
***Suntory Holdings Limited and
Consolidated Subsidiaries***

*Consolidated Financial Statements for the
Year Ended December 31, 2016, and
Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Suntory Holdings Limited:

We have audited the accompanying consolidated balance sheet of Suntory Holdings Limited and its consolidated subsidiaries as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suntory Holdings Limited and its consolidated subsidiaries as of December 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

March 17, 2017

Member of
Deloitte Touche Tohmatsu Limited

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Balance Sheet
December 31, 2016

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016		2016	2015	2016
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 17)	¥ 352,525	¥ 257,990	\$ 3,026,232	Short-term bank loans (Notes 7 and 17)	¥ 25,912	¥ 35,613	\$ 222,444
Short-term investments (Note 5)	634	634	5,444	Current portion of long-term debt (Notes 7, 16, and 17)	290,656	186,598	2,495,118
Notes and accounts receivable (Note 17):				Notes and accounts payable (Note 17):			
Trade	368,854	380,560	3,166,406	Trade	201,411	213,910	1,729,005
Other	37,745	48,804	324,019	Unconsolidated subsidiaries and associates	2,974	2,228	25,531
Allowance for doubtful accounts	(1,363)	(2,109)	(11,707)	Other	187,226	199,408	1,607,232
Inventories (Note 6)	403,393	438,927	3,462,898	Liquor tax and consumption taxes payable (Note 17)	71,829	77,413	616,610
Deferred tax assets (Note 10)	42,854	45,349	367,877	Accrued income taxes (Notes 10 and 17)	24,119	36,629	207,052
Other current assets	62,460	35,604	536,187	Accrued expenses (Note 17)	113,835	107,595	977,210
				Other current liabilities	84,252	75,228	723,255
Total current assets	<u>1,267,103</u>	<u>1,205,761</u>	<u>10,877,358</u>	Total current liabilities	<u>1,002,217</u>	<u>934,627</u>	<u>8,603,460</u>
PROPERTY, PLANT, AND EQUIPMENT:				LONG-TERM LIABILITIES:			
Land	100,444	106,203	862,256	Long-term debt (Notes 7, 16, and 17)	1,654,462	1,870,908	14,202,614
Buildings and structures (Note 7)	388,402	405,383	3,334,209	Liability for employees' retirement benefits (Note 8)	35,341	33,926	303,388
Machinery, equipment, and other (Note 7)	866,696	898,056	7,440,090	Retirement allowances for directors and Audit and Supervisory Board members	1,090	1,004	9,365
Construction in progress	24,581	22,362	211,022	Long-term deposits payable	40,938	39,486	351,435
Lease assets (Note 16)	47,745	46,284	409,870	Deferred tax liabilities (Note 10)	429,873	471,066	3,690,220
Total	<u>1,427,870</u>	<u>1,478,291</u>	<u>12,257,449</u>	Other	53,711	93,340	461,081
Accumulated depreciation	<u>(787,049)</u>	<u>(792,223)</u>	<u>(6,756,367)</u>	Total long-term liabilities	<u>2,215,419</u>	<u>2,509,733</u>	<u>19,018,106</u>
Net property, plant, and equipment	<u>640,821</u>	<u>686,068</u>	<u>5,501,081</u>	COMMITMENTS AND CONTINGENT LIABILITIES (Notes 16 and 18)			
INVESTMENTS AND OTHER ASSETS:				EQUITY (Notes 9 and 20):			
Investments in unconsolidated subsidiaries and associates (Note 17)	45,400	47,427	389,737	Common stock, authorized - 1,305,600,000 shares, and issued - 687,136,196 shares in 2016 and 2015	70,000	70,000	600,909
Investment securities (Notes 5, 7, and 17)	70,668	72,205	606,647	Capital surplus	133,198	(20,780)	1,143,429
Long-term receivables	865	1,380	7,427	Retained earnings	693,688	743,354	5,954,915
Long-term guarantee deposit	18,810	21,513	161,473	Treasury stock - at cost: 2,350,748 shares in 2016 and 3,360,748 shares in 2015	(1,598)	(2,285)	(13,722)
Goodwill (Note 13)	1,012,334	1,136,879	8,690,308	Accumulated other comprehensive income (loss):			
Trademarks	1,180,264	1,285,478	10,131,895	Unrealized gain on available-for-sale securities	25,491	26,427	218,831
Deferred tax assets (Note 10)	16,233	7,890	139,353	Deferred loss on derivatives under hedge accounting	(2,257)	(3,803)	(19,376)
Asset for retirement benefits (Note 8)	12,168	18,535	104,462	Foreign currency translation adjustments	(29,763)	53,256	(255,503)
Other	110,901	125,158	952,025	Defined retirement benefit plans	(14,966)	(8,496)	(128,474)
Allowance for doubtful accounts	<u>(1,214)</u>	<u>(1,309)</u>	<u>(10,426)</u>	Total	<u>873,792</u>	<u>857,673</u>	<u>7,501,010</u>
Total investments and other assets	<u>2,466,431</u>	<u>2,715,160</u>	<u>21,172,906</u>	Noncontrolling interests	282,927	304,956	2,428,769
				Total equity	<u>1,156,720</u>	<u>1,162,629</u>	<u>9,929,780</u>
TOTAL	<u>¥4,374,356</u>	<u>¥4,606,990</u>	<u>\$37,551,347</u>	TOTAL	<u>¥4,374,356</u>	<u>¥4,606,990</u>	<u>\$37,551,347</u>

See notes to consolidated financial statements.

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended December 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2016</u>	<u>2015</u>	<u>2016</u>
NET SALES	¥2,651,479	¥2,686,765	\$22,761,430
COST OF SALES (Note 11)	<u>1,262,489</u>	<u>1,330,001</u>	<u>10,837,747</u>
Gross profit	1,388,989	1,356,763	11,923,682
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 11, 12, 13, and 16)	<u>1,191,001</u>	<u>1,171,669</u>	<u>10,224,067</u>
Operating income	<u>197,988</u>	<u>185,094</u>	<u>1,699,614</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,902	3,525	16,328
Interest expense	(27,644)	(28,825)	(237,309)
Share of profit (loss) of investments accounted for using the equity method	5,246	(5,062)	45,039
Gain on sales of investments in subsidiaries and associates	4,500	4,294	38,631
Gain on step acquisitions	-	15,698	-
Insurance income (Note 14)	7,000	-	60,090
Gain on transfer of business	8,505	-	73,015
Restructuring charges	(6,698)	(8,344)	(57,504)
Losses from a natural disaster (Note 15)	(10,917)	-	(93,721)
Other, net	<u>(3,263)</u>	<u>(15,818)</u>	<u>(28,012)</u>
Other expenses, net	<u>(21,369)</u>	<u>(34,532)</u>	<u>(183,442)</u>
INCOME BEFORE INCOME TAXES	<u>176,618</u>	<u>150,562</u>	<u>1,516,172</u>
INCOME TAXES (Note 10):			
Current	51,715	74,705	443,949
Deferred	<u>(27,433)</u>	<u>7,351</u>	<u>(235,499)</u>
Total income taxes	<u>24,282</u>	<u>82,057</u>	<u>208,449</u>
NET INCOME	152,336	68,505	1,307,722
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>30,818</u>	<u>23,266</u>	<u>264,557</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 121,518</u>	<u>¥ 45,239</u>	<u>\$ 1,043,165</u>
	Yen		U.S. Dollars (Note 1)
	<u>2016</u>	<u>2015</u>	<u>2016</u>
AMOUNTS PER SHARE (Note 2(v)):			
Net income – basic	¥177.62	¥66.19	\$1.52
Cash dividends applicable to the year	13.00	12.00	0.11

See notes to consolidated financial statements.

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended December 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2016</u>	<u>2015</u>	<u>2016</u>
NET INCOME	¥ 152,336	¥ 68,505	\$ 1,307,722
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19):			
Unrealized (loss) gain on available-for-sale securities	(878)	6,349	(7,540)
Deferred gain (loss) on derivatives under hedge accounting	1,888	(5,190)	16,210
Foreign currency translation adjustments	(101,398)	(98,208)	(870,448)
Defined retirement benefit plans	(6,881)	2,499	(59,070)
Share of other comprehensive (loss) income in associates	(3,086)	1,278	(26,499)
Total other comprehensive loss	<u>(110,356)</u>	<u>(93,272)</u>	<u>(947,347)</u>
COMPREHENSIVE INCOME (LOSS)	<u>¥ 41,980</u>	<u>¥(24,767)</u>	<u>\$ 360,375</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥32,638	¥(29,892)	\$280,185
Noncontrolling interests	9,341	5,125	80,189

See notes to consolidated financial statements.

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended December 31, 2016

	Thousands	Millions of Yen										
	Outstanding Number of Shares of Common Stock	Accumulated Other Comprehensive Income (Loss)										
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for- Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, JANUARY 1, 2015 (as previously reported)	687,136	¥70,000	¥ (20,739)	¥ 692,849	¥(2,604)	¥20,322	¥ 1,239	¥132,379	¥(11,425)	¥882,023	¥308,733	¥1,190,756
Cumulative effect of accounting change (Note 2(l))	-	-	-	8,881	-	-	-	-	-	8,881	1,434	10,316
BALANCE, JANUARY 1, 2015 (as restated)	687,136	70,000	(20,739)	701,731	(2,604)	20,322	1,239	132,379	(11,425)	890,904	310,167	1,201,072
Net income attributable to owners of the parent	-	-	-	45,239	-	-	-	-	-	45,239	-	45,239
Cash dividends, ¥12.00 per share (Note 2(v))	-	-	-	(8,199)	-	-	-	-	-	(8,199)	-	(8,199)
Change of scope of equity method	-	-	-	4,547	-	-	-	-	-	4,547	-	4,547
Disposal of treasury stock	-	-	183	-	319	-	-	-	-	502	-	502
Put option granted to noncontrolling interests	-	-	-	36	-	-	-	-	-	36	-	36
Changes in the parent's ownership interest due to transactions with noncontrolling interests	-	-	(282)	-	-	-	-	-	-	(282)	-	(282)
Other	-	-	57	-	-	-	-	-	-	57	-	57
Net change in the year	-	-	-	-	-	6,104	(5,043)	(79,122)	2,929	(75,132)	(5,211)	(80,343)
BALANCE, DECEMBER 31, 2015 (January 1, 2016, as previously reported)	687,136	70,000	(20,780)	743,354	(2,285)	26,427	(3,803)	53,256	(8,496)	857,673	304,956	1,162,629
Cumulative effect of accounting change (Note 2(d))	-	-	158,808	(162,979)	-	-	-	(1,024)	-	(5,195)	(798)	(5,994)
BALANCE, JANUARY 1, 2016 (as restated)	687,136	70,000	138,027	580,375	(2,285)	26,427	(3,803)	52,232	(8,496)	852,477	304,157	1,156,634
Net income attributable to owners of the parent	-	-	-	121,518	-	-	-	-	-	121,518	-	121,518
Cash dividends, ¥12.00 per share (Note 2(v))	-	-	-	(8,205)	-	-	-	-	-	(8,205)	-	(8,205)
Disposal of treasury stock	-	-	468	-	686	-	-	-	-	1,155	-	1,155
Changes in the parent's ownership interest due to transactions with noncontrolling interests	-	-	(5,297)	-	-	-	-	-	-	(5,297)	-	(5,297)
Net change in the year	-	-	-	-	-	(935)	1,546	(81,996)	(6,469)	(87,855)	(21,229)	(109,084)
BALANCE, DECEMBER 31, 2016	<u>687,136</u>	<u>¥70,000</u>	<u>¥133,198</u>	<u>¥ 693,688</u>	<u>¥(1,598)</u>	<u>¥25,491</u>	<u>¥(2,257)</u>	<u>¥ (29,763)</u>	<u>¥(14,966)</u>	<u>¥873,792</u>	<u>¥282,927</u>	<u>¥1,156,720</u>

(Continued)

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended December 31, 2016

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)				Total	Noncontrolling Interests	Total Equity
					Unrealized Gain (Loss) on Available-for- Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, DECEMBER 31, 2015 (January 1, 2016, as previously reported)	\$ 600,909	\$ (178,391)	\$ 6,381,276	\$(19,618)	\$ 226,863	\$(32,652)	\$ 457,180	\$ (72,934)	\$ 7,362,633	\$ 2,617,874	\$ 9,980,508
Cumulative effect of accounting change (Note 2(d))	-	1,363,278	(1,399,087)	-	-	-	(8,794)	-	(44,604)	(6,857)	(51,462)
BALANCE, JANUARY 1, 2016 (as restated)	600,909	1,184,886	4,982,188	(19,618)	226,863	(32,652)	448,386	(72,934)	7,318,028	2,611,016	9,929,045
Net income attributable to owners of the parent	-	-	1,043,165	-	-	-	-	-	1,043,165	-	1,043,165
Cash dividends, \$0.10 per share (Note 2(v))	-	-	(70,437)	-	-	-	-	-	(70,437)	-	(70,437)
Disposal of treasury stock	-	4,023	-	5,895	-	-	-	-	9,918	-	9,918
Changes in the parent's ownership interest due to transactions with noncontrolling interests	-	(45,479)	-	-	-	-	-	-	(45,479)	-	(45,479)
Net change in the year	-	-	-	-	(8,031)	13,276	(703,889)	(55,540)	(754,185)	(182,246)	(936,432)
BALANCE, DECEMBER 31, 2016	<u>\$ 600,909</u>	<u>\$ 1,143,429</u>	<u>\$ 5,954,915</u>	<u>\$(13,722)</u>	<u>\$ 218,831</u>	<u>\$(19,376)</u>	<u>\$(255,503)</u>	<u>\$(128,474)</u>	<u>\$ 7,501,010</u>	<u>\$ 2,428,769</u>	<u>\$ 9,929,780</u>

See notes to consolidated financial statements.

(Concluded)

Suntory Holdings Limited and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended December 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 176,618	¥ 150,562	\$ 1,516,172
Adjustments for:			
Depreciation and amortization	92,939	94,502	797,829
Amortization of goodwill	61,310	64,828	526,313
Share of (profit) loss of investments accounted for using the equity method	(5,246)	5,062	(45,039)
Gain on sales of investments in subsidiaries and associates	(4,500)	(4,294)	(38,631)
Gain on step acquisitions	-	(15,698)	-
Gain on transfer of business	(8,505)	-	(73,015)
Increase in notes and accounts receivable – trade	(16,049)	(1,468)	(137,778)
Decrease (increase) in inventories	3,378	(11,783)	29,004
Increase (decrease) in notes and accounts payable – trade	4,226	(12)	36,284
(Decrease) increase in liquor tax and consumption taxes payable	(3,077)	3,491	(26,419)
Income taxes paid	(73,792)	(60,746)	(633,465)
Other, net	29,024	41,793	249,159
Net cash provided by operating activities	<u>256,326</u>	<u>266,237</u>	<u>2,200,412</u>
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(100,409)	(107,080)	(861,959)
Proceeds from sales of property, plant, and equipment	8,312	8,740	71,360
Purchases of investment securities	(1,251)	(2,062)	(10,739)
Proceeds from refunds of investment securities	-	3,411	-
Purchase of investments in subsidiaries resulting in change in consolidation scope – net of cash acquired (Note 4)	-	(134,317)	-
Proceeds from sales of shares of subsidiaries resulting in change in consolidation scope	8,204	4,853	70,429
Advances received related to transfer of business	-	7,036	-
Proceeds from transfer of business	25,148	-	215,884
Payments for transfer of business	(8,088)	-	(69,431)
Other, net	3,716	11,866	31,904
Net cash used in investing activities	<u>(64,366)</u>	<u>(207,552)</u>	<u>(552,551)</u>
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term bank loans	2,209	(13,107)	18,964
Proceeds from long-term bank loans	125,018	207,863	1,073,214
Repayments of long-term bank loans	(163,104)	(147,779)	(1,400,154)
Proceeds from issuance of bonds	50,000	-	429,221
Redemption of bonds	(68,808)	(11,400)	(590,677)
Repayments of lease obligations	(9,453)	(4,808)	(81,151)
Proceeds from disposal of treasury stock	1,155	502	9,918
Cash dividends	(8,205)	(8,199)	(70,437)
Cash dividends to noncontrolling interests	(16,639)	(16,563)	(142,844)
Purchases of investments in subsidiaries without changes in consolidation scope	(3,808)	-	(32,693)
Other, net	(204)	20	(1,756)
Net cash (used in) provided by financing activities	<u>(91,840)</u>	<u>6,527</u>	<u>(788,397)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>(5,583)</u>	<u>(6,530)</u>	<u>(47,932)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	94,535	58,682	811,532
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>257,990</u>	<u>199,308</u>	<u>2,214,699</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 352,525</u>	<u>¥ 257,990</u>	<u>\$ 3,026,232</u>

See notes to consolidated financial statements.

Suntory Holdings Limited and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Year Ended December 31, 2016

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Suntory Holdings Limited (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥116.49 to \$1, the exchange rate at December 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest million yen and U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand dollars in the presentation of these consolidated financial statements, except for per share data. As a result, the totals in Japanese yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

The Company is a pure holding company, which was established on February 16, 2009, through a method of stock transfer in which all the shares of the former Suntory Limited (currently Suntory Spirits Limited), a company founded in Osaka in 1899 as an unincorporated enterprise under the name of Torii Shoten, were transferred to the Company in connection with the reorganization of Suntory Group. The Company and its consolidated subsidiaries operate alcoholic and nonalcoholic beverage businesses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation - The consolidated financial statements as of December 31, 2016, include the accounts of the Company and its 261 (277 in 2015) subsidiaries (collectively, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for using the equity method.

Investments in 26 (27 in 2015) associates are accounted for using the equity method in 2016.

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

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over periods of mainly 20 years or, if immaterial, is charged to income when incurred. Acquired intangible assets with finite useful lives are amortized over the estimated useful lives. Acquired intangible assets with indefinite useful lives are not amortized and subject to impairment testing.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- (b) ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** - In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (3) expensing capitalized development costs of R&D; and (4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.
- (c) ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*** - In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," which was subsequently revised in line with the revisions to PITF No. 18 above. The standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS or FASB ASC tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (3) expensing capitalized development costs of R&D; and (4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.
- (d) ***Business Combination*** - In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures," and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

- (a) *Transactions with noncontrolling interest* - A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.
- (b) *Presentation of the consolidated balance sheet* - In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.
- (c) *Presentation of the consolidated statement of income* - In the consolidated statement of income, "net income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.
- (d) *Provisional accounting treatments for a business combination* - If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

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

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Group applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective January 1, 2016, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after January 1, 2016. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied retrospectively for all applicable transactions which occurred in the past.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

In the consolidated statement of cash flows for the year ended December 31, 2016, cash flows for purchases or sales of investments in subsidiaries without changes in consolidation scope are presented under financing activities, and cash flows for acquisition-related costs are presented under operating activities.

The cumulative effects from the retrospective application for (a) and (e) above at January 1, 2016, have been reflected within capital surplus and retained earnings at January 1, 2016.

As a result, at January 1, 2016, capital surplus increased by ¥158,808 million (\$1,363,278 thousand), and goodwill, retained earnings, foreign currency translation adjustments, and noncontrolling interests decreased by ¥5,994 million (\$51,462 thousand), ¥162,979 million (\$1,399,087 thousand), ¥1,024 million (\$8,794 thousand), and ¥798 million (\$6,857 thousand), respectively. There was no material impact on operating income and income before income taxes for the year ended December 31, 2016. In addition, there was no material impact on basic net income per share for the year ended December 31, 2016.

- (e) **Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include deposits in banks (including time deposits). The Group considers all time deposits with an original maturity of six months or less to be cash equivalents. Generally, such time deposits can be withdrawn at any time without penalty or diminution of the principal amount.
- (f) **Inventories** - Inventories are primarily stated at the lower of cost determined by the average cost method or net selling value, which is defined as the selling price, less additional estimated manufacturing costs, and estimated direct selling expenses.
- (g) **Short-Term Investments and Investment Securities** - Short-term investments and investment securities are classified and accounted for, depending on management's intent, as either (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, and are reported at amortized cost or (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by charging to income.
- (h) **Allowance for Doubtful Accounts** - The allowance for doubtful accounts is stated at amounts considered to be appropriate based on the past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- (i) **Property, Plant, and Equipment** - Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Group is mainly computed by the straight-line method. The range of useful lives is principally from three to 50 years for buildings and structures and from two to 17 years for machinery, equipment, and other. The useful lives for lease assets which do not transfer ownership of the leased property to the lessee are the terms of the respective leases.
- (j) **Intangible Assets** - Intangible assets are amortized primarily using the straight-line method except for acquired intangible assets with indefinite useful lives. Trademarks whose useful lives are not determinable are not amortized and subject to impairment test. Purchased software for internal use and software development costs are amortized based on the straight-line method over an estimated useful life of up to five years.

- (k) **Long-Lived Assets** - The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset or asset group exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- (l) **Retirement and Pension Plans** - The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans, defined contribution pension plans, and unfunded retirement benefit plans for employees.

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

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits," and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

- (1) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (2) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments. (see Note 19)
- (3) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (1) and (2) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (3) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in the prior annual period, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Group applied the revised accounting standard and guidance for retirement benefits for (1) and (2) above, effective December 31, 2014, and for (3) above, effective January 1, 2015.

With respect to (3) above, the Group changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using different discount rates according to the estimated timing of benefit payment, and recorded the effect of (3) above as of January 1, 2015, in retained earnings. As a result, asset for retirement benefits as of January 1, 2015, increased by ¥9,720 million, liability for employees' retirement benefits as of January 1, 2015, decreased by ¥6,311 million, and retained earnings as of January 1, 2015, increased by ¥8,881 million, and there was no material impact on operating income and income before income taxes and noncontrolling interests for the year ended December 31, 2015. In addition, there was no material impact on basic net income per share for the year ended December 31, 2015.

- (m) Retirement Allowances for Directors and Audit and Supervisory Board Members** - Upon retirement, directors and Audit and Supervisory Board members of the Company's domestic subsidiaries and directors of certain foreign subsidiaries are also qualified to receive lump-sum payments based on the Company's internal policies.

Retirement allowances for directors and Audit and Supervisory Board members are recorded to state the liability at the amount that would be required if all directors and Audit and Supervisory Board members retired at each consolidated balance sheet date.

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

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

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

- (q) Leases** - In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. In addition, the revised accounting standard permits leases, which existed at the transition date and do not transfer ownership of the leased property to the lessee, to continue to be accounted for as operating lease transactions with "as if capitalized" information disclosed in the notes to the lessee's financial statements.

The Group applied the revised accounting standard effective January 1, 2009. In addition, the Group continues to account for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

- (r) **Income Taxes** - The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax rates to the temporary differences.

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

- (s) **Foreign Currency Transactions** - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen by applying the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- (t) **Foreign Currency Financial Statements** - The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen by applying the current exchange rate as of the consolidated balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

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

- (u) **Derivatives and Hedge Activities** - The Group uses derivative financial instruments and payables denominated in foreign currencies to manage its exposures to fluctuations of receivables, payables and net investments in subsidiaries and associates in foreign exchange rates, interest rates, and commodity prices. These derivative financial instruments are utilized by the Group to reduce volatility risks of foreign currency exchange rates, interest rates, and commodity prices. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: 1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income, 2) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions and 3) for payables and derivatives used for hedging net investment in subsidiaries and associates, if they qualify for hedge accounting, unrealized foreign exchange gains/losses on payables and gains or losses on derivatives are deferred and included in the foreign currencies translation adjustments. The foreign currency forward contracts and foreign currency option contracts employed to hedge foreign exchange exposures for import purchases and forward contracts applied for forecasted (or committed) transactions are measured at fair value, and the unrealized gains/losses are deferred under hedge accounting in a separate component of equity until the underlying transactions are completed.

Trade payables and deposits denominated in foreign currencies, for which foreign currency forward contracts are used to hedge the foreign currency fluctuations, are translated at the contracted rate if the forward contracts qualify for hedge accounting and meet specific criteria.

Interest rate swaps, except for certain swaps described below, which qualify for hedge accounting are measured at market value at the consolidated balance sheet date, and the unrealized gains or losses are deferred until maturity as deferred gain (loss) under hedge accounting in a separate component of equity. Those swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

Interest and currency rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income, and hedged items denominated in a foreign currency are translated at the contracted rates.

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

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

Cash dividends per share presented in the accompanying consolidated statement of income represents dividends applicable to the respective year, including dividends to be paid after the end of the year.

(w) **Accounting Changes and Error Corrections** - In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied following revision of accounting standards, the new policy is applied retrospectively, unless the revised accounting standards include specific transitional provisions, in which case the entity shall comply with the specific transitional provisions; (2) Changes in Presentation - When the presentation of consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation; (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods; and (4) Corrections of Prior-Period Errors - When an error in prior-period consolidated financial statements is discovered, those prior-period consolidated financial statements are restated.

(x) **New Accounting Pronouncements**

Tax Effect Accounting - On March 28, 2016, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary difference, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for deductible temporary differences for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Group expects to apply the new guidance on recoverability of deferred tax assets effective January 1, 2017, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3. BUSINESS COMBINATION

Transactions under Common Control

The Company approved to reorganize the legal ownership of non-Japan, non-U.S. subsidiaries in the spirits business at the meeting of the Board of Directors held on May 18, 2016. The reorganization is to consolidate ownership of those entities under common holding company and integrate management as part of the integration process following the acquisition of Beam Inc. (currently Beam Suntory Inc.). The resolution was executed on August 14, 2016.

Outline of the Business Combination

(1) Name of Business Subject to Combination and Nature of Such Business

Name of business: Spirits business
Nature of business: Manufacture and distribution of spirits

(2) Date of Business Combination

August 14, 2016

(3) Legal Form of Business Combination

The shares of overseas subsidiaries (Morrison Bowmore Distillers Limited and two other subsidiaries) owned by the Company's subsidiary Suntory Spirits Limited, and the shares of non-U.S. overseas subsidiaries (Beam Suntory UK Limited and 64 other subsidiaries) owned by Beam Suntory Inc. were transferred to an intermediate holding company (Beam Suntory Luxembourg Sarl) that was newly established as a subsidiary of newly established subsidiary, Suntory UK Holdings Limited, mainly by contribution in kind.

(4) Name of Entity after Business Combination

There is no change in the name of entities.

(5) Other Matters Regarding the Outline of the Transaction

The Group purchased Beam Inc. (currently Beam Suntory Inc.) in 2014. This business combination is a reorganization of legal ownership as part of the subsequent integration process. The main aims are as follows:

- Reorganize and consolidate ownership of the Group's spirits business in order to integrate management of subsidiaries.
- Reorganize assets and liabilities in the Group in order to reduce and stabilize foreign exchange risks.
- Improve efficiency of return on invested capital.

(6) Outline of Accounting Treatment Applied

This business combination was accounted for as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and the "Guidance on Accounting Standards for Business Combinations and Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

4. ADDITIONAL INFORMATION FOR CONSOLIDATED STATEMENT OF CASH FLOWS

On July 31, 2015, the Group acquired Japan Beverage Holdings Inc. and JT A-Star Co., Ltd. (currently A-Star Co., Ltd.), etc. Assets and liabilities of the acquired companies and net cash used for the acquisition were as follows:

	Millions of Yen
	<u>2015</u>
Current assets	¥ 42,097
Noncurrent assets	173,287
Current liabilities	(35,626)
Long-term liabilities	(23,368)
Noncontrolling interests	<u>(6,713)</u>
Total acquisition costs	149,676
Cash and cash equivalents	<u>(15,359)</u>
Net cash used for acquisition	<u>¥134,317</u>

5. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of December 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Short-term investments:			
Time deposits	¥631	¥631	\$5,423
Corporate bonds	<u>2</u>	<u>2</u>	<u>21</u>
Total	<u>¥634</u>	<u>¥634</u>	<u>\$5,444</u>
Investment securities:			
Equity securities	¥70,093	¥72,006	\$601,711
Corporate bonds	120	2	1,030
Other	<u>455</u>	<u>196</u>	<u>3,906</u>
Total	<u>¥70,668</u>	<u>¥72,205</u>	<u>\$606,647</u>

The costs and aggregate fair values of marketable securities included in short-term investment and investment securities as of December 31, 2016 and 2015, were as follows:

	Millions of Yen					
	<u>2016</u>			<u>2015</u>		
	Acquisition Cost	Carrying Amount	Unrealized Gain (Loss)	Acquisition Cost	Carrying Amount	Unrealized Gain (Loss)
Available-for-sale securities:						
Carrying amounts exceeding their acquisition cost:						
Equity securities	¥18,968	¥57,934	¥38,965	¥20,355	¥62,106	¥41,751
Acquisition costs exceeding their carrying amounts:						
Equity securities	<u>7,022</u>	<u>5,713</u>	<u>(1,308)</u>	<u>5,147</u>	<u>3,157</u>	<u>(1,990)</u>
Total	<u>¥25,990</u>	<u>¥63,648</u>	<u>¥37,657</u>	<u>¥25,502</u>	<u>¥65,264</u>	<u>¥39,761</u>

	Thousands of U.S. Dollars		
	2016		
	Acquisition Cost	Carrying Amount	Unrealized Gain (Loss)
Available-for-sale securities:			
Carrying amounts exceeding their acquisition cost:			
Equity securities	\$ 162,832	\$ 497,332	\$ 334,500
Acquisition costs exceeding their carrying amounts:			
Equity securities	<u>60,281</u>	<u>49,051</u>	<u>(11,230)</u>
Total	<u>\$ 223,114</u>	<u>\$ 546,384</u>	<u>\$ 323,269</u>

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2016 and 2015, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Available for sale:			
Equity securities	¥6,445	¥6,742	\$ 55,326
Corporate bonds	122	5	1,051
Investments in limited partnerships	<u>455</u>	<u>196</u>	<u>3,906</u>
Total	<u>¥7,022</u>	<u>¥6,944</u>	<u>\$ 60,284</u>

Sales of securities classified as available-for-sale securities for the year ended December 31, 2016, were immaterial. Total gain on sale and total loss on sale for the year ended December 31, 2015, were as follows:

	Millions of Yen
	<u>2015</u>
Amount sold	¥12,574
Total gain on sale	5,555
Total loss on sale	0

6. INVENTORIES

Inventories as of December 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Finished and semifinished products	¥347,826	¥370,258	\$ 2,985,894
Work in process	15,321	18,212	131,530
Raw materials and supplies	<u>40,244</u>	<u>50,456</u>	<u>345,474</u>
Total	<u>¥403,393</u>	<u>¥438,927</u>	<u>\$ 3,462,898</u>

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The weighted-average rates applicable to the short-term bank loans were 2.92% and 2.66% as of December 31, 2016 and 2015, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Publicly offered corporate bonds, due 2017 through 2026, rates ranging from 0.15% to 0.74%	¥ 115,000	¥ 65,000	\$ 987,209
Euro yen bonds, due 2016, rates ranging from 1.07% to 1.15%	-	3,600	-
Euro U.S. dollar bonds, due 2019, rates ranging from 1.06% to 1.33%	23,298	24,122	200,000
U.S. dollar bonds, due to 2017 through 2036, rates of 1.65% to 8.63%	304,161	359,380	2,611,048
Interest deferrable and early redeemable subordinated bonds, due 2071, rates ranging from 1.17% to 1.64%	-	21,700	-
Loans from banks and other institutions, due through 2076, rates ranging from 0.00% to 8.74%, with:			
Collateralized	356	766	3,056
Unsecured	1,475,100	1,553,097	12,662,892
Obligations under finance leases	27,203	29,842	233,526
Total	<u>1,945,118</u>	<u>2,057,507</u>	<u>16,697,733</u>
Less current portion	<u>(290,656)</u>	<u>(186,598)</u>	<u>(2,495,118)</u>
Long-term debt, less current portion	<u>¥1,654,462</u>	<u>¥1,870,908</u>	<u>\$14,202,614</u>

The Company redeemed interest deferrable and early redeemable subordinated bonds before their maturities at June 27, 2016.

Annual maturities of long-term debt excluding finance leases as of December 31, 2016, were as follows:

<u>Years Ending December 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2017	¥ 281,790	\$ 2,419,006
2018	234,906	2,016,541
2019	210,341	1,805,665
2020	99,791	856,649
2021	78,138	670,774
2022 and thereafter	<u>1,012,946</u>	<u>8,695,567</u>
Total	<u>¥1,917,915</u>	<u>\$16,464,206</u>

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt of ¥356 million (\$3,056 thousand) as of December 31, 2016, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Buildings and structures – net of accumulated depreciation	¥494	\$4,246
Machinery, equipment, and other – net of accumulated depreciation	<u>86</u>	<u>740</u>
Total	<u>¥580</u>	<u>\$4,986</u>

Furthermore, the carrying amounts of assets pledged as collateral for long-term debt of the Company's investees from financial institutions as of December 31, 2016, were as follows;

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Investment securities	¥320	\$2,747

8. RETIREMENT AND PENSION PLANS

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

Years Ended December 31, 2016 and 2015

Defined Benefit Plans

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

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Balance at beginning of year (as previously reported)	¥189,399	¥198,854	\$ 1,625,885
Cumulative effect of accounting change	<u>-</u>	<u>(16,032)</u>	<u>-</u>
Balance at beginning of year (as restated)	189,399	182,822	1,625,885
Current service cost	6,200	5,775	53,230
Interest cost	3,721	3,997	31,945
Actuarial losses (gains)	10,770	(4,079)	92,459
Benefits paid	(8,423)	(7,044)	(72,307)
Increase due to consolidation of acquired subsidiaries	-	10,633	-
Others	<u>(3,066)</u>	<u>(2,704)</u>	<u>(26,321)</u>
Balance at end of year	<u>¥198,602</u>	<u>¥189,399</u>	<u>\$ 1,704,891</u>

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

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Balance at beginning of year	¥174,008	¥162,754	\$1,493,763
Expected return on plan assets	5,315	5,495	45,634
Actuarial losses	(748)	(1,886)	(6,421)
Contributions from the employer	6,302	5,773	54,105
Benefits paid	(7,772)	(6,303)	(66,721)
Increase due to consolidation of acquired subsidiaries	-	11,630	-
Others	<u>(1,676)</u>	<u>(3,456)</u>	<u>(14,395)</u>
Balance at end of year	<u>¥175,429</u>	<u>¥174,008</u>	<u>\$1,505,964</u>

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

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Funded defined benefit obligation	¥ 176,312	¥ 173,069	\$ 1,513,545
Plan assets	<u>(175,429)</u>	<u>(174,008)</u>	<u>(1,505,964)</u>
	883	(939)	7,580
Unfunded defined benefit obligation	<u>22,289</u>	<u>16,330</u>	<u>191,345</u>
Net liability arising from defined benefit obligation	<u>¥ 23,172</u>	<u>¥ 15,390</u>	<u>\$ 198,926</u>

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Liability for employees' retirement benefits	¥ 35,341	¥ 33,926	\$ 303,388
Asset for retirement benefits	<u>(12,168)</u>	<u>(18,535)</u>	<u>(104,462)</u>
Net liability arising from defined benefit obligation	<u>¥ 23,172</u>	<u>¥ 15,390</u>	<u>\$ 198,926</u>

- (4) The components of net periodic benefit costs for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Service cost	¥ 6,200	¥ 5,775	\$ 53,230
Interest cost	3,721	3,997	31,945
Expected return on plan assets	(5,315)	(5,495)	(45,634)
Recognized actuarial losses	3,034	2,921	26,052
Amortization of past service cost	(703)	(679)	(6,038)
Others	<u>-</u>	<u>(104)</u>	<u>-</u>
Net periodic benefit costs	<u>¥ 6,937</u>	<u>¥ 6,414</u>	<u>\$ 59,555</u>

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended December 31, 2016 and 2015:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Past service cost	¥ 723	¥ 488	\$ 6,209
Actuarial gains	<u>8,823</u>	<u>(5,093)</u>	<u>75,741</u>
Total	<u>¥9,546</u>	<u>¥(4,604)</u>	<u>\$81,951</u>

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2016 and 2015:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized past service cost	¥ (6,231)	¥ (6,811)	\$ (53,497)
Unrecognized actuarial losses	<u>28,498</u>	<u>19,333</u>	<u>244,646</u>
Total	<u>¥22,266</u>	<u>¥12,522</u>	<u>\$ 191,148</u>

- (7) Plan assets

a. Components of plan assets

Plan assets as of December 31, 2016 and 2015, consisted of the following:

	2016	2015
Debt investments	32%	35%
Equity investments	30	29
Insurance assets (general accounts)	10	10
Others	<u>28</u>	<u>26</u>
Total	<u>100%</u>	<u>100%</u>

The employees' retirement benefit trusts consist of 9% and 10% of the plan assets for the years ended December 31, 2016 and 2015, respectively.

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

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

- (8) Assumptions mainly used for the years ended December 31, 2016 and 2015, were set forth as follows:

	2016	2015
Discount rate	0.6% - 8.0%	0.9% - 8.0%
Expected rate of return on plan assets	0.0% - 7.2%	0.0% - 7.0%
Expected rate of future salary increases	2.5% - 10.0%	2.5% - 10.0%

Defined Contribution Plan

Contributions to the defined contribution plans made by the Group were ¥4,909 million (\$42,144 thousand) and ¥5,473 million for the years ended December 31, 2016 and 2015, respectively.

9. EQUITY

Companies Act of Japan

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-years term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in-kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which in the aggregate, resulted in a normal effective statutory tax rate of approximately 33.1% and 35.6% for the years ended December 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Deferred tax assets:			
Tax loss carryforwards	¥ 88,156	¥ 17,718	\$ 756,770
Liability for employees' retirement benefits	11,255	11,783	96,620
Unrealized profit	9,016	6,480	77,399
Accrued expenses	8,012	7,208	68,781
Notes and accounts payable – other	5,773	13,886	49,560
Impairment loss	3,083	3,510	26,470
Other	<u>26,832</u>	<u>32,369</u>	<u>230,343</u>
Total gross deferred tax assets	152,129	92,957	1,305,946
Valuation allowance	<u>(61,157)</u>	<u>(20,953)</u>	<u>(525,004)</u>
Net deferred tax assets	<u>90,971</u>	<u>72,004</u>	<u>780,941</u>
Deferred tax liabilities:			
Intangible assets	(394,390)	(414,268)	(3,385,616)
Temporary differences in investments in subsidiaries	(26,620)	(23,927)	(228,519)
Property, plant, and equipment	(14,552)	(24,632)	(124,927)
Net unrealized holding gains on securities	(11,124)	(12,376)	(95,495)
Other	<u>(17,004)</u>	<u>(17,552)</u>	<u>(145,971)</u>
Total gross deferred tax liabilities	<u>(463,691)</u>	<u>(492,756)</u>	<u>(3,980,530)</u>
Net deferred tax liabilities	<u>¥(372,720)</u>	<u>¥(420,752)</u>	<u>\$ (3,199,589)</u>

Reconciliations between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended December 31, 2016 and 2015, were as follows:

	<u>2016</u>	<u>2015</u>
Normal effective statutory tax rate	33.1%	35.6%
Valuation allowance	22.9	2.9
Amortization of goodwill	11.0	15.7
Income not taxable for income tax purposes	(43.3)	(3.6)
Differences in tax rates of overseas consolidated subsidiaries	(6.0)	(3.2)
Other – net	<u>(4.0)</u>	<u>7.1</u>
Actual effective tax rate	<u>13.7%</u>	<u>54.5%</u>

New tax reform law enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, from approximately 32.3% to 30.9% for the year beginning on or after January 1, 2017, and to 30.6% for the years beginning on or after January 1, 2019. Also, the amount of deductible tax loss carried forward will be no less than the taxable income of 60% for the fiscal year beginning on January 1, 2017, 55% for the fiscal year beginning on January 1, 2018, and 50% for the fiscal year beginning on January 2019. The effect of those changes on the consolidated financial statements for the year ended December 31, 2016, is immaterial.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥23,952 million (\$205,619 thousand) and ¥22,548 million for the years ended December 31, 2016 and 2015, respectively.

12. ADVERTISING COSTS

Advertising costs were ¥107,914 million (\$926,385 thousand) and ¥117,369 million for the years ended December 31, 2016 and 2015, respectively.

13. AMORTIZATION OF GOODWILL

Amortization of goodwill was ¥61,310 million (\$526,313 thousand) and ¥64,828 million for the years ended December 31, 2016 and 2015, respectively.

14. INSURANCE INCOME

Insurance proceeds received for damages due to the Kumamoto Earthquakes in April 2016 were ¥7,000 million (\$60,090 thousand) and recognized as insurance income for the year ended December 31, 2016.

15. LOSSES FROM A NATURAL DISASTER

Expenses for the repair of facilities and the disposal of finished goods arising from the Kumamoto Earthquakes in April 2016 were ¥10,917 million (\$93,721 thousand) and recognized as losses from a natural disaster for the year ended December 31, 2016.

16. LEASES

As Lessee

The Group leases vending machines, certain machinery, computer equipment, office space, and other assets.

Total rental expenses, including lease payments under finance leases for the years ended December 31, 2016 and 2015, included in the selling, general, and administrative expenses amounted to ¥20,774 million (\$178,333 thousand) and ¥19,326 million, respectively.

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

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008, to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the consolidated financial statements. The Group applied ASBJ Statement No. 13 effective January 1, 2009, and accounted for such leases as operating lease transactions. Pro forma information of leased property, whose lease inception was before December 31, 2008, such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense, and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis, were as follows:

	Millions of Yen			
	2016			
	Buildings and Structures	Machinery and Equipment	Other	Total
Acquisition cost	¥ 239	¥13,863	¥ 1	¥ 14,104
Accumulated depreciation	(225)	(9,843)	(1)	(10,069)
Net leased property	<u>¥ 14</u>	<u>¥ 4,019</u>	<u>¥ 0</u>	<u>¥ 4,034</u>

	Millions of Yen			
	2015			
	Buildings and Structures	Machinery and Equipment	Other	Total
Acquisition cost	¥ 239	¥ 27,700	¥ 1	¥ 27,942
Accumulated depreciation	(202)	(18,842)	(1)	(19,046)
Net leased property	<u>¥ 37</u>	<u>¥ 8,857</u>	<u>¥ 0</u>	<u>¥ 8,895</u>

	Thousands of U.S. Dollars			
	2016			
	Buildings and Structures	Machinery and Equipment	Other	Total
Acquisition cost	\$ 2,059	\$ 119,007	\$ 10	\$ 121,077
Accumulated depreciation	(1,931)	(84,502)	(9)	(86,443)
Net leased property	<u>\$ 127</u>	<u>\$ 34,505</u>	<u>\$ 0</u>	<u>\$ 34,634</u>

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
	Due within one year	¥1,071	¥3,498
Due after one year	<u>3,028</u>	<u>4,127</u>	<u>25,998</u>
Total	<u>¥4,100</u>	<u>¥7,625</u>	<u>\$35,197</u>

Depreciation expense, interest expense, and other information for finance leases as of December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
	Depreciation expense	¥1,043	¥2,054
Interest expense	56	132	487
Reversal of allowance for impairment loss on leased property	-	0	-

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

The minimum rental commitments under noncancelable operating leases as of December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
	Due within one year	¥12,359	¥12,120
Due after one year	<u>54,852</u>	<u>56,889</u>	<u>470,878</u>
Total	<u>¥67,211</u>	<u>¥69,009</u>	<u>\$ 576,975</u>

As Lessor

The Group subleases certain buildings and structures.

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

	Millions of Yen		Thousands of
	<u>2016</u>	<u>2015</u>	<u>U.S. Dollars</u>
Due within one year	¥ 279	¥297	\$ 2,399
Due after one year	<u>900</u>	<u>431</u>	<u>7,727</u>
Total	<u>¥1,179</u>	<u>¥729</u>	<u>\$10,127</u>

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group primarily invests cash surpluses, if any, in low-risk financial instruments and does not invest for trading or speculative purposes. The Group, depending on the market condition at the time, uses short-term bank loans or commercial paper for short-term cash demands and long-term bank loans or corporate bonds to satisfy long-term cash demands. Derivatives are used, not for trading or speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Marketable and investment securities, mainly equity instruments of unconsolidated subsidiaries and associates or customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year and are exposed to liquidity risk. Bank loans, commercial paper, and corporate bonds are used to fund the Group's ongoing operations or investments. A part of such debt is exposed to market risks from changes in variable interest rates or from fluctuation in foreign currency exchange rates.

Derivatives are used to manage exposure to risks, from changes in foreign currency exchange rates or changes in market price fluctuations of goods, of payables derived from the Group's normal business, such as purchases of raw or packaging material, and imports of goods; risks of changes in foreign currency exchange rates of capital transactions denominated in foreign currencies and dividends receivables; risks from changes in foreign currency exchange rates of net investments in subsidiaries and associates; and risks from changes in variable interest rates and foreign exchange rates of bank loans and corporate bonds. The Group does not enter into derivatives for trading or speculative purposes. Please see Note 18 for more details about derivatives.

(3) Risk Management for Financial Instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include the monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers in the early stages. With respect to financial investments and derivatives, the Group manages its exposure to credit risk by limiting its counterparties to high credit rating financial institutions. Please see Note 18 for details about derivatives.

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

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

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

Commodity price swap contracts are used to hedge risks of fluctuations in raw material prices.

Investment securities are managed by monitoring market values and financial positions of issuers on a regular basis. In addition, the Group periodically reviews its portfolio considering relationships with its customers and suppliers except for held-to-maturity securities.

The Group Treasury department executes derivative transactions based on the internal guidelines, which prescribe the counterparties and the quantity and profit/loss limit for each transaction. Each transaction is approved by management before and after execution. The Group Treasury department also reviews consolidated subsidiaries' derivative transactions based on the internal guidelines before the transaction, and reviews reports from those subsidiaries after the execution of the transaction. The Group has established segregation of duties in the Group Treasury department by separating execution of derivative transactions from a back office that performs reconciliation and risk evaluations. The balance and risk status of the transactions, including consolidated subsidiaries, have been periodically reported to management by the Group Treasury department.

Liquidity Risk Management

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

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Also, please see Note 18 for information on the fair value of derivatives.

(a) Fair value of financial instruments

<u>December 31, 2016</u>	Millions of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and cash equivalents	¥352,525	¥352,525	¥ -
Notes and accounts receivable – trade	368,854	368,854	-
Investment securities	<u>63,648</u>	<u>63,648</u>	<u>-</u>
Total	<u>¥785,028</u>	<u>¥785,028</u>	<u>¥ -</u>
Short-term bank loans	¥ 25,912	¥ 25,912	¥ -
Current portion of long-term debt	290,656	291,300	(643)
Notes and accounts payable – trade	201,411	201,411	-
Notes and accounts payable – other	187,226	187,226	-
Liquor tax and consumption taxes payable	71,829	71,829	-
Accrued income taxes	24,119	24,119	-
Accrued expenses	113,835	113,835	-
Long-term debt	<u>1,654,462</u>	<u>1,661,503</u>	<u>(7,041)</u>
Total	<u>¥2,569,453</u>	<u>¥2,577,138</u>	<u>¥(7,684)</u>
<u>December 31, 2015</u>			
Cash and cash equivalents	¥257,990	¥257,990	¥ -
Notes and accounts receivable – trade	380,560	380,560	-
Investment securities	<u>65,264</u>	<u>65,264</u>	<u>-</u>
Total	<u>¥703,815</u>	<u>¥703,815</u>	<u>¥ -</u>
Short-term bank loans	¥ 35,613	¥ 35,613	¥ -
Current portion of long-term debt	186,598	187,095	(496)
Notes and accounts payable – trade	213,910	213,910	-
Notes and accounts payable – other	199,408	199,408	-
Liquor tax and consumption taxes payable	77,413	77,413	-
Accrued income taxes	36,629	36,629	-
Accrued expenses	107,595	107,595	-
Long-term debt	<u>1,870,908</u>	<u>1,872,211</u>	<u>(1,302)</u>
Total	<u>¥2,728,080</u>	<u>¥2,729,879</u>	<u>¥(1,798)</u>

<u>December 31, 2016</u>	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	\$ 3,026,232	\$ 3,026,232	\$ -
Notes and accounts receivable – trade	3,166,406	3,166,406	-
Investment securities	546,384	546,384	-
Total	\$ 6,739,023	\$ 6,739,023	\$ -
Short-term bank loans	\$ 222,444	\$ 222,444	\$ -
Current portion of long-term debt	2,495,118	2,500,644	(5,525)
Notes and accounts payable – trade	1,729,005	1,729,005	-
Notes and accounts payable – other	1,607,232	1,607,232	-
Liquor tax and consumption taxes payable	616,610	616,610	-
Accrued income taxes	207,052	207,052	-
Accrued expenses	977,210	977,210	-
Long-term debt	14,202,614	14,263,058	(60,443)
Total	\$22,057,289	\$22,123,258	\$(65,969)

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

The carrying values of cash and cash equivalents, receivables and payables, short-term bank loans, liquor tax and consumption taxes payable, accrued income taxes, and accrued expenses approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. The information on the fair value for marketable and investment securities by classification is included in Note 5.

Long-term debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

Information on the fair value of derivatives is included in Note 18.

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Investments in unconsolidated subsidiaries and associates	¥45,400	¥47,427	\$389,737
Investments in equity instruments that do not have a quoted market price in an active market	6,445	6,742	55,326
Corporate bonds	120	2	1,030
Investments in limited partnerships	455	196	3,906

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

	Millions of Yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
<u>December 31, 2016</u>				
Cash and cash equivalents	¥352,525	¥ -	¥ -	¥ -
Notes and accounts receivable – trade	368,854	-	-	-
Investment securities: Corporate bonds	<u>2</u>	<u>-</u>	<u>-</u>	<u>120</u>
Total	<u>¥721,382</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥120</u>
	Thousands of U.S. Dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
<u>December 31, 2016</u>				
Cash and cash equivalents	\$ 3,026,232	\$ -	\$ -	\$ -
Notes and accounts receivable – trade	3,166,406	-	-	-
Investment securities: Corporate bonds	<u>21</u>	<u>-</u>	<u>-</u>	<u>1,030</u>
Total	<u>\$ 6,192,660</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,030</u>

Please see Note 7 for annual maturities of long-term debt and Note 16 for obligations under finance leases.

18. DERIVATIVES AND HEDGING ACTIVITIES

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

The Group is exposed to certain market risks arising from its forward exchange contracts, swap agreements, currency option contracts, and commodity price swap contracts. The Group is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency and interest and commodity price; however, the Group does not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

(1) *Derivative Transactions to which Hedge Accounting Is Not Applied*

(a) *Foreign currency-related derivatives*

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
<u>December 31, 2016</u>				
Forward exchange contracts to:				
Buy:				
USD	¥7,670	¥ 186	¥ 110	¥ 110
GBP	2,804	-	(14)	(14)
EUR	2,500	-	(5)	(5)
SGD	2,077	-	(9)	(9)
Other	3,016	-	(33)	(33)
Sell:				
USD	4,815	-	4	4
GBP	5,825	-	88	88
EUR	3,136	-	(8)	(8)
AUD	3,916	-	(24)	(24)
Other	6,110	-	(169)	(169)
Currency options:				
Call options, purchased:				
TWD	10	-		
Premium	0	-	(0)	(0)
Currency swaps:				
JPY payment, EUR receipt	601	-	(99)	(99)
JPY payment, NZD receipt	973	-	(4)	(4)
EUR payment, JPY receipt	2,908	1,349	(305)	(305)

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)
<u>December 31, 2015</u>				
Forward exchange contracts to:				
Buy:				
USD	¥ 6,755	¥31	¥ 188	¥ 188
GBP	2,700	-	(26)	(26)
EUR	5,563	-	55	55
SGD	2,545	-	(1)	(1)
Other	2,989	-	(14)	(14)
Sell:				
USD	4,688	-	(86)	(86)
GBP	5,916	-	74	74
EUR	34,554	-	(148)	(148)
AUD	3,819	-	(10)	(10)
Other	8,900	-	(91)	(91)

Millions of Yen				
	Contract Amount	Contract Amount	Fair Value	Unrealized Gain (Loss)
<u>December 31, 2015</u>	<u>Contract Amount</u>	<u>Due after One Year</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Currency options:				
Call options, purchased:				
USD	¥1,682	¥ -		
Premium	46	-	¥ (28)	¥ (28)
Put options, purchased:				
TWD	231	-		
Premium	8	-	0	0
Call options, sold:				
USD	1,682	-		
Premium	15	-	(2)	(2)
Currency swaps:				
JPY payment, USD receipt	3,919	-	103	103
JPY payment, EUR receipt	645	645	(150)	(150)
JPY payment, RMB receipt	1,964	1,964	(256)	(256)
JPY payment, NZD receipt	1,491	-	(12)	(12)
JPY payment, HKD receipt	155	-	2	2
JPY payment, SGD receipt	170	-	3	3
EUR payment, JPY receipt	4,045	3,123	(117)	(117)

Thousands of U.S. Dollars				
	Contract Amount	Contract Amount	Fair Value	Unrealized Gain (Loss)
<u>December 31, 2016</u>	<u>Contract Amount</u>	<u>Due after One Year</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Forward exchange contracts to:				
Buy:				
USD	\$65,843	\$ 1,600	\$ 945	\$ 945
GBP	24,073	-	(120)	(120)
EUR	21,463	-	(47)	(47)
SGD	17,833	-	(81)	(81)
Other	25,891	-	(284)	(284)
Sell:				
USD	41,336	-	40	40
GBP	50,004	-	756	756
EUR	26,921	-	(71)	(71)
AUD	33,617	-	(209)	(209)
Other	52,451	-	(1,458)	(1,458)
Currency options:				
Call options, purchased:				
TWD	92	-		
Premium	2	-	(8)	(8)
Currency swaps:				
JPY payment, EUR receipt	5,161	-	(851)	(851)
JPY payment, NZD receipt	8,360	-	(42)	(42)
EUR payment, JPY receipt	24,964	11,586	(2,625)	(2,625)

(b) Interest and currency-related derivatives

	Millions of Yen			
	Contract Amount	Contract Amount	Fair Value	Unrealized Gain (Loss)
<u>December 31, 2016</u>	<u>Amount</u>	<u>Due after One Year</u>	<u>Value</u>	<u>Gain (Loss)</u>
Interest rate and currency swaps:				
Buy JPY, sell USD				
Fixed-rate payment, floating-rate receipt	¥29,122	¥29,122	¥(929)	¥(929)
	Millions of Yen			
	Contract Amount	Contract Amount	Fair Value	Unrealized Gain (Loss)
<u>December 31, 2015</u>	<u>Amount</u>	<u>Due after One Year</u>	<u>Value</u>	<u>Gain (Loss)</u>
Interest rate and currency swaps:				
Buy JPY, sell USD				
Fixed-rate payment, floating-rate receipt	¥30,152	¥30,152	¥175	¥175
Buy RMB, sell JPY				
Fixed-rate payment, floating-rate receipt	1,154	1,154	(87)	(87)
	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount	Fair Value	Unrealized Gain (Loss)
<u>December 31, 2016</u>	<u>Amount</u>	<u>Due after One Year</u>	<u>Value</u>	<u>Gain (Loss)</u>
Interest rate and currency swaps:				
Buy JPY, sell USD				
Fixed-rate payment, floating-rate receipt	\$250,000	\$250,000	\$(7,978)	\$(7,978)

(2) *Derivative Transactions to which Hedge Accounting Is Applied*

(a) *Foreign currency-related derivatives*

<u>December 31, 2016</u>	Millions of Yen			
	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Due after One Year</u>	<u>Fair Value</u>
Forward exchange contracts to:				
Buy:				
USD	Payable	¥ 9,866	¥ -	¥ 715
EUR	Payable	5,745	-	340
Other	Payable	3,816	-	166
Sell:				
GBP	Receivable	1,778	-	(0)
AUD	Receivable	4,361	-	140
Other	Receivable	1,978	-	(101)
Currency options:				
Call options, purchased:				
USD	Payable	1,626	-	
Premium		26	-	12
EUR	Payable	1,465	-	
Premium		19	-	6
Put options, sold:				
USD	Payable	34	-	
Premium		-	-	0
EUR	Payable	582	-	
Premium		-	-	2
Currency swaps:				
JPY payment, USD receipt	Net investments in subsidiaries and associates	261,605	28,625	(17,921)

<u>December 31, 2015</u>	Millions of Yen			
	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Due after One Year</u>	<u>Fair Value</u>
Forward exchange contracts to:				
Buy:				
USD	Payable	¥ 19,118	¥ -	¥ (113)
EUR	Payable	12,766	-	(209)
Other	Payable	5,180	-	14
Sell:				
GBP	Receivable	2,516	-	44
AUD	Receivable	8,582	-	204
Other	Receivable	718	-	(15)

		Millions of Yen		
<u>December 31, 2015</u>	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Currency options:				
Call options, purchased:				
USD	Payable	¥ 1,215	¥ -	
Premium		27	-	¥ (23)
EUR	Payable	397	-	
Premium		5	-	(9)
Put options, sold:				
EUR	Payable	131	-	
Premium		-	-	4
Currency swaps:				
USD payment, IDR receipt	Long-term debt	3,486	3,486	61
JPY payment, USD receipt	Net investments in subsidiaries and associates	331,163	270,858	(36,168)
		Thousands of U.S. Dollars		
<u>December 31, 2016</u>	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Forward exchange contracts to:				
Buy:				
USD	Payable	\$ 84,702	\$ -	\$ 6,139
EUR	Payable	49,320	-	2,923
Other	Payable	32,762	-	1,426
Sell:				
GBP	Receivable	15,264	-	(0)
AUD	Receivable	37,444	-	1,210
Other	Receivable	16,986	-	(867)
Currency options:				
Call options, purchased:				
USD	Payable	13,965	-	
Premium		231	-	107
EUR	Payable	12,579	-	
Premium		165	-	59
Put options, sold:				
USD	Payable	298	-	
Premium		-	-	0
EUR	Payable	5,004	-	
Premium		-	-	24
Currency swaps:				
JPY payment, USD receipt	Net investments in subsidiaries and associates	2,245,735	245,735	(153,844)

The following foreign currency forward contracts were not measured at fair value and the hedged items (i.e., payables or deposits) denominated in a foreign currency were translated at the contracted rates, as described in Note 2(u). The fair values of such foreign currency forward contracts were included in those of the hedged items in Note 17, and were not shown in the table below:

		Millions of Yen			
		Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>December 31, 2016</u>					
Forward exchange contracts to:					
Buy:					
USD	Payable	¥	964	¥ -	¥ -
GBP	Payable		682	-	-
EUR	Payable		278	-	-
Currency swaps:					
USD payment, JPY receipt	Long-term debt		217,960	154,695	-
USD payment, EUR receipt	Long-term debt		957	-	-
		Millions of Yen			
		Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>December 31, 2015</u>					
Forward exchange contracts to:					
Buy:					
USD	Payable	¥	1,572	¥ -	¥ -
GBP	Payable		653	-	-
EUR	Payable		166	-	-
Currency swaps:					
USD payment, JPY receipt	Long-term debt		109,120	109,120	-
		Thousands of U.S. Dollars			
		Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>December 31, 2016</u>					
Forward exchange contracts to:					
Buy:					
USD	Payable	\$	8,277	\$ -	\$ -
GBP	Payable		5,862	-	-
EUR	Payable		2,391	-	-
Currency swaps:					
USD payment, JPY receipt	Long-term debt		1,871,063	1,327,972	-
USD payment, EUR receipt	Long-term debt		8,216	-	-

(b) Interest-related derivatives

Millions of Yen				
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>December 31, 2016</u>				
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥577,806	¥577,806	¥(3,879)
Floating-rate payment, fixed-rate receipt	Long-term debt	40,771	17,473	262
Millions of Yen				
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>December 31, 2015</u>				
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥410,152	¥405,111	¥(5,081)
Floating-rate payment, fixed-rate receipt	Long-term debt	72,366	72,366	2,201
Thousands of U.S. Dollars				
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>December 31, 2016</u>				
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	\$4,960,133	\$4,960,133	\$(33,307)
Floating-rate payment, fixed-rate receipt	Long-term debt	350,000	150,000	2,250

The following interest rate swaps were not remeasured at market value, but the differential paid or received under the swap agreements was recognized and included in interest expense or income as described in Note 2(u). The fair values of such interest rate swaps were included in that of hedged items (i.e., long-term debt) in Note 17, and were not shown in the table below:

Millions of Yen				
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<u>December 31, 2016</u>				
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥74,884	¥44,884	¥ -
Floating-rate payment, fixed-rate receipt	Long-term debt	80,000	80,000	-

<u>December 31, 2015</u>	Millions of Yen			
	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	¥97,158	¥80,158	¥ -
Floating-rate payment, fixed-rate receipt	Long-term debt	80,000	80,000	-

<u>December 31, 2016</u>	Thousands of U.S. Dollars			
	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate swaps:				
Fixed-rate payment, floating-rate receipt	Long-term debt	\$642,841	\$385,308	\$ -
Floating-rate payment, fixed-rate receipt	Long-term debt	686,754	686,754	-

(c) *Interest and currency-related derivatives*

<u>December 31, 2015</u>	Millions of Yen			
	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate and currency swaps:				
Buy IDR, sell USD	Long-term debt	¥1,090	¥1,090	¥149
Fixed-rate payment, floating-rate receipt				

The following interest rate and currency swaps were not remeasured at market value, but the differential paid or received under the swap agreements was recognized and included in interest expense or income, and long-term debt denominated in a foreign currency was translated at the contracted rates as described in Note 2(u). The fair values of such interest rate swaps were included in that of hedged items (i.e., long-term debt) in Note 17, and were not shown in the table below:

<u>December 31, 2016</u>	Millions of Yen			
	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate and currency swaps:				
Buy JPY, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	¥226,209	¥200,517	¥ -
Buy GBP, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	47,190	32,890	-
Buy EUR, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	21,966	21,966	-

<u>December 31, 2015</u>	Millions of Yen			
	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate and currency swaps:				
Buy JPY, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	¥211,923	¥201,981	¥ -
Buy GBP, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	67,936	58,997	-
Buy EUR, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	28,757	1,027	-

<u>December 31, 2016</u>	Thousands of U.S. Dollars			
	<u>Hedged Item</u>	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Interest rate and currency swaps:				
Buy JPY, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	\$1,941,878	\$1,721,324	\$ -
Buy GBP, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	405,099	282,341	-
Buy EUR, sell USD Fixed-rate payment, floating-rate receipt	Long-term debt	188,570	188,570	-

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

19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended December 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Unrealized (loss) gain on available-for-sale securities:			
(Loss) gain arising during the year	¥ (1,999)	¥ 13,310	\$ (17,167)
Reclassification adjustments to profit or loss	<u>(106)</u>	<u>(5,546)</u>	<u>(914)</u>
Amount before income tax effect	(2,106)	7,764	(18,082)
Income tax effect	<u>1,227</u>	<u>(1,414)</u>	<u>10,541</u>
Total	<u>¥ (878)</u>	<u>¥ 6,349</u>	<u>\$ (7,540)</u>
Deferred gain (loss) on derivatives under hedge accounting:			
Gain (loss) arising during the year	¥ 1,978	¥ (8,155)	\$ 16,983
Reclassification adjustments to profit or loss	<u>295</u>	<u>714</u>	<u>2,537</u>
Amount before income tax effect	2,274	(7,441)	19,521
Income tax effect	<u>(385)</u>	<u>2,250</u>	<u>(3,310)</u>
Total	<u>¥ 1,888</u>	<u>¥ (5,190)</u>	<u>\$ 16,210</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(101,513)	¥(98,990)	\$(871,434)
Reclassification adjustments to profit or loss	<u>114</u>	<u>781</u>	<u>986</u>
Total	<u>¥(101,398)</u>	<u>¥(98,208)</u>	<u>\$(870,448)</u>
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (11,798)	¥ 2,340	\$(101,284)
Reclassification adjustments to profit or loss	<u>2,252</u>	<u>2,264</u>	<u>19,332</u>
Amount before income tax effect	(9,546)	4,604	(81,951)
Income tax effect	<u>2,665</u>	<u>(2,105)</u>	<u>22,881</u>
Total	<u>¥ (6,881)</u>	<u>¥ 2,499</u>	<u>\$ (59,070)</u>
Share of other comprehensive (loss) income in associates:			
(Losses) gains arising during the year	¥ (3,084)	¥ 1,278	\$ (26,481)
Reclassification adjustments to profit or loss	<u>(2)</u>	<u>-</u>	<u>(18)</u>
Total	<u>(3,086)</u>	<u>1,278</u>	<u>(26,499)</u>
Total other comprehensive loss	<u>¥(110,356)</u>	<u>¥(93,272)</u>	<u>\$(947,347)</u>

20. SUBSEQUENT EVENTS

(1) Appropriations of Retained Earnings

The following appropriation of retained earnings as of December 31, 2016, is expected to be approved at the Company's shareholders' meeting to be held on March 27, 2017:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥13.00 (\$0.11) per share	¥8,902	\$76,420

(2) Establishment of Suntory Beer, Wine & Spirits Japan Limited through Stock Transfer

The Company resolved at the meeting of the Board of Directors held on January 23, 2017, to newly establish Suntory Beer, Wine & Spirits Japan Limited ("BWS"), which will operate the domestic liquor business as the Company's wholly-owned subsidiary and the parent company of Suntory Beer Limited ("SBR"), Suntory Wine International Limited ("SWI"), and Suntory Liquors Limited ("SLI"). Also, SBR and SWI resolved at the shareholders' meeting held on February 16, 2017 to establish BWS through a method of stock transfer in which all the shares of SBR and SWI were transferred to the BWS. These stock transfers were implemented on March 1, 2017. Additionally, SBR resolved at the shareholders' meeting held on March 6, 2017, to distribute all the shares of SLI by means of dividend in kind on April 1, 2017.

Based on ASBJ Statement No. 21 issued September 13, 2013, and the "Guidance on Accounting Standards for Business Combinations and Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013), these transactions will be treated and accounted for as transactions under common control.

21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," the Company is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group consists of "Beverages and Foods," "Alcoholic Beverage," and "Other" segments. "Beverages and Foods" consists of nonalcoholic beverages, healthy drinks, processed foods, and other products. "Alcoholic Beverage" consists of spirits, beer, wine, and other alcoholic beverages. "Others" consists of China business, healthy foods, ice cream, restaurants, flowers, and other.

(2) Methods of Measurement for the Amounts of Sales, Profit, Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit, Assets, and Other Items Was as Follows:

Millions of Yen						
2016						
	Reportable Segment			Total	Reconciliations	Consolidated
	Beverages and Foods	Alcoholic Beverage	Others			
Sales:						
Sales to external customers	¥ 1,400,866	¥ 988,741	¥ 261,870	¥ 2,651,479	¥ -	¥ 2,651,479
Intersegment sales or transfers	9,898	4,823	9,541	24,263	(24,263)	-
Total	¥ 1,410,765	¥ 993,565	¥ 271,411	¥ 2,675,742	¥ (24,263)	¥ 2,651,479
Segment profit	¥ 113,208	¥ 88,336	¥ 32,618	¥ 234,163	¥ (36,175)	¥ 197,988
Segment assets	¥ 1,362,748	¥ 2,602,216	¥ 123,605	¥ 4,088,570	¥ 285,786	¥ 4,374,356
Other:						
Depreciation and amortization	¥ 60,393	¥ 25,237	¥ 5,077	¥ 90,708	¥ 2,231	¥ 92,939
Amortization of goodwill	28,680	32,585	44	61,310	-	61,310
Investments in associates accounted for using the equity method	3,745	25,523	311	29,579	-	29,579
Increase in property, plant, and equipment and intangible assets	68,790	38,566	7,987	115,344	926	116,270
Millions of Yen						
2015						
	Reportable Segment			Total	Reconciliations	Consolidated
	Beverages and Foods	Alcoholic Beverage	Others			
Sales:						
Sales to external customers	¥ 1,371,384	¥ 1,026,134	¥ 289,245	¥ 2,686,765	¥ -	¥ 2,686,765
Intersegment sales or transfers	9,622	2,384	10,828	22,835	(22,835)	-
Total	¥ 1,381,007	¥ 1,028,519	¥ 300,074	¥ 2,709,601	¥ (22,835)	¥ 2,686,765
Segment profit	¥ 110,998	¥ 78,367	¥ 30,320	¥ 219,686	¥ (34,591)	¥ 185,094
Segment assets	¥ 1,483,966	¥ 2,753,415	¥ 193,274	¥ 4,430,656	¥ 176,333	¥ 4,606,990
Other:						
Depreciation and amortization	¥ 57,952	¥ 27,458	¥ 7,026	¥ 92,438	¥ 2,064	¥ 94,502
Amortization of goodwill	27,226	37,386	215	64,828	-	64,828
Investments in associates accounted for using the equity method	3,721	27,953	264	31,939	-	31,939
Increase in property, plant, and equipment and intangible assets	199,066	35,315	6,104	240,486	6,794	247,281
Thousands of U.S. Dollars						
2016						
	Reportable Segment			Total	Reconciliations	Consolidated
	Beverages and Foods	Alcoholic Beverage	Others			
Sales:						
Sales to external customers	\$ 12,025,640	\$ 8,487,784	\$ 2,248,005	\$ 22,761,430	\$ -	\$ 22,761,430
Intersegment sales or transfers	84,974	41,404	81,907	208,286	(208,286)	-
Total	\$ 12,110,614	\$ 8,529,188	\$ 2,329,913	\$ 22,969,716	\$ (208,286)	\$ 22,761,430
Segment profit	\$ 971,827	\$ 758,316	\$ 280,015	\$ 2,010,159	\$ (310,544)	\$ 1,699,614
Segment assets	\$ 11,698,412	\$ 22,338,539	\$ 1,061,084	\$ 35,098,035	\$ 2,453,311	\$ 37,551,347
Other:						
Depreciation and amortization	\$ 518,440	\$ 216,650	\$ 43,585	\$ 778,676	\$ 19,152	\$ 797,829
Amortization of goodwill	246,205	279,724	384	526,313	-	526,313
Investments in associates accounted for using the equity method	32,151	219,100	2,674	253,926	-	253,926
Increase in property, plant, and equipment and intangible assets	590,525	331,070	68,568	990,164	7,951	998,116

Note: "Reconciliations" represent ¥(66) million (\$574) thousand and ¥(76) million of eliminations of intersegment sales or transfers, and ¥36,242 million (\$311,118 thousand) and ¥34,668 million of corporate general and administrative expenses that were not allocated to specific reportable segments for the years ended December 31, 2016 and 2015, respectively. Also, ¥(7,816) million (\$67,103) thousand and ¥(7,926) million of eliminations of intersegment balances, and ¥293,603 million (\$2,520,415 thousand) and ¥184,260 million of corporate assets, not allocated to specific reportable segments are included in "Reconciliations." The corporate assets consist primarily of cash and deposits, investments in securities, and headquarters' assets.

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

(a) *Relevant information by geographic area*

		Millions of Yen				
		2016				
		Japan	Americas	Europe	Asia and Oceania	Total
Sales		¥1,747,494	¥326,254	¥293,942	¥283,787	¥2,651,479
Property, plant, and equipment		326,117	126,591	100,215	87,897	640,821

		Millions of Yen				
		2015				
		Japan	Americas	Europe	Asia and Oceania	Total
Sales		¥1,656,118	¥347,015	¥333,557	¥350,074	¥2,686,765
Property, plant, and equipment		332,999	113,838	121,982	117,248	686,068

		Thousands of U.S. Dollars				
		2016				
		Japan	Americas	Europe	Asia and Oceania	Total
Sales		\$15,001,240	\$2,800,707	\$2,523,327	\$2,436,155	\$22,761,430
Property, plant, and equipment		2,799,529	1,086,714	860,288	754,549	5,501,081

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

Americas..... North America, Central and South America
 Europe..... Europe, Middle East and Africa
 Asia and Oceania Asia and Oceania

(b) *Information regarding balance of goodwill by reportable segment*

		Millions of Yen			
		2016			
		Beverages and Foods	Alcoholic Beverage	Others	Total
Goodwill		¥407,283	¥604,995	¥54	¥1,012,334

		Millions of Yen		
		2015		
	Beverages and Foods	Alcoholic Beverage	Others	Total
Goodwill	¥454,212	¥679,006	¥3,660	¥1,136,879

		Thousands of U.S. Dollars		
		2016		
	Beverages and Foods	Alcoholic Beverage	Others	Total
Goodwill	\$3,496,299	\$5,193,539	\$469	\$8,690,308

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