments

Derivative financial instruments are stated at fair value.

(c) Inventories

1) 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.

2) Raw materials, containers and supplies are mainly stated at the lower of cost determined by the moving-average method and net realizable value.

3) Cost of uncompleted construction contracts is stated at cost determined by the specific identification method.

(2) Property, plant and equipment and intangible assets

(a) 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 domestic subsidiaries is calculated using the straight-line method. Depreciation for certain consolidated subsidiaries is calculated using the declining-balance method.

(b) Intangible assets (excluding leased assets)

1) The Company and its consolidated domestic subsidiaries amortize intangible assets using the straight-line method.

2) Consolidated overseas subsidiaries mainly adopt the straight-line method over 20 years.

(c) Leased assets

Leased assets pertaining to finance lease transactions other than those involving a transfer of title

Depreciation is calculated by the straight-line method over the lease terms without residual value.

(3) Allowances and reserves

(a) 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 amount with respect to certain identified doubtful receivables and an amount calculated using the actual historic percentage of collection losses.

(b) Allowance for employees' bonuses

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

(c) 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.

(d) 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.

(e) 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 cost 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 sheet.

(f) Reserve for environmental measures

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

(g) 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.

(h) 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.

(4) 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.

Unrecognized actuarial gains and losses and unrecognized past service costs are stated as remeasurements of defined benefit plans under accumulated other comprehensive income in net assets after adjusting for tax effects.

(5) Hedge accounting

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 consolidated balance sheet 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 book value of the receivable or payable is recognized in the consolidated statement 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.

(b) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

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.

(6) Goodwill

Differences between the acquisition costs and the underlying net equities of investments in consolidated subsidiaries are recorded as goodwill in the consolidated balance sheet 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.

(7) Consumption taxes

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

(8) Application of consolidated taxation regime

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

Changes in Accounting Policies

(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 Japan Integrated Beverages.
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, as compared to the amounts calculated by the previous method.

Changes in Presentation

(Consolidated statement of income)
Net foreign currency translation loss (¥2,067 million for the year ended December 31, 2016), which was presented separately under non-operating expenses for the year ended December 31, 2015, has been included in "Other" from the year ended December 31, 2016, as the amount has become immaterial.
Gain on sale of shares of subsidiaries and affiliates, which was included in "Other" under special income for the year ended December 31, 2015, has been presented separately from the year ended December 31, 2016, as materiality of the amount has increased. Gain on sale of shares of subsidiaries and affiliates which was included in "Other" for the year ended December 31, 2015 amounted to ¥130 million.

(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.

Notes to the Consolidated Balance Sheet

1. Accumulated depreciation of property, plant and equipment ¥1,193,786 million

2. Amount deducted from property, plant and equipment due to subsidies received from governments and others ¥3,007 million

3. Assets pledged as collateral and secured borrowings

(1) Assets pledged as collateral

Buildings and structures		¥8,545 million
Machinery, equipment and vehicles		¥37,376 million
Land		¥209 million
Investment securities		¥659 million
	Total	¥46,791 million

(2) Secured borrowings

Short-term loans payable and long-term debt with current maturities		¥13,133 million
Long-term debt		¥22,971 million
Deposits received		¥60 million
	Total	¥36,165 million

4. Contingent liabilities

(1) Guarantees for loans from banks and others of unconsolidated subsidiaries and affiliated companies		¥477 million
(2) Guarantees for loans from banks and others of employees		¥872 million
(3) Guarantees for loans from banks and others of customers		¥1,293 million
	Total	¥2,642 million

5. Tax litigation and other matters

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 expected losses on these litigation and lawsuits, BRL1,696,128 thousand (¥60,636 million) associated with tax-related litigation, BRL346,972 thousand (¥12,404 million) associated with labor-related litigation and BRL173,398 thousand (¥6,198 million) associated with civil lawsuits have not been recorded as reserves as of December 31, 2016, 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.

Notes to the Consolidated Statement of Income

1. Major costs and amounts of selling, general and administrative expenses

Sales promotion	¥205,369 million
Freight	¥71,506 million
Advertising	¥62,940 million
Retirement benefit expenses	¥11,934 million
Salaries and wages of employees	¥149,128 million
Research and development	¥62,874 million
Depreciation	¥34,899 million
Preferential treatment for special taxation measures of foreign subsidiaries	¥(11,965) million

(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 year ended December 31, 2016.
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.

2. Presentation of gain or loss on currency swaps and forward foreign exchange contracts
Loss on currency swaps and forward foreign exchange contracts (¥9,638 million) that are carried to hedge the foreign exchange rate fluctuation risks for loans receivable in foreign currencies is included in "Other" under non-operating expenses after offsetting net foreign currency translation gain.

3. Loss on impairment
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 for the year ended December 31, 2016 as follows:

Usage	Location	Type
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) an 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, (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, business restructuring expense of ¥3,805 million and "Other" of ¥767 million recorded under special expenses in the consolidated statement of income for such devaluation, comprising ¥3,030 million for machinery, equipment and vehicles, ¥1,093 million for others in property, plant and equipment, ¥715 million for buildings and structures, ¥171 million for land, and ¥37 million 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.

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

5. 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.

Notes to the Consolidated Statement of Changes in Net Assets

1. Type and number of shares outstanding and treasury stock
(1) Shares outstanding

Type of shares outstanding	common stock
Number of shares as of January 1, 2016	914,000,000 shares
Number of shares increased during the year ended December 31, 2016	—
Number of shares decreased during the year ended December 31, 2016	—
Number of shares as of December 31, 2016	914,000,000 shares

(2) Treasury stock

Type of treasury stock	common stock
Number of shares as of January 1, 2016	1,471,032 shares
Number of shares increased during the year ended December 31, 2016	14,029 shares
Number of shares decreased during the year ended December 31, 2016	914 shares
Number of shares as of December 31, 2016	1,484,147 shares

Notes: 1. Increase in the number of shares was due to purchases of less-than-one-unit shares.
2. Decrease in the number of shares was due to sales of less-than-one-unit shares.

2. Matters related to dividends
(1) Dividend payments

Approvals by Ordinary General Meeting of Shareholders held on March 30, 2016 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, 2015
d. Effective date March 31, 2016

Approvals by the Board Meeting held on August 4, 2016 were as follows:
Dividend on Common stock
a. Total amount of dividend ¥17,337 million
b. Dividend per share ¥19.00
c. Record date June 30, 2016
d. Effective date September 6, 2016

(2) Dividends whose record date is attributable to, but to be effective after, the year ended December 31, 2016.

Matters to be discussed by Ordinary General Meeting of Shareholders to be held on March 30, 2017 are as follows:
Dividend on Common Stock
a. Total amount of dividend ¥18,250 million
b. Source of dividends Retained earnings
c. Dividend per share ¥20.00

d. Record date	December 31, 2016
e. Effective date	March 31, 2017

Notes for 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 others, 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.

(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 others, 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.

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, their fair values, and the differences. Financial instruments whose fair values are deemed extremely difficult to assess are not included.

(¥ millions)

	Book value	Fair value	Difference
ASSETS			
(1) Cash and time deposits	58,990	58,990	—
(2) Notes and accounts receivable, trade	393,500	393,500	—
(3) Marketable securities and investment securities			
Available-for-sale securities	157,632	157,632	—
Total assets	610,123	610,123	—
LIABILITIES			
(1) Notes and accounts payable, trade	135,801	135,801	—
(2) Short-term loans payable and long-term debt with current maturities	89,934	89,934	—
(3) Commercial paper	45,000	45,000	—
(4) Liquor taxes payable	80,513	80,513	—
(5) Income taxes payable	21,162	21,162	—
(6) Bonds	194,994	202,081	7,087
(7) Long-term debt	318,712	324,407	5,695
Total liabilities	886,118	898,901	12,783
Derivative transactions (*)	(15,167)	(15,167)	—

(*) 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 book value because of their short-term nature.

(3) Marketable securities and investment securities

The fair values of equity securities are measured based on market prices. The fair values of bond securities are measured by the prices obtained from financial institutions.

LIABILITIES

(1) Notes and accounts payable, trade, (2) Short-term loans payable and long-term debt with current maturities, (3) Commercial paper, (4) Liquor taxes payable, and (5) Income taxes payable

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

(6) 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.

(7) 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 of the combined total of principal and interest is discounted by using the rates of relevant interest rate swaps.

Derivative transactions

The fair value of derivatives is measured by the prices obtained from financial institutions.

Forward foreign exchange contracts and other instruments for which the appropriation treatment is applied are accounted for together with the receivables and payables denominated in foreign currencies as the hedged item; therefore, their fair values are included in the fair value of the hedged receivables and payables denominated in foreign currencies.

The fair value of interest rate swaps which are accounted for using the special treatment is included in that of the corresponding hedged long-term debt as those interest rate swaps are recorded as an adjustment to interest expense of hedged instruments under the special treatment.

2. Book values of financial instruments for which fair values are deemed extremely difficult to assess

(¥ millions)

Classification	Consolidated balance sheet amount
Investment securities	
a. Unlisted equity securities (Equity securities issued by affiliates and others)	230,892
b. Unlisted equity securities (Other securities)	9,861
c. Other	1,573
Investments and other assets-other	
a. Investments in equity of affiliates and others	297
Deposits received	55,491

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.

Notes for Per Share Information

1. Net assets per share:	¥745.92
2. Net income per share:	¥129.49

Notes for Subsequent Events

(Transfer of shares of Brasil Kirin Holding S.A.)
The Company resolved to transfer all shares in Brasil Kirin Holding S.A. (hereinafter "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.; hereinafter "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 improved 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 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.

Additional Information

(Impact of change in corporation tax rate)
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 fiscal 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 fiscal years beginning on January 1, 2017 and January 1, 2018, and 30.6% for temporary differences expected to be eliminated during fiscal 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. 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, ¥1,144 million, ¥737 million and ¥2 million, respectively.
In addition, deferred tax liability due to land revaluation and land revaluation difference both decreased by ¥61 million.

Notes to Financial Statements

Significant Accounting Policies

1. Measurement of assets

(1) Measurement of securities

(a) Shares of subsidiaries and affiliates are stated at cost determined by the moving-average method.

(b) Available-for-sale securities

1) Available-for-sale securities with fair market value are stated at fair market 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 computed using the moving-average method.

2) Available-for-sale securities without fair market value are stated at the moving-average cost.

(2) Derivative financial instruments

Derivative financial instruments are stated at fair value.

2. Property, plant and equipment and intangible assets

(1) Property, plant and equipment are stated at cost net of accumulated depreciation and accumulated loss from impairment. Depreciation of property, plant and equipment is calculated using the straight-line method.

(2) Amortization of intangible assets is calculated using the straight-line method.

3. Allowances and reserves

(1) Allowance for doubtful accounts

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

(2) Allowance for employees' bonuses

The Company provides allowance for employees' bonuses based on the estimated amounts payable.

(3) Allowance for bonuses for directors and company auditors

The Company provides allowance for bonuses for directors and company auditors based on the estimated amounts payable.

(4) Employees' pension and retirement benefits

The Company provides allowance for employees' pension and retirement benefits at the balance sheet date based on the estimated amounts of projected retirement benefit obligations at the end of the fiscal year. In calculating retirement benefit obligation, the benefit formula basis is used for attributing expected retirement benefits 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 (13 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 (13 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.

4. Other significant matters serving as the basis for the preparation of financial statements

(1) Employees' pension and retirement benefits

Unrealized actuarial gains and losses and unrealized past service costs relating to employees' pension and retirement benefits are accounted for differently from the accounting method used in the consolidated financial statements.

(2) Hedge accounting

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains and losses resulting from changes in fair value of derivative financial instruments as "Deferred gains or losses on hedges" in valuation and translation adjustments in the balance sheet until the related losses and gains 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 book value of the receivable or payable is recognized in the statement 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.

(b) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

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.

(3) Consumption taxes

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

(4) Application of the consolidated taxation regime

The Company applies the consolidated taxation regime.

Changes in Accounting Policies

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)
(Changes in depreciation method for property, plant and equipment)
With respect to the depreciation method for property, plant and equipment, the Company 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 current fiscal year, the method has been changed to the straight-line method for all assets.
This is because the Kirin Group has determined that equal allocation of depreciation over the useful life of the assets will reflect their actual usage conditions more appropriately, after the depreciation method has been reviewed in conjunction with the formulation of the Medium-Term Business Plan 2016-2018.
This change will contribute to unification of the accounting policies adopted by the Group companies.
As a result of this change, for the current fiscal year, operating income, ordinary income and income before income taxes increased by ¥132 million, as compared to the amounts calculated by the previous method.

Changes in Presentation

(Statement of income)
Net foreign currency translation loss, which was included in “Other” under non-operating expenses for the year ended December 31, 2015, has been presented separately from the year ended December 31, 2016, as materiality of the amount has increased. Net foreign currency translation loss which was included in “Other” for the year ended December 31, 2015 amounted to ¥197 million.

Notes to the Balance Sheet

1. Monetary debts due from and to subsidiaries and affiliates

Short-term monetary debts due from subsidiaries and affiliates	¥164,249 million
Long-term monetary debts due from subsidiaries and affiliates	¥889 million
Short-term monetary debts due to subsidiaries and affiliates	¥251,488 million
Long-term monetary debts due to subsidiaries and affiliates	¥2,380 million

2. Accumulated depreciation of property, plant and equipment ¥20,470 million

3. Amount deducted from property, plant and equipment due to subsidies received from governments and others ¥34 million

4. Contingent liabilities

Guarantees for loans from banks and others of subsidiaries and affiliates	¥29,852 million
Guarantees for employee housing loans from banks	¥866 million
Total	¥30,718 million

Notes to the Statement of Income

1. Transactions with subsidiaries and affiliates (excluding those separately presented)

Operating revenue	¥986 million
Operating expenses	¥1,285 million
Transactions other than business transactions	¥1,541 million

2. Presentation of gain or loss on currency swaps and forward foreign exchange contracts
Loss on currency swaps and forward foreign exchange contracts (¥96 million) that are carried to hedge the foreign exchange rate fluctuation risks for loans receivable in foreign currencies is included in net foreign currency translation loss.

Notes to the Statement of Changes in Net Assets

Type of treasury stock	common stock
Number of shares as of January 1, 2016	1,471,032 shares
Number of shares increased during the year ended December 31, 2016	14,029 shares
Number of shares decreased during the year ended December 31, 2016	914 shares
Number of shares as of December 31, 2016	1,484,147 shares

Notes:
1. Increase in the number of shares was due to purchases of less-than-one-unit shares.
2. Decrease in the number of shares was due to sales of less-than-one-unit shares.

Notes for Deferred Income Taxes

1. Significant components of deferred tax assets

Investments in shares and other equity interests of subsidiaries and affiliates	¥125,203 million
Other	¥3,710 million
Subtotal	¥128,913 million
Less valuation allowance	¥(128,313) million
Total deferred tax assets	¥600 million

2. Significant components of deferred tax liabilities

Net unrealized gains on securities	¥(12,774) million
Other	¥(650) million
Total deferred tax liabilities	¥(13,425) million

3. Impact of change in corporation tax rate

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 fiscal 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 fiscal years beginning on January 1, 2017 and January 1, 2018, and 30.6% for temporary differences expected to be eliminated during fiscal 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 liabilities and income taxes-deferred decreased by ¥697 million and ¥30 million, respectively, and net unrealized gains on securities increased by ¥667 million.

Notes for Transactions with Related Parties

Type	Company name	Ratio of voting rights held by the Company [Indirect ownership]	Relationship with the Company	
			Directors and company auditors	Business relationship
Subsidiary	KIRIN Company, Limited	100%	Concurrent 2	Consignment of management guidance service Lending and borrowing of funds Consignment of indirect business
Subsidiary	Kirin Brewery Company, Limited	Indirect 100%	-	Lending and borrowing of funds
Subsidiary	Kirin Beverage Company, Limited	Indirect 100%	-	Lending and borrowing of funds
Subsidiary	Mercian Corporation	Indirect 100%	-	Lending and borrowing of funds
Subsidiary	Lion Pty Ltd	100%	Concurrent 1	Consignment of management guidance service Financial support Guarantees
Subsidiary	Brasil Kirin Holding S.A.	100%	Concurrent 1	Consignment of management guidance service Financial support
Subsidiary	Kyowa Hakko Kirin Co., Ltd	53%	Concurrent 2	Lending and borrowing of funds

Type	Company name	Transaction details	Transaction amount (¥ millions)	Item	Balance at end of year (¥ millions)
Subsidiary	KIRIN Company, Limited	Borrowing of funds (Notes 1 and 3)	26,115	Short-term loans payable	49,114
Subsidiary	Kirin Brewery Company, Limited	Lending of loans (Notes 1 and 2)	86,224	Short-term loans receivable	72,284
Subsidiary	Kirin Beverage Company, Limited	Borrowing of funds (Notes 1 and 3)	32,880	Short-term loans payable	41,296
Subsidiary	Mercian Corporation	Lending of loans (Notes 1 and 2)	735	Short-term loans receivable	22,368
Subsidiary	Lion Pty Ltd	Lending of loans (Notes 1 and 2)	11,561	Short-term loans receivable	-
		Interest income (Note 2)	376	-	-
		Guarantees (Note 4)	16,306	-	-
Subsidiary	Brasil Kirin Holding S.A.	Lending of loans (Notes 1 and 2)	32,859	Short-term loans receivable	37,600
Subsidiary	Kyowa Hakko Kirin Co., Ltd	Borrowing of funds (Notes 1 and 3)	101,187	Short-term loans payable	114,521

Conditions of transactions and policy regarding determination of conditions of transactions

Notes:

1. Transaction amounts of lending and borrowing of funds show average outstanding balances during this fiscal year.
2. Interest rates of loans receivable are determined based on market interest rates.
3. Interest rates of loans payable are determined based on market interest rates.
4. The Company provides a guarantee for bank loans of Lion Pty Ltd.
5. Transaction amounts above do not include foreign currency translation gain or loss. Transaction amounts do not include consumption taxes.

Notes for Per Share Information

1. Net assets per share:	¥876.55
2. Net income per share:	¥74.26

Notes for Subsequent Events

(Transfer of shares of Brasil Kirin Holding S.A.)
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 with Bavaria S.A. (a subsidiary of Heineken International B.V.) on the same date.
Other information is omitted as it is the same as that disclosed in the notes for subsequent events in the consolidated financial statements.