Annual Report 2016

SAPPORO HOLDINGS LIMITED

Taking Food Further

SAPPORO

Annual Report 2016

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Forward-looking Statements

Statements in this annual report with respect to the Company's plans, strategies, forecasts and other statements that are not historical facts are forward-looking statements that are based on management's judgment in light of currently available information. Factors that could cause actual results to differ materially from our earnings forecasts include, without limitation, global economic conditions, our response to market demand for and competitive pricing pressure on products and services and currency exchange rate fluctuations.

All figures in this annual report are rounded to the nearest applicable unit.

About the Group's corporate logo, the Sapporo Shining Star

The Sapporo Shining Star is a motif representing a polestar.
The Group has used this logo since its predecessor, the *Kaitakushi* (the national government Hokkaido development commission) Brewery, was established in 1876.
It is a symbol of the pioneering spirit in which the Group was founded.

Management Philosophy

"As an intrinsic part of people's lives, Sapporo will contribute to the evolution of creative, enriching and rewarding lifestyles"

Fundamental Management Policy

The Sapporo Group strives to maintain integrity in corporate conduct that reinforces stakeholder trust and aims to achieve continuous growth in corporate value.

Sapporo Group

The Sapporo Group has been brewing beer since 1876. Throughout its history, the Group has diligently created products using only carefully selected ingredients. Pursuing strong growth all over the world by delivering a wider range of distinctive products and services and thereby expanding opportunities for engagement with customers.

Founded

1876

Number of employees

7,858 **(Consolidated)**

160 **(Parent company)**

Consolidated subsidiaries and equity-method affiliates

Consolidated subsidiaries **55**

Equity-method affiliates **2**

2016 Business Results

In fiscal 2016, the Group accelerated growth strategies based on "Sapporo Group Management Plan 2015–2016" to demonstrate its presence as a distinctive "manufacturer of food products" with an aim to achieve its financial targets for 2016. Consolidated net sales rose 1.5% year on year to ¥541.8 billion. Consolidated operating income was up 45.3% to ¥20.3 billion reflecting increases in all business segments with the additional effect of cost reductions.

Net sales

¥541.8 billion (+1.5% YoY)

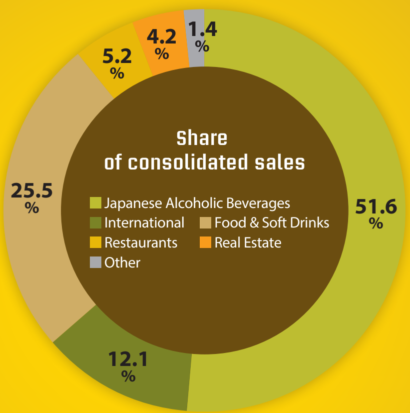
Operating income

¥20.3 billion (+45.3% YoY)

Our Business

The Sapporo Group operates under a holding company framework, with Sapporo Holdings Limited as a pure holding company, and has five business segments: Japanese Alcoholic Beverages, International, Food & Soft Drinks, Restaurants and Real Estate.

We have positioned "Alcoholic Beverages," "Food" and "Soft Drinks" as the Group's three core business fields, and will work to nurture and strengthen the Group's brands



Net sales

¥541.8 billion

	Japanese Alcoholic Beverages	International
Business overview	With its message of "Making those 'Kampai!' toasts taste even better," the Group is developing the Japanese Alcoholic Beverages segment focused mainly on the beer business, but also including the wine and western spirits business and the *shochu* business. The Group will continue to propose products and services that represent the distinctive Sapporo value.	In the International segment, the Group offers alcoholic beverages and soft drinks, mainly in North America and Southeast Asia. In the North American market, we are aiming to take another leap forward, while working to build inroads in the Asian and Oceanian markets, starting in Vietnam, where we have now built our own plant.
Net sales (billions of yen)	279.5	65.4
YoY	2.1%	(7.2)%
Operating income (billions of yen)	11.7	0.9
YoY	36.0%	487.8%
Strength, market, etc.	Main Brands Beer and beer-type beverages: *Yebisu Beer, Sapporo Draft Beer Black Label, Mugi to Hop The gold, Goku Zero* Wine: *Grande Polaire, Penfolds* Champagne: *Taittinger* Shochu: *Shochu Kokuimo (Imo Shochu)* Spirits: *Bacardi, Dewar's*	Main Brands *SAPPORO PREMIUM, SLEEMAN* Main Sales Areas United States, Canada, Vietnam, South Korea, Australia, Singapore

along with the real estate business. The Sapporo Group stands out among the numerous food companies in Japan for conducting business in all three fields of "Alcoholic Beverages," "Food" and "Soft Drinks." Leveraging this unique strength, we will work to supply distinctive products and services worldwide in conjunction with expanding our contact points with customers, with the aim of driving robust growth.

Food & Soft Drinks

In the Food & Soft Drinks segment, the Group operates primarily in Japan and Southeast Asia. We will carefully nurture the bonds we have built up with customers as we continue to create a stream of delicious new products that enrich and brighten people's lives.

137.9	1.7%
1.3	202.6%

Main Brands

Soft drinks: ***Kireto Lemon, Ribbon, GEROLSTEINER*** **(natural mineral water),** ***aromax*** **(canned coffee)**

Soups: ***Jikkuri Kotokoto***

Lemon-based products: ***POKKA Lemon 100***

Soy milk: ***SOYAFARM***

Restaurants: **Café de Crié (coffee shop)**

Number of Café de Crié Outlets

190 (as of December 31, 2016)

Main Sales Areas

Japan, Singapore, Malaysia, Indonesia, Myanmar

Restaurants

The Group is a pioneer in the restaurant industry, operating the *GINZA LION* and *YEBISU BAR* beer hall chains along with various restaurants. In addition to providing delicious draft beer, we will continue to develop menus based on the theme of "safety, peace of mind, authenticity, and health."

28.1	4.1%
0.7	27.0%

Main Brands

GINZA LION BEER HALL, YEBISU BAR

Number of Outlets

200 in Japan, 14 overseas

(As of December 31, 2016)

Real Estate

The Group's Real Estate segment includes leasing, management, operation, and development. We operate and manage three commercial complexes—Yebisu Garden Place, Sapporo Factory, and *GINZA PLACE*—as well as office buildings and others. We will continue to maintain high occupancy rates and strive to increase rent levels.

22.9	9.7%
10.3	24.7%

Main Facilities

Yebisu Garden Place, *GINZA PLACE*, Sapporo Factory

Main Areas

Ebisu, Ginza, Sapporo

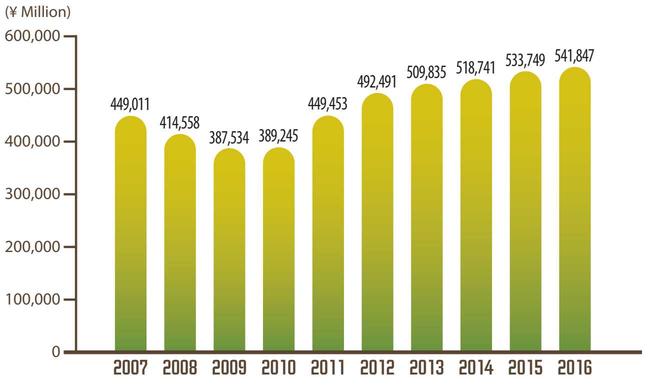
Financial Highlights

SAPPORO HOLDINGS LIMITED and consolidated subsidiaries

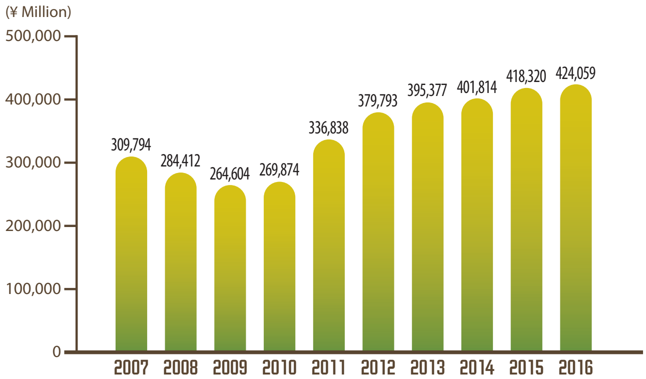
Years ended December 31	Millions of yen 2007	2008	2009	2010
For the Year:				
Net sales				
Including liquor tax	¥449,011	¥414,558	¥387,534	¥389,245
Excluding liquor tax	309,794	284,412	264,604	269,874
Operating income	12,363	14,685	12,896	15,403
Operating income before goodwill amortization	13,232	15,553	13,923	16,576
EBITDA	37,759	37,158	36,470	39,080
Profit attributable to owners of parent	5,509	7,640	4,535	10,773
Capital expenditures (cash basis)	19,884	27,342	21,910	19,801
Depreciation and amortization	24,527	21,605	22,547	22,504
Goodwill amortization	870	867	1,027	1,173
Cash flows from operating activities	30,691	22,292	12,454	27,431
Free cash flows	17,196	39,148	(19,773)	24,836
At Year-End:				
Net assets	125,189	116,862	118,591	126,645
Total assets	561,859	527,287	506,875	494,798
Financial liabilities	212,464	189,252	196,794	181,335
Other Indicators:				
Overseas sales ratio	9.0%	8.8%	8.5%	9.4%
Operating income to net sales				
Excluding liquor tax	4.0%	5.2%	4.9%	5.7%
Excluding liquor tax; before goodwill amortization	4.3%	5.5%	5.3%	6.1%
Debt-to-equity ratio (times)	1.7	1.6	1.7	1.4
Equity ratio	22.3%	22.1%	23.4%	25.3%
ROE	4.6%	6.3%	3.9%	8.9%
ROE (before goodwill amortization)	5.3%	7.0%	4.7%	9.8%

Note: Yen amounts have been translated into U.S. dollar amounts at the rate of ¥116.53=U.S.$1.00, the exchange rate prevailing on December 31, 2016.

Net sales (including liquor tax)

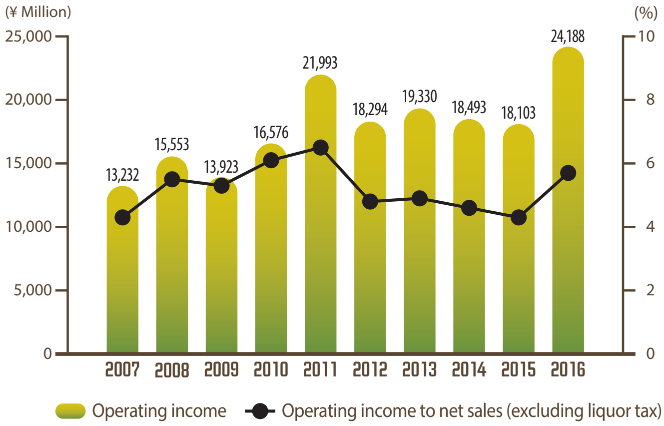


Net sales (excluding liquor tax)



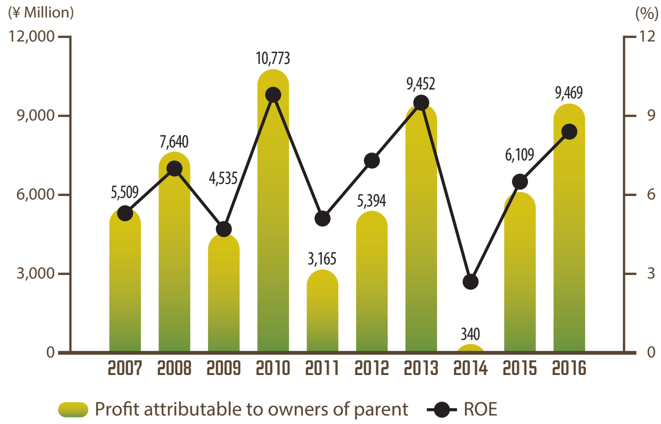
	2011	2012	2013	2014	2015	2016	2017 (forecast)	Thousands of U.S. dollars 2016
	¥449,453	¥492,491	¥509,835	¥518,741	¥533,749	**¥541,847**	¥563,800	**$4,649,853**
	336,838	379,793	395,377	401,814	418,320	**424,059**	443,061	**3,639,058**
	18,884	14,415	15,344	14,729	13,950	**20,267**	21,300	**173,924**
	21,993	18,294	19,330	18,493	18,103	**24,188**	25,100	**207,571**
	46,477	44,100	44,388	42,974	42,327	**46,530**	48,300	**399,295**
	3,165	5,394	9,452	340	6,109	**9,469**	10,700	**81,262**
	13,423	53,870	13,769	19,133	20,340	**21,809**	25,500	**187,154**
	24,482	25,805	25,059	24,481	24,224	**22,342**	23,200	**191,724**
	3,109	3,879	3,985	3,764	4,153	**3,921**	3,800	**33,647**
	22,313	29,618	32,862	22,284	35,266	**32,571**	39,700	**279,503**
	(28,579)	(29,868)	19,594	5,055	25,510	**4,984**	4,600	**42,767**
	124,775	134,947	155,367	160,005	163,822	**166,381**	—	**1,427,795**
	550,784	597,636	616,753	625,439	620,388	**626,352**	—	**5,375,027**
	219,168	257,647	247,828	247,557	234,742	**238,143**	236,400	**2,043,622**
	11.0%	14.1%	18.3%	19.2%	22.6%	**20.5%**	21.2%	
	5.6%	3.8%	3.9%	3.7%	3.3%	**4.8%**	4.8%	
	6.5%	4.8%	4.9%	4.6%	4.3%	**5.7%**	5.7%	
	1.8	1.9	1.6	1.5	1.4	**1.4**	1.4	
	22.4%	22.1%	24.6%	25.0%	25.5%	**25.7%**	—	
	2.5%	4.2%	6.7%	0.2%	3.9%	**5.9%**	6.5%	
	5.1%	7.3%	9.5%	2.7%	6.5%	**8.4%**	8.8%	

Operating income and Operating income to net sales (excluding liquor tax)



Note: Figures are before goodwill amortization.

Profit attributable to owners of parent and ROE



Note: ROE is before goodwill amortization.

To Our Stakeholders

In fiscal 2016, we experienced an economic environment marked by unpredictability and rapid changes, including changes in the geopolitical and economic situation overseas, a slump in consumer spending in Japan, and the yen's further appreciation. Nevertheless, the Sapporo Group demonstrated its presence as a distinctive food manufacturer to achieve increases in sales and profits.

By segment, in the Japanese Alcoholic Beverages segment, the Company worked to strengthen its mainstay brands for the first year of our campaign to strengthen beer. In particular, our integrated marketing strategy for our core *Sapporo Draft Beer Black Label* brand proved successful as consolidated sales rose for a second consecutive year amid a decrease in overall demand for beer. In the International segment, aggressive marketing activities in the North American premium beer market were undertaken by SLEEMAN BREWERIES of Canada and Sapporo U.S.A. Meanwhile, in Vietnam, we continued to invest in marketing to build the Sapporo brand. In the Food & Soft Drinks segment, we worked on our management priorities of strengthening our sales capabilities and reducing costs, while concentrating investment on our core brands, primarily lemon-based products and soup. In the Restaurants segment, we opened new outlets, with a primary emphasis on our core *GINZA LION* and *YEBISU BAR* formats, and also continued efforts to improve profitability by closing or changing the format of unprofitable outlets. In the Real Estate segment, we increased the value of Yebisu Garden Place amid high occupancy rates at our rental properties, and in September, we opened the commercial complex *GINZA PLACE*, which was developed as a "base for information dissemination and exchange."

As a result of these efforts, the Sapporo Group posted consolidated net sales of ¥541.8 billion in fiscal 2016, up ¥8.1 billion, or 1.5%, from fiscal 2015. Consolidated operating income increased by ¥6.3 billion, or 45.3%, to ¥20.3 billion. Profit attributable to owners of parent was ¥9.5 billion, up ¥3.4 billion, or 55.0%, despite posting ¥1.4 billion in loss on disposal of property, plant and equipment as an extraordinary loss and ¥1.0 billion in impairment losses.

As we marked our 140th anniversary last year, we formulated the Sapporo Group Long-Term Management Vision "SPEED150," which sets forth the overall direction the Company should pursue over the next 10 years through 2026, the year marking the Group's 150th anniversary of founding. Under the plan, we aim to transition to a growth stage as early as possible based on the theme of "Transform with Unprecedented Speed." Furthermore, to accelerate our move to a new growth stage, Masaki Oga was appointed as President and Group Operating Officer in January 2017, and in March, he was appointed as President and Representative Director through the General Meeting of Shareholders to launch a new management system.

We look forward to the continued support and understanding of our stakeholders.

Masaki Oga

President and Representative Director

Tsutomu Kamijo

Chairman and Representative Director

President's Message

Looking Ahead to the Next 10 Years

Moving to a growth stage with the theme of "transform with unprecedented speed"

Masaki Oga

President and Representative Director

Masaki Oga

Carrying on 140 Years of Tradition, Making a New Start

Last year, Sapporo Holdings marked its 140th anniversary. The roots of our Company stretch back to 1876, with the construction of the *Kaitakushi* Brewery by the Hokkaido Development Commission. Over this time, we have created numerous brands, such as *Sapporo Draft Beer Black Label* and *Yebisu Beer*; we have aggressively expanded our overseas business through entry into North America and Southeast Asia; and we have started the food business with the acquisition of POKKA CORPORATION. Through these achievements, we have established a firm position as a comprehensive manufacturer of food products. As the newly appointed President, I have inherited these achievements and traditions that have been built by my predecessors. I am steeling myself for the challenge ahead, and feel keenly aware of my great responsibility. Based on the DNA that the Group has cultivated throughout its 140-year history, I will do my utmost to guide the Group to a new growth stage.

Review of the New Management Framework:

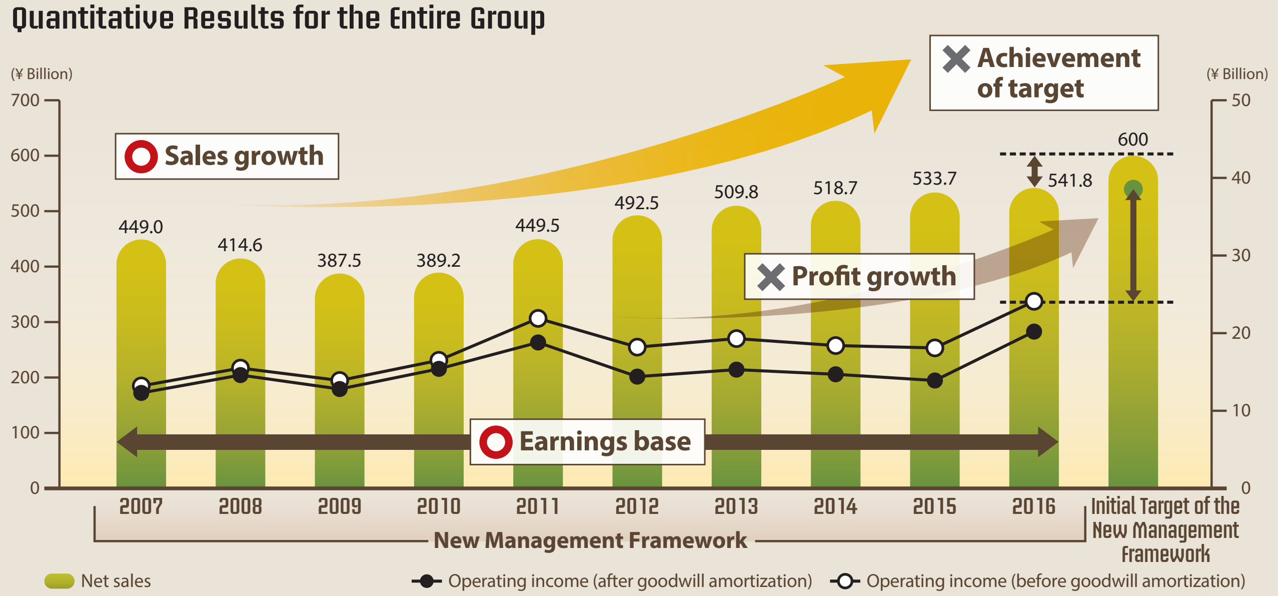
We succeeded in establishing a solid earnings base, but profits have not yet been achieved

We have formulated the Sapporo Group Long-Term Management Vision "SPEED150," which sets forth the overall direction the Company should pursue over the next 10 years through 2026, the year marking the Group's 150th anniversary of founding. Before I describe the details and objectives of this plan, I would like to review our achievements and challenges over the past 10 years.

In 2007, we formulated the New Management Framework for the Sapporo Group through 2016 to ensure its sustainable growth by considering changes in the environment and a long-term perspective. Our quantitative targets were consolidated net sales of ¥600.0 billion (including liquor tax) and consolidated operating income of ¥40.0 billion. Aiming for growth and expansion in the two business domains of "Creating value in food" and "Creating comfortable surroundings," the Group sought to develop its businesses by utilizing its assets and strengths. Specifically, we worked to create high-value-added products and services, form strategic alliances, promote international expansion, and expand synergies among Group companies.

Our journey over the past 10 years has involved numerous new and unconventional challenges. In the Japanese Alcoholic Beverages segment, while retaining our three core brands, *Sapporo Draft Beer Black Label*, *Yebisu Beer*, and *Mugi to Hop The gold*, we have also diversified our products outside of beer, such as wine, Japanese liquor, and spirits. We have been working to enhance our structure for wine in particular, positioning it as a second pillar after beer. In the International segment, we acquired SLEEMAN BREWERIES LTD. in Canada and expanded into Vietnam, building a new brewery there. Meanwhile in the U.S., we brought Silver Springs Citrus, Inc. and Country Pure Foods, Inc. into the Group, thereby entering the soft drinks field as well. In the Food & Soft Drinks segment, we integrated Sapporo Beverage Co., Ltd. and POKKA CORPORATION to establish POKKA SAPPORO Food & Beverage Ltd. In the Real Estate segment, we completed several major tasks, such as increasing the value of Yebisu Garden Place and opening *GINZA PLACE*. These initiatives in Japan and overseas over the past 10 years have been steadily reflected in our business results; the Group has achieved seven consecutive years of sales growth since 2010, and has also developed a structure capable of securing stable profits. However, neither sales nor profits have met the targets that we set 10 years ago, and the swift achievement of these targets remains a challenge for us to address. In that sense, my intention is to further expand and develop the efforts of the past 10 years over the next 10 years.

Quantitative Results for the Entire Group



New Long-Term Management Vision "SPEED150":

Accelerate strategy development towards achieving record-high profits for the Group

In light of the above results, we have established a new long-term management vision and formulated the 2026 Group Vision and the Action Guidelines, both of which will be achieved by pursuing management reforms and business growth with speed while continuing to adhere to the Management Philosophy and Fundamental Management Policy. Recognizing once again that the source of the Group's growth lies in the brand assets cultivated over the Group's 140-year history since it was founded, the Company has positioned "Alcoholic Beverages," "Food" and "Soft Drinks" as the Group's three core business fields, and will work to nurture and strengthen the Group's brands along with the Real Estate segment. The Company stands out among the numerous food companies in Japan for conducting business in all three fields of "Alcoholic Beverages," "Food" and "Soft Drinks." Leveraging this unique strength, the Company will work to supply distinctive products and services worldwide in conjunction with expanding its contact points with customers, with the aim of driving robust growth. The 10 years through 2026 have been divided into three periods, the first being a four-year period (2017–2020) that is covered by the First Medium-Term Management Plan 2020, during which time the Company aims to transition to a growth stage as early as possible based on the theme of "Transform with Unprecedented Speed." Quantitative targets for 2020 are for net sales of ¥640.0 billion (including liquor tax) and operating income before amortization of goodwill of ¥34.0 billion. For net sales, we plan to continue the unbroken trend of sales growth since 2010, and for operating income, we aim to achieve a record high for the Group during the First Medium-Term Management Plan period.

Our business strategy is to enhance our cash generation capabilities by achieving continuous growth and producing results based on the identification of competitive fields in each business. These efforts will follow three themes: 1) achieve steady growth based on identification of competitive fields in the existing five segments; 2) enhance profitability in the Vietnamese business, North American soft drinks business and the food & soft drinks business; and 3) capture growth opportunities by allocating resources to growth in the food field and global business expansion.

In Group management, the Company will take the lead in strengthening its platform through the strategic shift of resources along with business structure reforms and promotion of segment management. We will implement a Group structure that fits the actual state of growth and optimization of Head Office functions, and strengthen three platform functions: for the R&D function, we will bolster human resources and research and development expenses to drive growth in the food field; for the personnel and human resources function, we will shift human resources to growth fields and implement health promotion measures; and for the finance function, we will enhance our overall cash flow generation capabilities and strengthen our financial base to enable us to promptly address the changing market environment and investment opportunities by enhancing asset efficiency and bolstering monitoring.

To Our Stakeholders

We intend to accelerate the pace of our growth over the next years up to our 150th anniversary. At the same time, we have made it an important management priority to return profits to shareholders appropriately. Under our current plan, we have set a financial indicator for our dividend payout ratio of around 30%. Moreover, on July 1, 2016, we implemented a consolidation of shares at a ratio of 1 share for each 5 shares of the Company’s common shares, and conducted a dividend payment of ¥37 per share for fiscal 2016 in line with our basic policy. This corresponds to a dividend payout ratio of 30.4%. We also plan to pay an annual dividend from surplus of ¥37 per share for fiscal 2017.

Furthermore, to enhance corporate communication as set forth in SPEED150, we will ensure transparency and fairness in management by enhancing corporate governance in conjunction with maintaining integrity in corporate conduct based on the Sapporo Group’s Basic CSR Policy. Through these measures, we will strive to disclose information proactively and appropriately and foster interactive communication, thereby deepening our relationships of trust with all stakeholders.

Our mission is to build brands that will delight our customers and nurture their passion for tomorrow through our businesses in the fields of “Alcoholic Beverages,” “Food” and “Soft Drinks.” To achieve this mission, it is essential that employees perform their jobs with joy and a sense of satisfaction. We will maximize our results by building organizations and systems that enable each employee to contribute their individual strengths and generate a powerful sense of Group solidarity.

I ask all our stakeholders to continue their faithful support for Sapporo Holdings.

Special Feature

First Medium-Term Management Plan 2020 (2017–2020)

Transform with Unprecedented Speed

The Sapporo Group will identify its competitive advantages in every business, achieve continuous growth and produce results by conducting management focused on leveraging strengths and solving issues in those fields. In this way, the Group will enhance its cash generation capabilities and transform with unprecedented speed to reach a new growth stage.

Business activities

The Group will enhance its cash flow generation capabilities, and allocate cash to investments in new growth opportunities.

Continuous growth in existing businesses

The Group will enhance brand strength and achieve continuous growth

- Japanese Alcoholic Beverages
- International
- Food & Soft Drinks
- Restaurants
- Real Estate

Producing results from our investments

The Group will enhance the profitability of the investment business

- Vietnamese Business
- North American Soft Drinks Business
- Food & Soft Drinks Business

Capturing growth opportunities

Create Sapporo's unique "new food value"

Research into materials and functions

Focus on potential of soybeans, including their contribution to solving environmental issues and the fulfillment of health functions as a source of vegetable protein

Manufacturing and processing technology

Acquire the resources needed to strengthen product development and seasoning and processing, in addition to harnessing fermentation technology

Consumer viewpoint

Focus on the fields of seasonings, seasoned foods, and prepared foods, leveraging knowledge in the lemon and soup businesses

Promote global business expansion in North America and Southeast Asia

[North America]
Develop North American regional management functions, establish a business portfolio and promote growth

[Southeast Asia]
Improve the Group's presence in each business in many different countries

Group management

Take the lead in executing the transformation of the management platform with unprecedented speed, in order to spur the Group's growth

Transformation of the Group management platform

Under the First Medium-Term Management Plan 2020, the Group will take the lead in executing the transformation of the management platform with unprecedented speed, in order to spur Group-wide growth. In particular, in the Group management strategy, we will put in place an organizational structure and supportive Group Head Office functions optimal for the "Food" field, which will drive growth, and the Group's global business growth by 2018. At the same time, we will also accelerate initiatives to promote growth at each stage of R&D, human resources, and finance.

R&D
Strengthen the R&D framework to spearhead growth

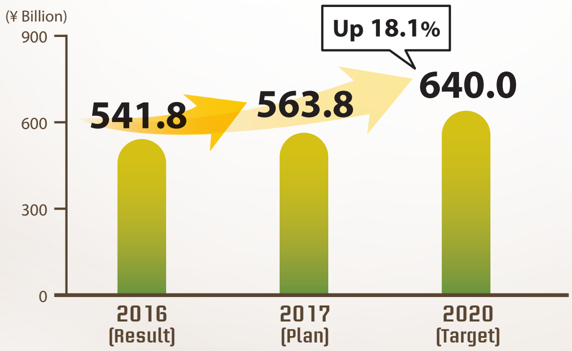
HR
Dramatically shift human resources to growth fields

Finance
Proactive invest in the fields of "Alcoholic Beverages," "Food," and "Soft Drinks" and shift to a strong financial position

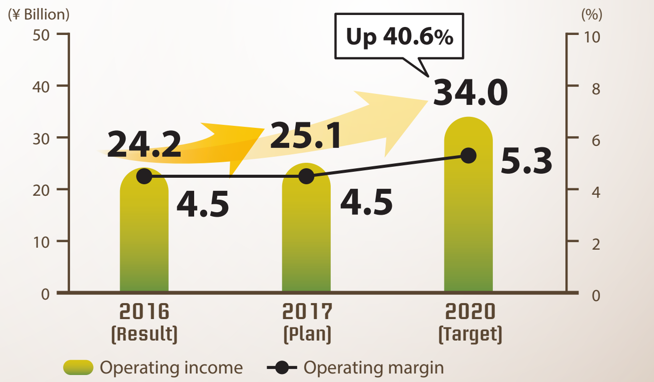
★ 2020 Quantitative Targets		
	Net sales	Maintain sales growth that has continued since 2010
	Operating income	Deliver the Group's highest-ever earnings* during the First Medium-Term Management Plan period

* Highest-ever operating income: ¥29.2 billion (1995)

Net sales



Operating income (before goodwill amortization) and Operating margin



Group Management Strategy

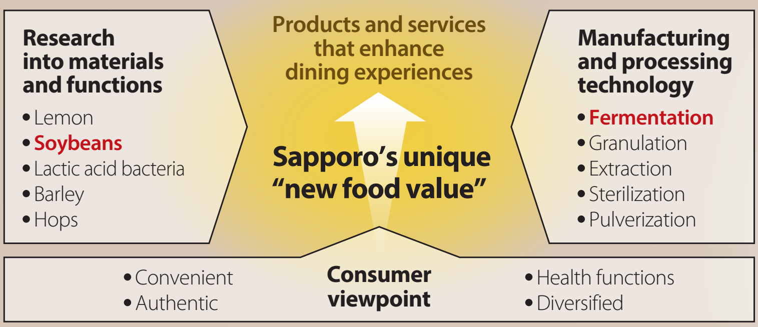
R&D

Director (Member of the Board),
Director of Group Research and Development Division of the Company
IKUYA YOSHIDA

We will enhance R&D competitiveness by promoting Group collaboration and acceleration of open innovation through the establishment of a new Group R&D framework and intensive strategic investment. While strengthening the ability to promote commercialization, we will vigorously push ahead with the creation of new value in the fields of "Alcoholic Beverages," "Food" and "Soft Drinks," thereby guiding the Group to growth.

In our R&D strategy, human resource and R&D expenses will be increased to spur growth in the "Food" field. The Group will tackle the challenges of developing new operations and innovative businesses unique to the Company based on material and function research and manufacturing and processing technology.

Material and function research into the origin of "delicious taste": In addition to research on the functionality and food cultures of lemons, we are also using our unique knowledge and technology regarding soybeans to promote research and technology development aimed at creating extensive value from soybean materials, ranging from traditional foods to new proposals including use as a source of vegetable protein. Manufacturing and processing technologies to create "delicious taste": Regarding fermentation, the Group will leverage knowledge of yeast-based fermentation technology centered on alcoholic beverages to develop approaches to the workings of other fermented foods and develop processing and applied technologies. In processing technology, we will develop new processing methods such as freeze-drying, granulation, pulverization, etc.



SOYAFARM
Food for specified health uses (FOSHU) soy milk yogurt

SOYAFARM
FOSHU soy milk

HR

Director (Member of the Board), Director of Human Resources Department of the Company

MAYUMI FUKUHARA

The Sapporo Group's most valuable asset is its human resources. Every individual represents the corporate brand itself, and it is the individuality and execution capabilities of each individual that make the brand successful. The basic idea underlying our human resource strategy is to "go beyond boundaries," and we aim to be an enterprise where our human resources are able to tackle challenges and venture out into unfamiliar fields with cheerfulness, optimism and positive energy.

The Group's human resource management gives top priority to shifting human resources to the "Food" and global fields, while assigning the right people to the right posts throughout the Group. We will strengthen strategic divisions such as incubation and M&As, as well as the food division, and develop globally successful human resources through systematic and continuous training, while also concentrating on promoting diversity. To establish a Group human resource management platform, we will review and optimize personnel systems and measures for each individual company and enhance human resources by monitoring and strengthening training of human resources on a Group-wide basis. Furthermore, we will continue to promote work-life balance initiatives and work style reforms and strengthen health promotion measures that seamlessly integrate management, personnel, and health insurance society. Through these measures, we aim to expand and enhance our human resource management platform.

Finance

Director (Member of the Board), Director of Corporate Finance and Business Management Department of the Company

SHINICHI SOYA

We aim to move quickly to our next growth stage and build a strong financial platform that will enable us to promptly address the changing environment and investment opportunities. To this end, we will enhance asset efficiency and increase our cash flow generation capabilities, as well as transform our management structure to rapidly recover investments by strengthening plan execution and monitoring of investment strategies.

We plan to achieve the following four financial indicators during the four years from 2017 to 2020.

Cash flows from operating activities of ¥180.0 billion. We will generate cash flow by achieving continuous growth in existing businesses and produce results. We will also start to generate cash flow by reorganizing our real estate investment portfolio and reshaping our asset portfolio.

Cash flows from investment activities of ¥130.0 billion. We will allocate cash proactively to investments in "Alcoholic Beverages," "Food," and "Soft Drinks." These will be funded from operating cash flow, with leftover cash being used to reduce interest-bearing liabilities, targeting a reduction in the D/E ratio to around 1.0, and to make returns to shareholders, targeting a dividend payout ratio of around 30%. Shareholder returns have remained fixed with stable dividends so far, but we intend to increase dividends in line with profit growth, maintaining a dividend payout ratio of around 30%.

Financial indicators to be achieved during the four years from 2017 to 2020

Cash flows from operating activities	**¥180.0 billion**	Generate cash flow by achieving continuous growth in existing businesses and producing results
Cash flows from investing activities	**¥130.0 billion**	Proactively allocate cash to the fields of "Alcoholic Beverages," "Food" and "Soft Drinks"
Interest-bearing liabilities	**Targeting a debt-to-equity (D/E) ratio of around 1.0**	
Shareholder returns	**Targeting a dividend payout ratio of 30%**	

Our History of Development over 140 Years

Taking Food Further

1876 **Established the Kaitakushi Brewery**

The Kaitakushi Brewery was launched in Sapporo as a government-operated brewery of the Hokkaido Development Commission.

1877: Launched *Sapporo Lager Beer*, the first product

1956: Revival of *Sapporo Beer*

1890: Launched *Yebisu Beer*

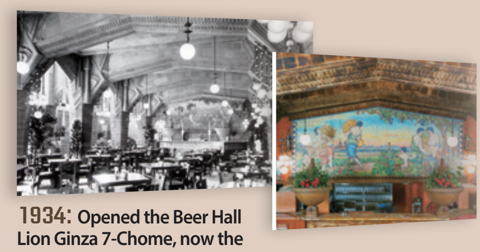
1964: Company name changed to SAPPORO BREWERIES LIMITED

1887 **Established Japan Beer Brewery Company**

Japan Beer Brewery Company was established in Ginza, Tokyo.

1899 **Opened *YEBISU BEER HALL*, Japan's first beer hall**

The highly modern beer hall has flourished since its opening. More than 100 years have passed since it was opened in Ginza. Its history of continued development is also a history of continuing support from customers.



1934: Opened the Beer Hall Lion Ginza 7-Chome, now the oldest existing beer hall in Japan

1979: Changed Company name to SAPPORO LION LIMITED

1909 **Started manufacture and sales of *Citron***

Citron remains popular today. The launch of *Citron* (Soda) marked the Sapporo Group's entry into the soft drinks business.

1957: Established Kokusai Inryo Co., Ltd., which later became Sapporo Beverage Co., Ltd.

1964 **Began exporting beer to the United States**

SAPPORO BREWERIES started overseas expansion in this year. Later, it expanded sales channels throughout North America and Southeast Asia, creating a foundation for further growth.

1984: Established SAPPORO U.S.A. INC. and strengthened the foothold for business expansion in North America

1988 **Established Seiwa Real Estate Co., Ltd.**

Provides real estate services starting from real estate development of former factory sites. Provides a stable base that contributes significantly to the Group's growth.

1993: Completed construction of the Sapporo Factory on the former site of SAPPORO BREWERIES' Sapporo Brewery

1994: Completed construction of Yebisu Garden Place on the former site of SAPPORO BREWERIES' Ebisu Brewery

The Sapporo Group has positioned "Alcoholic Beverages," "Food," and "Soft Drinks" as its three core business fields, and will work to nurture and strengthen its brands along with the real estate business. We seek to become an enterprise that helps to provide creative, enriching, and rewarding lifestyles to customers not only in Japan, but also throughout the world.

2003

Started operation under a holding company framework with SAPPORO HOLDINGS LIMITED as a pure holding company

New Business

2016: Acquired 51% of the shares of Miyasaka Jozo Co., Ltd., which manufactures and sells miso, instant miso soup, and freeze-dried products, making it a consolidated subsidiary

Japanese Alcoholic Beverages

2006: Entered the *shochu* business

2012: Opened the Grande Polaire Katsunuma Winery, eyeing the growing market for fine wines

2017: 40th anniversary of the launch of *Sapporo Draft Beer Black Label*

Restaurants

2009: Opened the first *YEBISU BAR* jointly developed with SAPPORO BREWERIES in the Ginza Corridor district

2013: Opened the first *GINZA LION BEER HALL* in Singapore, using the strength of the beer hall format for overseas development

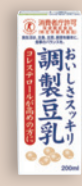
2016: Made primarily Sapporo-based restaurant operator Marushinkawamura Inc. into a consolidated subsidiary

Food & Soft Drinks

2011: Made POKKA CORPORATION a wholly owned subsidiary

2013: Integrated business with POKKA CORPORATION and started operations as POKKA SAPPORO Food & Beverage Ltd.

2014: Completed construction of the new POKKA Malaysia Factory following the main factory in Singapore, and started operations



2015: Entered the soy milk and chilled products business

International

2006: Made SLEEMAN BREWERIES LTD. into a consolidated subsidiary and focused on strengthening the SLEEMAN brand

2010: Made SAPPORO VIETNAM LIMITED into a consolidated subsidiary and expanded business in Southeast Asia

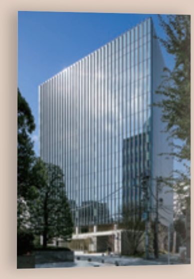
2012: Entry into the U.S. soft drinks business

2012: Acquired 51% of the shares of Silver Springs Citrus, Inc., making it a consolidated subsidiary

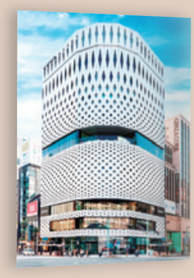
2015: Acquired 51% of the shares of Country Pure Foods, Inc., making it a consolidated subsidiary

Real Estate

2012: Renamed Sapporo Real Estate Co., Ltd.



2014: Completed construction of Ebisu First Square



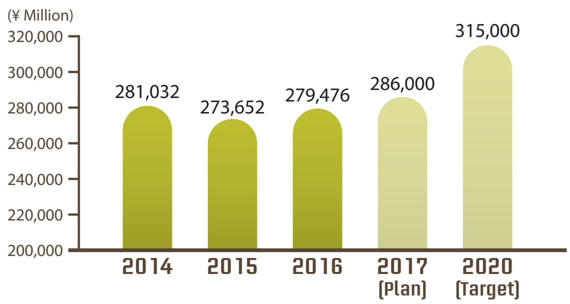
2016: Completed construction of *GINZA PLACE*

Performance Review and Plan

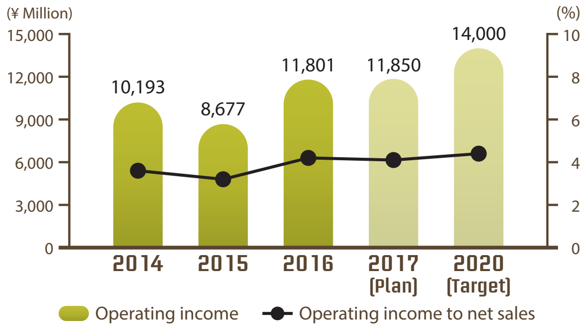
Japanese Alcoholic Beverages

■ SAPPORO BREWERIES LIMITED
■ YEBISU WINEMART CO., LTD.
■ TANOSHIMARU SHUZO CO., LTD.
■ SAPPORO ENGINEERING LIMITED
■ STARNET CO., LTD.
■ SHINSEIEN CO.,LTD.

Net sales



Operating income and Operating income to net sales



Note: Figures are before goodwill amortization.

Fiscal 2016 Overview

In the Japanese beer market, we estimate that total demand for beer and beer-type beverages fell about 2% year on year in 2016, owing to a large drop in demand from the commercial-use market and to consumers shifting from beer and beer-type beverages to RTD beverages. Guided by management's vision to "Seek to be No. 1 by accumulating one-of-a-kind products," we worked to achieve further growth by constantly providing customers with a value proposal unique to Sapporo, in conjunction with positioning 2016 as the "first year of a new period of growth in the beer business" and investing aggressively in this business. As a result, net sales in the Japanese Alcoholic Beverages segment rose by ¥5.8 billion, or 2.1%, compared with the previous year to ¥279.5 billion and segment operating income increased by ¥3.1 billion, or 36.0%, to ¥11.7 billion.

Segment operating income before goodwill amortization increased by ¥3.1 billion, or 36.0%, to ¥11.8 billion.

Beer Business

In the beer category, strong sales of canned versions of *Sapporo Draft Beer Black Label* and *Yebisu Beer* led to a 4% year-on-year increase in the domestic sales volume of beers, marking the second consecutive year of growth. In the *happoshu* category, sales volume of *Goku Zero* declined year on year, but in the new-genre beer category *Mugi to Hop The gold* continued to perform strongly. As a result, overall sales volume in the beer and beer-type beverages category fell 1% year on year, a smaller decline than that seen in the overall market.

RTD Beverages

In the RTD category, sales increased year on year owing to solid performances primarily by the high-value-added collaboration products *Sapporo Otoko Ume Sour* and *Nectar Sour*, as well as *Kireto Lemon Sour*.

Management Plan for 2017, First Year of SPEED150

Strengthen core beer brands

- Continue strengthening *Black Label* and *Yebisu*
- Strengthen *Lager, Shirohonoka* and other beers
- Promote a new genre with Mugi to Hop at the core

Expand fine wine sales

- Strengthen brand leveraging wineries
- Strengthen dedicated sales structure for wine
- Promote luxury marketing

New measures for growth

- Establish small-lot multi-product production structure, promote product development
- Carry out activities to expand presence in the EC market
- Promote Photo, Beer & Smiles and similar unique initiatives

Wine and Spirits Business

In the wine business, we strengthened marketing of domestic and imported fine wines*, leading to higher sales of *Penfolds*, an imported wine from Treasury Wine Estates, as well as *Taittinger* champagne and our *Grande Polaire* series of Japanese wines. In the spirits business, we achieved year-on-year sales growth, led by solid sales of major international brands such as *Bacardi* and *Dewar's*.

* Fine wines are wines priced at ¥1,500 or higher per bottle.

Japanese Liquor Business

In the Japanese liquor business, overall sales increased from the previous year due to continued strong sales of *Shochu Kokuimo*, Japan's No. 1 selling blended *imo shochu*.

Outlook for 2017

We expect the operating environment for our Japanese Alcoholic Beverages segment to remain challenging owing to a shrinking drinking population and the impact of customers shifting from beer and beer-type beverages to other alcoholic beverages. In the beer category, having set forth our "Beer Revival Declaration" as the core direction of the beer business, we will continue efforts to strengthen our beer brands that have been achieving sales growth amid a decline in overall demand for beer. As we approach the 40th anniversary of the launch of *Sapporo Draft Beer Black Label*, we will accelerate the brand's solid sales trend by appealing to its unique style and further expanding the opportunities for consumers to enjoy high-quality drinking experiences. We will strengthen ties with *Yebisu* brand fans and expand our contact points with these customers for example by introducing *Yebisu Hana Miyabi*. In the RTD category, under the slogan "Give shape to surprise," we will add to our success with hit products by developing a lineup of new collaboration RTD beverages that offer consumers unique value. In the wine category, we will continue to strengthen our lineup of fine wines. We also plan to aggressively expand sales of *shochu*, spirits, and Japanese liquor offerings. In parallel, we will strive to achieve our profit targets by spending effectively and efficiently on marketing that enhances brand value while cutting other costs wherever possible.

TOPIC

Sales Volume of *Sapporo Draft Beer Black Label* Up for a Second Consecutive Year and 40th Product Anniversary in 2017

Fiscal 2016 was positioned as the "first year of a new period of growth in the beer business" and all three of our mainstay brands, *Sapporo Draft Beer Black Label*, *Yebisu Beer* and *Mugi to Hop The gold*, achieved growth. Among them, *Sapporo Draft Beer Black Label* celebrated its 40th product anniversary this year. Its predecessor, *Sapporo Bottled Draft Beer* was launched on April 1, 1977, with the concept of providing a high-quality draft beer to be enjoyed at home. The product has retained its popularity through the decline in overall demand for beer-type beverages in recent years, recording year-on-year increases in sales volume for two consecutive years since 2015.

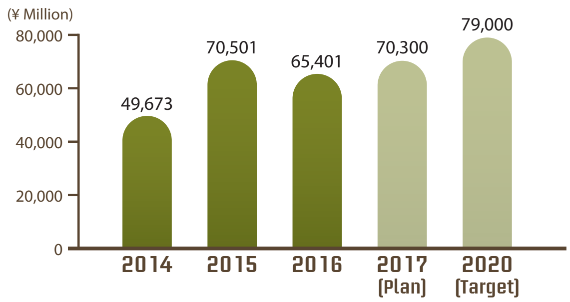
Note: Sales volume of *Sapporo Draft Beer Black Label* brand were up 0.2% year on year in 2015 and 2.8% in 2016.

International

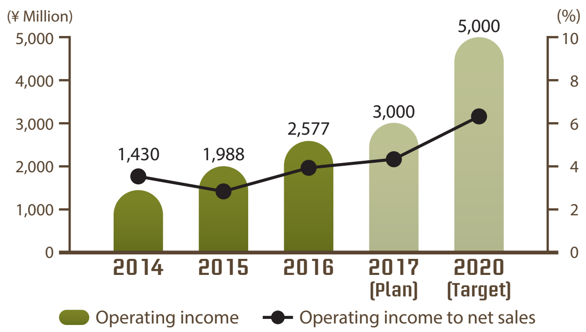
- SAPPORO INTERNATIONAL INC.
- SAPPORO U.S.A., INC.
- SAPPORO CANADA INC.
- SLEEMAN BREWERIES LTD.
- SAPPORO ASIA PRIVATE LIMITED
- SAPPORO VIETNAM LIMITED
- SILVER SPRINGS CITRUS, INC.
- COUNTRY PURE FOODS, INC.

and another 11 companies

Net sales



Operating income and Operating income to net sales



Note: Figures are before goodwill amortization.

Fiscal 2016 Overview

In the North American beer market, we estimate that total demand was largely flat year on year for the U.S. and Canada. In Asia, meanwhile, the beer market remained on an expansion track as signs of slower growth in China were countered by robust markets in other Asian countries, supported by growing populations and firm economic growth. In the International segment, we conducted aggressive marketing activities targeting the premium beer markets in the key regions of North America and Southeast Asia. Thanks to these activities, overall beer sales volume for the Sapporo brand increased by 6% year on year for the International segment as a whole. In addition, we expanded our sales channels in the U.S. fruit juice market. Despite these efforts, the International segment's net sales decreased by ¥5.1 billion, or 7.2%, to ¥65.4 billion, partly due to the negative impact of the stronger yen, while segment operating income increased by 487.8%, or ¥0.8 billion, to ¥0.9 billion.

Segment operating income before goodwill amortization increased by 29.7%, or ¥0.6 billion, to ¥2.6 billion.

North American Market

In Canada, SLEEMAN BREWERIES continued to spend aggressively on marketing its core premium brands. As a result, its overall beer sales volume (excluding Sapporo brand beer) increased by 2% year on year. Sapporo U.S.A. achieved a 1% year-on-year increase in sales volume as a result of efforts to expand its core target customer markets to the wider Asian-American and general population market segments in addition to continuing its existing measures targeting the Japanese-American market segment. In the U.S. soft drinks market, sales increased year on year due to a solid performance by a fruit juice sorbet business acquired by Country Pure Foods, Inc. in May. Silver Springs Citrus, Inc. also posted higher sales year on

Management Plan for 2017, First Year of SPEED150

North America (beer)

SLEEMAN BREWERIES

- Actively invest in premium brand
- Focus on the four provinces that account for 90% of beer consumption
- Value brand pricing and packaging strategy

Sapporo U.S.A.

- Focus on California and Texas
- Bolster sales staff and promote products to Asian restaurants

North America (soft drinks)

Improve foundation and prepare for integration of Silver Springs Citrus and Country Pure Foods

Silver Springs Citrus

- Expand sales channels through differentiated products
- Strengthen West Coast, promote sales of small-capacity plastic containers

Country Pure Foods

- Ensure enhanced production capacity following expanded Sidekicks (fruit juice sorbet) sales
- Develop differentiated products, reduce cost and appeal the price

Vietnam

- Promote the *SAPPORO PREMIUM* brand consistently
- Foray into medium-priced product market with *SAPPORO BLUECAP*
- Propose new products for export to Southeast Asia

Other Asian countries

- Strengthen measures targeting South Korea, Singapore and Taiwan

year (after adjustment for the period included in Sapporo Group results) by capturing new sales channels.

Asia and Oceania Market

In Vietnam, sales volume increased year on year, reflecting a solid performance supported by the renewal of canned versions of *SAPPORO PREMIUM Beer* in November 2015. In addition, in July 2016 we launched *SAPPORO BLUECAP*, which has proven popular among customers. In Singapore, we achieved year-on-year growth in sales volume thanks to cooperative efforts with our local subsidiary to expand sales channels to local household and commercial-use markets. In South Korea and Oceania, we worked to strengthen sales, resulting in year-on-year increases in sales volumes for beer.

Outlook for 2017

In North America, SLEEMAN BREWERIES aims to achieve its profit goals and expand its share of the overall beer market by executing marketing strategies that match the special characteristics of its brands and by optimizing its production system to lower costs. Sapporo U.S.A. plans to establish a wider presence for the Sapporo brand by strategically allocating resources in areas and sales channels that are expected to grow. In the U.S. soft drinks market, we plan to expand sales and profits by acquiring new sales channels, improving our production network, and establishing a management platform that will leverage the strengths of our two subsidiaries, Silver Springs Citrus, Inc. and Country Pure Foods, Inc. In the Vietnamese market, we aim to expand sales and improve profits by promoting the brand value of *SAPPORO PREMIUM Beer* in stores, which serve as points of contact with customers, and by undertaking effective marketing activities that stimulate consumer purchasing behavior. In the Singapore market, we will push ahead with expanding sales channels in the household and commercial-use markets.

TOPIC

10-Year Journey Since the Acquisition of SLEEMAN BREWERIES

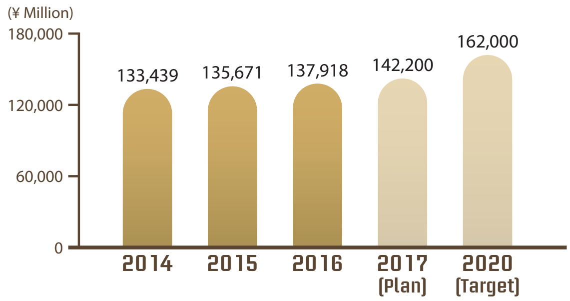
In 2006, the Company acquired SLEEMAN BREWERIES LTD., Canada's third-largest beer manufacturer with a strong reputation in premium beer, which shares many common approaches to manufacturing with Sapporo. Since the acquisition, SLEEMAN has achieved a 10-year streak of sales increases, recording a record-high profit in fiscal 2016. The acquisition secured Sapporo a manufacturing base and distribution channels in North America, helping it to stay the No. 1 Asian beer in the U.S. for 30 consecutive years.

Food & Soft Drinks

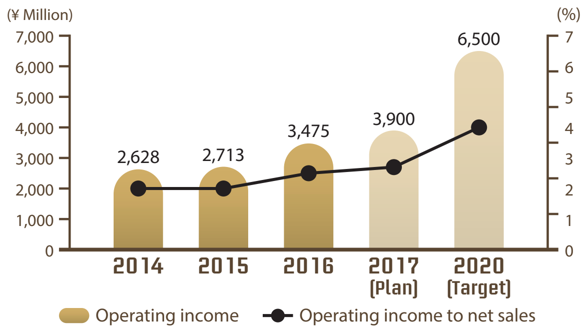
- POKKA SAPPORO FOOD & BEVERAGE LTD.
- POKKA CREATE CO., LTD.
- PS BEVERAGE LTD.
- STAR BEVERAGE SERVICE CO., LTD.
- POKKA SAPPORO HOKKAIDO LTD.
- NIHON BEANS CO., LTD.
- POKKA CORPORATION (SINGAPORE) PTE. LTD.
- POKKA INTERNATIONAL PTE LTD.
- PT. POKKA DIMA INTERNATIONAL

and another 8 companies

Net sales



Operating income and Operating income to net sales



Note: Figures are before goodwill amortization.

Fiscal 2016 Overview

We estimate that domestic demand for soft drinks increased 2% year on year. In this environment, we concentrated investments on core brands centered on lemon-based products and soups in order to strengthen and cultivate them. As a result, the Food & Soft Drinks segment recorded net sales of ¥137.9 billion, up ¥2.2 billion, or 1.7%, year on year, and posted segment operating income of ¥1.3 billion, up ¥0.9 billion, or 202.6%.

Segment operating income before goodwill amortization increased by 28.1%, or ¥0.8 billion, to ¥3.5 billion.

Domestic Food and Soft Drinks Business

In domestic soft drinks, we worked to establish a unique market position by launching various products tailored to customer preferences, including *Nippon Oolong* made from domestic tea leaves. In lemon beverages, sales expanded sharply, supported by solid sales of our core *Kireto Lemon* (in PET and glass bottles) along with new markets created through the launch of new products, such as *Kireto Lemon-Moisture*, which is labeled as a Food with Function Claims. In domestic food, we worked to strengthen the brand lineup with several new additions, including *Jikkuri Kotokoto Gohobi Dining*, packaged in a microwavable pouch. In the lemon-based food category, sales value increased 5% year on year, reflecting solid sales of our mainstay *POKKA Lemon 100*.

Domestic Restaurants Business

In the domestic restaurants business, the *Café de Crié* coffee shop chain achieved year-on-year sales growth as it aggressively opened shops in collaboration with bookstores and inside hospitals.

Overseas Soft Drinks Business

In the overseas soft drinks business, we maintained our top share* of Singapore's tea drinks market, including

Management Plan for 2017, First Year of SPEED150

Soft drinks

- Bolster profits by sorting out unprofitable products and channels
  —Strengthen food texture-type, ingredient-type and *Gabunomi* brands

Lemon-based products

- Focus on function research, pursue feasibility of unexplored fields
- Carry out procurement corresponding to the application features and expand business to B-to-B
- Implement strategic public relations activities in collaboration with the regions

Soups

- Increase soup consumption scenarios
- Break into the staple food field such as risotto produced using a new method

New businesses (soy milk)

- Grow soy milk yogurt
- Consider streamlining business structure, building own production facility

Domestic restaurants

- Expand new format for *Café de Crié* restaurants
- Increase *Maison de VERRE* brand penetration

Overseas soft drinks

- Ensure smooth launch in Indonesia and Myanmar
- Strengthen existing market based on demand information in the Middle East, etc.
- Maintain position in Singapore market

our approximately 70% share of the green tea market. In addition, our POKKA brand was named the top brand in the non-carbonated drinks category of Singapore's "Influential Brands Awards 2016," an annual award program that recognizes companies that have established good relationships with customers and continue to provide brand value.

* Based on data from Nielsen Singapore MarketTrack March 2016 (Copyright 2016, The Nielsen Company)

Outlook for 2017

Japan's soft drinks industry is expected to continue facing a difficult operating environment, characterized by the diversification of consumer preferences, stiff competition among beverage makers, and cost increases caused by a weaker yen and rising raw material prices. Against this backdrop, in the domestic food and soft drinks business, we plan to focus intensively on customer perspectives and deliver new value to our customers in areas where we can demonstrate our advantages. In domestic soft drinks, we will carve out a unique market position by strengthening our *Shokkan-kei* (texture), *Sozai-kei* (ingredient) and *Gabunomi* series of brands. In the lemon beverages category, we will strengthen our position as a leader in the lemon-based drinks market by developing products featuring new forms of added value in conjunction with bolstering marketing of *Kireto Lemon* brand products. In the soups category, we will increase demand by gradually expanding the lineup to include soups that are optimal for consumption in a more diverse range of situations, such as the retort-packaged soup we launched in 2016. In the new soy milk category, we plan to expand sales of our existing *SOYAFARM* brand. In the domestic restaurants business, we will work to stimulate business at existing outlets, and develop new restaurant formats. In the overseas soft drinks business, we will work to expand sales and streamline operations in the core Singapore market. In Indonesia, we will begin full-fledged production and sales activities at our local joint venture. Licensed-out production has also begun in Myanmar. Through these and other measures, we will propose products that meet the needs of consumers in each country with the aim of driving further growth.

TOPIC

Expanding Lemon-Based Products with a Secure Position as the Leader in the Lemon-Based Drinks Market

POKKA Lemon was launched in February 1957. The product created domestic demand for lemon-based products in Japan and expanded the market. This year marks its 60th anniversary.

In lemon beverages in 2016, mainstay *Kireto Lemon* (PET and glass bottle) was complemented by the launch of *Kireto Lemon-Moisture*, which is labeled as a Food with Function Claims. In 2017, we plan to launch a series of lemon-related products, and to promote the development of products offering new value to further consolidate our position as the leader in the lemon-based products market.

Restaurants

- SAPPORO LION LIMITED
- NEW SANKO INC.
- MARUSHINKAWAMURA INC.
- GINRIN SUISAN INC.
- SAPPORO LION (SINGAPORE) PTE. LTD.

Management Plan for 2017, First Year of SPEED150

Sapporo Lion

- Secure customers through apps and point cards
- Open new restaurants of *GINZA LION* and *YEBISU BAR*
- Drive forward restaurant refurbishment and facility repairs

New Sanko

- Strengthen sales to corporate customers, strengthen efforts to win catering orders
- Enhance internal control and personnel structure

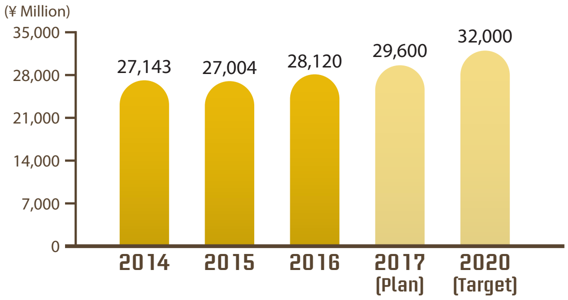
Marushinkawamura

- Implement PDCA cycle with various introduced systems
- Review various menus and sales strategy

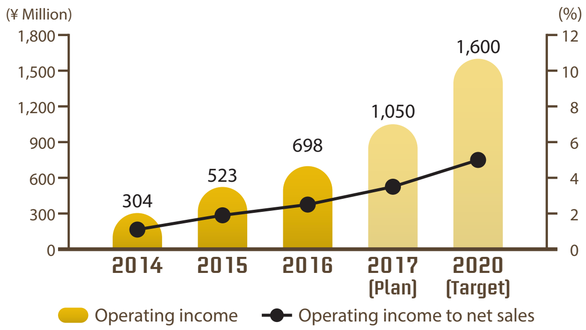
Overseas (Singapore)

- Disseminate the brand of *Tonkichi* format, refurbish restaurants
- Implement location- and customer-layer-based strategies for *GINZA LION* format
- Transfer the head office and cake factory and improve operational efficiency

Net sales



Operating income and Operating income to net sales



Note: Figures are before goodwill amortization.

Fiscal 2016 Overview

Japan's restaurant industry remained on a recovery track in 2016 despite grappling with a difficult operating environment complicated by rising labor costs and food material procurement prices. Against this backdrop, in the Restaurants segment, we continued to create restaurants that aim to "deliver 100% satisfaction to customers" through constant efforts to deliver safe and sound food and service to customers. As a result, the Restaurants segment posted net sales of ¥28.1 billion, up ¥1.1 billion, or 4.1%, year on year, and segment operating income of ¥0.7 billion, up ¥0.1 billion, or 27.0%.

Segment operating income before goodwill amortization increased by 33.6%, or ¥0.2 billion, to ¥0.7 billion.

Domestic

We opened our first restaurant inside a zoo—Garden Terrace Lion at Asahiyama Zoo in Asahikawa, Hokkaido—and our first craft beer pub—CRAFT BEER KOYOEN in Nagoya. In our *GINZA LION* format, we reopened two flagship outlets—one is located in front of Shimbashi Station and the other is located in the *GINZA PLACE* commercial complex. Moreover, we added two new consolidated subsidiaries in June 2016: Marushinkawamura Inc. and Ginrin Suisan Inc. As a result, the total number of restaurants operated by our restaurants business in Japan was 200 as of the end of December 2016.

Overseas

In Singapore, we worked to promote the creation of restaurants that win the affection of local communities in order to disseminate the *GINZA LION* brand globally, in tandem with developing our new restaurant brand *Tonkichi Ginza Shokudo*. As a result, the total number of restaurants operated by our restaurants business in Singapore was 14 as of the end of December 2016.

Outlook for 2017

Japan's restaurant industry is expected to remain mired in a difficult operating environment, with competition growing ever more intense as the entry of foreign restaurant chains adds to existing strain due to cross-industry competition from retailers and other non-traditional players. In the restaurants business, we will work to enhance the quality of operations, including basic aspects such as menus, service, and restaurant atmosphere in conjunction with working to ensure the provision of safe and sound food to customers. In Japan, we plan to expand the geographical areas served by our core formats *GINZA LION* and *YEBISU BAR* and to open new locations. Overseas, we plan to push ahead with measures to improve the earnings performance of the *GINZA LION* and *Tonkichi* brands in Singapore.

In addition, we will consider plans for expanding into neighboring countries.

Real Estate

- SAPPORO REAL ESTATE CO., LTD.
- YGP REAL ESTATE CO., LTD.
- TOKYO ENERGY SERVICE CO., LTD.
- YOKOHAMA KEIWA BUILDING CO., LTD.

Management Plan for 2017, First Year of SPEED150

Yebisu Garden Place

- Upward revision of office rent per unit
- Initiate needs for expanding floors and review tenant composition
- Quantitative target: average annual occupancy rate of 99% and above

GINZA PLACE

- Maximize investment impact
- Disseminate information strategically (SNS, digital signage, etc.)
- Quantitative target: annual visitors of 4 million people

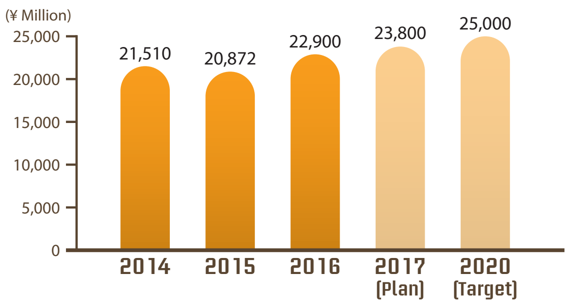
Hokkaido (Sapporo)

- Formulate and drive forward refurbishment plan of Sapporo Factory
- Redevelopment of the former parking lot site neighboring Sapporo Factory
- Quantitative target: annual visitors of 7 million people

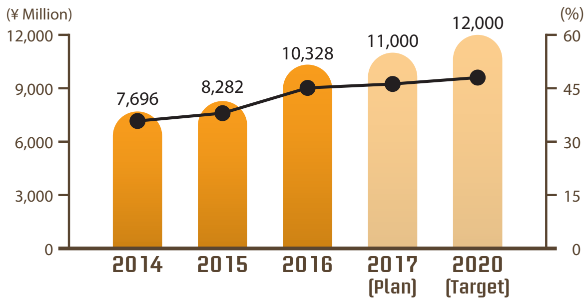
New businesses, other

- Consider new business development
- Contribute to the brand through promotion of urban renewal
- Review and increase liquidity of businesses and property portfolios

Net sales



Operating income and Operating income to net sales



Note: Figures are before goodwill amortization.

Fiscal 2016 Overview

Japan's real estate industry continued to see a moderate recovery in rent levels in the Greater Tokyo Area office leasing market due to solid demand for office space. In our real estate leasing business, we maintained high occupancy rates at our properties centered on the Greater Tokyo Area, including our core earnings pillar, Yebisu Garden Place Tower. As a result, the Real Estate segment's net sales in 2016 totaled ¥22.9 billion, up ¥2.0 billion, or 9.7%, year on year, and segment operating income totaled ¥10.3 billion, up ¥2.0 billion, or 24.7%.

Real Estate Leasing

We continued to increase the value of Yebisu Garden Place through our efforts to enhance convenience levels and strengthen the property's appeal as a landmark of the stylish and sophisticated Ebisu area. In the complex's commercial area, we fully renovated the scenic restaurant area on the 38th floor in October, along with installing the new SKY LOUNGE observation space. We also reopened the City Wall area as the BRICK END eatery and bar area. In these and other ways, we worked to revitalize the district and turn it into an even more bustling center of activity.

Meanwhile, Ebisu First Square has maintained full occupancy since opening and has contributed to further earnings expansion in the real estate development business.

Real Estate Development

In September we opened the *GINZA PLACE* mixed-use commercial complex. With the number of visitors to the site surpassing one million in December, just two months after its opening, *GINZA PLACE* is helping to restore hustle and bustle to the Ginza district.

Outlook for 2017

Japan's real estate industry expects to see vacancy rates remain low and to sustain the recent moderate uptrend in office rents in the Greater Tokyo Area office leasing market. However, with a large volume of new supply expected to hit the market during 2018–2020, currently favorable market conditions could be headed for a peak at the end of 2017. In our real estate leasing business, we will continue our efforts to enhance the competitiveness of our buildings and related services at our properties. Our flagship property, Yebisu Garden Place, is opening an on-site childcare facility in April 2017 in a continued effort to provide new added value. At *GINZA PLACE*, in addition to enhancing the property's brand value, we will help to make the Ginza district an even more dynamic and bustling urban center while increasing its ability to attract visitors.

CSR Activities

Basic CSR Policy

The basic elements that make up the Sapporo Group's DNA include its commitment to great taste, quality, and its frontier spirit, which have been fundamental since the Group's founding in 1876. We believe that when each Group company fulfills its responsibility to society through its business, and through leveraging this DNA heritage as its core principles, it will lead to the realization of the Group's management philosophy: "As an intrinsic part of people's lives, Sapporo will contribute to the evolution of creative, enriching and rewarding lifestyles."

The Sapporo Group seeks to ensure transparency and fairness in management by enhancing corporate governance in conjunction with maintaining integrity in corporate conduct based on the Sapporo Group's Basic CSR Policy. Through these measures, the Group will strive to disclose information proactively and appropriately and foster interactive communication, thereby deepening its relationships of trust with all stakeholders.

Point ▸ Communication with communities and society

Food education and youth development

As a Group handling food, the Sapporo Group is focused on activities to provide wholesome development for youth, centering on food education

Raising awareness of proper drinking practices

As a Group handling alcoholic beverages, we will raise awareness about proper drinking practices and endeavor to prevent inappropriate drinking practices.

Topic Proper Drinking Practices Awareness Seminar for university students

Sapporo Breweries has been holding the Proper Drinking Practice Awareness Seminar at universities in the Tokyo metropolitan area since 2015 to provide students with correct knowledge about alcohol consumption and enable them to enjoy drinking alcohol in a healthy manner. The seminars provide basic knowledge, such as a definition of alcohol and an explanation of the mechanism of intoxication, as well as useful lectures for the future on topics such as etiquette when drinking in public. The seminar also includes awareness-raising content for underage students to help prevent underage drinking.

Realizing a sustainable society

In August 2015, the Sapporo Group formulated its medium-term environmental policy, "Activities to Protect the Global Environment 2030." To realize a sustainable society looking toward 2030, the Sapporo Group will collaborate with various regions around the world where it engages in business and strive to employ innovative technologies and methods, aiming to consider the environment in all business activities, including development and provision of products and services. All of our employees are giving consideration to the global environment and making proactive efforts to help realize a sustainable society.

1. Prevention of global warming

Reduce CO_2 emissions generated in business activities by 12% compared to 2013.

	2013	2014	2015
Reduction of CO_2 emission intensity (compared to 2013)	—	96.7%	96.9%

* Applies to the scope of Sapporo Group businesses as of 2013.

Topic **Received the Agriculture, Forestry and Fisheries Minister's Award for Promotion of Environmental Measures such as Energy Saving in the Environment Division of the 37th Food Industry Excellence Award**

Sapporo Breweries Ltd.'s Hokkaido Brewery was awarded the Agriculture, Forestry and Fisheries Minister's Award for Promotion of Environmental Measures such as Energy Saving in the Environment Division of the 37th Food Industry Excellence Award presented by the Japan Food Industry Association and the Organization of Food Marketing Structure Improvements, co-sponsored by the Ministry of Agriculture, Forestry and Fisheries. The award was conferred on the brewery in recognition of its environmental preservation and energy-saving activities over 26 years.

2. Promoting the 3Rs (Reduce/Reuse/Recycle)

The Sapporo Group strives to promote reducing, reusing and recycling in all business activities from raw materials procurement through to disposal and recycling to promote effective use of limited resources.

While striving to promote the 3Rs with regard to containers and packaging in raw materials procurement as well as by-products and waste materials in production, the Sapporo Group is also controlling waste generation in product provision by prolonging the shelf life of beer servers. Moreover, the Group is promoting various initiatives to preserve water resources, such as reusing wastewater and rainwater and installing water-saving systems, reducing organic waste generated in the restaurants business and generating electricity through waste materials.

Topic 100% recycling of by-products and waste materials in product manufacturing

Sapporo Breweries achieved 100% recycling of all by-products and waste materials generated at breweries and Group soft drink and food factories in 1998, followed by POKKA SAPPORO Food & Beverage in 2006. Both companies continue working to maintain this record, and to limit the amount of waste generated. At breweries, in addition to the installation of anaerobic wastewater treatment systems, thermal energy is also used, such as fueling boilers using biogas generated during the wastewater purification process.

Sapporo Breweries' water resource preservation initiative

Each Sapporo Breweries brewery undertakes 3R initiatives for water use during the cleaning and sterilization processes in addition to reducing the volume of wastewater and striving to comply with the laws and regulations regarding wastewater quality in each location.

Production wastewater (water used during the production process) is reused for production process purposes such as with environmental facilities or machinery cooling, and efforts made to reduce the volume of irrigation water used. The reuse rate is about 5%.

3. Coexistence with nature

The Sapporo Group appreciates the benefits of nature. We consider biodiversity and engage in preservation activities at each stage in the value chain, including community development, cultivation of raw materials, and production. We work with members of local communities to educate future generations about the importance of preserving biodiversity and engage in environmental education through products and services.

Topic Forest preservation through cartocan

POKKA SAPPORO Food & Beverage proactively uses paper beverage containers made of cartocan, which comprises at least 30% domestic lumber, including wood waste generated from lumber mills and forest thinning activities crucial for forest preservation and nurturing. In addition to proactively using Japanese wood materials, some proceeds of sales are donated to the Green Fund to help protect and nurture Japanese forests. Preservation and nurturing of healthy forest land promotes absorption of CO_2 and works to prevent global warming. It is also useful in preserving biodiversity, such as the animals living in the forests, helping to protect the richness of the country.

Working together with communities

Promoting consumption of local products, supporting disaster-affected areas and transmitting information

The Sapporo Group understands community strengths, culture and traditions and contributes to community development by supporting initiatives such as food and tourism promotions and other events.

We will continue to support reconstruction of areas affected by earthquakes, aiming to help them to recover as quickly as possible.

Contributing to communities

Topic Support for employees raising children

Sapporo Holdings and Poppins Co., Ltd. utilized the Company-led Childcare Business support system offered by the Cabinet Office to open a consortium-style (serving multiple companies) in-house childcare center in Yebisu Garden Place on April 1, 2017. The in-house childcare center was established in conjunction with the increase in the number of female employees at each Group company to support an anticipated increase in the number of employees raising children going forward and to offer support for further opportunities.

The consortium-type center serves not only those within the Group, but also people raising children in Shibuya Ward and employees of tenant companies in Yebisu Garden Place Tower, supporting them and helping those facing the issue of dealing with waiting lists for childcare within the local community.

Point Communication with business partners

Procurement in consideration of human rights and the environment

Fair and just dealings

In accordance with the Sapporo Group's Basic Purchasing Policy, we conduct fair and just dealings with clients, suppliers and other trade connections, and strive to achieve sustainable development based on partnership. In addition, the Sapporo Group receives the cooperation of its suppliers in actively promoting environmental preservation and CSR initiatives.

Topic The Collaborative Contract Farming System (CCFS)

It has been 10 years since establishing procurement of 100% of the malt and hops indispensable for brewing beer under the Collaborative Contract Farming System (CCFS).
We will continue our approach to producing the best beer starting from the ingredients.

Promoted by Sapporo Breweries, CCFS is a unique raw material procurement system and is based on the three pillars of 1) specifying the growing area and the growers, 2) specifying the growing method, and 3) establishing communication between the growers and Sapporo Breweries. Internal experts on malt and hops called 'Fieldman' directly visit CCFS production areas in about 10 countries around the world and engage in ongoing close communication with producers to enable production of high quality raw materials.

Communication with growers is the most important aspect of CCFS. Fieldman meet repeatedly with growers several times: pre-seeding meeting, pre-harvest meeting and post-harvest meeting. Fieldman help the growers understand the quality that Sapporo Breweries requires, and work with them in all areas from variety selection onward. Through their collaboration, CCFS growers and Fieldman work together to produce safer, more reliable raw materials of higher quality. Mutual respect and building on relationships of trust is the first step to enable production of safe, reliable, high quality raw materials.

Point Communication with shareholders

The Sapporo Group seeks to ensure transparency and fairness in management, enhancing corporate governance and deepening relationships of trust by implementing efficient management and proper returns to shareholders.

Point Communication with customers

Make customers' lifestyles around the world more fulfilling by creating new value through the pursuit of innovation and quality.

Strive to provide products and services and to nurture brands that foster communication among customers.

Point Communication with employees

Workplace environment

Topic Certified as an Excellent Enterprise of Health and Productivity Management —White 500

On February 21, 2017, Sapporo Holdings was certified as an Excellent Enterprise of Health and Productivity Management—White 500 by the Ministry of Economy, Trade and Industry (METI) for its superior management practices that focus on promoting employee health. We advanced various initiatives to improve employees' health, including establishing a system to follow up on results of periodical health checks in coordination with company doctors, developing original health measures at workplaces, implementing improvements to workplace environments based on group analysis of stress check results, taking measures in collaboration with health insurance societies to increase the rate of testing for lifestyle-related diseases, and conducting an online campaign to encourage walking. Sapporo Holdings received the certification after being highly rated for having verified the effects of each measure using objective data and carrying out a PDCA cycle.

Diversity

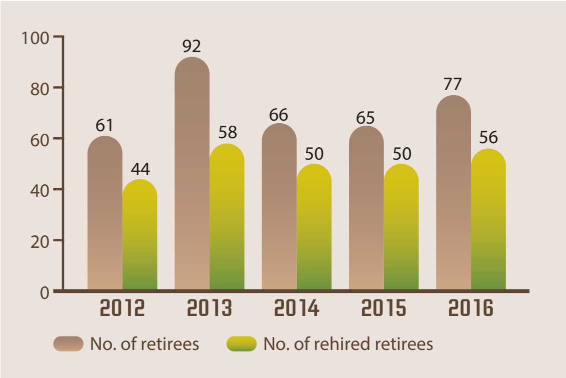
The Sapporo Group upholds the principle of fair employment of human resources based on a spirit of "openness and fairness." Each Group company formulates an employment policy that considers the characteristics and environment of its business to employ diverse human resources without regard to aspects such as nationality, gender, and academic background. In particular, as a start toward respecting and utilizing all diversity, we have created conditions where women can succeed naturally and continue to feel rewarded. In doing so, we aim to double the number of women in management positions at all domestic Group companies from 2014 by 2020.

		2012	2013	2014	2015	2016
No. of employees	Total	4,029	4,048	3,920	4,019	3,807
	No. of women	631	648	623	694	633
No. of managers	Total	1,027	997	927	931	1,032
	No. of women	25	27	22	24	29
	Ratio of women in management	2.4%	2.7%	2.4%	2.6%	2.8%

* Until 2012, the data shows the total from Sapporo Holdings, Sapporo Breweries, Sapporo Beverage, POKKA CORPORATION, Sapporo Lion, and Sapporo Real Estate (including employees on assignment at subsidiaries or affiliated companies).
* From 2013, the data shows the total from Sapporo Holdings, Sapporo Breweries, POKKA SAPPORO Food & Beverage, Sapporo Lion, and Sapporo Real Estate (including employees on assignment at subsidiaries or affiliated companies).

Topic Re-employment of retired employees

As society ages and the number of postwar baby boomers reaching retirement age increases, each Sapporo Group company complies with the revised Act on Stabilization of Employment of Elderly Persons and has a system to rehire retirees. This enables the Group to continue to utilize the expertise and experience that senior employees have cultivated over many years, and facilitates the transmission of techniques and skills to younger generations.



* Until 2012, the data shows the total from Sapporo Holdings, Sapporo Breweries, Sapporo Beverage, POKKA CORPORATION, Sapporo Lion, and Sapporo Real Estate (including employees on assignment at subsidiaries or affiliated companies; as of December 31).
* From 2013, the data shows the total from Sapporo Holdings, Sapporo Breweries, POKKA SAPPORO Food & Beverage, Sapporo Lion, and Sapporo Real Estate (including employees on assignment at subsidiaries or affiliated companies; as of December 31).

Employment of people with disabilities

The Sapporo Group employs people with disabilities at each Group company. For example, Sapporo Breweries has been proactively hiring people with disabilities throughout Japan in administrative positions such as marketing, human resources, general affairs, and accounting, and has continued to achieve the legally required employment rate for people with disabilities since 2004. As of December 31, 2016, the rate of employment of people with disabilities at Sapporo Breweries was 2.1%.

[Main initiatives]

- Acceptance and recruitment of people with mental disabilities as interns
- Holding training for people responsible for recruiting people with disabilities and study sessions for departments with members who have disabilities
- Questionnaires for employees with disabilities and the heads of their assigned departments

Corporate Governance

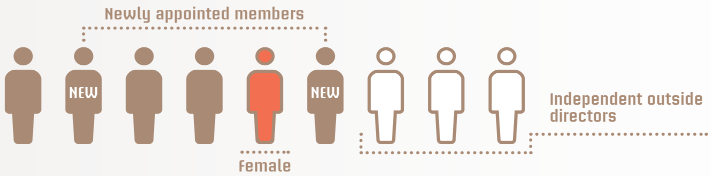
Governance Digest

Format

The Company uses the Audit & Supervisory Board Member system. However, it has also established a Nominating Committee and a Compensation Committee with the goals of increasing transparency with respect to the nomination and remuneration of directors and preserving a sound management structure.

Board of Directors

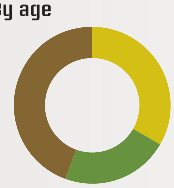
Constituent members



By number of years in office

*Appointment term: one year

By age



Reasons for appointment of directors

Tsutomu Kamijo	Mr. Tsutomu Kamijo has been Representative Director of the Company since 2011, and has a wealth of experience, a rich track record and great insight as a manager. The Company has determined that he will be the right administrator and supervisor of overall Group management.
Masaki Oga	Mr. Masaki Oga has served as a director of the Company and President and Representative Director of an operating company, and has a wealth of experience, a rich track record and great insight as a manager. The Company has determined that he will be the right person to promote Group management and strengthen the corporate governance of the Company.
Hiroyuki Nose	Mr. Hiroyuki Nose has had wide experience in sales & marketing departments of operating companies and has been in charge of the brand planning department. He therefore has the experience, track record and insight for marketing strategies. The Company has determined that he will be the right person to formulate and promote the growth strategy of the Sapporo Group.
Shinichi Soya	Mr. Shinichi Soya has had wide experience in the accounting & finance departments of operating companies and has been in charge of the corporate planning and international departments. He therefore has the experience, track record and insight for overall corporate planning. The Company has determined that he will be the right person to strengthen the Group management structure and global management of the Company.
Mayumi Fukuhara (Legal surname Kobayashi)	Ms. Mayumi Fukuhara has been in charge of the human resources department of operating companies. She therefore has the experience, track record and insight for overall human resources strategy. The Company has determined that she will be the right person to promote the diversity and strengthen human resources development of the Sapporo Group.
Ikuya Yoshida	Mr. Ikuya Yoshida has a wealth of experience, a rich track record and great insight for the planning and development of new products gained through his employment as a person in charge of the production & technology and product development departments of an operating company. The Company has determined that he will be the right person to promote research and development as well as quality improvement at the Sapporo Group.
Shigehiko Hattori	Mr. Shigehiko Hattori has a wealth of experience, a rich track record and great insight as the president of a business corporation. He also has a wealth of overseas management experience. Mr. Hattori offers pertinent opinions and advice to the Company's Board of Directors from his objective standpoint, independent of the management team engaged in executing the operations of the Company. The Company has determined that he will contribute greatly to the corporate governance of the Company, which is moving forward with overseas expansion.
Teruhiko Ikeda	Mr. Teruhiko Ikeda has a wealth of experience, a rich track record and great insight as the manager of a financial institution. Mr. Ikeda offers pertinent opinions and advice to the Company's Board of Directors from his objective standpoint, independent of the management team engaged in executing the operations of the Company. The Company has determined that he will contribute greatly to the corporate governance of the Company in such areas as the strengthening of risk management.
Shizuka Uzawa	Mr. Shizuka Uzawa has a wealth of experience, a rich track record and great insight as the president of a holding company as well as extensive insight in treasury and corporate management fields. Mr. Uzawa offers pertinent opinions and advice to the Company's Board of Directors from his objective standpoint, independent of the management team engaged in executing the operations of the Company. The Company has determined that he will contribute greatly to the corporate governance of the Company in such areas as the strengthening of the Group's management structure.

Audit & Supervisory Board

Constituent members

Nominating Committee

The purpose of this committee is to recommend candidates for director or Audit & Supervisory Board member positions to the Board of Directors, and to confirm and discuss the development status of plans for a successor to the president and director.

Compensation Committee

The purpose of this committee is to formulate a director compensation system and bonus system and to decide the individual compensation amounts for each director, pursuant to a resolution of the Board of Directors.

Basic Governance Approach

The Sapporo Group has enacted the "Basic Policy on Corporate Governance"* for the purpose of specifying its thinking and operational policy regarding corporate governance with the goal of attaining sustained growth and enhancement of corporate value over the medium to long term, and in light of the purport and spirit of the "Corporate Governance Code" set forth in the Listing Rules of the Tokyo Stock Exchange.

As part of the policy, the Group's basic philosophy is to regard strengthening and enhancing corporate governance as one of its top management priorities. The Group is working to clarify supervisory, business execution and auditing functions throughout the Group under the holding company framework. The Group is also working to strengthen management supervisory functions to increase management transparency and achieve management goals.

* Basic Policy on Corporate Governance
http://www.sapporoholdings.jp/english/ir/management/pdf/basic_governance_approach.pdf

Basic Policy on Corporate Governance

I. General Provisions
II. Ensuring Shareholders' Rights and Equality
III. Appropriate Collaborations with Stakeholders
IV. Ensuring Appropriate Disclosures of Information and Transparency
V. Duties of the Board of Directors, etc.
VI. Dialogue with Shareholders

Board of Directors

The Board of Directors performs a supervisory role and makes decisions on statutory matters and important matters relating to business execution stipulated by the Board's regulations. The Board of Directors also elects and supervises the business execution of the Representative Director, the President, the Group operating officers, and other key personnel.

About Independent Outside Directors

Three of the nine members of the Company's Board of Directors are independent outside directors. All three have submitted notification to the Tokyo Stock Exchange of their independent director status as stipulated by the exchange regulations. The independent outside directors are expected to objectively advise and supervise the management team from a neutral standpoint, based on their high perception. The independent outside directors offer advice and suggestions from their independent and objective standpoints and are expected to fulfill a role raising corporate value.

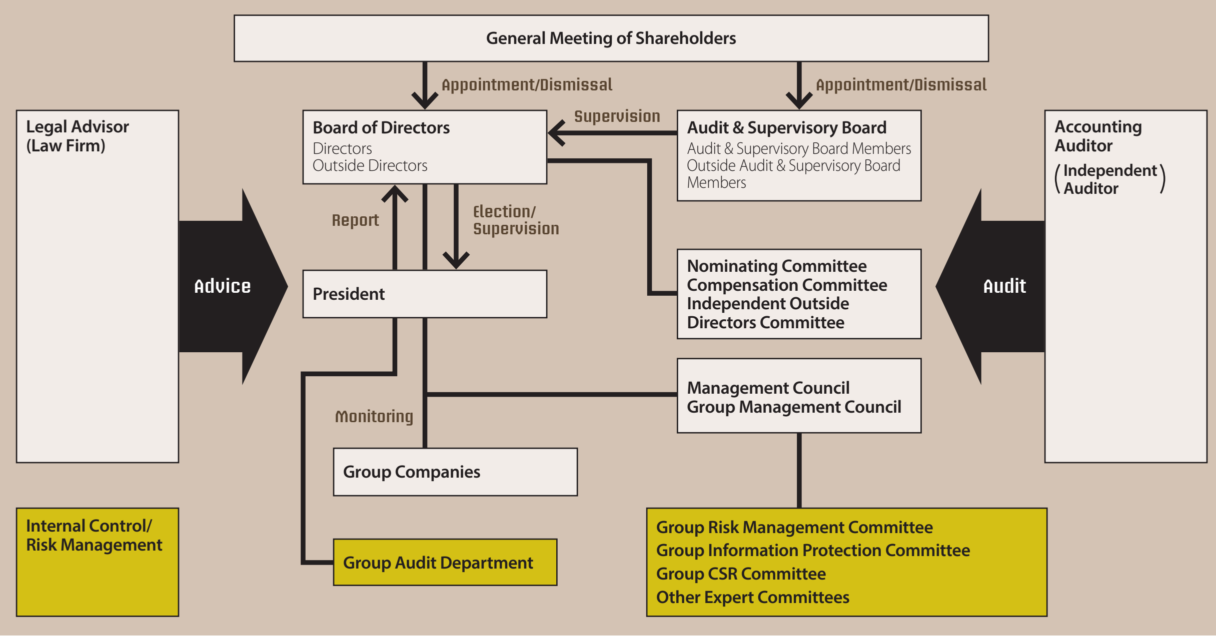
President and Group Operating Officers

The President controls business execution across the entire Group based on the resolutions of the Board of Directors. The Group operating officers, under the direct authority of the President control business execution in the main business segments.

Audit & Supervisory Board

Sapporo Holdings Ltd. uses the Audit & Supervisory Board Member system, in which Audit & Supervisory Board members, who are completely independent from the Board of Directors, audit the job performance of directors from an independent standpoint. The Company has therefore established an Audit & Supervisory Board. In accordance with audit policy and allocated auditing duties decided by the Audit & Supervisory Board, each Audit & Supervisory Board member attends important meetings such as the Board of Directors meeting and the Management Council, reads over requests for approval, audits subsidiaries, and performs other related duties. The Audit & Supervisory Board members also receive an explanation of the audit plan from the independent auditors and the independent auditors' report. This system allows proper auditing of the execution of duties by directors.

Corporate Functions and Internal Control Relationships



About Independent Outside Audit & Supervisory Board Members

Sapporo Holdings has four Audit & Supervisory Board members, two of whom are independent outside Audit & Supervisory Board members. Both independent outside Audit & Supervisory Board members have submitted notification to the Tokyo Stock Exchange of their independent auditor status as stipulated by the exchange regulations. The independent outside Audit & Supervisory Board members audit the duties executed by the directors from an objective and neutral standpoint, and offer input where fitting to preserve the propriety and appropriateness of decisions by the directors. Similarly, the independent outside Audit & Supervisory Board members are expected to provide input where needed during discussion on proposals and fulfill a role to secure healthy management.

Standards and Policies regarding Independence of Outside Directors and Outside Audit & Supervisory Board Members

Sapporo Holdings' Nominating Committee recommends personnel as candidates for outside directors provided that they meet the standards for independence set out by financial instrument exchanges that have applied them, and that they have a strong background, track record, and insight into corporate management or certain specialist fields that will enable them to offer accurate proposals and advice on the Company's management issues. Moreover, outside Audit & Supervisory Board member candidates are required to meet the standards for independence set out by financial instrument exchanges that have applied them.

Name	Important concurrent occupations or positions at other organizations
<Directors>	
Shigehiko Hattori	Senior Advisor of Shimadzu Corporation, Outside Director of Mitsubishi Tanabe Pharma Corporation, Outside Director of Brother Industries, Ltd., Outside Director of Meiji Yasuda Life Insurance Company, Outside Auditor of Nikkei Inc.
Teruhiko Ikeda	Advisor of Mizuho Trust & Banking Co., Ltd., Outside Audit & Supervisory Board Member of TOKYO FM Broadcasting Co., Ltd., Independent Director of NSK Ltd.
Shizuka Uzawa	Advisor of Nisshinbo Holdings, Inc., External Executive Director of Japan Finance Corporation, Outside Director of Nichirei Corporation
<Audit & Supervisory Board Members>	
Junya Sato	Lawyer at the Law Offices of Ishizawa, Ko & Sato, Outside Director of Nikki Co., Ltd., Outside Director of Mitsui Mining & Smelting Co., Ltd., Outside Audit & Supervisory Board Member of Taisho Pharmaceutical Holdings, Co., Ltd.
Kazuo Sugie	

Name	Policy on independence
<Directors>	
Shigehiko Hattori	Mr. Shigehiko Hattori was engaged in business execution at Shimadzu Corporation until June 2015. Although the said company's products were purchased by certain plants of the Company's subsidiaries in the past, the amount of such transactions is immaterial, and the Company has determined Mr. Hattori is unlikely to have a conflict of interest with shareholders. The Company designated Mr. Hattori as an independent director as provided for by the rules of the Tokyo Stock Exchange and the Sapporo Securities Exchange and has notified each of the exchanges of his designation.
Teruhiko Ikeda	While Mr. Teruhiko Ikeda had engaged in business execution at Mizuho Trust & Banking Co., Ltd. until June 2010, more than six years have passed since he left his executive position, and he is not in a position to directly manage Mizuho Trust & Banking Co., Ltd. nor does he have any special relationship with the said bank. In light of the standards of independence of the exchanges on which the Company is listed, and the Company's criteria for judgment on independence, the Company has determined Mr. Ikeda is unlikely to have a conflict of interest with shareholders. The Company designated Mr. Ikeda as an independent director as provided for by the rules of the Tokyo Stock Exchange and the Sapporo Securities Exchange and has notified each of the exchanges of his designation.
Shizuka Uzawa	Mr. Shizuka Uzawa is currently an Advisor of Nisshinbo Holdings Inc. No transactions have or are being made between the said company and the Company or its subsidiaries, and the Company has determined Mr. Uzawa is unlikely to have a conflict of interest with shareholders. The Company designated Mr. Uzawa as an independent director as provided for by the rules of the Tokyo Stock Exchange and the Sapporo Securities Exchange and has notified each of the exchanges of his designation.

Name	Reason for appointment and policy on independence
<Audit & Supervisory Board Members>	
Junya Sato	[Reason for appointment] Although Mr. Junya Sato has no experience directly managing a company aside from becoming an outside director or an outside corporate auditor, he has a wealth of practical experience as an attorney, particularly regarding corporate law. The Company has determined that Mr. Sato will be able to monitor the performance of duties by directors of the Company from an objective and fair perspective, and he has been appointed as an outside Audit & Supervisory Board member. [Policy on independence] Mr. Junya Sato is currently a lawyer at the law offices of Ishizawa, Ko & Sato. No transactions have or are being made between the said firm and the Company or its subsidiaries. Accordingly, the Company has determined Mr. Sato is unlikely to have a conflict of interest with shareholders. The Company designated Mr. Sato as an independent Audit & Supervisory Board member as provided for by the rules of the Tokyo Stock Exchange and the Sapporo Securities Exchange and has notified each of the exchanges of his designation.
Kazuo Sugie	[Reason for appointment] As the president of a business corporation, Mr. Kazuo Sugie has a wealth of experience and highly developed insight based on extensive knowledge and information. The Company has determined that, from his objective and neutral position as an outside Audit & Supervisory Board member, Mr. Sugie will monitor the performance of duties by directors of the Company and contribute greatly in strengthening the Company's Audit & Supervisory Board Member system, and he has been appointed as an outside Audit & Supervisory Board member. [Policy on independence] Mr. Kazuo Sugie was involved in business execution at DIC Corporation until March 2015. Although there have been transactions of the said company's products between the said company and the Company's subsidiaries, the amount of such transactions in the most recent business term has been less than 0.1% of either the consolidated net sales of the Company or the consolidated net sales of the said company. Accordingly, the Company has determined Mr. Sugie is unlikely to have a conflict of interest with shareholders. The Company designated Mr. Sugie as an independent Audit & Supervisory Board member as provided for by the rules of the Tokyo Stock Exchange and the Sapporo Securities Exchange and has notified each of the exchanges of his designation.

Nominating and Compensation Committees

Although Sapporo Holdings uses the Audit & Supervisory Board Member system, it has also established a Nominating Committee and a Compensation Committee with the goals of increasing transparency with respect to the nomination and remuneration of directors and preserving a sound management structure. The three outside directors and one inside director form the four members of both committees. The committee chair is selected from the outside directors.

Compensation for Directors and Audit & Supervisory Board Members

Compensation for directors is decided within remuneration limits set by the General Meeting of Shareholders. Compensation consists of a base salary for each director, determined by the duties performed, and that may, based on predetermined criteria, be adjusted in line with job performance in the previous fiscal year. Compensation for Audit & Supervisory Board members is also decided within remuneration limits set by the General Meeting of Shareholders, and consists of a base salary for each Audit & Supervisory Board member calculated in accordance with standards decided by the Audit & Supervisory Board.

No bonuses for directors or Audit & Supervisory Board members were paid in 2016 nor were any retirement benefits or stock options.

Compensation amounts in 2016 were as follows:

Executive classification	Total amount of compensation (¥ Million)	Total compensation by type (¥ Million)			Number of eligible directors and Audit & Supervisory Board members
		Base salary	Bonuses	Retirement benefits	
Directors (Excluding independent outside directors)	134	134	—	—	8
Independent outside directors	25	25	—	—	3
Audit & Supervisory Board members (Excluding independent outside Audit & Supervisory Board members)	32	32	—	—	3
Independent outside Audit & Supervisory Board members	16	16	—	—	2
Total	208	208	—	—	16

Notes:
1. Compensation of ¥19 million was paid by consolidated subsidiaries to three directors (excluding independent outside directors).
2. Salary of ¥31 million was paid to four directors (excluding independent outside directors), separately from the base salary for directors shown in the above table. This amount corresponds to the portion of salary for key personnel paid to these individuals, who concurrently serve as key personnel and directors.
3. Remuneration limits have been established by resolution of the 83rd Ordinary General Meeting of Shareholders held on March 29, 2007. The remuneration limits are ¥240 million for directors (however, excluding compensation from consolidated subsidiaries and the portion of salary paid as salary for key personnel) and ¥84 million for Audit & Supervisory Board members.
   However, the responsibility of directors has increased in line with changes in the business environment and enhancements in the governance structure. After giving serious consideration to this, along with the expectation of increased remuneration amounts if the Group achieves further earnings growth in the future in line with the long-term management vision, and other various states of affairs such as the economic situation, the Company received approval to revise the remuneration amounts of directors to be "not in excess of ¥500 million (of which the amount of remuneration of outside directors shall not exceed ¥50 million) per year" at the 93rd Ordinary General Meeting of Shareholders held on March 30, 2017. As before, remuneration amounts paid to directors do not include salaries in instances where employees serve concurrently as directors.

In addition to the abovementioned payment amounts, Sapporo Holdings has introduced a performance-linked, stock-based compensation system (Board Benefit Trust, or BBT) for directors (excluding outside directors), and contributed ¥445 million (over three business years) in accordance with the officer stock benefit rules stipulated by the system. The system is separate from the abovementioned directors compensation, in accordance with a resolution of the 92nd Ordinary General Meeting of Shareholders held on March 30, 2016. The system applies to Group operating officers of the Company, including directors (excluding outside directors), and some of the directors of the Company's subsidiaries, with the total number of these as of December 31, 2016 being 27 persons.

Internal Audits

Under instructions from the President, Sapporo Holdings has established a Group Audit Department as an internal auditing organization independent of the executive chain of command. The Group Audit Department performs internal audits across the entire Group, including operating companies and their subsidiaries. The Group Audit Department and the Audit & Supervisory Board members meet regularly to exchange views on the results of the internal audits, the status of internal control and other related matters. The internal audit report of the Group Audit Department is read by the Audit & Supervisory Board members as part of the information that they share.

Upgrading the Internal Control System

To ensure thorough implementation of the basic policies decided by the Board of Directors and carry out ongoing development and strengthening of systems across the entire Group, the Board of Directors takes responsibility for appointing directors with specific responsibilities and promoting specific measures. Moreover, the Guidelines on the Construction of Internal Control Systems at Sapporo Group have been enacted to set out specific matters in relation to internal control systems at the Group, and these guidelines are used to confirm the level of progress being made in individual measures and to promote collaboration.

Risk Management

Sapporo Holdings manages risks relating to itself and its subsidiaries and prepares crisis management measures. To achieve a more robust risk management structure for the entire Group the Company has formulated basic policies and management systems for Group risk management, as well as crisis management regulations. Specifically, Sapporo Holdings and its subsidiaries upgrade and develop systems for managing risks associated with important decisions made during business execution or risks inherent to it, and systems for managing crisis situations that may arise. These efforts are governed by the basic policies for the development of internal control systems.

Compliance

The Group has set out the Sapporo Group Code of Business Conduct to provide a solid set of ethical guidelines for the conduct of all executives and employees. The Group CSR Committee has created a Group-wide compliance system and established a Whistle-Blower's Hotline and Helpline to help with prevention and early detection of misconduct. In addition, the Group Audit Department, which is an internal auditing body that is independent of the executive chain of command, audits the general business operations of Sapporo Holdings and its subsidiaries to ensure compliance with laws and regulations, the Company's Articles of Incorporation and internal rules.

Policy toward the Large-Scale Purchase of Share Certificates, etc., of the Company

The Board of Directors considers that decisions regarding the sale of the Company's shares in response to the attempt by a Company shareholder to pursue a large-scale purchase of shares should ultimately rest with the shareholders themselves. However, should an attempt at the large-scale purchase of shares suddenly materialize, the Board of Directors recognizes the provision of ample and appropriate information from both the intended buyer and the Company's Board of Directors as essential to making an optimal decision. The Board of Directors has therefore formulated a policy governing large-scale share purchases* that was approved by the Ordinary General Meeting of Shareholders.

The policy stipulates that the intended purchaser must provide ample and necessary information to the Company's Board of Directors prior to initiating any attempt at a large-scale share purchase. The Board of Directors then reserves a specified period of time to review the proposed purchase, allowing it to provide shareholders with opinions and information that contribute to their final decision. In the event that the proposed purchase is unequivocally deemed to drastically harm the mutual interests of the Company's shareholders, the Board of Directors will, as stipulated by the policy, enact measures deemed appropriate to protect such interests.

To prevent an arbitrary decision to apply this policy by the Board of Directors, an independent committee comprising members who are independent from the management team that executes the Company's business operations has been established to provide an institutional check. The independent committee will receive advice regarding the purchase from the Board of Directors, and offer various counsel pertaining to the matter.

* Policy toward the Large-Scale Purchase of Share Certificates, etc., of the Company
http://www.sapporoholdings.jp/english/news_release/pdf/17021304.pdf

Board of Directors and Audit & Supervisory Board Members

(As of March 30, 2017)

Board of Directors

Note: Mr. Shigehiko Hattori, Mr. Teruhiko Ikeda and Mr. Shizuka Uzawa are independent outside directors.

TSUTOMU KAMIJO
(January 6, 1954)
Chairman and Representative Director

- **April 1976**
Joined the Company
- **March 2001**
Director (Member of the Board), Director of Sales Planning Department, of Sapporo Beverage Co., Ltd.
- **March 2007**
Director (Member of the Board), Director of Corporate Planning Department of the Company
- **March 2009**
Managing Director (Member of the Board) of the Company
- **March 2011**
President of Sapporo Beverage Co., Ltd.
President of the Company and CEO of the Group
- **January 2017**
Chairman and Representative Director (up to the present)

MASAKI OGA
(December 2, 1958)
President and Representative Director

- **April 1982**
Joined the Company
- **March 2010**
Director (Member of the Board) and Managing Officer, Director of Marketing Department of Sapporo Breweries Limited
- **March 2013**
President and Representative Director of Sapporo Breweries Limited
Director (Member of the Board) and Group Operating Officer of the Company
- **March 2015**
Group Operating Officer of the Company
- **January 2017**
President and Group Operating Officer of the Company
- **March 2017**
President and Representative Director of the Company (up to the present)

HIROYUKI NOSE
(February 3, 1963)
Director

- **April 1986**
Joined the Company
- **March 2011**
Director of Shochu Planning Department, of Sapporo Breweries Limited
- **March 2013**
Director of Brand Planning Department of Sapporo Breweries Limited
- **March 2015**
Director (Member of the Board), Director of Business Planning Department, of the Company (up to the present)

SHINICHI SOYA
(September 20, 1963)
Director

- **April 1986**
Joined the Company
- **October 2006**
Director of Strategic Planning Department, Hokkaido Headquarters, of Sapporo Breweries Limited
- **November 2009**
Director (Member of the Board) of POKKA CORPORATION (currently POKKA SAPPORO Food & Beverage Ltd.)
- **March 2014**
Director (Member of the Board) of Sapporo International Inc.
Director (Member of the Board) of Sapporo Group Management Ltd. (up to the present)
- **March 2015**
Director (Member of the Board) and Managing Executive Officer of POKKA SAPPORO Food & Beverage Ltd.
- **March 2016**
Director (Member of the Board), Director of Corporate Finance and Business Management Department of the Company (up to the present)

MAYUMI FUKUHARA
(Legal Surname KOBAYASHI)
(April 2, 1964)
Director

- **April 1988**
Joined the Company
- **March 2013**
Director of Human Resources and General Affairs Department, of Sapporo Breweries Limited
- **March 2014**
Director of Human Resources Department, of Sapporo Breweries Limited
- **March 2016**
Director (Member of the Board), Director of Human Resources Department of the Company (up to the present)

IKUYA YOSHIDA
(December 21, 1961)
Director

- **April 1985**
Joined the Company
- **July 2003**
Director of Production, Research & Development Center, Production & Technology Department of Sapporo Breweries Limited
- **September 2004**
Director of Production & Technology Department, Hokkaido Brewery of Sapporo Breweries Limited
- **September 2010**
President and Representative Director of Tanoshimaru Shuzo Co., Limited
- **March 2013**
Operating Officer and Director of Chiba Brewery of Sapporo Breweries Limited
- **March 2015**
Senior Operating Officer and Director of Chiba Brewery of Sapporo Breweries Limited
- **March 2017**
Director (Member of the Board), Director of Group Research and Development Division of the Company (up to the present)

Outside

SHIGEHIKO HATTORI
(August 21, 1941)

Director

- **April 1964**
  Joined Shimadzu Corporation
- **June 1993**
  Director (Member of the Board) of Shimadzu Corporation (seconded to the United States of America)
- **June 2003**
  President and CEO of Shimadzu Corporation
- **June 2009**
  Chairman of the Board of Directors of Shimadzu Corporation
- **March 2012**
  Director (Member of the Board) of the Company (up to the present)
- **June 2015**
  Senior Advisor of Shimadzu Corporation (up to the present)

Outside

TERUHIKO IKEDA
(December 5, 1946)

Director

- **April 1969**
  Joined The Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)
- **April 2002**
  Deputy President of Mizuho Corporate Bank, Ltd. (currently Mizuho Bank, Ltd.)
- **June 2004**
  President and Chief Executive Officer of Mizuho Trust & Banking Co., Ltd.
- **June 2010**
  Advisor of Mizuho Trust & Banking Co., Ltd. (up to the present)
- **March 2012**
  Director (Member of the Board) of the Company (up to the present)

Outside

SHIZUKA UZAWA
(January 30, 1946)

Director

- **April 1969**
  Joined Nisshinbo Industries, Inc. (currently Nisshinbo Holdings, Inc.)
- **June 2001**
  Director (Member of the Board), Chief of Accounting and Finance Division of Nisshinbo Industries, Inc.
- **June 2009**
  President & Representative Director of Nisshinbo Holdings, Inc.
- **June 2013**
  Chairman & Representative Director of Nisshinbo Holdings, Inc.
- **March 2015**
  Director (Member of the Board) of the Company (up to the present)
- **June 2016**
  Advisor of Nisshinbo Holdings Inc. (up to the present)

Audit & Supervisory Board Members

Note: Mr. Junya Sato and Mr. Kazuo Sugie are outside Audit & Supervisory Board members.

SHOUJI OSAKI
(August 17, 1955)

Standing Audit & Supervisory Board Member

- **April 1979**
  Joined the Company
- **March 2010**
  Managing Officer and Director of Tokai Hokuriku District Headquarters, of Sapporo Breweries Limited
- **March 2013**
  Standing Audit & Supervisory Board Member of POKKA SAPPORO Food & Beverage Ltd.
- **March 2015**
  Standing Audit & Supervisory Board Member of the Company (up to the present)

TETSUO SEKI
(July 29, 1938)

Audit & Supervisory Board Member

- **April 1963**
  Joined Yawata Iron & Steel Co., Ltd. (currently NIPPON STEEL & SUMITOMO METAL CORPORATION)
- **June 1993**
  Director (Member of the Board) of Nippon Steel Corporation (currently NIPPON STEEL & SUMITOMO METAL CORPORATION)
- **March 2007**
  Outside Director (Member of the Board) of the Company (until September 2008)
- **October 2007**
  Chairperson of the Japan Audit & Supervisory Board Members Association
- **October 2008**
  President and Representative Director of The Shoko Chukin Bank, Ltd.
- **June 2015**
  Honorary Advisor of The Shoko Chukin Bank, Ltd. (up to the present)
- **March 2016**
  Audit & Supervisory Board Member of the Company (up to the present)

Outside

JUNYA SATO
(May 4, 1953)

Audit & Supervisory Board Member

- **April 1982**
  Registered as a lawyer (Daiichi Tokyo Bar Association)
  Joined the Law Offices of Furness, Sato & Ishizawa (currently the Law Offices of Ishizawa, Ko & Sato) (up to the present)
- **October 1990**
  Registered as a lawyer in the state of New York
- **April 2011**
  Vice Chairman of Daiichi Tokyo Bar Association
- **March 2012**
  Audit & Supervisory Board Member of the Company (up to the present)

Outside

KAZUO SUGIE
(October 5, 1945)

Audit & Supervisory Board Member

- **August 1970**
  Joined Dainippon Ink and Chemicals, Inc. (currently DIC Corporation)
- **June 2001**
  Director of Dainippon Ink and Chemicals, Inc.
- **April 2009**
  Representative Director, President and CEO of DIC Corporation
- **April 2012**
  Chairman of the Board of DIC Corporation
- **March 2013**
  Audit & Supervisory Board Member of the Company (up to the present)
- **March 2015**
  Senior Advisor of DIC Corporation

Five-Year Summary

SAPPORO HOLDINGS LIMITED and consolidated subsidiaries

Years ended December 31	Millions of yen 2012	2013	2014	2015	2016	Thousands of U.S. dollars 2016
Net sales:	¥492,491	¥509,835	¥518,741	¥533,749	**¥541,847**	**$4,649,853**
Japanese Alcoholic Beverages	269,948	274,909	281,032	273,652	**279,476**	**2,398,320**
International	36,121	48,216	49,673	70,501	**65,401**	**561,236**
Food & Soft Drinks	129,017	130,672	133,439	135,671	**137,918**	**1,183,542**
Restaurants	26,621	26,827	27,143	27,004	**28,120**	**241,315**
Real Estate	23,217	22,768	21,510	20,872	**22,900**	**196,516**
Other	7,566	6,443	5,944	6,049	**8,032**	**68,924**
Operating cost and expenses	478,076	494,490	504,012	519,799	**521,580**	**4,475,929**
Operating income	14,415	15,344	14,729	13,950	**20,267**	**173,924**
Profit before income taxes	10,512	16,562	2,695	11,691	**16,404**	**140,767**
Profit attributable to owners of parent	5,394	9,452	340	6,109	**9,469**	**81,262**
	Yen					U.S. dollars
Per share:						
Profit attributable to owners of parent:						
Primary	¥ 13.77	¥ 24.20	¥ 0.87	¥ 78.40	**¥ 121.56**	**$ 1.04**
Diluted	—	—	—	—	**—**	**—**
Net assets	336.60	388.77	401.17	2,027.21	**2,062.86**	**17.70**
Cash dividends	7.00	7.00	7.00	35.00	**37.00**	**0.32**
	Millions of yen					Thousands of U.S. dollars
Year-end data:						
Net assets	¥134,947	¥155,367	¥160,005	¥163,822	**¥166,381**	**$1,427,795**
Total assets	597,636	616,753	625,439	620,388	**626,352**	**5,375,027**
Financial liabilities	257,647	247,828	247,557	234,742	**238,143**	**2,043,622**
ROE (%)	4.2	6.7	0.2	3.9	**5.9**	**—**
Increase in property, plant and equipment and intangible fixed assets	57,072	19,465	22,803	20,583	**26,674**	**228,901**
Depreciation and amortization	25,805	25,059	24,481	24,224	**22,342**	**191,724**

Notes: 1. Yen amounts have been translated into U.S. dollar amounts at the rate of ¥116.53=U.S.$1.00, the exchange rate prevailing on December 31, 2016.
2. There were no latent shares with dilutive effect, therefore information concerning diluted profit attributable to owners of parent per share is omitted.
3. On July 1, 2016, the Company carried out a share consolidation at a ratio of 1 share for 5 shares of the Company's common stock. Accordingly, values for profit attributable to owners of parent per share, net assets per share and cash dividends per share have been recalculated on the assumption that the share consolidation took place at the beginning of the year ended December 31, 2015.

Management's Discussion and Analysis

Sapporo Holdings Limited and the Sapporo Group

The Sapporo Group's management philosophy is "As an intrinsic part of people's lives, Sapporo will contribute to the evolution of creative, enriching and rewarding lifestyles," and we strive to increase stakeholder satisfaction by maintaining integrity in corporate conduct that reinforces stakeholder trust and by aiming to achieve continuous growth in corporate value.

In 2016, the Group accelerated growth strategies based on "Sapporo Group Management Plan 2015–2016" to demonstrate its presence as a distinctive "manufacturer of food products" with an aim to achieve its financial targets for 2016.

In the Japanese Alcoholic Beverages segment, designating 2016 as the "first year of a new period of growth in the beer business," the Group worked to strengthen its core brands. Specifically, we implemented a consistent marketing strategy for our mainstay beer brand, *Sapporo Draft Beer Black Label*. Attesting to the success of this approach, we achieved the second consecutive year of sales increases for this brand, amid a decline in overall beer demand. In non-beer growth categories, the Group focused on high-value-added products in the wine and spirits categories, promoting further diversification.

In the International segment, SLEEMAN BREWERIES LTD. in Canada and SAPPORO U.S.A., INC. in the United States of America aggressively implemented sales promotions in the premium beer markets in North America. In the American beverage market, Country Pure Foods, Inc. acquired a fruit juice sherbet business and worked to expand sales. In Vietnam, the Group continued marketing investments to establish the Sapporo brand. In April, we enhanced the quality of our bottled products, and in July, we launched new products targeting the mid-price market.

The Food & Soft Drinks segment endeavored to strengthen marketing and lower costs at its Japan operations as part of our management initiative while concentrating investment on core brands, especially the lemon-based and soup products, two areas where the Group has a strong competitive edge. Overseas, the Group established a joint-venture company that is engaged in production and sales in Indonesia and completed construction of a factory to perform licensed production in Myanmar, strengthening its soft drinks business from its Southeast Asian base.

In the Restaurants segment in Japan, the Group continued to open outlets, focusing on its key *GINZA LION* and *YEBISU BAR* formats, while closing or changing the formats of unprofitable outlets in a bid to improve profitability. In Singapore, we continued with initiatives aimed at spreading the reputation of our *GINZA LION* brand throughout the world.

In the Real Estate segment, the high occupancy rates at our rental properties remained. The Group enhanced the property value of Yebisu Garden Place, which is our core property, by improving the dining area to raise the attraction level of the city area. In September, we opened *GINZA PLACE*, a commercial complex conceptualized as a "base for information dissemination and exchange."

In terms of the scope of consolidation, the Company had 55 consolidated subsidiaries and 2 equity-method affiliates as of December 31, 2016.

Business Environment Overview

In the Japanese economy during the term under review, despite the introduction of a negative interest rate policy in February, a revival in personal consumption was not achieved, and the situation in the Middle East and the decision by the U.K. to exit the European Union led to yen appreciation. Thereafter, the results of the U.S. presidential election caused the yen to depreciate against the U.S. dollar, creating a rapidly changing economic environment in which the future is difficult to read. More specifically, conditions in the industries in which the Sapporo Group conducts its operations were as follows.

In the Japanese alcoholic beverages industry, unseasonable summer weather and consumers' increasing thriftiness put downward pressure on demand at drinking outlets. Overseas, the North American beer market was generally flat, but the Asian beer market continued the steady expansion seen in recent years. In the food & soft drinks industry, we believe demand was affected by the weather and natural disasters. In the real estate industry, vacancy rates in the Greater Tokyo office leasing market improved, while rent levels rose gradually.

Consolidated Operating Results

Net Sales

Net sales increased ¥8,099 million, or 1.5%, year on year to ¥541,847 million.

By business segment, in the Japanese Alcoholic Beverages segment, the sales volume of beer and beer-type beverages was unchanged year on year, but a higher sales volume affected by factors such as diversified offerings pushed up sales year on year. In the International segment, on the other hand, although sales volume in North America and Vietnam increased year on year and the fruit juice sherbet business acquired by Country Pure Foods, Inc. made a contribution, the impact of exchange rates led to a decrease in sales. The Food & Soft Drinks segment increased sales and achieved higher sales volumes for its food and beverage products in Japan. In the Restaurants segment, the new consolidation of Marushinkawamura Inc. and Ginrin Suisan Inc. boosted sales. In the Real Estate segment, sales increased thanks to contributors such as *GINZA PLACE*, which opened in September 2016.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales decreased ¥387 million, or 0.1%, year on year to ¥352,421 million.

This reflected a decrease in the cost of raw materials in the Japanese Alcoholic Beverages segment and the Food & Soft Drinks segment and the impact of the yen's appreciation.

The cost of sales ratio decreased 1.1 percentage points to 65.0%, primarily due to a decrease in manufacturing costs in the Japanese Alcoholic Beverages segment, the International segment, and the Food & Soft Drinks segment in line with the decrease in the cost of raw materials.

Selling, general and administrative (SG&A) expenses increased ¥2,169 million, or 1.3%, year on year to ¥169,159 million. This was chiefly due to an increase in sales promotion expenses in the Japanese Alcoholic Beverages segment.

Operating Income

Operating income increased ¥6,317 million, or 45.3%, year on year to ¥20,267 million.

The Japanese Alcoholic Beverages segment posted an increase in profits as improvements in the product mix with an increase in the sales volume of beer and efforts to reduce costs outweighed an increase in sales promotion expenses. In the International segment, an increase in sales volumes in North America and a reduction in costs contributed to an increase in profits. In the Food & Soft Drinks segment, profits increased atop growth in sales in food and beverages in Japan, despite an increase in sales promotion expenses and logistics expenses. In the Restaurants segment, although the cost margin increased due to a surge in the cost of materials, the Company recorded an increase in profits, partly due to the closure of unprofitable outlets. In the Real Estate segment, profits grew atop a rise in the occupancy rate at existing rental properties and an increase in rental income due to the opening of *GINZA PLACE*.

Other Income (Expenses)

Other expenses increased ¥1,605 million year on year to ¥3,864 million.

With regard to net financial income (expenses), calculated as the sum of interest and dividend income minus interest expense, the Company recorded net financial expenses of ¥800 million in fiscal 2016. Net financial expenses improved from the previous year due to a lower interest rate.

The Company recorded a gain on sales of property, plant and equipment of ¥46 million.

The Company recorded a loss on valuation of derivatives of ¥252 million.

Loss on disposal of property, plant and equipment of ¥1,413 million was recorded due to disposal of beer and soft drink production facilities.

Loss on impairment of property, plant and equipment of ¥1,019 million was recorded, mainly due to a decline in profitability of subsidiaries in the Food & Soft Drinks segment and the closure of unprofitable outlets in the Restaurants segment.

Income Taxes and Profit Attributable to Owners of Parent

Income taxes applicable to the Company, calculated as the sum of corporation, inhabitants' and enterprise taxes, were ¥7,023 million.

Income taxes accounted for 42.8% of profit before income taxes. The difference between this percentage and the statutory effective tax rate of 33.1% mainly reflected the recording of an amortization of goodwill.

As a result, profit attributable to owners of parent increased ¥3,361 million, or 55.0%, year on year to ¥9,469 million.

Segment Information

	Millions of yen			
	Net sales	Operating income	Depreciation and amortization	Increase in property, plant and equipment and intangible fixed assets
Japanese Alcoholic Beverages	¥279,476	¥11,746	¥7,222	¥2,691
International	65,401	907	3,042	2,650
Food & Soft Drinks	137,918	1,314	5,711	8,096
Restaurants	28,120	664	522	1,144
Real Estate	22,900	10,328	4,125	9,649

Assets, Liabilities and Shareholders' Equity

The Sapporo Group has a cash management system (CMS), which enables Sapporo Holdings to centrally manage fund allocation within the Group in Japan.

The concentration at the Company of cash flows generated by individual Group companies helps preserve fund liquidity, while flexible and efficient fund allocation within the Group serves to minimize financial liabilities.

The Company strives to secure fund procurement channels and liquidity to make certain that ample funds are on hand to cover present and future operating activities, as well as the repayment of debts and other funding needs. Necessary funds are procured mainly from cash flows from operating activities and loans, primarily from financial institutions.

Assets

Total assets at December 31, 2016 stood at ¥626,352 million, up ¥5,964 million, or 1.0%, from a year earlier.

The asset growth reflects increases in notes and accounts receivable—trade, land and certain other assets, which offset declines related to goodwill amortization and investment securities.

Liabilities

Financial liabilities increased ¥3,402 million to ¥238,143 million.

The result reflects increases in commercial paper and long-term debt, which outweighed a decrease in short-term bank loans. Total liabilities increased ¥3,405 million, or 0.7%, to ¥459,971 million.

Net Assets

Retained earnings increased ¥6,743 million to ¥41,932 million.

Asset growth was supported by the recording of profit attributable to owners of parent, partially offset by a decline in remeasurements of defined benefit plans and the payment of a year-end dividend.

As a result, net assets increased ¥2,558 million from a year earlier to ¥166,381 million.

Cash Flows

Consolidated cash and cash equivalents as of December 31, 2016 were ¥10,476 million, an increase of ¥76 million, or 0.7%, from the previous fiscal year-end.

Factors behind this decline were as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥32,571 million, ¥2,695 million, or 7.6%, less than in the previous fiscal year.

Major sources of operating cash flow included ¥16,404 million from profit before income taxes and ¥22,342 million from depreciation and amortization. These were partially offset by recording ¥10,986 million in income taxes paid.

Cash Flows from Investing Activities

Investing activities used net cash of ¥27,587 million, ¥17,831 million, or 182.8%, more than the net cash used in the previous fiscal year.

Major investment outflows included purchases of property, plant and equipment of ¥19,748 million and purchases of intangibles of ¥2,061 million.

Cash Flows from Financing Activities

Financing activities used net cash of ¥4,828 million, ¥19,975 million, or 80.5%, less than the net cash used in the previous fiscal year.

Major inflows included ¥32,746 million in proceeds from long-term debt and a ¥16,000 million net increase in commercial paper. These inflows were more than offset by outflows including ¥46,595 million for the repayment of long-term debt and ¥10,017 million in redemption of bonds.

Cautionary Statement

The Company's financial statements in English have not been audited by independent auditors. However, the original Japanese financial statements on which they are based have been audited by independent auditors.

Management Indicators

The current ratio rose 10.5 percentage points from 66.9% to 77.4%.

The increase reflects an increase in current assets of ¥7,819 million and a decline in current liabilities of ¥21,521 million due to factors such as a decline in short-term bank loans.

The equity ratio rose from 25.5% a year earlier to 25.7%, mainly reflecting an increase in shareholders' equity due to the recording of profit attributable to owners of parent, partially offset by the decline in remeasurements of defined benefit plans and the payment of a year-end dividend, among other factors.

Return on equity (ROE) increased from 3.9% to 5.9% due to the year-on-year increase in profit attributable to owners of parent.

The debt-to-equity (D/E) ratio, calculated as financial liabilities divided by net assets, was little changed from the previous fiscal year at 1.5 times as financial liabilities were level with the previous fiscal year.

Outlook for 2017

In 2017, the first year of the Sapporo Group Long-Term Management Vision "SPEED150" and the First Medium-Term Management Plan 2020, the Sapporo Group will endeavor to supply distinctive products and services worldwide in its three core business areas—"Alcoholic beverages," "Food" and "Soft drinks"—and expand contact points with customers as it strives to achieve robust growth.

Consequently, in its outlook for 2017, the Company is forecasting consolidated net sales of ¥563,800 million (up 4.1% year on year), operating income of ¥21,300 million (up 5.1% year on year), and profit attributable to owners of parent of ¥10,700 million (up 13.0% year on year).

Please see Key Strategies under the First Medium-Term Management Plan on pages 16 to 23 for details on strategies and targets for sales and operating income by segment.

With regard to returning profits to shareholders, the Company is targeting a dividend payout ratio of 30%(*) as a financial indicator under the First Medium-Term Management Plan. As the dividend from surplus for 2017, the company plans to pay ¥37 per share.

(*) If profit attributable to owners of parent changes significantly because of an extraordinary profit or loss stemming from special factors, the impact from this may be taken into consideration when deciding the dividend amount.

Risk Factors

Major risks that could potentially impact the operating results and financial position of the Sapporo Group, including stock price, are listed below.

Forward-looking statements in the following text reflect the judgment of management as of December 31, 2016.

Economic Conditions

Because net sales of the Sapporo Group are mainly affected by domestic economic trends, the unit price of key products could decline due to fluctuating shipments of key products and deflationary trends as a result of economic deterioration caused by changing economic conditions. Moreover, deteriorating economic conditions could also lead to a decrease in the value of asset holdings.

In addition, Japan's declining birthrate and aging population may result in an overall market decline in Japan, adversely affecting the Group's business performance and financial position.

High Dependency on Specific Business Areas

In 2016, the Japanese Alcoholic Beverages segment, one of the Sapporo Group's core business segments, accounted for 52% of consolidated net sales. The Group could thus be significantly affected by the performance of this business.

To break away from its high dependency on the Japanese Alcoholic Beverages segment and further increase profitability, the Group will expand its business activities in overseas markets.

However, the dependency on the Japanese Alcoholic Beverages segment remains high in a domestic market where demand is declining, so sales could decline due to factors including price competition with other companies, changes in consumer preferences, increases in product prices or a cold summer or prolonged rainy season. This could have a negative impact on the Group's operating results.

Overseas Business Activities

The Sapporo Group is aiming to grow earnings by expanding its business activities in overseas markets. In particular, it is expanding the alcoholic beverages business in the U.S. and Canada.

In Asia, the Group is conducting business in the beverage and restaurant fields, mainly in Singapore. Also, in Vietnam, it is manufacturing and selling locally produced beer at its Long An factory.

The overseas business activities of the Sapporo Group are subject to a variety of factors that could adversely affect operating results.

These factors include economic trends, changes in the competitive landscape, and exchange rate fluctuations, in addition to changes to regulations governing investment, trade, taxation, foreign exchange and other areas, differences in business customs, labor relations, terrorism and epidemics, as well as other governmental, social and economic disruption factors.

Food Product Safety

The Sapporo Group is stepping up efforts to establish quality assurance systems. However, beyond quality issues originating solely at the Group, quality problems relating to generally available products and/or raw materials could result in product recalls or defective shipments.

In the Restaurants segment, food poisoning could result in an order to temporarily suspend operations or may otherwise adversely affect operating results.

OEM Products and Purchased Products

The Sapporo Group outsources the manufacturing of some products to external parties. It also handles products purchased from outside the Group.

While the Sapporo Group does its best to ensure the quality of such products, quality problems beyond the control of the Group could result in the suspension of sales, product recalls and other actions that may in turn adversely affect operating results.

Raw Material and Supply Prices

Prices of certain raw materials and supplies are subject to fluctuations such as in commodity prices and foreign exchange markets. A sharp increase in these factors could push up the cost of sales, which may in turn adversely affect operating results.

Capital Investment Plans

The Sapporo Group conducts capital investment and systems development on an ongoing basis, but related scheduling delays, investment budget overruns and other factors may adversely affect operating results.

Leaks of Customer Information

In the event of a leak of personal information and other related issues resulting from the unforeseen intrusion of a computer virus, unauthorized access to information or other incident, the Sapporo Group could face claims for damages and suffer a decline in its credibility.

This could have a negative impact on operating results by increasing costs and reducing earnings.

Credit Risk of Customers

The collection of receivables may be hindered by such factors as an unforeseen bankruptcy of customers or investees. This could have a negative impact on the Group's operating results.

Impact of Laws and Regulations

The unanticipated application of laws and regulations to Sapporo Group businesses in the future could restrict business operations, with an adverse effect on operating results.

For example, should demand decline due to liquor and consumption tax increases, or should regulations pertaining to liquor advertising, selling hours of liquor at liquor stores, or liquor sales locations spread, factors including expenses required for dealing with decreased demand and responding to new regulations could have a negative effect on business performance.

Risk of Litigation

The Sapporo Group strives to reduce violations and infringements of laws and regulations in its business operations by instilling a strong compliance culture through employee training and education.

However, there is a risk of litigation being brought against the Group in respect of a problem under product liability or intellectual property laws, irrespective of any violation of laws and regulations by Group companies or their employees in business operations in Japan or overseas. The instigation of a suit against the Group or its outcome could have a negative impact on the Group's operating results.

Risk of Natural Disasters

The Sapporo Group could sustain damage as a result of a large-scale natural disaster or a secondary disaster. This could have a negative impact on the Group's operating results such as by disrupting the supply of products.

Financial Liabilities

The Sapporo Group raises a significant portion of the funds it requires for various businesses through the issuance of corporate bonds and borrowings from financial institutions. Accordingly, the Group has a high balance of financial liabilities relative to total assets. Moreover, the Group's financial liabilities may increase further as a result of large-scale investments accompanying the execution of its growth strategy.

In the event of an increase in market interest rates, or a downgrading of the Company's ratings by ratings agencies, the Group's interest expenses could increase or its fund-raising conditions could deteriorate. This could have a negative impact on the Group's operating results.

Retirement Benefit Obligations

The Sapporo Group calculates employees' retirement benefit expenses and obligations based on actuarial assumptions, such as the discount rate and the expected rate of return on pension assets.

In the event of differences between actual performance and actuarial assumptions, or a change in these assumptions, the impact will be recorded as an actuarial difference on a cumulative basis and amortized over the average remaining period of service of employees at the time of accrual.

There would consequently be an impact on future retirement benefit expenses and the amount of retirement benefit obligations booked. Separately, the net retirement benefit obligations at transition, which arose upon a change in accounting standards for retirement benefits, is amortized over 15 years.

Loss on Impairment of Property, Plant and Equipment

The Sapporo Group records impairment losses on property, plant and equipment and intangibles at the Company and consolidated subsidiaries in Japan in line with impairment criteria based on Japanese accounting standards for the impairment of fixed assets. Overseas, consolidated subsidiaries record impairment losses, as necessary, based on local accounting standards. However, going forward, the Sapporo Group may need to book additional impairment losses if assets meet impairment criteria due to changes in market and operating conditions or other factors, or the Company may need to book losses on sales and disposal of property, plant and equipment, depending on the sales price. This could adversely affect the Sapporo Group's operating results and financial position.

Business and Capital Alliances

The Sapporo Group is promoting business and capital alliances with other companies worldwide as part of efforts to increase its competitiveness with a view to achieving growth in line with the Sapporo Group Medium-Term Management Plan. However, the Group may not achieve results as initially anticipated, depending on market conditions, changes in the business environment and other factors. In certain situations, the Sapporo Group's operating results and financial position may be negatively affected in the event of deterioration in the business operations, assets and other aspects of an alliance partner or investee. In addition, the Sapporo Group may record the amortization of large amounts of goodwill in line with investments, or may record an impairment loss on goodwill and other assets due to deterioration in the business results of investees.

These factors could have a negative impact on the Sapporo Group's operating results and financial position.

Holding Company Risk

Sapporo Holdings derives income from brand licensing fees and commissions for management guidance, as well as interest and dividends paid by Group operating companies.

Any deterioration in the financial position of Group operating companies could result in nonpayment, which could adversely affect Sapporo Holdings' business performance.

Consolidated Balance Sheets

(December 31, 2016 and 2015)

ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current assets:			
Cash and cash equivalents	¥ 10,476	¥ 10,399	$ 89,896
Time deposits	114	31	977
Notes and accounts receivable—trade	96,851	92,335	831,121
Inventories (Note 5)	37,973	38,635	325,863
Allowance for doubtful receivables	(82)	(64)	(705)
Deferred tax assets (Note 17)	3,640	4,458	31,234
Other current assets	15,213	10,570	130,552
Total current assets	164,184	156,365	1,408,938
Investments and long-term loans:			
Investment securities (Notes 12 and 14)	59,296	61,848	508,848
Long-term loans receivable	4,790	9,016	41,101
Allowance for doubtful receivables	(1,195)	(1,235)	(10,255)
Deferred tax assets (Note 17)	1,071	1,009	9,189
Other investments	14,760	15,363	126,667
	78,722	86,002	675,550
Property, plant and equipment (Notes 6 and 14)**:**			
Land	111,636	105,121	958,006
Buildings and structures	393,022	383,087	3,372,714
Accumulated depreciation	(220,234)	(213,568)	(1,889,931)
Machinery and vehicles	231,560	227,534	1,987,127
Accumulated depreciation	(187,661)	(183,166)	(1,610,409)
Lease assets	16,971	15,498	145,634
Accumulated depreciation	(7,695)	(7,739)	(66,031)
Construction in progress	3,694	6,638	31,700
Other	17,732	18,488	152,163
Accumulated depreciation	(13,530)	(14,851)	(116,107)
Property, plant and equipment, net	345,496	337,042	2,964,866
Intangibles:			
Goodwill	27,439	30,236	235,471
Other	10,511	10,743	90,202
	37,951	40,979	325,673
Total assets	¥ 626,352	¥ 620,388	$ 5,375,027

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Short-term bank loans (Note 14)	¥ 18,506	¥ 19,220	$ 158,812
Commercial paper	33,000	17,000	283,189
Current portion of bonds (Note 14)	10,083	10,000	86,529
Current portion of long-term debt (Note 14)	11,831	46,603	101,527
Current portion of lease obligations	3,024	2,933	25,953
Notes and accounts payable—trade	38,503	36,772	330,413
Liquor taxes payable	34,228	33,904	293,728
Income taxes payable (Note 17)	1,681	6,115	14,424
Accrued bonuses (Note 2 (k))	2,980	2,220	25,574
Deposits received	8,215	8,824	70,494
Other current liabilities	50,072	50,054	429,689
Total current liabilities	212,123	233,644	1,820,330
Bonds (Note 14)	50,129	50,000	430,179
Long-term debt (Note 14)	114,594	91,919	983,386
Lease obligations	6,969	5,353	59,801
Dealers' deposits for guarantees	33,242	32,833	285,263
Net defined benefit liability (Note 15)	8,996	7,636	77,195
Deferred tax liabilities (Note 17)	18,804	21,216	161,368
Other long-term liabilities	15,115	13,964	129,710
Contingent liabilities (Note 9)			
Total liabilities	459,971	456,566	3,947,233
Net assets			
Shareholders' equity:			
Common stock (Note 21)			
Authorized — 200,000,000 shares			
Issued — at December 31, 2016 78,794,298 shares	53,887	—	462,427
	—	53,887	—
Capital surplus	46,089	45,914	395,516
Retained earnings (Note 7)	41,932	35,190	359,842
Treasury stock, at cost	(1,796)	(1,596)	(15,409)
Total shareholders' equity	140,113	133,394	1,202,376
Accumulated other comprehensive income:			
Unrealized holding gain on securities	22,518	23,926	193,236
Deferred hedge gains (losses)	41	(11)	355
Foreign currency translation adjustments	(1,944)	(1,256)	(16,678)
Remeasurements of defined benefit plans (Note 15)	(41)	1,875	(355)
Total accumulated other comprehensive income	20,574	24,534	176,559
Non-controlling interests	5,694	5,894	48,860
Total net assets	166,381	163,822	1,427,795
Total liabilities and net assets	¥626,352	¥620,388	$5,375,027

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Three years ended December 31)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Net sales	¥541,847	¥533,749	¥518,741	$4,649,853
Operating cost and expenses:				
Cost of sales	352,421	352,808	336,388	3,024,293
Selling, general and administrative expenses	169,159	166,990	167,624	1,451,637
Operating income	20,267	13,950	14,729	173,924
Other income (expenses):				
Interest and dividend income	1,343	1,376	1,060	11,524
Interest expense	(2,143)	(2,280)	(2,400)	(18,387)
Other, net (Notes 6 and 8)	(3,064)	(1,355)	(10,694)	(26,295)
	(3,864)	(2,259)	(12,034)	(33,157)
Profit before income taxes	16,404	11,691	2,695	140,767
Income taxes (Note 17)**:**				
Current	6,185	7,409	1,625	53,079
Deferred	838	(1,831)	975	7,192
	7,023	5,579	2,600	60,271
Profit	9,380	6,112	95	80,496
Profit (loss) attributable to non-controlling interests	(89)	4	(245)	(766)
Profit attributable to owners of parent (Note 21)	¥ 9,469	¥ 6,109	¥ 340	$ 81,262

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income

(Three years ended December 31)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Profit	¥ 9,380	¥ 6,112	¥ 95	$ 80,496
Other comprehensive income:				
Unrealized holding gain on securities	(1,409)	3,819	4,646	(12,090)
Deferred hedge gains (losses)	53	(18)	(5)	453
Foreign currency translation adjustments	(897)	(3,768)	2,548	(7,697)
Remeasurements of defined benefit plans	(1,916)	1,434	—	(16,442)
Total other comprehensive income	(4,169)	1,467	7,188	(35,775)
Comprehensive income	¥ 5,211	¥ 7,580	¥7,283	$ 44,721
Total comprehensive income attributable to:				
Owners of parent	¥ 5,510	¥ 7,507	¥7,249	$ 47,283
Non-controlling interests	(299)	73	34	(2,563)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

(Three years ended December 31)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Shareholders' equity				
Common stock:				
Cumulative effects of changes in accounting policies	¥ —	¥ —	¥ —	$ —
Restated balance at beginning of year	53,887	53,887	53,887	462,427
Changes during the year	—	—	—	—
Balance at end of year	¥ 53,887	¥ 53,887	¥ 53,887	$ 462,427
Capital surplus:				
Cumulative effects of changes in accounting policies	¥ —	¥ —	¥ —	$ —
Restated balance at beginning of year	45,914	45,913	45,912	394,009
Disposition of treasury stock	176	1	1	1,507
Balance at end of year	¥ 46,089	¥ 45,914	¥ 45,913	$ 395,516
Retained earnings (Note 7)**:**				
Cumulative effects of changes in accounting policies	¥ —	¥ (3,105)	¥ —	$ —
Restated balance at beginning of year	35,190	31,808	37,409	301,979
Profit attributable to owners of parent	9,469	6,109	340	81,262
Cash dividends	(2,727)	(2,727)	(2,731)	(23,399)
Changes in scope of consolidation/ Changes in scope of associates accounted for using equity method	—	—	(104)	—
Balance at end of year	¥ 41,932	¥ 35,190	¥ 34,914	$ 359,842
Treasury stock, at cost:				
Cumulative effects of changes in accounting policies	¥ —	¥ —	¥ —	$ —
Restated balance at beginning of year	(1,596)	(1,545)	(1,311)	(13,696)
Purchase of treasury stock	(472)	(55)	(239)	(4,047)
Disposition of treasury stock	272	4	5	2,333
Balance at end of year	¥ (1,796)	¥ (1,596)	¥ (1,545)	$ (15,409)
Total shareholders' equity	¥140,113	¥133,394	¥133,168	$1,202,376
Accumulated other comprehensive income				
Unrealized holding gain on securities:				
Cumulative effects of changes in accounting policies	¥ —	¥ —	¥ —	$ —
Restated balance at beginning of year	23,926	20,113	15,467	205,325
Net change in items other than shareholders' equity during period	(1,409)	3,814	4,646	(12,088)
Balance at end of year	¥ 22,518	¥ 23,926	¥ 20,113	$ 193,236
Deferred hedge gains (losses):				
Cumulative effects of changes in accounting policies	¥ —	¥ —	¥ —	$ —
Restated balance at beginning of year	(11)	(0)	5	(98)
Net change in items other than shareholders' equity during period	53	(11)	(5)	453
Balance at end of year	¥ 41	¥ (11)	¥ (0)	$ 355
Foreign currency translation adjustments (Note 2 (m))**:**				
Cumulative effects of changes in accounting policies	¥ —	¥ —	¥ —	$ —
Restated balance at beginning of year	(1,256)	2,583	315	(10,777)
Net change in items other than shareholders' equity during period	(688)	(3,839)	2,268	(5,901)
Balance at end of year	¥ (1,944)	¥ (1,256)	¥ 2,583	$ (16,678)
Remeasurements of defined benefit plans:				
Cumulative effects of changes in accounting policies	¥ —	¥ —	¥ —	$ —
Restated balance at beginning of year	1,875	441	—	16,087
Net change in items other than shareholders' equity during period	(1,916)	1,434	441	(16,442)
Balance at end of year	¥ (41)	¥ 1,875	¥ 441	$ (355)
Total accumulated other comprehensive income	¥ 20,574	¥ 24,534	¥ 23,136	$ 176,559
Non-controlling interests:				
Cumulative effects of changes in accounting policies	¥ —	¥ —	¥ —	$ —
Restated balance at beginning of year	5,894	3,701	3,683	50,583
Net change in items other than shareholders' equity during period	(201)	2,194	17	(1,724)
Balance at end of year	¥ 5,694	¥ 5,894	¥ 3,701	$ 48,860
Total net assets	¥166,381	¥163,822	¥160,005	$1,427,795

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

(Three years ended December 31)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Cash flows from operating activities:				
Profit before income taxes	¥ 16,404	¥ 11,691	¥ 2,695	$ 140,767
Depreciation and amortization	22,342	24,224	24,481	191,724
Loss on impairment of property, plant and equipment and leased assets	1,019	5,956	893	8,741
Goodwill amortization	3,921	4,153	3,764	33,647
Increase (decrease) in net defined benefit liability	(1,721)	446	(616)	(14,767)
Decrease in allowance for doubtful receivables	(54)	(137)	(87)	(463)
Interest and dividend income	(1,343)	(1,376)	(1,060)	(11,524)
Interest expense	2,143	2,280	2,400	18,387
Gain on sales of property, plant and equipment	(46)	(7,453)	(3,528)	(393)
Loss on sales and disposal of property, plant and equipment	1,440	1,559	2,252	12,359
Gain on sales of investment securities	(14)	(47)	(231)	(116)
Loss on devaluation of investment securities	23	1,758	12	193
Increase in notes and accounts receivable	(3,756)	(2,780)	(1,193)	(32,233)
(Increase) decrease in inventories	968	(1,211)	(1,401)	8,307
Increase (decrease) in notes and accounts payable	1,609	(202)	(930)	13,807
Increase (decrease) in accrued consumption taxes	(807)	(3,057)	4,212	(6,929)
Increase (decrease) in liquor taxes payable	338	457	(165)	2,903
Decrease in deposits received	(623)	(730)	(1,163)	(5,347)
Increase in other current liabilities	174	377	1,025	1,491
Other	2,350	49	53	20,164
Subtotal	44,365	35,958	31,413	380,717
Interest and dividends received	1,360	1,381	1,079	11,669
Interest paid	(2,190)	(2,385)	(2,518)	(18,796)
Income taxes paid	(10,986)	(2,945)	(7,769)	(94,278)
Income taxes refundable	22	3,257	79	191
Net cash provided by operating activities	32,571	35,266	22,284	279,503
Cash flows from investing activities:				
Purchases of investment securities	(236)	(876)	(1,398)	(2,022)
Proceeds from redemption and sales of investment securities	137	511	392	1,177
Purchases of affiliates securities	(154)	(3,261)	(91)	(1,322)
Proceeds from sales of affiliates securities	—	1,795	—	—
Purchases of subsidiaries' shares resulting in change in scope of consolidation	(438)	(3,989)	—	(3,759)
Payments for sales of subsidiaries' shares resulting in change in scope of consolidation	—	—	(26)	—
Collection of sales of subsidiaries' shares for prior periods	30	3,198	—	258
Purchases of property, plant and equipment	(19,748)	(18,298)	(17,313)	(169,468)
Proceeds from sales of property, plant and equipment	428	19,564	6,383	3,676
Purchases of intangibles	(2,061)	(2,042)	(1,821)	(17,686)
Payments for transfer of business	(1,493)	—	—	(12,816)
Increase in long-term loans receivable	(77)	(304)	(137)	(665)
Collection of long-term loans receivable	168	417	227	1,441
Other	(4,143)	(6,471)	(3,447)	(35,551)
Net cash used in investing activities	(27,587)	(9,756)	(17,229)	(236,736)
Cash flows from financing activities:				
Net decrease in short-term bank loans	(1,248)	(3,367)	(3,337)	(10,714)
Proceeds from long-term debt	32,746	14,319	25,630	281,013
Repayment of long-term debt	(46,595)	(16,626)	(38,401)	(399,850)
Proceeds from issuance of bonds	9,960	9,960	9,960	85,472
Redemption of bonds	(10,017)	(12,000)	—	(85,957)
Net increase (decrease) in commercial paper	16,000	(13,000)	5,000	137,304
Cash dividends paid	(2,730)	(2,730)	(2,734)	(23,430)
Cash dividends paid to non-controlling shareholders	(10)	(29)	(15)	(84)
Repayment of finance lease obligations	(2,911)	(3,039)	(3,322)	(24,977)
Purchase of treasury stock	(472)	(56)	(95)	(4,047)
Proceeds from sales of treasury stock	448	5	6	3,840
Proceeds from non-controlling shareholders	—	1,760	—	—
Net cash used in financing activities	(4,828)	(24,803)	(7,308)	(41,430)
Effect of exchange rate changes on cash and cash equivalents	(80)	(56)	426	(684)
Net increase (decrease) in cash and cash equivalents	76	651	(1,826)	653
Cash and cash equivalents at beginning of year	10,399	9,748	11,519	89,243
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	—	10	—
Increase in cash and cash equivalents resulting from merger	—	—	46	—
Cash and cash equivalents at end of year	¥ 10,476	¥ 10,399	¥ 9,748	$ 89,896

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The Company and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and its consolidated foreign subsidiaries, in accordance with that of their country of domicile. The accompanying financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

The relevant notes have been prepared as additional information.

In addition, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. Furthermore, certain reclassifications of previously reported amounts have been made to reconcile the consolidated financial statements for the years ended December 31, 2014 and 2015 to the 2016 presentation.

For the convenience of the reader, the accompanying consolidated financial statements as of and for the year ended December 31, 2016 have been translated from yen amounts into U.S. dollar amounts at the rate of ¥116.53=U.S.$1.00, the exchange rate prevailing on December 31, 2016.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances, transactions and profits have been eliminated in consolidation.

During the year ended December 31, 2016, the Company gained three subsidiaries reflecting the purchase of investment securities, lost one subsidiary that ceased to exist after a merger, and lost one subsidiary to liquidation. Accordingly, the number of consolidated subsidiaries was 55 as of December 31, 2016.

The Company's remaining subsidiaries, whose gross assets, net sales, net income and retained earnings were not significant in the aggregate in relation to comparable balances in the consolidated financial statements, have not been consolidated.

Regarding the fiscal years of consolidated subsidiaries, effective from the year ended December 31, 2015, consolidated subsidiary Silver Springs Citrus, Inc. changed its fiscal year-end from September 30 to December 31. In line with this change in fiscal year, the 15-month period of Silver Springs Citrus, Inc. from October 1, 2014 to December 31, 2015 has been consolidated for the year ended December 31, 2015. From October 1, 2015 to December 31, 2015, Silver Springs Citrus, Inc., the company changing its fiscal year, posted net sales of ¥2,832 million and a net loss of ¥151 million.

As of December 31, 2016, the fiscal year-ends of all consolidated subsidiaries are aligned to the consolidated fiscal year-end.

(b) Investments in unconsolidated subsidiaries and affiliates

The Company had made investments in two affiliates accounted for by the equity method as of December 31, 2016. There was no change from the previous fiscal year-end.

Investments in unconsolidated subsidiaries and affiliates other than those accounted for by the equity method are stated at cost determined by the moving-average method as, in the aggregate, they were not material.

(c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(d) Marketable and investment securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity and other securities.

Trading securities are carried at fair value, and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value as of the end of the year, with any net unrealized gain or loss included as a separate component of shareholders' equity, net of the related taxes.

Nonmarketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(e) Derivatives

Derivatives' positions are stated at fair value.

(f) Inventories

Inventories are stated at cost determined principally by the gross average method.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is mainly computed by the straight-line method. The annual provisions for depreciation have been computed over periods from two to 65 years for buildings and structures, and from two to 17 years for machinery and vehicles.

For property and equipment retired or otherwise disposed of, costs and related depreciation are charged to the respective accounts and the net difference, less any amount realized on disposal, is charged to operations.

Maintenance and repairs, including minor refurbishments and improvements, are charged to income when incurred.

(h) Intangibles

Intangibles with limited useful lives are amortized by the straight-line method over their estimated useful lives.

Software used internally is amortized by the straight-line method over its estimated useful life (5 years) within the Company.

(i) Lease assets

Lease assets are amortized by the straight-line method with the lease period considered to be the useful life and the guaranteed residual value considered to be the residual value.

Finance leases other than those that transfer ownership of the leased assets to the lessees, entered into on or before December 31, 2008, are treated in the same way as ordinary operating leases for accounting purposes.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is estimated as the average percentage of actual historical bad debts, which is then applied to the balance of receivables.

In addition, an amount deemed necessary to cover uncollectible receivables is provided for specific doubtful accounts.

(k) Accrued bonuses

The accrual for employees' bonuses is based on an estimate of the amounts to be paid subsequent to the balance sheet date.

(l) Employees' retirement benefits

Employees' retirement benefits are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet date.

(1) Method of attributing the projected amount of retirement benefit to the period

In calculating retirement benefit obligations, the Company uses the benefit formula basis to allocate the projected retirement benefit for the period up to the end of the fiscal year under review.

(2) Method of amortizing actuarial gain and loss, past service cost, and net retirement benefit obligation at transition between accounting standards

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the eligible employees (10–14 years). Past service cost is amortized by the straight-line method over the average remaining years of service of the employees (10–14 years).

(m) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The resulting exchange gain or loss is credited or charged to income.

All assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

Revenues and expenses of foreign subsidiaries, on the other hand, are translated into Japanese yen at the average exchange rate for the fiscal year.

Any translation differences are included in foreign currency translation adjustments and non-controlling interests in the net assets section of the balance sheets.

(n) Hedge accounting

Gain or loss on derivatives positions designated as hedging instruments is deferred until the gain or loss on the underlying hedged item is recognized.

In addition, if an interest-rate swap of forward foreign exchange contract meets certain conditions, the interest expense is computed at a combined rate and recognized.

(o) Amortization of goodwill and negative goodwill

Goodwill is amortized in equal amounts over an appropriate period not to exceed 20 years.

3. Change in Method of Accounting

(Changes in Accounting Policies)

The following changes to accounting policies were applied from fiscal 2016: Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013); Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013); and Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013). Accordingly, in cases where the parent company continues to have control, differences arising from changes in the Company's ownership interests in subsidiaries are now recorded in capital surplus, and acquisition expenses for business combinations are now treated as expenses in the consolidated financial statements for the year in which they arise. Regarding business combinations that take place on or after the beginning of fiscal 2016, any change to the allocation of the acquisition cost arising from confirmation of the provisional accounting treatment must now be reflected in the consolidated financial statements for the fiscal year in which the business combination occurred. In addition, the presentation of the net income category has been revised and minority interests has been changed to non-controlling interests. Consolidated financial statements for fiscal 2015 have been restated in order to reflect this change in presentation.

In fiscal 2016, in the consolidated statements of cash flows, cash flows related to the purchase or sales of subsidiaries' shares not resulting in change in scope of consolidation are included in "Cash flows from financing activities." Cash flows related to expenses incurred in the purchase of subsidiaries' shares resulting in change in scope of consolidation as well as cash flows related to expenses incurred in connection with the purchase or sales of subsidiaries' shares not resulting in change in scope of consolidation are included in "Cash flows from operating activities."

Application of the newly adopted accounting standards noted at the outset of this section has been implemented from the start of fiscal 2016, in accordance with the transitional provisions in Article 58-2(4) of the Accounting Standard for Business Combinations, Article 44-5(4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4(4) of the Accounting Standard for Business Divestitures.

These changes in accounting policy had no effect on operating income, or profit before income taxes reported for fiscal 2016.

(Changes to Accounting Policies Difficult to Distinguish from Changes in Accounting Estimates)

The Company has in the past applied the declining-balance method for depreciation of property, plant and equipment (however, the straight-line method was applied to property, plant and equipment of the Hokkaido Brewery, rental properties acquired since January 1988, Yebisu Garden Place, Sapporo Factory, buildings (excluding fixtures and equipment) acquired since April 1, 1998, Kyushu Hita Brewery, the Gunma Brewery's Japanese liquor manufacturing equipment, and Nasu Brewery). However, from fiscal 2016 all property, plant and equipment will be depreciated using the straight-line method.

The Company's consolidated subsidiaries Sapporo Breweries Ltd. and POKKA SAPPORO Food & Beverage Ltd. have carried out aggressive capital investments on the assumption that growth in total demand would deliver early returns on those investments. However, in recognition of the maturation of our markets and operating environment, the Company is now prioritizing stable supply from existing facilities. In the current fiscal year, the Company plans to invest in new manufacturing facilities and the renewal of existing facilities to secure additional stable supplies of core products. In preparation for the drafting of the next long-term plan to be implemented from January 2017, the Company has examined the current state of usage of the Group's property, plant, and equipment and plans for future capital investments. This examination indicates that the Company will be able to maintain stable utilization of such domestic property, plant and equipment, which in turn has led to the decision that using the straight-line method to evenly distribute the acquisition cost of these assets over their useful lives will lead to more appropriate calculations of profit and loss in each reporting period.

The change from the declining-balance method to the straight-line method of depreciation reduced depreciation expense by ¥1,751 million ($15,024 thousand), had a ¥1,688 million ($14,488 thousand) positive impact on operating income, and added ¥1,701 million ($14,600 thousand) to profit before income taxes in the year ended December 31, 2016.

(Accounting Standards for Retirement Benefits)

Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015) have been applied, effective from the fiscal year ended December 31, 2015, in accordance with the provisions of Article 35 of the Accounting Standard for Retirement Benefits and Article 67 of the Guidance on Accounting Standard for Retirement Benefits. As a result, the method for calculating retirement benefit obligations and service costs has been revised, and the method for attributing projected benefits to periods has been changed from the straight-line basis to the benefit formula basis. As to the discount rate, it used to be calculated based on the periods, comparable to employees' average remaining years of service. Under the new accounting standard, however, the method of determining the discount rate has now been changed to use a single weighted-average discount rate that reflects the periods until the expected payment of retirement benefits and the amount of projected benefits for every such period.

In applying these retirement benefit-related accounting standards, etc., and in accordance with the transitional treatment provided in Article 37 of the Accounting Standard for Retirement Benefits, the effect of the change in calculation method for retirement benefit obligations and service costs has been recognized by adjusting retained earnings at the beginning of the fiscal year ended December 31, 2015. Consequently, as of the beginning of the fiscal year ended December 31, 2015, net defined benefit liability increased by ¥4,800 million, while retained earnings decreased by ¥3,105 million. Furthermore, during the fiscal year ended December 31, 2015, operating income and income taxes before minority interests each grew by ¥168 million, respectively.

(Accounting Standards Issued but Not Yet Adopted)

• Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(a) Outline

In regard to the treatment of the recoverability of deferred tax assets, ASBJ Guidance No. 26 basically applied the framework used in Auditing Guidance No. 66, "Auditing Treatment for Judgment of Recoverability of Deferred Assets, issued by the Japanese Institute of Certified Public Accountants (JICPA)," which is to say, a framework where companies are categorized into five categories and the amount of deferred tax assets to be recorded is estimated based on the category, but certain necessary revisions were made to the following treatments.

(1) Treatment of companies that do not satisfy any of the categorization criteria related to (Category 1) to (Category 5)
(2) Categorization criteria related to (Category 2) and (Category 3)
(3) Treatment of unscheduled deductible temporary differences at companies corresponding to (Category 2)
(4) Treatment of reasonably estimable periods for taxable income before adjusting for temporary differences at companies corresponding to (Category 3)
(5) Treatment of companies that satisfy the categorization criteria related to (Category 4) in cases where they correspond to (Category 2) or (Category 3)

(b) Date of Adoption

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

(c) Impact of Adopting the Implementation Guidance

The impact of adopting the Implementation Guidance on Recoverability of Deferred Tax Assets on the consolidated financial statements is now under assessment.

4. Changes in Presentation Method

None.

5. Inventories

Inventories at December 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Finished goods and merchandise	¥20,782	¥20,923	$178,342
Work in process	3,875	3,990	33,256
Raw materials	11,628	12,056	99,785
Supplies	1,687	1,667	14,480
	¥37,973	¥38,635	$325,863

6. Loss on Impairment of Property, Plant and Equipment

The Company and its consolidated subsidiaries recorded impairment losses on the following asset groups for the year ended December 31, 2016:

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars (Note 1)
Nihon Beans Co., Ltd. (Isesaki-shi, Gunma)	Food manufacturing facilities	Buildings	¥ 25	$ 214
		Machinery	271	2,323
		Lease assets	50	432
		Goodwill	53	456
		Other	17	144
			¥ 416	$3,570
Pokka Create Co., Ltd. (Fukuoka-shi, Fukuoka and other)	Restaurants for operations	Buildings	¥ 146	$1,252
		Lease assets	6	53
		Other	4	34
			¥ 156	$1,339
PS Beverage Ltd. (Koto-ku, Tokyo)	Machinery for operations	Lease assets	¥ 136	$1,171
		Other	4	38
			¥ 141	$1,209
Sapporo Lion Ltd. (Sendai-shi, Miyagi and other)	Restaurants for operations	Buildings	¥ 119	$1,025
		Machinery	14	124
		Other	5	40
			¥ 139	$1,189
POKKA SAPPORO Food & Beverage Ltd. (Kitanagoya-shi, Aichi)	Beverage manufacturing facilities	Land	¥ 0	$ 1
		Buildings	3	28
		Machinery	61	524
		Other	0	0
			¥ 64	$ 553
Sapporo Breweries Ltd. (Ota-shi, Gunma)	Food manufacturing facilities	Machinery	¥ 56	$ 479
			¥ 56	$ 479
Public Vending Service Co., Ltd. (Koto-ku, Tokyo)	Machinery for operations	Buildings	¥ 0	$ 3
		Machinery	0	3
		Lease assets	35	302
		Other	7	57
			¥ 42	$ 364
Miyasaka Jozo Co., Ltd. (Kofu-shi, Yamanashi)	Food manufacturing facilities	Machinery	¥ 2	$ 18
		Other	2	21
			¥ 5	$ 39
			¥1,019	$8,741

The Company and its consolidated subsidiaries recorded impairment losses on the following asset groups for the year ended December 31, 2015:

Location	Use	Classification	Millions of yen
Sapporo Breweries Ltd. (Kitakanbara-gun, Niigata and other)	Idle real estate/Welfare facilities	Land	¥2,944
		Buildings	138
		Other	1
			¥3,083
Sapporo Vietnam Ltd. (Long An Province, Vietnam)	International business	Goodwill	¥2,082
			¥2,082
PS Beverage Ltd. (Koto-ku, Tokyo)	Machinery for operations	Land	¥ 130
		Buildings	35
		Machinery	1
		Lease assets	149
		Other	18
			¥ 332
Sapporo Lion Ltd. (Chiyoda-ku, Tokyo and other)	Restaurants for operations	Buildings	¥ 157
		Machinery	14
		Other	6
			¥ 178
POKKA SAPPORO Food & Beverage Ltd. (Toyota-shi, Aichi)	Beverage manufacturing facilities	Land	¥ 0
		Buildings	78
		Machinery	55
		Other	4
			¥ 137
Pokka Create Co., Ltd. (Nakagyo-ku, Kyoto and other)	Restaurants for operations	Buildings	¥ 75
		Lease assets	6
		Other	6
			¥ 87
Public Vending Service Co., Ltd. (Koto-ku, Tokyo)	Machinery for operations	Lease assets	¥ 44
		Other	10
			¥ 54
Sapporo Lion (Singapore) Pte. Ltd. (Singapore)	Restaurants for operations	Buildings	¥ 1
		Machinery	1
			¥ 2
Okinawa Pokka Foods Co., Ltd. (Kunigami-gun, Okinawa)	Beverage manufacturing facilities	Machinery	¥ 1
			¥ 1
			¥5,956

The Company and its consolidated subsidiaries recorded impairment losses on the following asset groups for the year ended December 31, 2014:

Location	Use	Classification	Millions of yen
Public Vending Service Co., Ltd. (Koto-ku, Tokyo)	Other	Goodwill	¥209
		Other	142
			¥350
Sapporo Lion Ltd. (Toshima-ku, Tokyo and other)	Restaurants for operations	Buildings	¥199
		Machinery	18
		Other	7
			¥223
Okinawa Pokka Foods Co., Ltd. (Kunigami-gun, Okinawa)	Beverage manufacturing facilities	Buildings	¥ 62
		Machinery	93
		Other	12
			¥167
Sapporo Breweries Ltd. (Kitakanbara-gun, Niigata and other)	Idle real estate	Land	¥ 75
			¥ 75
POKKA SAPPORO Food & Beverage Ltd. (Isesaki-shi, Gunma)	Beverage manufacturing facilities	Buildings	¥ 4
		Machinery	32
		Other	0
			¥ 36
Pokka Create Co., Ltd. (Tokushima-shi, Tokushima and other)	Restaurants for operations	Buildings	¥ 15
		Machinery	—
		Other	7
			¥ 22
Pokka Corporation (H.K.) Ltd. (Hong Kong, Republic of China)	Restaurants for operations	Buildings	¥ 19
			¥ 19
			¥893

The Company and its consolidated subsidiaries decided the asset group in consideration of the division in management accounting. Idle real estate and real estate for lease and offices are grouped with each real estate, and the restaurants are mainly grouped with each store. The asset groups for manufacturing facilities and assets for business are for each respective business.

Food manufacturing facilities have been written down to the recoverable amount as it is expected to be difficult to recover the investment due mainly to declining profitability. An impairment loss has been booked for the amount of the write-down.

For restaurants for operations, the amount by which the carrying amount of these assets exceeds the expected present value of these assets is recognized as an impairment loss because the carrying amount of these assets may not be recoverable due to poor profitability.

Machinery for operations has been written down to the recoverable amount as it is expected to be difficult to recover the investment due to declining profitability. An impairment loss has been booked for the amount of the write-down.

Beverage manufacturing facilities have been written down to the recoverable amount as it is expected to be difficult to recover the investment due mainly to the termination of some parts of the production line. An impairment loss has been booked for the amount of the write-down.

Idle real estate and welfare facilities have been written down to the recoverable amount upon sale. An impairment loss has been booked for the amount of the write-down.

In the International segment, assets have been written down to the recoverable amount as it is expected to be difficult to recover the investment due mainly to declining profitability. An impairment loss has been booked for the amount of the write-down.

The recoverable amount is measured by the net selling cost and the value in use, with the net selling cost determined based on an appraisal value provided by a real estate appraisal company. The value in use is calculated based on future cash flows discounted by a certain discount rate.

The discount rate was 6.1–7.9% in 2016, 6.6–14.7% in 2015 and 7.1–7.3% in 2014.

7. Shareholders' Equity

Retained earnings include a legal reserve provided in accordance with the provisions of the Commercial Code. This reserve is not available for the payment of dividends, but it may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

8. Other Income (Expenses)

"Other income (expenses)—Other, net" for each of the three years in the period ended December 31, 2016 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Equity in income of affiliates	¥ 16	¥ 17	¥ 226	$ 135
Foreign exchange gains	—	—	576	—
Gain on valuation of derivatives	—	469	—	—
Gain on sales of property, plant and equipment	46	7,453	3,528	393
Gain on sales of investment securities	14	47	231	116
Gain on sales of consolidated subsidiaries	—	73	966	—
Subsidy income	—	323	—	—
Foreign exchange losses	(217)	(537)	—	(1,865)
Loss on valuation of derivatives	(252)	—	—	(2,166)
Loss on disposal of property, plant and equipment	(1,413)	(1,534)	(2,143)	(12,128)
Loss on sales of property, plant and equipment	(27)	(25)	(109)	(231)
Loss on impairment of property, plant and equipment	(1,019)	(5,956)	(893)	(8,741)
Loss on devaluation of marketable securities and investments	(23)	(1,758)	(12)	(193)
Loss on sales of investment securities	—	—	(0)	—
Compensation expenses	(377)	(142)	(1,753)	(3,232)
Additional liquor tax paid and other	—	—	(11,686)	—
Other	188	217	375	1,617
	¥(3,064)	¥(1,355)	¥(10,694)	$(26,295)

9. Contingent Liabilities

Contingent liabilities at December 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Guarantee of loans, principally loans for employees' housing	¥307	¥ 368	$2,635
Other	692	1,301	5,938
	¥999	¥1,668	$8,573

10. Leases

(a) Finance leases

i) Lessee

Finance leases other than those that transfer ownership of the leased assets to the lessees

Description of lease assets

1. Property, plant and equipment

   Fixtures (other) for sales purposes and vending machines (other)

2. Intangible fixed assets

   Software

Finance leases other than those that transfer ownership of the leased assets to the lessees, entered into on or before December 31, 2008, continue to be treated in the same way as ordinary operating leases for accounting purposes. Details are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Acquisition costs:			
Machinery and vehicles	¥—	¥48	$—
Other	4	4	36
	¥ 4	¥52	$36
Accumulated depreciation:			
Machinery and vehicles	¥—	¥48	$—
Other	4	4	35
	¥ 4	¥52	$35
Accumulated loss on impairment:			
Machinery and vehicles	¥—	¥—	$—
Other	—	—	—
	¥—	¥—	$—
Net book value:			
Machinery and vehicles	¥—	¥—	$—
Other	0	1	1
	¥ 0	¥ 1	$ 1

Lease payments relating to finance leases accounted for as operating leases amounted to ¥0 million ($4 thousand) and ¥2 million, which equaled the corresponding depreciation on the respective leased assets computed by the straight-line method over the lease terms for the years ended December 31, 2016 and 2015, respectively.

There was no recorded loss on impairment of leased assets for the years ended December 31, 2016 and 2015.

No reversals of allowance for impairment loss on leased properties were recorded for the years ended December 31, 2016 and 2015.

The amount of depreciation equivalents was ¥0 million ($4 thousand) and ¥2 million for the years ended December 31, 2016 and 2015.

Future minimum lease payments, including the interest portion thereon, subsequent to December 31, 2016 and 2015 for finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Year ended December 31,	2016	2015	2016
Due within one year	¥ 0	¥0	$ 1
Due after one year	—	0	—
Total	¥ 0	¥1	$ 1

(b) Operating leases

Future minimum lease payments subsequent to December 31, 2016 and 2015 for operating leases are summarized as follows:

i) Lessee

	Millions of yen		Thousands of U.S. dollars (Note 1)
Year ended December 31,	2016	2015	2016
Due within one year	¥1,951	¥1,868	$16,746
Due after one year	7,678	7,924	65,893
Total	¥9,630	¥9,792	$82,638

ii) Lessor

	Millions of yen		Thousands of U.S. dollars (Note 1)
Year ended December 31,	2016	2015	2016
Due within one year	¥ 5,752	¥ 5,884	$ 49,358
Due after one year	11,185	13,650	95,986
Total	¥16,937	¥19,535	$145,344

11. Financial Instruments

(a) Matters related to financial instruments

i) Group policy regarding financial instruments

The Sapporo Group procures the funds it requires mainly through borrowings from banks and the issue of corporate bonds. Any temporary surpluses are then invested in highly secure, highly liquid financial assets. Short-term operating capital is procured through bank loans and commercial paper. Derivatives are not used for speculative purposes, but rather are used mainly to mitigate exposure to risks stemming from exchange rate and interest rate volatility.

ii) Breakdown of financial instruments and related risks

Operating receivables, such as notes and accounts receivable, are exposed to customer credit risks. To cope with these risks, the Sapporo Group, in line with internal regulations, engages in due date control and balance management for each respective business partner.

Marketable securities and investment securities mainly consist of stocks of companies with which the Group has business relations and the investment of temporary surpluses in bonds. These securities are exposed to risks stemming from market price volatility. The Sapporo Group periodically evaluates the market value of these stocks and bonds. The Group also makes long-term loans to business partners and other entities.

Payables, such as notes and accounts payable, are operating liabilities and due for payment within one year.

Short-term borrowings and commercial paper consist mainly of operating funds procured for business transactions. Long-term debt and corporate bonds are funds procured mainly for capital investment purposes.

Long-term debt is exposed to risks stemming from interest-rate and foreign exchange volatility. For certain long-term debt, the Sapporo Group uses derivative transactions (interest-rate swaps and currency swaps) as a hedge against risks stemming from interest-rate volatility.

Currency-related derivative transactions consist of foreign exchange contracts and currency swap transactions. Interest rate derivative transactions are interest rate swaps. Derivative financial instruments consist of commodity futures and commodity option transactions.

iii) Risk management system for financial instruments

① Management of credit risks

(risks associated with default, etc., by business partners)

Regarding operating receivables and long-term loans, the Company and its major consolidated subsidiaries, in line with internal rules of conduct at each Company, periodically monitor the status of main business partners via the executive department of each business division.

Along with managing due dates and balances for each partner, the Company and its major subsidiaries take steps to preventatively assess and minimize losses from instances in which the recovery of receivables or loans may become doubtful due to deterioration, etc., in financial condition.

In derivative transactions, the Company and its major subsidiaries, based on standards of internal control, only enter into contracts with financial institutions possessing high credit ratings.

These controls are followed as a rule to prevent the emergence of possible credit risks.

② Management of market risks

(risks from exchange-rate and interest-rate volatility)

With regard to operating receivables and payables denominated in foreign currencies, the Company and certain of its subsidiaries use forward foreign exchange contracts to limit to within a certain scope risks stemming from exchange-rate volatility. Interest rate swaps are also used to control volatility risks involved in the interest rates on borrowings.

To mitigate risks associated with foreign currency transactions, currency swap transactions are used. Commodity futures and commodity option transactions are used to hedge against the risk of fluctuating raw material purchase prices to limit such risk within a specified range.

For marketable and investment securities, the Company and its major subsidiaries periodically assess the market value of the securities and the financial condition, etc. of the issuer (business partners), and, as necessary, review the holding status of such securities, taking into account their relationship with the business partner in question.

Derivative transactions are executed and managed pursuant to standards of internal control. These controls clearly stipulate matters pertaining to derivatives, including their purpose, product range, transaction counterparties, settlement approval procedures, the segregation of duties within executive departments, and the system for reporting such transactions. The balance and status of income (loss) for derivative transactions is reported periodically to the Board of Directors.

③ Management of liquidity risk associated with fund procurement (risk of failing to meet payment due dates)

To minimize financial liabilities, the Sapporo Group has a cash management system (CMS) to centrally manage fund allocation to the Company and its major subsidiaries. Financial divisions within the Group formulate plans for fund procurement and fund management in an effort to manage liquidity risk.

iv) Supplementary explanation of matters concerning fair value, etc., of financial instruments

Market value of financial instruments contains fair values that are rationally calculated in cases for which no market price is available. Because variable factors are incorporated into the calculation of this value, the adoption of different terms and assumptions can cause fair value to vary.

Furthermore, notional amounts contracted in derivative transactions, as described in the notes pertaining to derivative transactions, are not a full expression of the market risk associated with derivative transactions.

(b) Matters concerning fair value, etc., of financial instruments

Amounts, market value and their variances reported in the consolidated balance sheets for the fiscal years ended December 31, 2016 and 2015 are as follows:

Items for which the assessment of market value is not feasible were omitted.

	Millions of yen						Thousands of U.S. dollars (Note 1)		
	2016			2015			2016		
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥ 10,589	¥ 10,589	¥ —	¥ 10,431	¥ 10,431	¥ —	$ 90,873	$ 90,873	$ —
(2) Notes and accounts receivable—trade	96,851			92,335			831,121		
Allowance for doubtful receivables	(77)			(62)			(657)		
Sub total	96,774	96,774	—	92,274	92,274	—	830,464	830,464	—
(3) Marketable securities and investment securities									
Other securities	52,318	52,318	—	54,654	54,654	—	448,969	448,969	—
(4) Long-term loans receivable	9,109			9,367			78,165		
Allowance for doubtful receivables	(6)			(6)			(50)		
Sub total	9,103	9,103	0	9,361	9,361	0	78,115	78,116	1
Total assets	¥168,784	¥168,785	¥ 0	¥166,719	¥166,719	¥ 0	$1,448,421	$1,448,422	$ 1
(1) Notes and accounts payable—trade	¥ 38,503	¥ 38,503	¥ —	¥ 36,772	¥ 36,772	¥ —	$ 330,413	$ 330,413	$ —
(2) Short-term bank loans	18,507	18,507	—	19,220	19,220	—	158,815	158,815	—
(3) Commercial paper	33,000	33,000	—	17,000	17,000	—	283,189	283,189	—
(4) Liquor taxes payable	34,228	34,228	—	33,904	33,904	—	293,728	293,728	—
(5) Income taxes payable	1,681	1,681	—	6,115	6,115	—	14,424	14,424	—
(6) Bonds	60,212	60,617	405	60,000	60,431	431	516,708	520,184	3,475
(7) Long-term bank debt	126,425	127,078	653	138,522	139,634	1,112	1,084,913	1,090,519	5,606
Total liabilities	¥312,556	¥313,614	¥1,058	¥311,532	¥313,075	¥1,543	$2,682,189	$2,691,271	$9,082
Derivative transactions to which									
① Hedge accounting is not applied	¥ 18	¥ 18	¥ —	¥ 526	¥ 526	¥ —	$ 154	$ 154	$ —
② Hedge accounting is applied	67	67	—	(12)	(12)	—	573	573	—
Total Derivative transactions	¥ 85	¥ 85	¥ —	¥ 514	¥ 514	¥ —	$ 727	$ 727	$ —

i) Methods for determining market value of financial instruments and matters concerning marketable securities and derivative transactions

<Assets>

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

Book value is used since the variance between market value and book value is small due to the settlement of these accounts in the near future.

(3) Marketable and investment securities

In determining market value, the stock market price is used for stocks.

In the absence of a market price quotation, fair value on public and corporate bonds is determined as follows. Such bonds are first sorted in sets according to maturity and credit rating. Yield on a government bond with a similar maturity or another appropriate indicator is then applied as a benchmark, and a spread taking into account credit rating and maturity of a set of bonds is added on top of the benchmark rate. This rate approximating the future cash flow of that set of bonds is then applied as the discount rate in calculating the set's present value. For matters pertaining to respective marketable securities to be held-to-maturity, refer to "12. Marketable Securities and Investment Securities" in the Notes to Consolidated Financial Statements.

(4) Long-term loans receivable

Within the Sapporo Group, the fair value of long-term loans receivable is calculated as follows. Loans are first sorted in sets according to maturity and credit risk. Yield on a government bond with a similar maturity or another appropriate indicator is then applied as a benchmark, and a spread taking into account the credit risk and maturity of a set of loans is added on top of the benchmark rate. This rate approximating future cash flow of that set of loans is then applied as the discount rate in calculating the set's present value. The fair value of potentially doubtful receivables is calculated either at present value using the same discount rate formula, or based on the projected amount of collateral or guarantees deemed recoverable.

<Liabilities>

(1) Accounts payable, (2) Short-term bank loans, (3) Commercial paper, *(4) Liquor taxes payable, and (5) Income taxes payable*

Book value is used since the variance between market value and book value is small due to the short-term settlement of these accounts.

(6) Corporate bonds

The market value of bonds issued by the Company is calculated based on the market price for bonds that have market prices.

(7) Long-term debt

For long-term debt, the method for determining fair value is to discount the sum total of the outstanding principal and interest by the estimated interest-rate cost of refinancing it.

Long-term bank loans based on variable interest rates are subject to special procedures for interest rate swaps and allocation procedures for currency swaps. This is calculated by discounting the sum total amount of principal and interest, with said interest rate swaps and currency swaps treated as one, at a reasonably estimated interest rate that applies when refinancing.

ii) Financial instruments for which the assessment of market value is not feasible

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
	Carrying value	Carrying value	Carrying value
Unlisted stocks, etc.	¥ 6,978	¥ 7,195	$ 59,879
Dealers' deposits for guarantees	33,242	32,833	285,263

iii) Estimate of monetary claims and maturing marketable securities due for redemption after the consolidated account settlement

	Millions of yen			
	2016			
	Inside one year	After one year and inside five years	After five years and inside ten years	After ten years
Cash and deposits	¥ 5,946	¥ —	¥—	¥ —
Notes and accounts receivable—trade	96,851	—	—	—
Long-term loans receivable	4,319	4,616	47	126
Total	¥107,116	¥4,616	¥47	¥126

	Thousands of U.S. dollars (Note 1)			
	2016			
	Inside one year	After one year and inside five years	After five years and inside ten years	After ten years
Cash and deposits	$ 51,030	$ —	$ —	$ —
Notes and accounts receivable—trade	831,121	—	—	—
Long-term loans receivable	37,064	39,612	403	1,086
Total	$919,214	$39,612	$403	$1,086

	Millions of yen			
	2015			
	Inside one year	After one year and inside five years	After five years and inside ten years	After ten years
Cash and deposits	¥ 7,814	¥ —	¥—	¥ —
Notes and accounts receivable—trade	92,335	—	—	—
Long-term loans receivable	350	893	65	8,058
Total	¥100,499	¥893	¥65	¥8,058

12. Marketable Securities and Investment Securities

(a) Trading securities

No relevant items as of December 31, 2016 and 2015.

(b) Held-to-maturity debt securities

No relevant items as of December 31, 2016 and 2015.

(c) Other securities

The aggregate acquisition cost, carrying value, gross unrealized gain and loss on other securities whose fair value was determinable at December 31, 2016 and 2015 are summarized as follows.

Unlisted stocks have no discernable market price, making any assessment of market value unfeasible. Such stocks have subsequently been omitted from the chart of other securities below.

	Millions of yen		
	2016		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥48,752	¥16,655	¥32,097
Debt securities	—	—	—
Other	—	—	—
Subtotal	48,752	16,655	32,097
Securities whose acquisition cost exceeds their carrying value:			
Stock	3,567	3,965	(399)
Debt securities	—	—	—
Other	—	—	—
Subtotal	3,567	3,965	(399)
Total	¥52,318	¥20,620	¥31,698

	Thousands of U.S. dollars (Note 1)		
	2016		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	$418,362	$142,923	$275,439
Debt securities	—	—	—
Other	—	—	—
Subtotal	418,362	142,923	275,439
Securities whose acquisition cost exceeds their carrying value:			
Stock	30,607	34,027	(3,420)
Debt securities	—	—	—
Other	—	—	—
Subtotal	30,607	34,027	(3,420)
Total	$448,969	$176,950	$272,019

	Millions of yen		
	2015		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥50,713	¥15,306	¥35,408
Debt securities	16	16	0
Other	—	—	—
Subtotal	50,729	15,322	35,408
Securities whose acquisition cost exceeds their carrying value:			
Stock	3,924	4,453	(529)
Debt securities	—	—	—
Other	—	—	—
Subtotal	3,924	4,453	(529)
Total	¥54,654	¥19,775	¥34,879

(d) The realized gain and loss on sales of other securities

The realized gain and loss on sales of other securities in the periods ended December 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Sales	¥121	¥277	$1,040
Gain on sales of securities	14	47	116
Loss on sales of securities	—	—	—

(e) Marketable securities that have been written down

The Company recorded write-downs of ¥23 million ($193 thousand) and ¥1,758 million in other securities in the years ended December 31, 2016 and 2015, respectively.

The Company writes down marketable securities when their market value falls by 50% or more than their book value at the fiscal year-end. If their value falls by between 30% and 50%, the Company records the amount of write-downs deemed necessary based on the possibility of recovery for individual securities.

13. Derivatives

(a) Derivative transactions to which hedge accounting is applied

i) Currency-related

December 31, 2016

Hedge accounting method	Hedging instrument	Main hedged item	Millions of yen: Contract amount	Millions of yen: Contract amount payable after one year	Millions of yen: Fair value	Thousands of U.S. dollars (Note 1): Contract amount	Thousands of U.S. dollars (Note 1): Contract amount payable after one year	Thousands of U.S. dollars (Note 1): Fair value
Designation applied to forward exchange contracts	Forward foreign exchange contract Purchase denomination; USD	Accounts payable	¥ 128	¥ —	¥16	$ 1,095	$ —	$137
	Purchase denomination; EUR	Accounts payable	711	—	51	6,103	—	435
	Sell denomination; USD	Accounts receivable	112	—	0	962	—	0
Currency swap allocation procedures	Received in USD, paid in JPY	Long-term debt	11,804	6,804	*	101,298	58,391	*
Total			¥12,755	¥6,804	¥67	$109,457	$58,391	$573

December 31, 2015

Hedge accounting method	Hedging instrument	Main hedged item	Millions of yen: Contract amount	Millions of yen: Contract amount payable after one year	Millions of yen: Fair value
Designation applied to forward exchange contracts	Forward foreign exchange contract Purchase denomination; USD	Accounts payable	¥ 131	¥ —	¥ (2)
	Purchase denomination; EUR	Accounts payable	600	—	(10)
Currency swap allocation procedures	Received in USD, paid in JPY	Long-term debt	11,804	11,804	*
Total			¥12,535	¥11,804	¥(12)

Note: Because those based on currency swap allocation procedures are treated together with long-term loans, which are regarded as hedged items, their market value is shown inclusive of the market value of long-term loans.

ii) Interest rate-related

December 31, 2016

Hedge accounting method	Hedging instrument	Main hedged item	Millions of yen: Contract amount	Millions of yen: Contract amount payable after one year	Millions of yen: Fair value	Thousands of U.S. dollars (Note 1): Contract amount	Thousands of U.S. dollars (Note 1): Contract amount payable after one year	Thousands of U.S. dollars (Note 1): Fair value
Special treatment for interest rate swaps	Interest rate swaps Receive variable rate, pay fixed rate	Long-term debt	¥49,367	¥44,226	*	$423,645	$379,528	*

December 31, 2015

Hedge accounting method	Hedging instrument	Main hedged item	Millions of yen: Contract amount	Millions of yen: Contract amount payable after one year	Millions of yen: Fair value
Special treatment for interest rate swaps	Interest rate swaps Receive variable rate, pay fixed rate	Long-term debt	¥54,996	¥49,573	*

Note: Interest rate swaps backing long-term debts as hedges are subject to special treatment. Their fair value is recorded in conjunction with the long-term debts they back.

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

i) Currency-related

December 31, 2016

Hedge accounting method	Hedging instrument	Millions of yen: Contract amount	Millions of yen: Contract amount payable after one year	Millions of yen: Fair value	Millions of yen: Unrealized gain (loss)	Thousands of U.S. dollars (Note 1): Contract amount	Thousands of U.S. dollars (Note 1): Contract amount payable after one year	Thousands of U.S. dollars (Note 1): Fair value	Thousands of U.S. dollars (Note 1): Unrealized gain (loss)
Transactions other than market transactions	Forward foreign exchange contract Purchase denomination; USD	¥1,674	¥—	¥ 40	¥ 40	$14,369	$—	$ 342	$ 342
	Sell denomination; USD	115	—	(17)	(17)	986	—	(143)	(143)
	Currency swaps Received in USD, paid in CAD	116	—	0	0	1,000	—	2	2
Total		¥1,906	¥—	¥ 23	¥ 23	$16,354	$—	$ 201	$ 201

December 31, 2015

Hedge accounting method	Hedging instrument	Millions of yen: Contract amount	Millions of yen: Contract amount payable after one year	Millions of yen: Fair value	Millions of yen: Unrealized gain (loss)
Transactions other than market transactions	Forward foreign exchange contract Purchase denomination; USD	¥2,385	¥1,073	¥335	¥335
	Sell denomination; USD	187	—	(33)	(33)
	Currency swaps Received in USD, paid in CAD	727	—	4	4
Total		¥3,299	¥1,073	¥305	¥305

ii) Commodity-related

December 31, 2016

Hedge accounting method	Hedging instrument	Millions of yen: Contract amount	Millions of yen: Contract amount payable after one year	Millions of yen: Fair value	Millions of yen: Unrealized gain (loss)	Thousands of U.S. dollars (Note 1): Contract amount	Thousands of U.S. dollars (Note 1): Contract amount payable after one year	Thousands of U.S. dollars (Note 1): Fair value	Thousands of U.S. dollars (Note 1): Unrealized gain (loss)
Market transactions	Commodity option contract Purchase denomination; Call	¥ 5	¥—	¥(3)	¥(3)	$ 46	$—	$(22)	$(22)
	Sell denomination; Put	8	—	(1)	(1)	68	—	(4)	(4)
	Commodity future trading Purchase denomination	122	—	(2)	(2)	1,044	—	(21)	(21)
Total		¥135	¥—	¥(5)	¥(5)	$1,158	$—	$(47)	$(47)

December 31, 2015

Hedge accounting method	Hedging instrument	Millions of yen: Contract amount	Millions of yen: Contract amount payable after one year	Millions of yen: Fair value	Millions of yen: Unrealized gain (loss)
Market transactions	Commodity option contract Purchase denomination; Call	¥ 3	¥—	¥ 14	¥ 14
	Sell denomination; Put	9	—	8	8
	Commodity future trading Purchase denomination	2,011	—	199	199
Total		¥2,022	¥—	¥221	¥221

14. Short-Term Bank Loans, Commercial Paper, Bonds and Long-Term Debts

Short-term bank loans represent notes or overdrafts. The annual average interest rates applicable to short-term bank loans for the years ended December 31, 2016 and 2015 were 0.57% and 0.79%, respectively.

The Company has entered into a yen domestic commercial paper program with a current maximum facility amount of ¥50,000 million ($429,074 thousand). There were outstanding balances of ¥33,000 million ($283,189 thousand) and ¥17,000 million at December 31, 2016 and 2015, respectively.

Bonds at December 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
0.62% bonds due 2016	¥ —	¥10,000	$ —
0.64% bonds due 2017	10,000	10,000	85,815
0.39% bonds due 2018	10,000	10,000	85,815
0.31% bonds due 2019	10,000	10,000	85,815
0.61% bonds due 2020	10,000	10,000	85,815
0.33% bonds due 2020	10,000	10,000	85,815
0.25% bonds due 2021	10,000	—	85,815
0.47%–0.65% Aggregate Marushinkawamura Inc. (subsidiary company) bonds due 2017–2029	212	—	1,819
Total	60,212	60,000	516,708
Less current portion	10,083	10,000	86,529
Bonds, net of current portion	¥50,129	¥50,000	$430,179

The aggregate annual maturities of bonds subsequent to December 31, 2016 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2017	¥10,083	$ 86,529
2018	10,068	86,400
2019	10,013	85,928
2020	20,013	171,743
2021	10,008	85,885
2022 and thereafter	26	223
	¥60,212	$516,708

Long-term debt at December 31, 2016 and 2015 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Loans from banks and insurance companies maturing from 2015 to 2026 with weighted–average annual interest rates:			
2016—0.68%			
2015—0.79%			
Secured	¥ 17,969	¥ 16,470	$ 154,201
Unsecured	108,456	122,052	930,713
	126,425	138,522	1,084,913
Less current portion	11,831	46,603	101,527
	¥114,594	¥ 91,919	$ 983,386

The aggregate annual maturities of long-term debt subsequent to December 31, 2016 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2017	¥ 11,831	$ 101,527
2018	22,543	193,451
2019	20,518	176,079
2020	19,791	169,833
2021	17,468	149,897
2022 and thereafter	34,274	294,126
	¥126,425	$1,084,913

The assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2016 and 2015 are summarized as follows:

(a) Assets pledged as collateral

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Inventories	¥ 643	¥ —	$ 5,520
Buildings and structure	407	74	3,495
Lands	2,051	613	17,598
Investment securities	7,498	8,886	64,348
Other investment	25	25	215
	¥10,625	¥9,597	$91,176

(b) Debt relating to the above pledged assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Short-term bank loans	¥ 3,242	¥ 2,500	$ 27,821
Long-term bank debt	17,969	16,470	154,201
	¥21,211	¥18,970	$182,022

In addition, cash and deposits of ¥27 million ($228 thousand) of POKKA INTERNATIONAL PTE. LTD. are pledged as collateral for a credit limit of ¥871 million ($7,472 thousand).

Short-term bank loans of ¥9 million ($78 thousand) have been borrowed against said credit limit.

15. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax-qualified pension plans and lump-sum payment plans covering substantially all employees. Certain consolidated subsidiaries have joined the Smaller Enterprise Retirement Allowance Mutual Aid System. In addition, certain consolidated subsidiaries have set up a retirement benefits trust. Additional benefits may be granted to employees according to the conditions under which termination occurs.

Conditions for the years ended December 31, 2016 and 2015 are as follows:

(a) Defined benefit plans

i) Reconciliation of balance of retirement benefit obligation at the start of the period and at the end of the period (except for plans applying simplified methods in iii))

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance of retirement benefit obligation at the start of the period	¥47,924	¥44,626	$411,261
Cumulative effect of changes in accounting policies	—	4,800	
Restated balance of the beginning of the period	47,924	49,426	411,261
Service cost	1,353	1,408	11,608
Interest cost	350	302	3,006
Actuarial gain or loss	2,521	(694)	21,633
Payment of retirement benefits	(2,517)	(2,517)	(21,602)
Other	(93)	—	(795)
Balance of retirement benefit obligation at the start and the end of the period	¥49,538	¥47,924	$425,111

ii) Reconciliation of balance of pension plan assets at the start of the period and at the end of the period (except for plans applying simplified methods in iii))

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance of pension plan assets at the start of the period	¥41,789	¥41,153	$358,614
Expected return on plan assets	963	957	8,265
Actuarial gain or loss	(7)	(222)	(58)
Contribution from employer	1,855	2,226	15,920
Payment of retirement benefits	(2,282)	(2,323)	(19,579)
Balance of pension plan assets at the end of the period	¥42,319	¥41,789	$363,161

iii) Reconciliation of balance of net defined benefit liability at the start of the period and at the end of the period for plans applying simplified methods

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance of net defined benefit liability at the start of the period	¥1,501	¥1,037	$12,882
Retirement benefit expenses	190	265	1,631
Payment of retirement benefits	(108)	(107)	(928)
Contribution paid by the employer	(27)	(25)	(236)
Other	221	331	1,896
Balance of net defined benefit liability at the end of the period	¥1,777	¥1,501	$15,245

iv) Reconciliation of balance of retirement benefit obligation and pension plan assets at the end of the period and liabilities and assets related to retirement benefits stated on the balance sheets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Retirement benefit plan obligation for funded plans	¥ 47,261	¥ 45,732	$ 405,569
Pension plan assets	(42,567)	(42,037)	(365,290)
	4,694	3,695	40,279
Retirement benefit plan obligations for unfunded plans	4,302	3,941	36,916
Net amount of liabilities and assets on the consolidated balance sheets	8,996	7,636	77,195
Liabilities related to retirement benefits	8,996	7,636	77,195
Net amount of liabilities and assets on the consolidated balance sheets	¥ 8,996	¥ 7,636	$ 77,195

v) Amounts of retirement benefit expenses and breakdown

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Service cost	¥1,353	¥1,408	$11,608
Interest cost	350	302	3,006
Expected return on plan assets	(963)	(957)	(8,265)
Amortization of net retirement benefit obligation at transition	—	1,503	—
Amortization of actuarial gain or loss	278	836	2,387
Amortization of past service cost	(704)	(704)	(6,041)
Retirement benefit expenses calculated by simplified methods	190	265	1,631
Retirement benefit expenses relating to defined benefit plans	¥ 504	¥2,653	$ 4,326

vi) Remeasurements of defined benefit plans

Breakdown of remeasurements of defined benefit plans (before tax effects)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Accounting standards	¥ —	¥(1,503)	$ —
Actuarial difference	2,157	(1,308)	18,509
Past service cost	704	704	6,041
Total	¥2,861	¥(2,108)	$24,550

vii) Accrued adjustment for retirement benefits

Breakdown of accrued adjustment for retirement benefits (before tax effects)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unrecognized actuarial gain or loss	¥ 2,492	¥ 335	$ 21,384
Unrecognized past service cost	(2,433)	(3,137)	(20,878)
Total	¥ 59	¥(2,802)	$ 507

viii) Items related to pension plan assets

(1) Main breakdown of pension plan assets

	2016	2015
Bonds	38%	44%
Stocks	28	22
Cash and deposits	2	2
Life insurance general account	24	23
Other	9	9
Total	100%	100%

(2) Method of determining long-term rate of return

To determine the expected long-term rate of return on pension plan assets, the Company considers the current and expected distribution of pension plan assets, and the current and expected long-term rates of return on the various assets comprising the pension plan assets.

ix) Matters related to actuarial assumptions

	2016	2015
Discount rate	0.3–0.5%	0.5–0.7%
Expect rate of return	0.8–2.5	0.8–2.5
Planned remuneration increase rate	0.8–5.7	0.8–5.7

(b) Defined contribution plans

The required contribution amount for the defined contribution plans of the Company and its subsidiaries at December 31, 2016 and 2015 were ¥504 million ($4,329 thousand), ¥463 million, respectively.

16. Board Benefit Trust (BBT) for Directors, Group Operating Officers of the Company, and Some Directors of the Company's Subsidiaries

Following the approval of shareholders of a resolution at the 92nd Ordinary General Meeting of Shareholders, the Company on May 31, 2016 introduced a new stock-based compensation system (Board Benefit Trust or BBT; hereinafter referred to as the "System") for directors, group operating officers of the Company, and some of the directors of the Company's subsidiaries (excluding outside directors; hereinafter referred to as the "Group Target Officers"). The new System is designed to increase Group Target Officers' awareness of their contributions to improving the performance of the Company over the longer term and to enhance corporate value.

i) Overview of the system

The Company shall grant points to the Group Target Officers according to their respective positions and performance achievements. The BBT will then provide the Company's shares to Group Target Officers who meet certain conditions in proportion to the points granted to them. In principle, Group Target Officers will receive the Company's shares when they retire. The shares to be awarded to Group Target Officers, including shares for future allocation, shall be purchased using money contributed by the Company at the time of the System's establishment, and shall be managed separately as Trust property.

ii) Company shares remaining in the Trust

Upon the introduction of the System during the second quarter of the current fiscal year, Trust & Custody Services Bank, Ltd. (Trust Account E) acquired 754,600 shares of the Company. The book value (excluding incidental costs) of the Company shares now held by the Trust are accounted for as treasury stock in the net assets section of the Company's balance sheets.

With an effective date of July 1, 2016, the Company implemented a consolidation of shares at a ratio of 1 share for each 5 shares of the Company's common stock. As of December 31, 2016, the book value and total number of treasury shares held by the Trust are, respectively, ¥446 million ($3,827 thousand) and 150,920 shares.

17. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of 33.1% in 2016 and 35.6% in 2015. The differences from the corresponding effective tax rates are due primarily to (1) the accounting policy of not providing for deferred income taxes arising from timing differences between financial and tax reporting for unschedulable temporary differences, and (2) certain expenses which are not deductible for income tax purposes.

The effective tax rates reflected in the consolidated statements of income for the years ended December 31, 2016 and 2015 differ from the corresponding statutory tax rates for the following reasons:

	2016	2015
Statutory tax rates	33.1%	35.6%
Effect of:		
Disallowed expenses, including entertainment expenses	2.1	3.4
Dividends and other income deductible for income tax purposes	(0.8)	(1.9)
Inhabitants' per capita taxes	1.6	2.5
Tax deductions	(2.3)	(4.3)
Changes in valuation allowance	3.9	(7.6)
The tax rate difference of overseas subsidiary company	(0.5)	0.7
Amortization of goodwill	7.9	11.2
Loss on impairment of goodwill	0.1	6.3
Other, net	(2.3)	1.7
Effective tax rates	42.8%	47.7%

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Deferred tax assets:			
Tax loss carryforwards	¥ 8,130	¥ 2,507	$ 69,770
Property, plant and equipment	4,303	3,359	36,924
Net defined benefit liability	2,825	2,496	24,244
Accrued expenses	2,374	2,366	20,376
Investment securities	2,200	2,317	18,877
Gift coupon income	1,405	1,713	12,059
Accrued bonuses	856	588	7,349
Allowance for doubtful receivables	405	404	3,475
Asset retirement obligations	403	386	3,460
Other	1,912	2,192	16,406
Gross deferred tax assets	24,814	18,328	212,939
Valuation allowance	(13,798)	(6,670)	(118,405)
Total deferred tax assets	11,016	11,658	94,534
Deferred tax liabilities:			
Unrealized holding gain on securities	9,915	11,199	85,082
Property, plant and equipment	7,725	7,949	66,291
Reserve for advanced depreciation deduction, etc.	6,273	6,633	53,830
Gain on valuation of assets received through merger	446	470	3,829
Other	848	1,207	7,275
Total deferred tax liabilities	25,206	27,458	216,307
Net deferred tax liabilities	¥ 14,190	¥15,800	$ 121,773

18. Business Combinations by Acquisition

In the International segment, previous financial disclosures included a provisional estimate of goodwill related to the acquisition of Country Pure Foods, Inc., on February 24, 2015, because allocation of the actual acquisition cost had yet to be completed. In the year ended December 31, 2016, however, allocation of the acquisition cost was completed and the amount of goodwill was adjusted as described below.

Goodwill (before adjustment)	¥4,162 million	($35,717 thousand)
Intangible assets	¥ 310 million	($ 2,662 thousand)
Deferred tax assets	¥ (21) million	($ (179) thousand)
Deferred tax liabilities	¥ (76) million	($ (653) thousand)
Other adjustment	¥ 51 million	($ 438 thousand)
Amount of adjustment	¥ 264 million	($ 2,269 thousand)
Goodwill (after adjustment)	¥4,426 million	($37,986 thousand)

• Amount of goodwill arising, reason for its recognition, and amortization method and period

① Amount of goodwill:	¥4,426 million ($37,986 thousand)
② Reason for its recognition:	Future business activities are expected to generate excess profitability.
③ Amortization method and amortization period:	9 years with the straight-line method

19. Real Estate for Lease

The Company and certain consolidated subsidiaries own office buildings for rent and commercial facilities for rent (including land) in Tokyo and other areas.

Rental income associated with real estate for rent in the fiscal years ended December 31, 2016 and 2015 were ¥9,454 million ($81,128 thousand) and ¥7,606 million. Significant earnings from rent are included under operating income; rental-related expenses are posted under operating expenses.

In 2016 and 2015, the carrying value of this real estate for rent on the consolidated balance sheets, the change in carrying value, and the total fair value were as follows:

Year ended or as of December 31, 2016

Millions of yen			
Balance at December 31, 2015	Change during 2016	Balance at December 31, 2016	Fair value at December 31, 2016
¥197,666	¥4,097	¥201,763	¥389,101

Year ended or as of December 31, 2016

Thousands of U.S. dollars (Note 1)			
Balance at December 31, 2015	Change during 2016	Balance at December 31, 2016	Fair value at December 31, 2016
$1,696,268	$35,161	$1,731,430	$3,339,065

Year ended or as of December 31, 2015

Millions of yen			
Balance at December 31, 2014	Change during 2015	Balance at December 31, 2015	Fair value at December 31, 2015
¥207,864	¥(10,198)	¥197,666	¥357,395

Notes 1. Amounts posted in the consolidated balance sheets represent the acquisition cost after the deduction of cumulative depreciation.

2. In regard to the main components of changes in the year ended December 31, 2016, the main increase was the acquisition of real estate of ¥10,134 million ($86,967 thousand), while the main decreases were depreciation and amortization of ¥3,805 million ($32,650 thousand) and disposal losses and other of ¥1,911 million ($16,402 thousand).

In regard to the main components of changes in the year ended December 31, 2015, the main increase was the acquisition of real estate of ¥6,596 million, while the main decreases were depreciation and amortization of ¥3,805 million, sales of ¥12,535 million and disposal losses of ¥329 million.

3. Fair value at the end of the fiscal year under review is based primarily on real estate appraisals carried out by external appraisers.

20. Segment Information

(a) Segment information by geographic area

i) Net sales

Year ended December 31, 2016

Millions of yen				
Japan	North America	Asia	Others	Total
¥455,001	¥61,916	¥19,910	¥5,020	¥541,847

Year ended December 31, 2016

Thousands of U.S. dollars (Note 1)				
Japan	North America	Asia	Others	Total
$3,904,583	$531,330	$170,859	$43,080	$4,649,853

Year ended December 31, 2015

Millions of yen				
Japan	North America	Asia	Others	Total
¥439,198	¥67,002	¥20,969	¥6,580	¥533,749

Year ended December 31, 2014

Millions of yen				
Japan	North America	Asia	Others	Total
¥441,478	¥46,752	¥24,904	¥5,606	¥518,741

ii) Property, plant and equipment

The balance of property, plant and equipment located in Japan amounted to more than 90% of the total balance of property, plant and equipment. Accordingly, geographical segment information has not been disclosed in 2016, 2015 and 2014.

(b) Information by major customer

Net sales

Company name	Millions of yen 2016	2015	2014	Thousands of U.S. dollars (Note 1) 2016	Segment
KOKUBU & CO., LTD.	¥82,686	¥79,177	¥64,789	$709,569	Japanese Alcoholic Beverages, Food & Soft Drinks

(c) Segment information

i) Overview of reportable segments

The Company's reportable segments are components of the Sapporo Group about which separate financial information is available.

These segments are subject to periodic examinations to enable the Company's Board of Directors to decide how to allocate resources and assess performance.

The Group's businesses are segmented mainly based on the products, services, and sales markets of Group companies and their affiliated companies. The Company's five reportable segments are Japanese Alcoholic Beverages, International, Food & Soft Drinks, Restaurants, and Real Estate.

The Japanese Alcoholic Beverages segment produces and sells alcoholic beverages in Japan, while the International segment produces and sells alcoholic beverages and soft drinks overseas.

The Food & Soft Drinks segment produces and sells foods and soft drinks.

The Restaurants segment operates various types of restaurants.

The Real Estate segment's activities include leasing and development of real estate.

ii) Calculation methods for sales, income (or loss), assets and other items by reportable segment

Accounting methods applied in reportable segments by business largely correspond to those presented under "Summary of Significant Accounting Policies" and "Change in Method of Accounting."

Reportable segment income is based on operating income. Intersegment sales or transfers are calculated as if the transactions were with third-parties based on market prices.

iii) Changes in reportable segment, etc.

(Change to depreciation method)

The depreciation method for property, plant and equipment has been changed effective from the fiscal year ended December 31, 2016.

This change increases segment profit of the Japanese Alcoholic Beverages segment by ¥957 million ($8,215 thousand), Food & Soft Drinks segment by ¥375 million ($3,215 thousand), Restaurants segment by ¥194 million ($1,668 thousand) and Real Estate segment by ¥106 million ($907 thousand) over the profit that would have been recorded under the previous method.

The change also has a positive effect on earnings in the Others segments, reducing losses by ¥4 million ($37 thousand). The change also reduces Adjustments by ¥52 million ($445 thousand).

(Changes in reportable segment)

Following the share transfer between the consolidated subsidiaries, the segment classification of New Sanko Inc., which formerly used to be classified in the "Japanese Alcoholic Beverages" segment, has now been changed to the "Restaurants" segment, effective from the fiscal year ended December 31, 2015.

The segment information for the fiscal year ended December 31, 2014 has been retroactively adjusted to reflect these changes.

(Application of Accounting Standard for Retirement Benefits, etc.)

In accordance with the revision of the method for calculating retirement benefit obligations and service costs, as per the above Changes in Method of Accounting, effective from the fiscal year ended December 31, 2015, the calculation method for retirement benefit obligations and service costs in each business segment has been revised accordingly.

As a result, compared to the old calculation method, segment income for "Japanese Alcoholic Beverages" grew by ¥160 million in the year ended December 31, 2015. The effect of the said revision on the segment income or loss in other segments than the "Japanese Alcoholic Beverages" is immaterial.

iv) Amounts of sales, income (loss), assets, and other items by reportable segment

Year ended or as of December 31, 2016

	Millions of yen									
	Reportable segment									
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥279,476	¥65,401	¥137,918	¥28,120	¥ 22,900	¥533,816	¥ 8,032	¥541,847	¥ —	¥541,847
Intra-group sales and transfers	2,861	97	282	1	2,569	5,810	20,158	25,969	(25,969)	—
Total	282,337	65,498	138,200	28,121	25,469	539,626	28,190	567,816	(25,969)	541,847
Operating income (loss)	11,746	907	1,314	664	10,328	24,959	(96)	24,863	(4,595)	20,267
Identifiable assets	214,327	66,292	100,594	13,572	211,313	606,098	10,043	616,141	10,211	626,352
Depreciation and amortization	7,222	3,042	5,711	522	4,125	20,622	44	20,666	1,676	22,342
Increase in property, plant and equipment and intangible fixed assets	2,691	2,650	8,096	1,144	9,649	24,231	58	24,289	2,385	26,674

Year ended or as of December 31, 2016

	Thousands of U.S. dollars (Note 1)									
	Reportable segment									
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	$2,398,320	$561,236	$1,183,542	$241,315	$ 196,516	$4,580,929	$ 68,924	$4,649,853	$ —	$4,649,853
Intra-group sales and transfers	24,551	832	2,421	7	22,049	49,860	172,989	222,848	(222,848)	—
Total	2,422,870	562,068	1,185,963	241,322	218,565	4,630,789	241,913	4,872,702	(222,848)	4,649,853
Operating income (loss)	100,796	7,779	11,278	5,697	88,632	214,182	(822)	213,360	(39,436)	173,924
Identifiable assets	1,839,242	568,884	863,246	116,467	1,813,378	5,201,217	86,182	5,287,399	87,628	5,375,027
Depreciation and amortization	61,973	26,106	49,009	4,478	35,401	176,968	376	177,344	14,380	191,724
Increase in property, plant and equipment and intangible fixed assets	23,095	22,740	69,480	9,817	82,802	207,934	500	208,435	20,467	228,901

Year ended or as of December 31, 2015

	Millions of yen									
	Reportable segment									
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥273,652	¥70,501	¥135,671	¥27,004	¥ 20,872	¥527,700	¥ 6,049	¥533,749	¥ —	¥533,749
Intra-group sales and transfers	2,794	103	297	5	2,549	5,748	19,834	25,582	(25,582)	—
Total	276,445	70,604	135,968	27,010	23,421	533,448	25,883	559,331	(25,582)	533,749
Operating income (loss)	8,635	154	434	523	8,282	18,028	1	18,030	(4,079)	13,950
Identifiable assets	220,009	67,069	100,464	12,272	206,650	606,463	6,789	613,252	7,136	620,388
Depreciation and amortization	8,144	3,381	6,186	668	4,202	22,581	37	22,618	1,606	24,224
Increase in property, plant and equipment and intangible fixed assets	4,608	2,559	5,117	844	6,197	19,324	2	19,327	1,257	20,583

Notes to Consolidated Financial Statements

Year ended or as of December 31, 2014

	Millions of yen									
	Reportable segment									
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	Total	General corporate and intercompany eliminations	Consolidated
Net sales	¥281,032	¥49,673	¥133,439	¥27,143	¥ 21,510	¥512,797	¥ 5,944	¥518,741	¥ —	¥518,741
Intra-group sales and transfers	2,563	95	315	4	2,754	5,731	19,478	25,209	(25,209)	—
Total	283,594	49,768	133,754	27,147	24,264	518,527	25,422	543,949	(25,209)	518,741
Operating income (loss)	10,193	173	121	303	7,696	18,486	184	18,670	(3,941)	14,729
Identifiable assets	220,311	57,602	102,762	12,399	214,390	607,463	7,135	614,599	10,841	625,439
Depreciation and amortization	8,010	2,104	6,785	672	4,231	21,803	75	21,878	2,603	24,481
Increase in property, plant and equipment and intangible fixed assets	3,702	1,949	7,401	1,282	7,189	21,523	31	21,554	1,249	22,803

Note: The "Other" category is a business segment that is not included in the reportable segments, and comprises logistics businesses and certain other operations.

v) Impairment losses on fixed assets or goodwill by reportable segment

Year ended December 31, 2016

	Millions of yen								
	Reportable segment								
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	General corporate and intercompany eliminations	Consolidated
Loss on Impairment	¥56	¥—	¥820	¥139	¥—	¥1,014	¥5	¥—	¥1,019

Year ended December 31, 2016

	Thousands of U.S. dollars (Note 1)								
	Reportable segment								
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	General corporate and intercompany eliminations	Consolidated
Loss on Impairment	$479	$—	$7,034	$1,189	$—	$8,702	$39	$—	$8,741

Year ended December 31, 2015

	Millions of yen								
	Reportable segment								
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	General corporate and intercompany eliminations	Consolidated
Loss on Impairment	¥3,083	¥2,082	¥611	¥180	¥—	¥5,956	¥—	¥—	¥5,956

Year ended December 31, 2014

	Millions of yen								
	Reportable segment								
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	General corporate and intercompany eliminations	Consolidated
Loss on Impairment	¥75	¥—	¥595	¥223	¥—	¥893	¥—	¥—	¥893

vi) Amortization for and unamortized balance of goodwill by reportable segment

Year ended or as of December 31, 2016

	Millions of yen								
	Reportable segment								
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	General corporate and intercompany eliminations	Consolidated
Amortization in year ended Dec. 2016	¥ 55	¥ 1,671	¥ 2,161	¥ 35	¥—	¥ 3,921	¥—	¥—	¥ 3,921
Unamortized balance as of Dec. 31, 2016	288	11,215	15,556	380	—	27,439	—	—	27,439

Year ended or as of December 31, 2016

	Thousands of U.S. dollars (Note 1)								
	Reportable segment								
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	General corporate and intercompany eliminations	Consolidated
Amortization in year ended Dec. 2016	$ 471	$14,338	$ 18,541	$ 296	$—	$ 33,647	$—	$—	$ 33,647
Unamortized balance as of Dec. 31, 2016	2,475	96,241	133,496	3,259	—	235,471	—	—	235,471

Year ended or as of December 31, 2015

	Millions of yen								
	Reportable segment								
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	General corporate and intercompany eliminations	Consolidated
Amortization in year ended Dec. 2015	¥ 41	¥ 1,833	¥ 2,279	¥ 0	¥—	¥ 4,153	¥—	¥—	¥ 4,153
Unamortized balance as of Dec. 31, 2015	343	12,122	17,770	—	—	30,236	—	—	30,236

Year ended or as of December 31, 2014

	Millions of yen								
	Reportable segment								
	Japanese Alcoholic Beverages	International	Food & Soft Drinks	Restaurants	Real Estate	Total	Other	General corporate and intercompany eliminations	Consolidated
Amortization in year ended Dec. 2014	¥—	¥ 1,257	¥ 2,507	¥ 1	¥—	¥ 3,764	¥—	¥—	¥ 3,764
Unamortized balance as of Dec. 31, 2014	—	10,000	19,966	—	—	29,966	—	—	29,966

vii) Gain on negative goodwill by reportable segment

Not applicable in the years ended December 31, 2016, 2015 and 2014.

21. Amounts per Share

Basic profit per share has been computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year, and diluted profit per share has been computed based on the profit available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during the year after allowing for the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

Information concerning diluted profit per share is omitted because there were no latent shares with a dilutive effect for the years ended December 31, 2016, 2015 and 2014.

	Yen			U.S. dollars (Note 1)
Year ended December 31,	2016	2015	2014	2016
Profit per share	¥121.56	¥78.40	¥0.87	$1.04

Amounts per share of net assets have been computed based on the net assets available for distribution to shareholders and the number of shares of common stock outstanding at each balance sheet date.

	Yen		U.S. dollars (Note 1)
As of December 31,	2016	2015	2016
Net assets	¥2,062.86	¥2,027.21	$17.70

On July 1, 2016, the Company carried out a share consolidation at a ratio of 1 share for 5 shares of the Company's common stock. Accordingly, values for profit attributable to owners of parent per share and net assets per share have been recalculated on the assumption that the share consolidation took place at the beginning of the year ended December 31, 2015.

22. Subsequent Events

(Appropriation of Retained Earnings)

On March 30, 2017, the following appropriation of retained earnings was approved at the Ordinary General Meeting of Shareholders:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends	¥2,888	$24,781

Corporate Data

(As of December 31, 2016)

Company Name
SAPPORO HOLDINGS LIMITED

Business
Holding company

Date of Establishment
September 1949

Head Office
20-1, Ebisu 4-chome, Shibuya-ku,
Tokyo 150-8522, Japan
info@sapporoholdings.jp

Capital
¥53,887 million

Fiscal Year-End
December 31

Number of Employees
7,858 (Consolidated) 160 (Parent company)

Main Banks
Mizuho Bank, Ltd.
The Norinchukin Bank
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Securities Traded: Common Stock
Tokyo Stock Exchange, First Section

General Meeting of Shareholders
The general meeting of shareholders of the Company is normally held in March each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders whenever necessary.

Stock Information

(As of December 31, 2016)

Major Shareholders

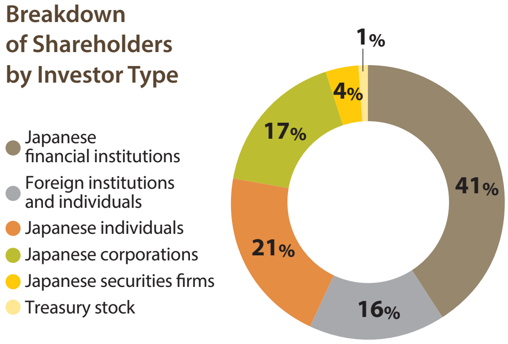
Shareholders name	Number of shares (thousands)	Percentage (%)
The Master Trust Bank of Japan, Ltd.	3,727	4.77
Japan Trustee Services Bank, Ltd.	3,187	4.08
Trust & Custody Services Bank, Ltd., as retirement benefit trust assets Mizuho Trust and Banking Co., Ltd.	2,442	3.12
Nippon Life Insurance Company	2,229	2.85
Meiji Yasuda Life Insurance Company	2,202	2,82
The Norinchukin Bank	1,875	2.40
Mizuho Bank, Ltd.	1,806	2.31
Marubeni Corporation	1,649	2.11
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	1,594	2.04
Taisei Corporation	1,400	1.79

Note: Shareholding ratios are calculated after deduction of treasury stock.

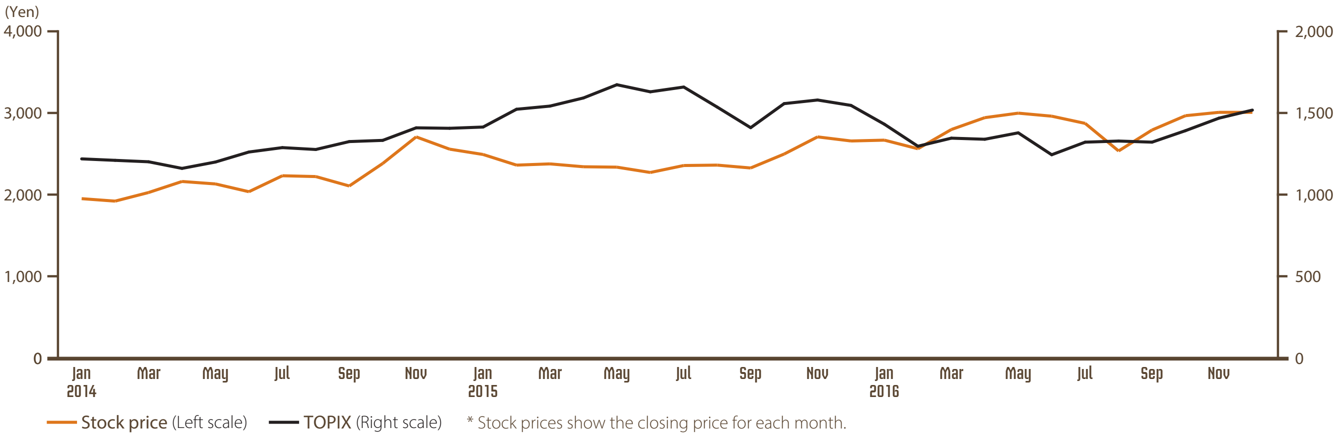
Number of Shares Issued
78,794,298

Number of Shareholders
54,785

Breakdown of Shareholders by Investor Type



Stock Price Range



Note: Stock prices have been adjusted to reflect the impact of the stock consolidation.

SAPPORO

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