ADK

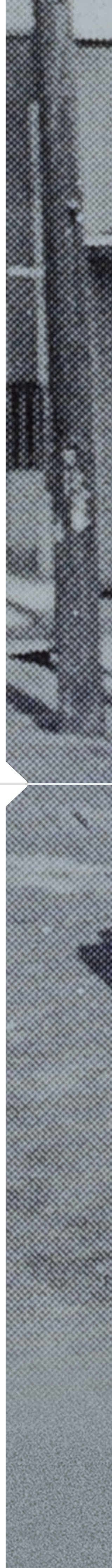
# ALL FOR NEW ADK

**ADK ANNUAL REPORT 2015**

Year ended December 31, 2015

### 60th Anniversary of ADK's Foundation

# Tracing Remarkable Progress Achieved through ADK's "Challenger" Spirit



## ONE FOR ALL,

In 1956, ASATSU (today's ADK) was founded with only four employees, thereafter enjoying steady and spectacular growth. By 1973, the company had become one of Japan's top 10 advertising agencies in terms of sales, and by 1997 had climbed all the way to third place. Company founder Masao Inagaki led employees in sharing the spirit of challenge with them that had enabled this rapid growth.

ADK is embarking on a new transformation as it carries on with the same spirit. Our goal is to be a "Consumer Activation Company." That is, we aim to become a professional group that goes beyond conventional advertising business models to actually change consumer behavior and contribute to our clients in achieving satisfactory business results.

CONTENTS


# 1956
**Foundation**

# ALL FOR ONE

## "Management by All"

### Everyone is a "challenger"

"Management by all" means each and every employee thinks like a manager, as they convert their individuality into energy and throw all of it into their work. Company founder Masao Inagaki wanted all of his employees to be pioneers, entrepreneurs, and challengers who generate new business through ideas that transcend convention. He believed that employees with high aspirations and able to leverage their individual talents would lead to the company's growth and contribute to the happiness of employees, customers, and society. He was so ambitious that he even dreamt of achieving universal human happiness.

ASATSU was founded in a small office in Kayabacho, Tokyo, with only four desks. The addition of two clerks brought the total staff to six, and that encouraged the employees to be out all day chasing new business. Thanks to their efforts, sales grew rapidly, mainly in magazine advertising.

# Pioneer

## “The essence of the adman is creativity and ingenuity.”

Comments on management by founder Masao Inagaki

1963

**ASATSU became a pioneer in the content business beginning with “8 Man,” as well as through its involvement in planning and production of domestically produced TV animation.**

“8 Man”: ©Kazumasa Hirai, Jiro Kuwata / TBS

ASATSU produced a stream of unprecedented ideas to enable it to compete with already established major companies. One idea was to attach postcards soliciting information to magazine advertisements. The company became renowned for its creativity in that media landscape, which represented its main earnings driver at the time.

In 1963, ASATSU started planning and producing domestic TV animation, a relatively small field at that time, beginning with “8 Man,” leading to recognition for its role as a pioneer in TV animation programs. Since 1979, the company has been involved in production of the animated children’s TV series “*Doraemon*,” sharing its history with the beloved character—among the most recognizable in the world.

The founder, who had spent part of his youth in mainland China, early on began to look beyond Japan’s shores. Following the normalization of diplomatic relations between Japan and China, ASATSU immediately entered the Chinese market. The company expanded its network in the 1980s and ‘90s by establishing bases in Europe and Asia while entering into tie-ups with global advertising companies. ASATSU formed a business and capital alliance in 1984 with BBDO, and following its dissolution in June 1998, formed a similar alliance in August of the same year with WPP plc, the world’s largest advertising group. The alliance continues to this day.

# Reliance

## "I want to solidify the management base, inject capital into internationalization and invest in employees."

Comments on management by founder Masao Inagaki

1987

**ASATSU became the first advertising company to be listed on the Second Section of the Tokyo Stock Exchange.**

In 1987, ASATSU became the first advertising company to be listed on the Second Section of the Tokyo Stock Exchange, followed in 1990 by its listing on the First Section. For ASATSU, which had marked its 30th anniversary the year before, the listing engendered increased reliability in its stock offerings, and became a driving force for investment in the company's priority fields of animation, sports and culture businesses, sales promotion, and advancement of internationalization. The occasion also inspired the employees, who by then numbered 940, to even greater growth.

The Tokyo Stock Exchange launched its Listed Company Award in 1992, and ASATSU received the Award Regarding Dividends and Reduction of Investment Unit for the first two years the award was given.

Currently, ADK strives to make fair disclosure to the market and took measures to enhance governance from early on. ADK's efforts to emphasize management transparency include the introduction of three outside directors in 2012. This stance was recognized with the fiscal 2012 Corporate Activity Award, which ADK received for Designation of Outside Directors as Independent Directors.

# Harmony

## “Think from the standpoint of harmony and aim to establish an ADK for the world.”

Comments on management by founder Masao Inagaki

1998

**Business and capital tie-up with WPP plc, the world’s largest advertising group**

In 1998, ASATSU entered into a business and capital tie-up with WPP plc, the world’s largest advertising group. The tie-up was swiftly finalized, in keeping with a comment by WPP Chief Executive Sir Martin Sorrell that “he who hesitates is lost.” Sir Martin explained his rationale for the alliance, citing his “high evaluation of ASATSU’s growth potential, profitability, and honest and open transparency.” He was further impressed with our attitude of consistently challenging tradition. Koichiro Naganuma, then an executive director and later president of ADK, joined WPP’s Board of Directors and collaborated with WPP Group companies to expand ADK’s global network. He also studied the management methods of European and U.S. agencies, and significantly advanced ADK’s internationalization.

Our cooperative relationship with WPP has now entered its second stage, one that is more directly connected to business results. In collaboration with the operational companies of the WPP Group, we are making excellent use of their abundant resources in our marketing activities in Japan, while leveraging WPP’s network to support overseas expansion by our Japanese clients.

# Unity

## "Believe in the words of Confucius: 'If the people under your reign are happy, people will be attracted to come from afar.' I earnestly desire that this will unite the advertising industry."

Comments on management by founder Masao Inagaki

1999

Merger of ASATSU Inc. and Dai-ichi Kikaku Co., Ltd.
Launch of ASATSU-DK Inc.

The origins of Dai-ichi Kikaku go back even further than those of ASATSU, to 1951, when the company was first established by Naoya Sakai and Saburo Hotta as Dai-ichi Kikaku Senden Co., Ltd., before changing its name to Dai-ichi Kikaku in 1961. Dai-ichi Kikaku produced a succession of popular TV shows, earning the epithets "the Planner Ichiki" and "the TV Ichiki." A TV commercial created by Dai-ichi Kikaku for Mitsubishi Motors' 1984 Mirage featured a frill-necked lizard that was hugely popular, generating a boom that swept Japan. Over-the-counter trading for the company's shares began in 1996.

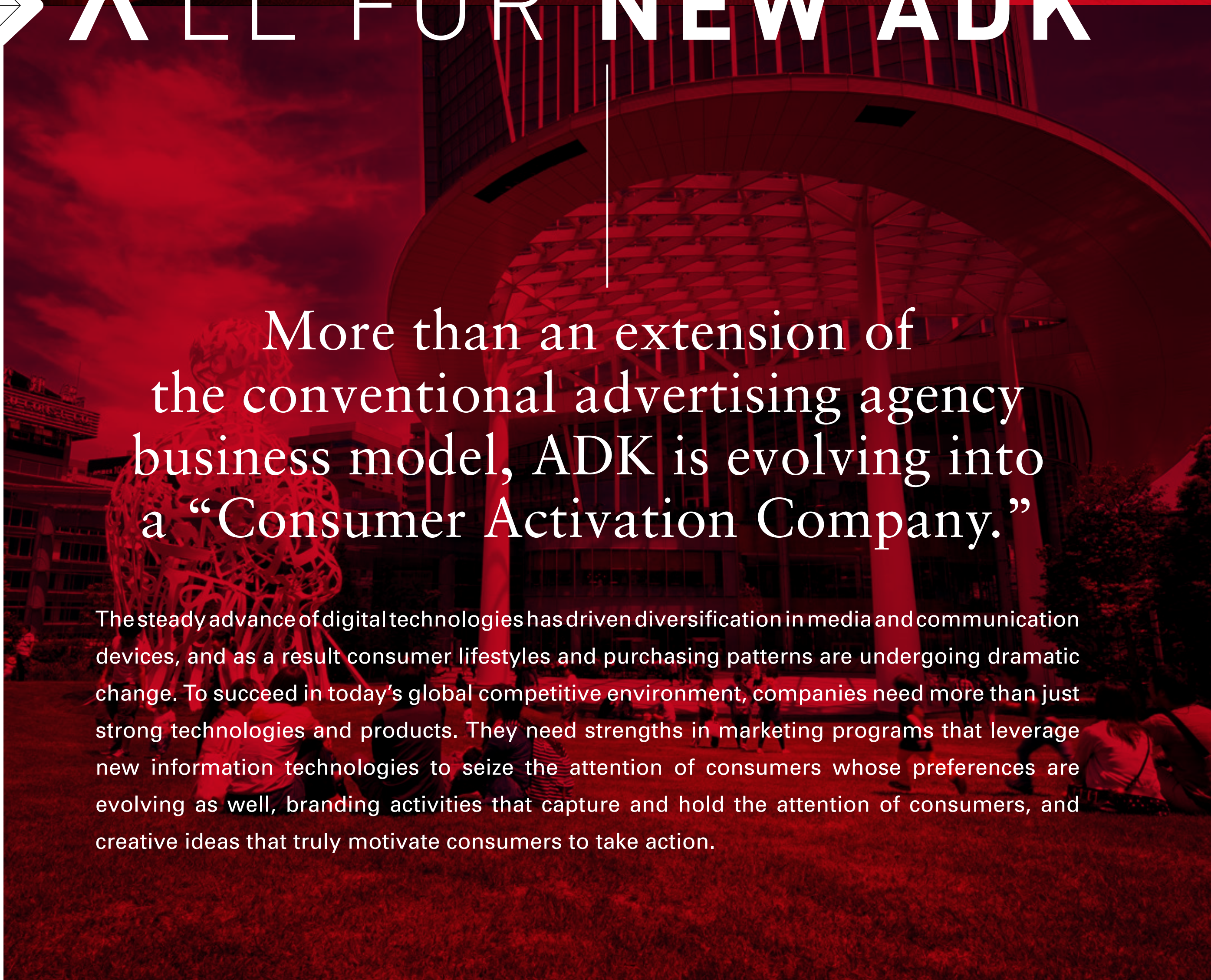
ASATSU and Dai-ichi Kikaku merged in 1999 to become ASATSU-DK, or ADK. At the time, ASATSU's sales ranked third in Japan, while Dai-ichi Kikaku's stood seventh. The goals of the merger were synergies of functions and increases of scale, ensuring clients of even higher-quality services.

ADK has firmly established its position as the third major force in Japan's advertising industry, following Dentsu and Hakuhodo. Three years later, in 2002, ADK moved its head office to "ADK Shochiku Square" in the Tsukiji area of Tokyo, uniting previously dispersed offices in both location and name.

2016

60th ANNIVERSARY

# ALL FOR NEW ADK



## More than an extension of the conventional advertising agency business model, ADK is evolving into a "Consumer Activation Company."

The steady advance of digital technologies has driven diversification in media and communication devices, and as a result consumer lifestyles and purchasing patterns are undergoing dramatic change. To succeed in today's global competitive environment, companies need more than just strong technologies and products. They need strengths in marketing programs that leverage new information technologies to seize the attention of consumers whose preferences are evolving as well, branding activities that capture and hold the attention of consumers, and creative ideas that truly motivate consumers to take action.

> ABOUT ADK

## Fiscal 2015 Highlights

### Financial Results

**Gross billings**
Down 0.3%
¥351,956 Mn

**Net income**
Up 45.1%
¥5,362 Mn

**Operating income**
Up 19.6%
¥4,901 Mn

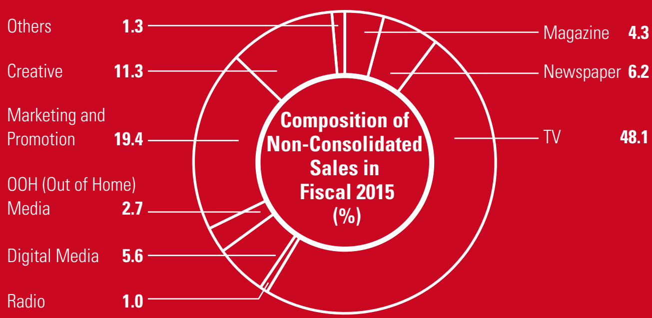
**Net income per share**
¥127.72

### Achievements

- > **Net income reported in fiscal 2015 second only** to fiscal 2005's
- > **Moved ahead with "development of 3D Database"** that integrates data on consumer attitudes, purchase patterns, and media contacts
- > **Strengthened the base of the content business** by making d-rights Inc. a subsidiary
- > **Made progress with structural reforms** at Group companies in Japan and overseas
- > **Improved ROE from 2.8% to 4.2%** by promoting capital efficiency

## Types of Solutions Provided by ADK

ADK provides its clients with comprehensive solutions in such fields as magazines, newspapers, TV, radio, digital media advertising, store promotions, and events. In fiscal 2015, we recorded year-on-year gains in gross billings in the fields of TV, marketing and promotion, digital media, and radio.



# Business at a Glance

## Consolidated Five-Year Summary

| Income Statement Data | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| | | | | | Millions of Yen |
| Gross billings | ¥ 347,111 | ¥ 350,822 | ¥ 342,786 | ¥ 352,984 | **¥ 351,956** |
| Gross profit | 45,836 | 46,169 | 45,104 | 48,568 | **48,824** |
| Selling, general and administrative expenses | 41,983 | 42,993 | 43,721 | 44,470 | **43,923** |
| Operating income | 3,852 | 3,175 | 1,383 | 4,097 | **4,901** |
| Ordinary income | 5,627 | 5,314 | 4,327 | 7,251 | **8,590** |
| Income before income taxes and minority interests | 5,028 | 4,069 | 5,600 | 6,433 | **9,189** |
| Net income | 2,293 | 2,781 | 3,430 | 3,696 | **5,362** |
| Comprehensive income | (1,794) | 13,559 | 27,187 | 10,189 | **12,950** |

| Balance Sheet Data | | | | | Millions of Yen |
|---|---|---|---|---|---|
| Total assets | ¥ 184,188 | ¥ 195,163 | ¥ 228,170 | ¥ 243,317 | **¥ 235,205** |
| Total net assets*1 | 96,800 | 109,559 | 130,972 | 134,999 | **125,488** |
| Shareholders' equity*2 | 95,834 | 108,521 | 129,873 | 134,184 | **124,004** |

*1. Net assets comprise shareholders' equity, accumulated other comprehensive income, subscription rights to shares, and minority interests.
*2. Accompanying the enforcement of the Companies Act, shareholders' equity is calculated as total net assets at the year-end, excluding year-end minority interests and year-end subscription rights to shares.

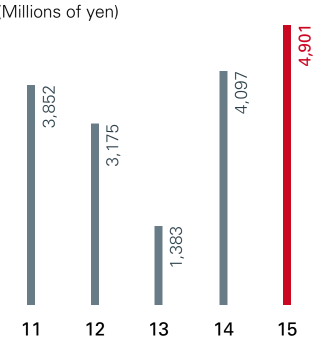
| Per Common Share Data | | | | | Yen |
|---|---|---|---|---|---|
| Net income per share (EPS) | ¥ 54.37 | ¥ 65.83 | ¥ 81.79 | ¥ 88.32 | **¥ 127.72** |
| Dividend per share | 109.00 | 111.00 | 141.00 | 571.00 | **248.00** |
| Book value per share | ¥2,270.23 | ¥2,567.03 | ¥3,105.40 | ¥3,204.87 | **¥2,947.40** |
| No. of common shares outstanding* | 45,155,400 | 42,655,400 | 42,155,400 | 42,155,400 | **42,155,400** |

* Includes treasury stock

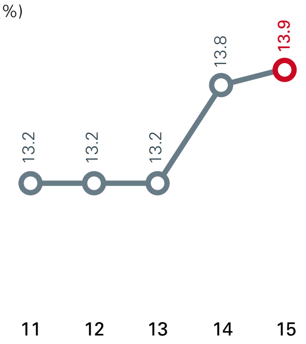
| Financial Ratios | | | | | |
|---|---|---|---|---|---|
| Gross profit ratio | 13.2% | 13.2% | 13.2% | 13.8% | **13.9%** |
| Operating margin*1 | 8.4 | 6.9 | 3.1 | 8.4 | **10.0** |
| Staff cost / Gross profit | 61.8 | 62.5 | 65.4 | 61.5 | **60.5** |
| Return on equity (ROE)*2 | 2.3 | 2.7 | 2.9 | 2.8 | **4.2** |
| Equity ratio*3 | 52.0 | 55.6 | 56.9 | 55.1 | **52.7** |

*1. Operating margin = Operating income ÷ Gross profit
*2. ROE = Net income ÷ Average total shareholders' equity (based on total shareholders' equity at the beginning and end of the fiscal year) × 100
*3. Equity ratio = Equity ÷ Total assets

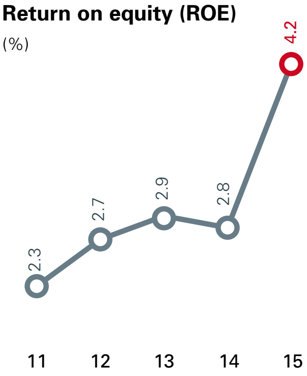
**Operating income**
(Millions of yen)




**Gross profit ratio**
(%)



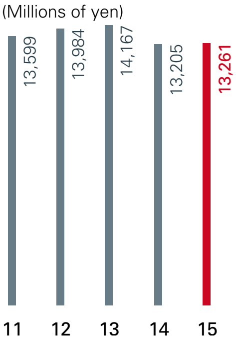

**Return on equity (ROE)**
(%)



## Non-consolidated Gross Profit by Business Discipline

### Magazine

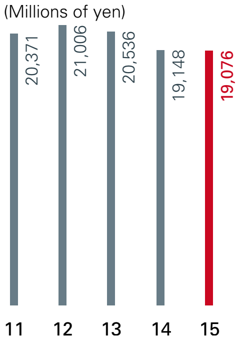
(Millions of yen)




We reported increased gross billings to clients in the Cosmetics/Toiletry, Hobbies/Sport Goods, Apparel/Jewelry, although gross billings to clients in Beverage/Tobacco, Government/Organizations, Information/Communication declined.

### Newspaper

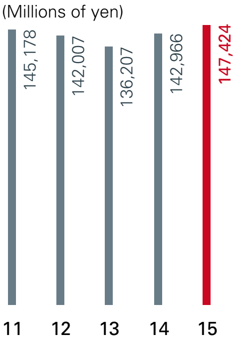
(Millions of yen)




We reported increased gross billings to clients in the Transportation/Leisure, Distribution/Retail, Food, although gross billings to clients in Cosmetics/Toiletry, Information/Communication, Automobile/Automobile-related Products declined.

### Television

(Millions of yen)

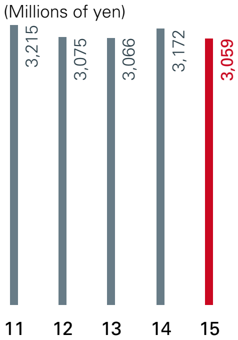



Overall "program*" gross billings from TV program ads rose 1.9% year on year on growth in program sponsor ad orders from clients in Information/Communication, Finance/Insurance, Real Estate/Housing. Overall "spot**" gross billings from TV program ads increased 3.7% year on year on growth in "spot" placement orders from clients in Information/Communication, Food, Apparel/Jewelry. With regards to TV content, overall gross billings rose 4.9% year on year.

*Ad slots for program sponsors, i.e. "time."
**Biddable ad slots available for local, regional, or national programming across mediums, ranging from national networks to local cable.

### Radio

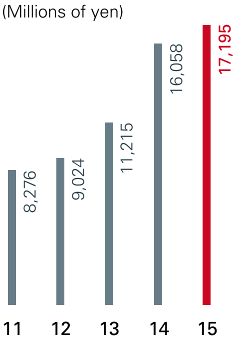
(Millions of yen)




We reported increased gross billings to clients in the Real Estate/Housing, Cosmetics/Toiletry, Information/Communication, although gross billings to clients in Finance/Insurance, Beverage/Tobacco, Transportation/Leisure declined.

### Digital Media

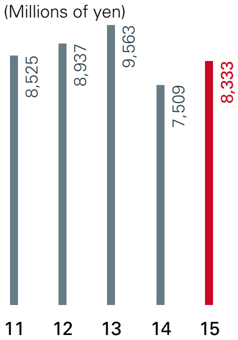
(Millions of yen)




We reported increased gross billings to clients in the Apparel/Jewelry, Information/Communication, Pharma/Medical supplies, although gross billings to clients in Finance/Insurance, Restaurants/Other service, Transportation/Leisure declined.

### OOH Media

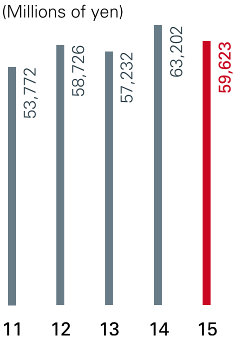
(Millions of yen)




We reported increased gross billings to clients in the Information/Communication, Publishing, Cosmetics/Toiletry, although gross billings to clients in Restaurants/Other service, Pharma/Medical supplies, Home appliances/AV equipment declined.

### Marketing and Promotion

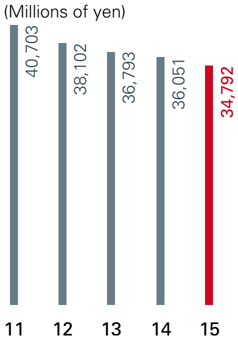
(Millions of yen)




We reported increased gross billings to clients in the Beverage/Tobacco, Energy/Material/Machinery, Education/Medical Service/Religion, although gross billings to clients in Distribution/Retail, Finance/Insurance, Cosmetics/Toiletry declined.

### Creative

(Millions of yen)




We reported increased gross billings to clients in the Information/Communication, Beverage/Tobacco, Home appliances/AV equipment, although gross billings to clients in Food, Automobile/Automobile-related Products, Hobbies/Sport Goods declined.

## To Our Stakeholders

**We recall the "challenger" spirit behind our Company's founding and accelerate our transformation to a Consumer Activation Company, as we mark our 60th anniversary.**

Shinichi Ueno

**Shinichi Ueno**
Representative Director,
President & Group CEO

## Fiscal 2015 Performance Review

### Ahead with Building a Foundation and Structural Reform

Advertising and other areas of the communication environment have been completely transformed by the dramatic progress of digital technology and rapid spread of social media. Meanwhile, the Japanese advertising market that is centered around mass media has reached maturity, and there is growing demand to meet the needs of Japanese advertisers aiming to expand into Southeast Asian countries, where strong economic growth is forecast.

Under these circumstances, we announced VISION 2020 in August 2013, outlining our roadmap for growth toward fiscal 2020 and declared our transformation to a Consumer Activation Company. We are making drastic changes that we see as our "new founding," deeming the first stage up to fiscal 2016 as the period to build a foundation and implement structural reforms.

The conventional advertising agency business is based on a model that creates advertisements and provides advertising spots to foster awareness of products and services of the clients among consumers. So building a foundation means developing a management base to achieve our transformation away from the conventional model and into a Consumer Activation Company. The new entity provides solutions that prompt consumers to take action and serves as a marketing support arm that resolves advertisers' issues. By structural reform, we mean the promotion of reforms aimed at improving profitability as well as capital efficiency.

As we pursued efforts focused on foundation building and structural reform, gross billings for fiscal 2015 were limited to ¥351.9 billion, down 0.3% from the previous fiscal year, due to factors including declines in Marketing and Promotion and in Creative at the parent company ADK and sluggish performance at some subsidiaries. Meanwhile, operating income was up 19.6% year on year to ¥4.9 billion. The figure exceeded the initial forecast, as some progress has been made in structural reform at Group companies in Japan and overseas, along with contributions from new consolidated subsidiaries. We also achieved net income of ¥5.3 billion, up 45.1% year on year, the second-highest level on record following ¥5.9 billion in 2005, as a result of a fall in extraordinary loss, such as office transfer expenses that had occurred in the previous fiscal year.

We must admit, though, that VISION 2020 is behind schedule when viewed in light of our initial plan. We have thus concluded it is too early to move on to the growth acceleration stage envisioned for fiscal 2017. We are profoundly aware of not meeting the expectations of our shareholders and investors on this point, and we intend to take aggressive measures to regain lost ground.

1956
Foundation

2016
60th ANNIVERSARY

## Medium-Term Business Plan

### We are Targeting Growth in Consolidated Operating Income at Around 10% Annually on an Organic Basis While Accelerating Transformation.

I will now explain our efforts for foundation building and structural reform in fiscal 2015. As for the former, Axival Inc., which will become a consolidated subsidiary in fiscal 2016, is making progress with development of the 3D Database that integrates data on consumer attitudes, purchase patterns, and media contacts. Its analytical capability, optimization of the advertising budget, and planning that is closely linked to consumer activation have gained a solid reputation, and inquiries from advertisers have increased.

Animation content has traditionally been ADK's strength. In this area, we have established a track record of developing new fields for existing content, such as "One Piece Kabuki," a collaboration of the popular comic series "One Piece" and "kabuki," a unique Japanese traditional performing art. In addition, we made d-rights Inc. a subsidiary with the aim of enhancing the foundation of our overseas content business. d-rights has its strength in networks in Europe and the United States as well as a solid track record in rights management and programming sales of the international hit series "Beyblade."

Regarding structural reform, our operating margin surpassed the 10% level as a result of improving the income management system and implementing rigorous cost control. We also went ahead with rationalization of operations at domestic and overseas subsidiaries.

Yet the task of instilling awareness of the Consumer Activation Business throughout the entire Group is still taking time. Furthermore, although we set an investment budget of ¥40.0 billion for M&A activities, the key to growth acceleration, the reality is that we have not made much progress, with the exception of d-rights Inc. In addition, I believe that business cooperation with WPP plc, with whom we have a business and capital tie-up, is still inadequate. This has been an issue we need to address.

To resolve these issues and make a transition to the growth acceleration stage, it will be vital to ensure the organization functions in an organic manner following the major reform carried out in January of this year. This will be discussed later in detail. At the same time, we believe it is extremely important to develop an environment where talented employees can demonstrate their capabilities through the recruitment and nurturing of human resources, which constitute the greatest resource for realizing reforms. From this viewpoint, we will aggressively invest in human resources. We are proactively hiring professional talent in the creative field, in particular for overseas businesses, and aggressively promoting personnel who have expertise in investment strategy and capital policy to M&A and Finance. We will further work to recruit human resources with a wide range of skills and potential, as well as enhance our educational/training programs, thereby establishing an environment that facilitates the securing and development of talented individuals able to create added value, and that encourages employees to demonstrate their capabilities by improving their motivation.

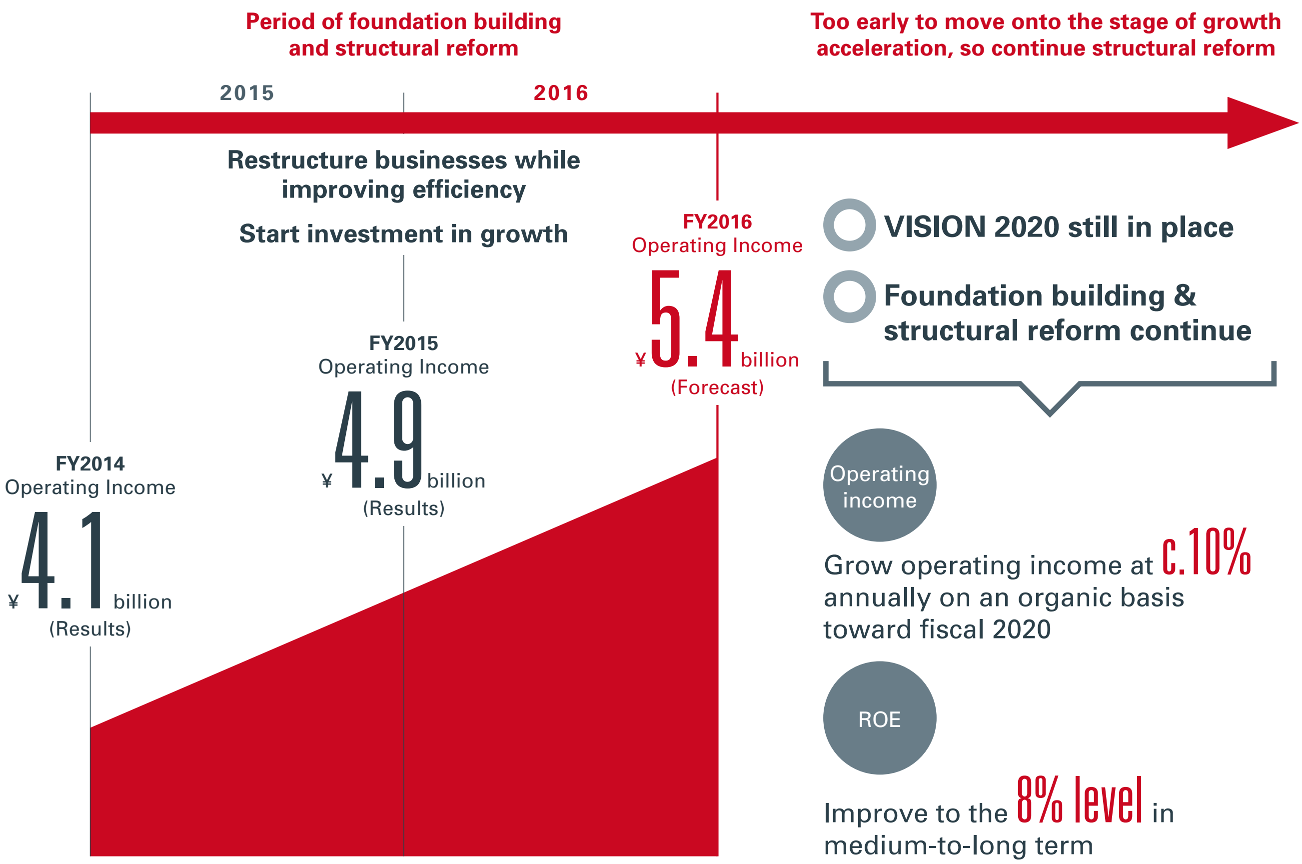
I feel that progress has also been slow with structural reform, even though operating income grew 3.8-fold from fiscal 2013 when VISION 2020 was formulated. In fiscal 2015, ADK's non-consolidated gross profit ratio declined. This was mainly attributable to some sluggish sales of television program (time) advertising slots held by ADK, as well as a failure to stem a profit decline in certain event and promotion businesses. As such, we need to bolster our earnings capability. In addition, we are still only at the halfway point with respect to optimizing the group value chain including subsidiaries. However, there is substantial room for improvement in the reform of the profit management structure since the issues are clear and we have already initiated improvement measures.

Based on the circumstances, we have concluded that it would be premature to achieve the target (consolidated operating income of ¥7.0 billion) of the mid-term business plan that ends in fiscal 2016, a milestone set forth in VISION 2020. From fiscal 2016, we will reform the organizational structure and further promote efforts for foundation building and structural reform. At the same time, we will realize growth in consolidated operating income at around 10% annually on an organic basis toward fiscal 2020, while accelerating our transformation into a Consumer Activation Company.

## We will Maintain Profit Growth Aiming for a Record High Level Through Major Organization Reform in Fiscal 2016.

In fiscal 2016, we expect gross billings to increase slightly, by 0.6%, from the previous fiscal year to ¥354.0 billion as we continue to focus on the shift to

**Outline of Medium-Term Plan and Progress to Date**



the high-value-added Consumer Activation Business and profit management of projects. Needless to say, however, we fully intend to maintain double-digit operating income growth of ¥5.4 billion, up 10.2% year on year, and achieve a record high level of net income of ¥5.5 billion, up 2.6% year on year by steadily improving profitability.

Above all, the centerpiece of our efforts in fiscal 2016 will be the major organization reform carried out in January. Under the new structure, the ADK Group's growth and priority fields were reorganized into five business sectors, namely the Domestic Core Business, ADK Global, Media & Data Insight, Content Business, and Entertainment & Sports Marketing. In this organization, each sector comprises a highly specialized value chain including Group companies, and sector heads are responsible for expanding business through added value creation and profit management. In particular, the Domestic Core Business and ADK Global were drastically reorganized.

Additionally, we consolidated the media business division and the digital and data insight division into the Media & Data Insight Sector with a view to broadening the scope of business while promptly responding to changes in advertising marketing methods. This sector will be the "bedrock" of Consumer Activation that develops insight from analysis of big data, further enhances the value of media, and motivates consumers to take action with an optimum plan.

## Domestic Core Business Transforms Added Value into Profit Through Integration of Functions.

We created the Domestic Core Business as the core sector of ADK. The structure comprises three functions: the account service function and branch, the creative solution function, and production subsidiaries. These functions collaborate in an integrated manner to transform added value into profit. Since the conventional business model of earning commissions by selling advertising slots is limited, we will resolve various issues facing clients going forward by combining the account service function and the creative solution function. We will also place the affiliated Group companies under the control of the sector and further promote in-house production within the Group in an effort to improve consolidated income through the value chain.

The Domestic Core Business is headed by Yoshiki Uemura. He has experience in account service, creative, and process management, giving him the capability of total management that encompasses sales, output, and income management.



### Forecast for FY2016 (Consolidated) (February 15, 2016 release)

Millions of yen

| | FY2015 Results | **FY2016 Forecast** | Increase (Decrease) | Y-o-Y Change |
|---|---|---|---|---|
| Gross Billings | 351,956 | **354,000** | +2,043 | +0.6% |
| Gross Profit | 48,824 | **49,960** | +1,135 | +2.3% |
| Gross Profit Ratio | 13.9% | **14.1%** | | |
| SG&A Expenses | 43,923 | **44,560** | +636 | +1.4% |
| Staff Cost | 29,523 | **30,190** | +666 | +2.3% |
| Operating Income | 4,901 | **5,400** | +498 | +10.2% |
| Ordinary Income | 8,590 | **8,550** | -40 | -0.5% |
| Income before Income Taxes and Minority Interests | 9,189 | **8,510** | -679 | -7.4% |
| Net Income | 5,362 | **5,500** | +137 | +2.6% |
| Operating Margin | 10.0% | **10.8%** | | |
| Staff Cost / Gross Profit | 60.5% | **60.4%** | | |

### Organization Reform

| Sector | Major division to encompass |
|---|---|
| Domestic Core Business | Account Service, Direct Business, Creative, Planning, some more |
| ADK Global | Overall international business (both outbound and inbound) |
| Media & Data Insight | Mass media+digital, data management |
| Content Business | Content business |
| Entertainment & Sports Marketing | Olympics & Paralympics, Culture and Sports related business |

## ADK Global Aims to Become a Multi-nationally Connected Network Agency.

As ADK Global is indispensable for future growth acceleration, we provide it with the head office function of global strategy including the account management function. With the hub office in Singapore, we will accelerate the localization of the organization, human resources, and management to capture increasing inbound and outbound demand and further deepen cooperation between overseas bases through the utilization of WPP's resources and other means, as well as make greater efforts to develop local markets.

ADK Global is headed by Rob Sherlock. Since joining ADK in May 2014, he has paved the way for efficient operation of overseas subsidiaries. We will integrate the backyards of three Shanghai-based companies among Chinese subsidiaries and consolidate major bases in Europe and the United States to improve efficiency. In addition, we have appointed competent creative directors in ADK Global to establish a global creative structure for future growth. While being a Japanese company, we will aim to become a multinational network agency, familiar with the business practices of each region and grasping consumer insight in demonstrating creativity.

### Domestic Core Business

**Yoshiki Uemura, Head of Sector**
Executive Director

1986 Joined Dai-ichi Kikaku Co., Ltd.
Primarily held post of Senior Office in charge of Creative, ISC, Branch
Jan. 2016 Head of Domestic Core Business

**Account Management Center**
Account Management Division

**Domestic Network Center**
Branch

**Integrated Solution Center**
Creative Division
Activation Planning Division
Activation Produce Division
Communication Architect Division

**Group Companies**
ADK Arts
ADK International

### ADK Global

**Rob Sherlock**
Operating Officer, ADK Global CEO

Primarily worked in FCB
2014 Joined ADK
Jan. 2016 Operating Officer and Head of ADK Global Sector

**ADK Global-Tokyo**
Overseas legal entities in Europe and U.S.A.

**Chris Gurney**
Regional ECD, APAC

**Richard Yu**
CCO, Taiwan

**Kelvin Leong**
ECD, China

**ADK Global-Asia**
Overseas legal entities such as ones in China, Thai, Indonesia

# Capital Policy

## Streamlining Capital and Improving Operational Efficiency While Maintaining Capacity for M&As.

Our policy on return to shareholders sets the total payout ratio, including buy-back, at 50% of consolidated net income while ensuring long-term stability by setting a minimum annual dividend at ¥20 per share. ADK regards enhancing shareholder value for the medium to long term as one of the highest management priorities and therefore recognizes ROE to be one of the key indicators for improving shareholder value. We aim to raise ROE to more than 5% in the medium term and to 8% in the medium to long term by pursuing capital optimization simultaneously with income growth.

We are working to dispose securities holdings and improve capital efficiency within the Group for the purpose of capital optimization. As a result, we were able to generate a capital surplus that can be returned to shareholders, together with excess funds, in the form of a special dividend, thereby promoting capital optimization while maintaining capacity for M&As. In fiscal 2014, we decided to pay dividends equivalent to nearly 20% of our shareholders' equity (an annual dividend of ¥571 including a special dividend of ¥526 per share). As a result, ROE significantly improved from 2.8% to 4.2%. We were able to return excess capital in fiscal 2015 in the form of a special dividend (an annual dividend of ¥248 including a special dividend of ¥215 per share).

Meanwhile, the market value of WPP shares held by ADK increased substantially compared with the value at the time we entered into the business and of the capital tie-up, giving greater impact to ADK's capital structure. In other words, when WPP's stock price rises, our ROE declines, and vice versa. As such, it is becoming difficult to determine the efficiency of "business" itself based on ordinary ROE. Needless to say, improving ROE is an important issue; however, we calculate business-based ROE as an original indicator, which excludes the impact of WPP shareholdings (the capital equivalent to WPP shareholdings and dividends received from WPP)* to ensure we are not swayed only by ROE. With business-based ROE estimated to be 5.8% at the end of fiscal 2015, operational efficiency is making more progress than it appears. In fiscal 2016, operational efficiency is expected to further improve due to a greater contribution from capital reduction.

* WPP shareholdings, which were acquired for ¥30.0 billion (acquisition cost of ¥22.2 billion after an impairment loss) in fiscal 1998, had a market value of ¥87.4 billion at the end of fiscal 2015. In addition, dividends received from WPP amounted to ¥2.4 billion in fiscal 2015.

# Marking ADK's 60th Anniversary

## ADK's New Founding Recalls the "Challenger" Spirit

2016 marks 60 years since Masao Inagaki founded the Company with only four employees. ADK is currently Japan's third-largest advertising agency with about 1,900 employees. Our "Management by All" philosophy is what has supported ADK's growth. This ideal calls for transforming individuality into energy and totally utilizing that energy by every single employee from the management's perspective. However, "management perspective" does not simply mean "doing our best as though we are all managers." It means that every single employee is a "challenger" and an entrepreneur who realizes his or her dream. The ADK Group must be an organization comprising such personnel. With the philosophy that has been in place since ADK's founding, we are a group of creative professionals capable of responding to changes of the times and creating new businesses.

Inagaki passed away at the age of 92 on April 16, 2015. We will carry on our founder's "challenger" spirit and unflinchingly push ahead with reforms toward VISION 2020. I respectfully ask for your continued support and understanding going forward.

Shinichi Ueno

**Shinichi Ueno**
Representative Director,
President & Group CEO

01 INSIGHTS

# CONSUMER

## We Will Motivate Consumers

“Consumer Activation” is an advanced form of comprehensive communications that motivates consumers to take action. It encompasses a consistent focus on the actual daily lives of consumers and the creation of an array of touchpoints that encourage consumers to engage with brands and to enjoy highly positive brand experiences. It is also a marketing process that motivates consumers to take specific actions and is directly linked to the business success of clients. ADK’s communications services do not end with the transmission of a message. We have moved beyond the issue of “how the brand should be positioned in the hearts of consumers” to consider how to “move consumers” – in other words, how to “activate” them.

## 02 CREATIVITY

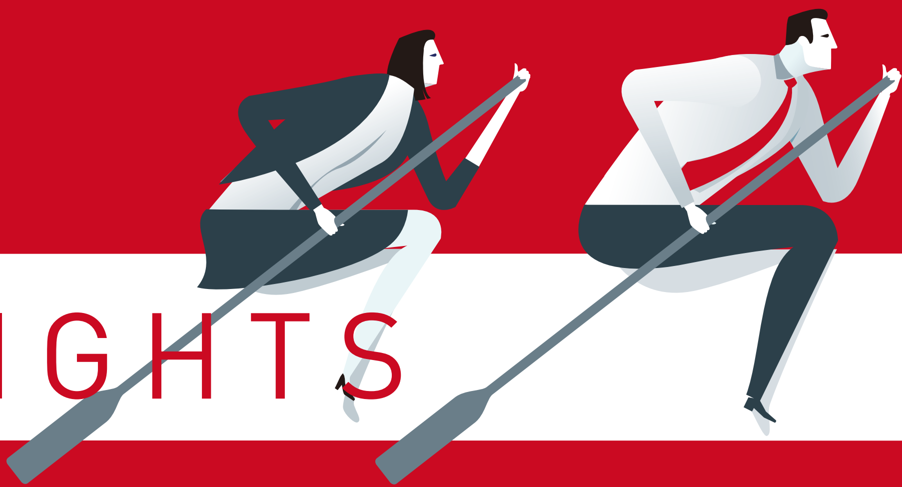
# ACTIVATION

## 03 ACTION

**Three Strengths that Motivate Consumers**

# STRATEGIC INSIGHTS

## 01 INSIGHTS



### What is it that motivates consumers to take action?

We draw on our extensive data and advanced analytical skills to uncover these strategic insights. By closely observing day-to-day consumer lifestyles and by leveraging a wide range of information technologies and experiences cultivated as communications professionals, we set objectives based on specific activities, with a sharp focus on “who will we motivate and how will we motivate them.”

Axival

intage

adflex COMMUNICATIONS

Sticki

## Providing solutions that yield results by deciphering increasingly diverse and complex consumer behavior

Consumer tastes and preferences as well as consumer information touchpoints are becoming increasingly diverse and complex. Amid this environment, ADK established Axival Inc. in June 2014 to further strengthen its capabilities to gain strategic insights. Axival combines ADK's accumulated proprietary data related to consumer attitudes, values, lifestyles, and categories of media use (websites, TV, etc.) with purchasing data and media viewing log data provided by our tie-up partner INTAGE Inc., a marketing research pioneer. The company is building a 3D database that deciphers consumer behavior from the three perspectives of attitude, purchasing, and media use. Using this digital data, ADK comprehensively analyzes consumer characteristics and their purchasing processes to provide optimal media planning and solutions.

In February 2015, ADK established a business tie-up with adflex communications, inc., which has strengths in digital solutions in the direct marketing field. By combining adflex's fortés with ADK's comprehensive proposal capabilities in media and marketing, we enhanced our system that effectively provides client businesses with solutions that directly lead to results through O2O (online to offline) communications.

The sending and sharing of information on the Internet through platforms such as YouTube and Facebook have become a part of everyday life. That is why, in June 2015, ADK launched Sticki, a global network of video production and marketing companies. It also established a system to offer comprehensive solutions in the field of video marketing, including insight extraction as well as creative production and amplification through the leveraging of crowdsourcing.*

*Crowdsourcing enables companies to collect ideas by tapping into the knowledge and experiences of crowds through open platforms online. Ideas that match the needs of clients are secured by offering a reward in some form to those who came up with them so clients can employ the ideas in their businesses.

## Amassing specialized marketing knowledge specific to generations and industries

ADK is honing its ability to carry out finely tuned, multifaceted analyses of a variety of markets, as research centers are conducting specialized surveys and analyses in generational marketing segments such as kids/families, young people, and seniors. Meanwhile, a company-wide project has set up Category Teams according to industry, including finance, IT, medical care, distribution & retail, automobile, real estate & energy, food, game & toy, drink & beverage and cosmetic & toiletry. The aim is to advance our ability to meet client needs by accumulating specialized knowledge.

See page 33 for details.

# 02 CREATIVITY

## Creations that shake up the world

Our objectives can only be achieved through superior creativity. We determine the client's fundamental issues, generate core ideas, and optimize consumer touchpoints and media. We then develop appealing content as the venue for the meeting of the consumer and the brand. Throughout this process, we leverage creativity from all perspectives, focus it, and motivate the consumer to take action.

**Major Advertising Awards (2011-2015)**

### Overseas

- London International Awards, Gold Medal
- Spikes Asia, GRAND PRIX
- Singapore Effie Awards, Gold Medal
- One Show, Gold Medal
- Cannes Lions Young Lions PR Competition, Gold Medal
- Cannes Lions, Silver Medal
- Asia Pacific Advertising Festival, Gold Medal
- CLIO AWARDS, Silver Medal

### Japan

- Newspaper Advertising Awards, Excellence Award
- Yomiuri Advertising Awards, Grand Prize
- Asahi Advertising Award, Grand Prize
- Mainichi Advertising Design Awards, Excellence Award
- Nikkei Advertising Awards, Grand Prize
- Nittele CM Awards, Grand Prize
- JBA Awards, Grand Prize
- Dentsu Advertising Awards, Excellence Award
- Good Design Award
- Fujisankei Communications Group Advertising Awards, Grand Prize

## Creative professionals brainstorm ideas together as teams

Creativity is the wellspring for our ideas on motivating consumers. ADK is home to a group of creative professionals who conceive ideas unencumbered by existing notions or practices. ADK's head office is designed on the creative concept of an "Idea Camp," where people can open their minds and create an unconventional atmosphere. Unique individuals with distinctive personalities gather in this camp-like office to brainstorm ideas together.

Our people, including creative directors, sales personnel, as well as planning division personnel from a range of fields, come together to generate a flow of innovative concepts, constantly asking themselves, "Is this something that will shake up the world?" Our collection of prize-winning work is recognized each year with a multitude of advertising awards of every variety in Japan and overseas.

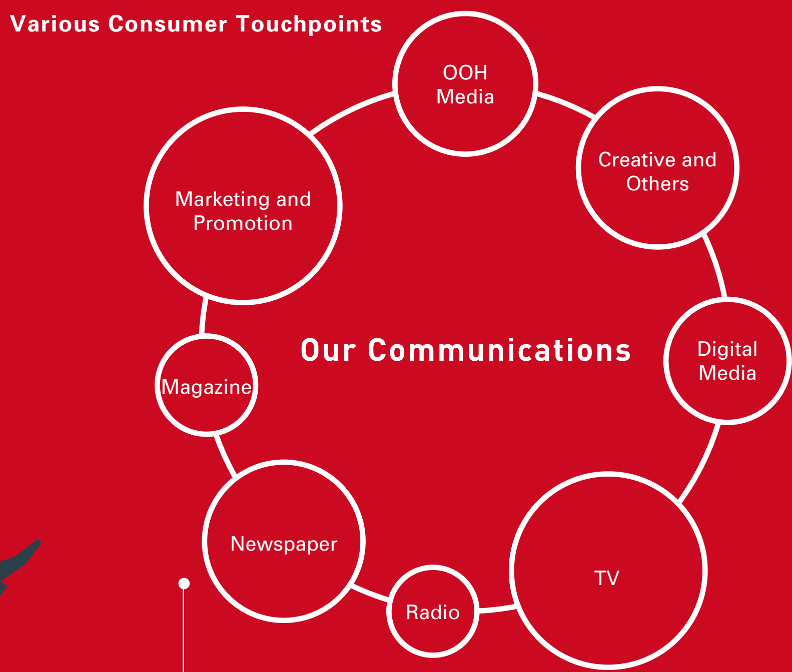
**Three Strengths that Motivate Consumers**

# THE POWER OF ACTION

## 03 ACTION

## Contributing to clients’ businesses by motivating consumers

The ability to generate results through business execution – that is the DNA that has been passed on to each generation of ADK employees since the Company was founded in 1956. We are a group of professionals that earnestly take on difficult tasks and work steadily to achieve them. We constantly track progress toward the completion of our objectives and strive to contribute to the business success of our clients with ideas and execution that move consumers.




## Motivating consumers by understanding the value of content

Content has considerable power to genuinely motivate consumers. ADK has built up an extensive track record in the content business, mainly in TV anime programs and live action programs with special effects. The company has worked on the planning and production of programs as well as character merchandising and tie-ups that link movie releases with in-theater promotions, in addition to acquiring all the advertising slots for these programs. ADK is involved in many ways with a substantial volume of content that enjoys enduring popularity in Japan, including the Doraemon and Crayon Shinchan programs. ADK also organizes live events based on manga and animation, such as musicals and voice actor concerts. We also produce original content used in publishing, merchandising, and sales promotions for clients.

In November 2014, ADK jointly established Anime Consortium Japan Inc. Through the Internet, we are actively promoting distribution of Japanese animation, which has a large fan base overseas, as well as pursuing e-commerce for related merchandise. We made d-rights Inc. into a subsidiary in February 2015. The company has strengths from having a major hit with the Beyblade series and an overseas network centered on Europe and the United States. ADK is also proactively helping Japanese companies create demand from overseas.

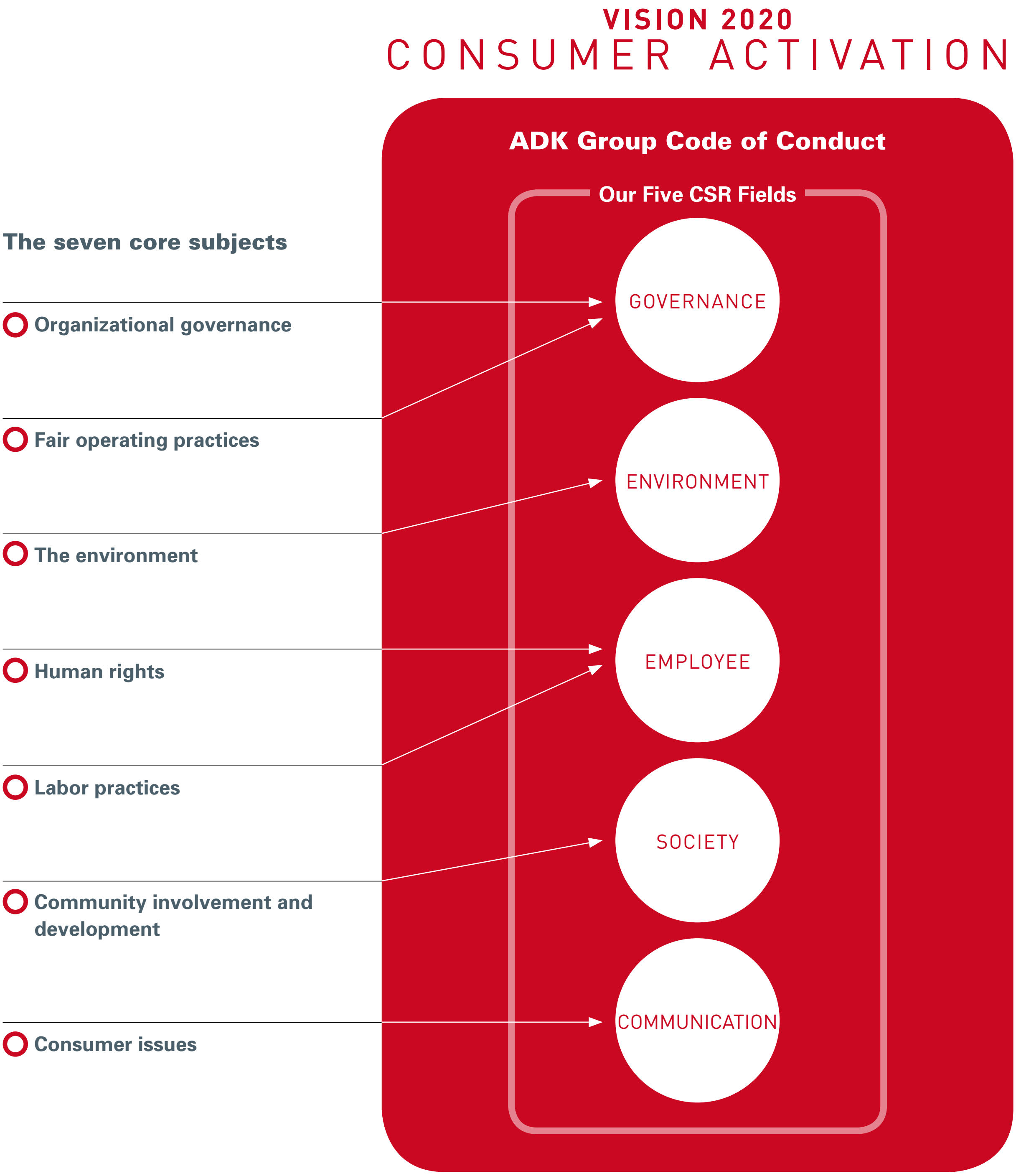
## Supporting the global strategies of clients in Japan and overseas through a multinational network

ADK is moving ahead with localization of operations and human resources through a network that stretches worldwide, and it is accelerating efforts to offer the best communication plans to suit local needs and customs. Particularly in Asia, a region of remarkable economic growth, we have already accumulated extensive knowledge and knowhow in China. ADK was the first Japanese advertising agency to make inroads in the country. We are steadily preparing a base in areas where significant growth is expected in the future, including the markets of Singapore, Thailand, Vietnam, and Indonesia.

In January 2016, ADK launched a bold reform effort with the aim of expanding its overseas business. We have restructured our organization, human resources, and management in ways that can respond to the global environment, rather than continuing to conduct our overseas businesses in the same way as our advertising business in Japan. In Singapore, we have established the sector office of ADK Global, which was reorganized according to growth and focus fields. We also aim to become a multinational network agency through ADK Global Tokyo, which conducts operations for foreign client companies in Japan along with business in Europe and the United States, as well as through ADK Global Asia, which handles business in China and Asia.

## Our CSR Activities

ADK is also the marketing company that knows the most about consumers and clients, and accordingly we fill the role of further reinvigorating communication in society. ADK recognizes the importance of its role in fulfilling environmental and social responsibilities in terms of achieving sustained growth and contributing to society through its business activities. The ADK Group's CSR activities are conducted in accordance with the regulations of the CSR Committee. In addition, with reference to the seven core subjects of the ISO 26000 international social responsibility guidelines, ADK has set up five fields in which the Company is focusing its efforts.



GOVERNANCE

Organizational governance

# Earning the Trust of Society

**ADK recognizes that robust corporate governance is essential for the continuous enhancement of enterprise value and regards it as an important management issue. The Company strives to ensure sound and transparent management with the aim of securing the trust of shareholders, investors, and other stakeholders. To this end, we have established a corporate governance framework that clearly separates the supervisory functions of the Board of Directors from business execution and enables monitoring by outside directors.**

http://www.adk.jp/en/company/governance/



## Transition to a "Company with Audit and Supervisory Committee" System

With the aim of improving the supervisory function of the Board of Directors and thereby bolstering governance, ADK moved to a "Company with Audit and Supervisory Committee" governance system following approval of a resolution at the Ordinary General Meeting of Shareholders held on March 30, 2016.

The Audit and Supervisory Committee, newly formed under the new governance system, is composed entirely of outside directors. Through its supervision of how members of the Board of Directors perform their duties, the Audit and Supervisory Committee is expected to ensure greater management transparency. In addition, the outside directors serving on the Audit and Supervisory Committee are expected to perform audit functions and thereby enable the Board of Directors to better supervise business execution and enhance the thoroughness of ADK's corporate governance.

## Discretionary Committees

Attendant with its selection of the "Company with Audit and Supervisory Committee" governance system, ADK established the Nomination Committee and the Compensation Committee as committees under the Board of Directors, increasing the transparency of its management structure.

The Nomination Committee, chaired by an outside director, is composed of the president, the chairman of the Board, more than one outside director, and directors selected by resolution of the Board. The committee advises the Board on matters concerning decisions on candidates for directors, operating officer appointments, and nominations for the representative director, among other duties.

The Compensation Committee, also chaired by an outside director, is composed of the president, the chairman of the Board, more than one outside director, and directors selected by resolution of the Board. The committee deliberates on matters concerning compensation of directors and operating officers to provide recommendations decided by the Board.

| Committee name | Total committee members | Executive directors* | Outside directors | Chair |
|---|---|---|---|---|
| Nomination committee | 4 | 3 | 1 | Outside directors |
| Compensation committee | 4 | 3 | 1 | Outside directors |

*Executive directors also work as operating officers.

## Participation of Outside Directors on Our Board

At ADK, we have nominated multiple outside directors with high degrees of independence to serve on our Board of Directors. We have confirmed, based on the Tokyo Stock Exchange's criteria for independent directors, that all our outside directors meet TSE standards. In addition, to enhance the supervision function performed by the Board of Directors over business execution, the Nomination Committee is responsible for selecting the Board chair from among the directors apart from the president. The Board chair is invested with authority to convene Board meetings.

## Determining Compensation for Directors and Operating Officers

To provide incentives for business execution to executive directors (directors who are also operating officers), ADK has introduced a system of compensation linked to business performance. The Compensation Committee is tasked with deliberating on matters regarding compensation for directors and officers, with the Board of Directors ultimately determining such matters. The Compensation Committee is structured to enable monitoring by outside directors with the aims of securing the trust of shareholders, investors, and other stakeholders and ensuring management soundness and transparency.

GOVERNANCE

# Board of Directors

As of March 30, 2016

## Directors

**Shinichi Ueno**
Representative Director, President & Group CEO

2005 Operating Officer
2008 Director and Operating Officer
2012 Director and Senior Operating Officer
2013 Representative Director and President & Group CEO (Current position)

**Noriyuki Nakai**
Executive Director, Operating Officer

2011 Operating Officer
2015 Director and Operating Officer
2016 Director and Operating Officer, Division Director of Corporate Strategy Division and in charge of Human Resources and Governance Center (Current position)

**Yoshiki Uemura**
Executive Director, Operating Officer

2007 Operating Officer
2008 Director and Operating Officer, in charge of Creative Department
2013 Senior Operating Officer, in charge of Integrated Account Service Management (Branch) and Division Director of Purchase Management Division and East Japan Network Division
2016 Director and Operating Officer and in charge of Domestic Core Business Sector (Current position)

**Yoshitaka Ishiwata**
Executive Director, Operating Officer, CFO

1999 Financial Controller of WPP Group plc
2009 Chief Operating Officer of KVH Co., Ltd.
2014 Chief Financial Officer of Asurion Japan K.K.
2016 Director and Operating Officer, in charge of Finance & Process Management Center and Division Director of Finance Division (Current position)

**Stuart Neish**
Non-Executive Director

1991 Joined Coopers Deloitte in London, Senior Audit Manager
2006 WPP Group (Asia Pacific) Ltd., Director (Current position)
2011 Director (Current position)

## Outside Directors

**Hideaki Kido**
Outside Director,
Chairman of the Board

1999 Vice President & General Manager of ITOCHU International Inc.
2011 Executive Director and Chairman of IMAGICA TV Corporation (Current position)
2012 Outside Director (Current position)
2015 Chairman of the Board (Current position)

**Toshio Kinoshita**
Outside Director,
Chairman of Audit and Supervisory Committee

2005 Management Board Member, International Business of Chuo Aoyama Audit Corporation
2007 Chief Executive of The Japanese Institute of Certified Public Accountants
2013 Council Member of The Japanese Institute of Certified Public Accountants (Current position)
2015 Outside Director (Current position)
2016 Chairman of Audit and Supervisory Committee (Current position)

**Masayuki Yoshinari**
Outside Director,
Member of Audit and Supervisory Committee

2001 Executive Governor, Japan Federation of Bar Association
2007 Vice president, Japan Federation of Bar Association
2011 Outside Corporate Auditor
2016 Outside Director, Member of Audit and Supervisory Committee (Current position)

**Megumi Suto**
Outside Director,
Member of Audit and Supervisory Committee

2003 Member of the Disclosure Work Group of the Financial Council
2008 Director of the Waseda University Center for Finance Research
2015 Outside Corporate Auditor
2016 Outside Director, Member of Audit and Supervisory Committee (Current position)

GOVERNANCE

# Fair operating practices

## Compliance

The Compliance Committee, established by the Group, includes outside attorneys as members. The ADK Group Code of Conduct has been designated as the Group's compliance policy, and on that basis the committee conducts educational programs, formulates guidelines, and implements other activities. The ADK Group Code of Conduct declares that the Group will not establish any relationships with antisocial forces. In addition, the Compliance Committee has formulated the ADK Compliance Guideline and the Manual for Handling Antisocial Forces and Unfair Requests. The Company is taking steps to ensure awareness of these guidelines, such as making them available on the Company's intranet. In addition, to support the early discovery of violations and suspected violations of laws or regulations, the Compliance Committee operates the Group Helpline System, which includes an option for callers to contact an external law office based on a guarantee to protect anonymity. Moreover, under the supervision of the Risk Management Committee, the divisions in charge of managing subsidiaries are to direct each one to develop and maintain their own internal control systems and to promote internal control systems at the Group level by calling on subsidiaries to implement specific measures such as complying with the ADK Group Code of Conduct and adopting the Group Helpline System.

## Information Security System

ADK's operational processes involve the handling of client and consumer information. Accordingly, the Group pays careful attention to information security and works to provide ongoing education to employees. ADK has obtained ISO 27001 and ISMS certifications, for example, based on the Group Declaration on Information Security. In these ways, the Group has put into place and conducts operations under a rigorous security system. Moreover, each year the Group ensures its systems are up to date, taking steps ranging from internal audits to inspections, and renews its certifications.

## Ensuring an Active General Meeting of Shareholders

ADK sends out the convocation notice for its General Meeting of Shareholders early, at least three weeks in advance. In addition, the notice and its English translation (a summary version) are posted on the websites of ADK and the Tokyo Stock Exchange prior to the date it is sent out.

ADK strives to offer large numbers of shareholders and their proxies the opportunity to attend the General Meeting of Shareholders. Among the measures the Company has taken are the elimination of a stipulation in the Articles of Incorporation that limited qualification for proxy attendance exclusively to shareholders and the avoidance of holding its meetings on the same day many other shareholders' meetings take place.

With regard to exercising voting rights, we have made it possible to vote via the Internet from a PC or mobile phone. ADK also participates in the electronic voting platform for institutional investors operated by ICJ, Inc.

Through these initiatives, we are working to ensure an active General Meeting of Shareholders and the smooth exercise of voting rights.

## Status of IR Activities

ADK strives to enhance the timeliness, fairness, and usefulness of its information disclosure when it carries out its IR activities. When making earnings announcements or releasing other types of information, the division responsible for IR takes the lead and cooperates organically with other divisions to ensure that information is shared among corporate strategy, finance, accounting, corporate head office, and other related divisions. In addition, comments received from investors and analysts at briefings or in separately arranged interviews are conveyed to management as feedback. Information is also disclosed to individual and institutional investors through investor information posted on our website in Japanese and English. We strive to offer a full range of content, including data indicators, IR archive, IR calendar, and stock/shareholder information.

Through its IR policy based on its basic principles, ADK will continue working to enhance its IR activities in order to contribute to the Company's growth in the medium to long term by building strong, trust-based relationships so as to ensure proper evaluation by all our stakeholders.

| Activities in 2015 | Attendance | Contents |
|---|---|---|
| Financial results briefings | 2 times | President explains first-half and full-year results |
| Accepted separate interviews | 73 times | Interviews with analysts and institutional investors in Japan and overseas |

GOVERNANCE

# Conversation with Outside Directors

Outside Director,
Chairman of the Board
**Hideaki Kido**

Outside Director,
Chairman of Audit and Supervisory Committee
**Toshio Kinoshita**

## ADK seeks to enhance medium- to long-term corporate value by proactively bringing in outside perspectives.

ADK transitioned from a company with corporate auditors to a Company with Audit and Supervisory Committee as of the Ordinary General Meeting of Shareholders held in March 2016. The aim was to improve the supervisory function of the Board of Directors and thereby further strengthen corporate governance.

**Please tell us about the role each of you will play as outside directors.**

**Kido** As chairman of the board and an outside director, I am especially conscious of my role as a representative of general shareholders. I am careful not to be overly swayed by the opinions of particular shareholders. At the same time, I make good use of the knowledge and personal network acquired during my many years of experience in satellite broadcasting and content business at a general trading company to enhance ADK's corporate value.

**Kinoshita** I draw on my expertise as an accountant and my experience of participating in discussions on formulation of the Corporate Governance Code as a Chief Executive of The Japanese Institute of Certified Public Accountants, while serving as head of the Audit and Supervisory Committee. ADK is unique in having an independent outside director rather than an internal director as chairman of the board. This puts ADK at the forefront of Japanese corporations. I believe the Company deserves full marks on this point for its fair and open management stance.

**What is the significance of the transition to a Company with Audit and Supervisory Committee?**

**Kinoshita** While the majority of companies in Japan have the "company with corporate auditors" system of corporate governance, many overseas investors find this hard to understand. They are concerned whether outside corporate auditors can supervise the Board of Directors without voting rights, while having

Outside Director **Hideaki Kido**

the right to speak at Board meetings. Such concerns will be dispelled in the case of a "Company with Audit and Supervisory Committee," since members of the Audit and Supervisory Committee have voting rights at Board meetings. This means that I am required to indicate my opinion not only about the legitimacy but also about the appropriateness of management. I am prepared to do this in my role on the Board.

**Kido** About 60% of ADK's shares are owned by overseas investors, and it is standard for them to have the "company with committees" as a governance structure. The "Company with Audit and Supervisory Committee" structure is therefore easier to understand and viewed more positively than the previous "company with corporate auditors" structure.

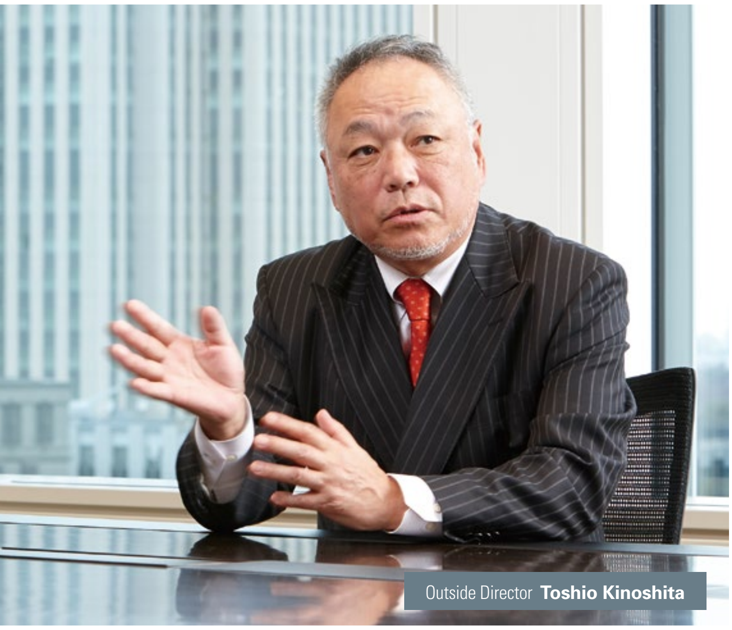
**Reasons for election of Hideaki Kido**

Mr. Kido has ample experience in international business and corporate management and possesses broad knowledge regarding global business and the broadcasting business. We believe that he will play a significant role in decision-making on important managerial matters and supervision of business execution.

**How do you find the discussions at ADK's Board of Directors meetings?**

**Kido** At a typical company, proposals are received prior to the Board meeting and the discussion lasts about two hours or so. At ADK, we usually spend the entire day before the meeting listening to explanations on the proposals and then discuss them for four or five hours at the meeting itself. As chairman, I try to make sure the proceedings go smoothly, but a lot of proposals come up at each meeting and the discussion often gets passionate, so it ends up taking that long.

**Kinoshita** Moreover, we often have an extra meeting or workshop on a certain agenda item. I feel that Board of Directors meetings at ADK are conducted with genuine passion.


Outside Director **Toshio Kinoshita**

**What is your take on "offensive governance" as stated in the Governance Code?**

**Kido** "Improving ROE" is a key phrase. But for ADK, that is not due to the introduction of the Governance Code but because the Company has a high ratio of shares held by overseas investors, and so has always been keenly aware of this issue. However, even if we are absolutely committed to attaining an ROE of 5% or above, it would not last long unless it is accompanied by quality. In fact, our ROE looks low because the WPP shares held by ADK account for a significant portion of our balance sheet, but if we calculate ROE by excluding the WPP shares, it is already over 5%.

**Kinoshita** While it is important to aim for a level of ROE that will earn recognition from shareholders, I have doubts about the tendency to evaluate management based on ROE's annual ups and downs. That was the case with American company Enron. If you put all your effort into making ROE look good, you eventually damage the company's soundness. One of my important responsibilities is monitoring to make sure that does not happen. What we need to look at is the quality of ROE and whether or not it consists of something that can generate value over the long term. For example, ADK's operating margin has improved considerably. I hope the Company will be valued on indicators like these that will lead to future improvements in ROE.

**Kido** For the past year, the president has spearheaded discussions on organizational reform to improve performance. At the general trading company where I worked, we had set up a function to minimize mistakes and losses in a complicated organizational structure of interrelated departments. Based on that experience, I spoke up vigorously on this subject. We eventually arrived at an ideal structure in the reorganization of the Company into five business sectors in January 2016. This is a structure in which the manager of each sector runs the sector and is responsible for profit. We have also introduced the PSV (Process Supervisor) approach, a system dedicated to carrying out unified management of operational processes. As for overseas businesses, we have set a course of selection and concentration while consulting with WPP about use of their resources, etc. in consideration of capital efficiency, rather than opening branches around the world.

**Kinoshita** With the rapid progress of digital technology, young people in their 20s and 30s are not just moving away from television, but a growing number do not watch TV at all or even own one. The era in which you could sell products with TV commercials has already passed. If a company clings to the old ways and focuses on securing TV commercial spots, it will be left further and further behind in a constantly changing environment. In terms of "offensive governance," I believe the biggest mission of the current management team is to succeed in building a base that can generate stable profits in the long term, even after the conclusion of the Tokyo Olympics in 2020; that is, to achieve our evolution into a Consumer Activation Company.

**Reasons for election of Toshio Kinoshita**

The Company recommends the appointment of Mr. Kinoshita as an outside director based on his broad knowledge in the fields of accounting and audit, and his extensive experience as a Certified Public Accountant. We believe that he will play a significant role in decision-making on important managerial matters and supervision of business execution.

ENVIRONMENT

The environment

# Acting With Consideration for the Environment

**ADK has set up an EMS Secretariat under the CSR Committee at our head office and acquired ISO 14001 certification to promote our Environmental Management System (EMS).**

## Environmental Action Guidelines

### Basic Philosophy

Each and every ADK employee recognizes the importance of the impact of the communication business on the environment. For this reason, we are pursuing various business initiatives aimed at contributing to society and protecting the environment. Moreover, by making proposals to advertisers and strengthening alliances with media and partner companies, we are striving to realize effective environment-oriented communication and help build a sustainable society.

### Activity Guide

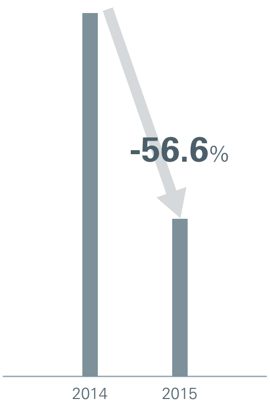
- Through our environmental management system, we will work to prevent environmental pollution and achieve continual improvements.
- By developing, proposing, and implementing environment-oriented advertising and promotions based on our Group's Code of Conduct, we will help address environmental problems.
- We will actively and continuously reduce carbon dioxide emissions by saving resources and energy, while adopting a 3R (reduce, reuse, recycle) policy and embracing green purchasing practices.
- We will ensure that our business activities conform to environmental laws and regulations, as well as all other requirements to which the Company is in agreement.

## Activities Considering the Environment

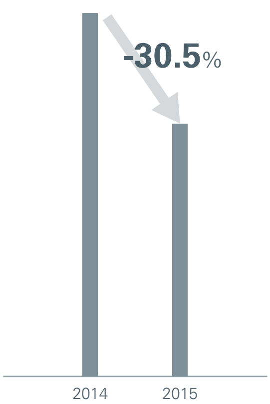
ADK's Tokyo head office is located in Toranomon Hills, a development that received the highest ranking of "S" on CASBEE® (Comprehensive Assessment System for Built Environment Efficiency), in an effort to control electricity consumption. We strive to cut down on electricity used in everyday operations. In addition, we encourage the use of a "Group address system," wherein employees are not assigned specific desks and have paperless meetings in order to reduce paper usage and waste.

ADK has also been actively involved in the Ecocap campaign to collect and recycle plastic bottle caps. We have received a certificate of appreciation from RE LIFESTYLE, an NPO, in recognition of our many years of cooperation.

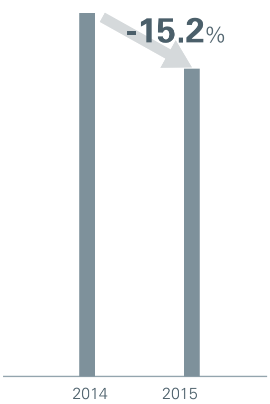
**Heating & cooling expenses for non-regular work hours (Head office, total floor space)**




**Electric power consumption (Head office, total floor space)**




**Total price of copier paper & printing paper consumption**





感 謝 状

株式会社 アサツーディ・ケイ 様

あなたはＮＰＯ法人Ｒｅライフスタイルの活動に積極的に取り組み、環境の保全と世界の子どもたちの成長に多大な貢献をされました。

これまでの活動の貢献に深く感謝の意を表します。

平成２７年１１月１０日

特定非営利活動法人
Ｒｅ ライフスタイル
理事長 藤枝慎治

Certificate of appreciation from NPO RE LIFESTYLE

EMPLOYEES

**Human rights**
**Labor practices**

# Enabling All Employees to Work to Their Full Potential

**Human resources are promoting ADK's growth. We seek to create a working environment that respects the diversity, character, and individuality of employees and where every individual can make the most of his or her abilities.**

## ADK Group's Code of Conduct

ADK has established the ADK Group's Code of Conduct. The Code stipulates respect for the human rights of employees and compliance with labor laws and regulations. It also aims to implement objective evaluations of the talents and performance of each individual without any discrimination based on race, religion, nationality, sex, age, or disabilities.

## Working Style

As part of our work-style reforms, ADK has designed distinctive office spaces where employees can interact in a relaxed atmosphere and unique meeting rooms that stimulate their creative thinking. We are further carrying out a variety of initiatives led by the Human Resources Division and the Employment System Deliberation Committee to streamline operations and improve our working style. Wednesdays are "No Overtime Day," a way of curbing working beyond regular hours across the Company and throughout the year for the sake of employees' health. We also set roughly one day a month to encourage employees to use their paid vacation time. Thanks to this initiative, the rate of paid vacation usage has improved by 8%, from 43% in fiscal 2014 to 51% in fiscal 2015, lifting the rate above the average for private sector companies.* ADK will continue to carry out these and similar initiatives.

From October 2015, ADK reformed its monthly morning meeting. This is an opportunity for case examples beneficial to business operations to be shared throughout the Company, helping employees to make use of them in their jobs. A light meal, the "Power Breakfast," is served free of charge from 8 a.m. on meeting days.

*The average rate of paid vacation usage at private sector companies was 47.6%, according to the "General Survey on Working Conditions 2015" by the Ministry of Health, Labour and Welfare.

Monthly morning meeting in the head office seminar room

A light meal, the "Power Breakfast," is served on meeting days

## Annual Children's Visiting Day

ADK holds a "Children's Visiting Day" every August, when employees' children are invited to the Company. In 2015, the main program was "The Tick Tack Studio," a project by ADK Creative Director Shiho Ishikawa that gave children a chance to cultivate their own creativity. The Children enjoyed using their boundless imagination to make original clocks from clay and colored paper.

The children who came to "Children's Visiting Day" participated in "The Tick Tack Studio" program, making clock art.

SOCIETY

**Community involvement and development**

# Contributing to Society and the Future

**ADK strives to make good use of its knowledge as an advertising company to contribute to society. We hope to create an energetic society and a brighter future.**

## Photo Letter from Minami Sanriku

In March 11, 2011, the Great East Japan Earthquake struck Japan. Just after the disaster, we published "Photo Letter from Minami Sanriku," a collection of photographs taken by Shinichi Sato, who operates a photography store in the region. Since then, we have continued to publish the photobooks every year, not only to deliver messages from the affected area, but also to encourage as many people as possible to visit Minami Sanriku, by promoting the attractive features of the area as a travel guide.

This activity has been sustained through the interest of people at ADK, and the release of volume five of the series is set for summer 2016. Moreover, a portion of book sales has been donated to the town of Minami Sanriku.

Photographer, Shinichi Sato

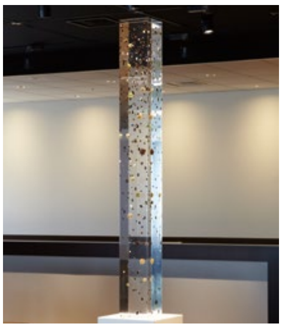
## Workplace Experience Program

ADK continues to offer Workplace Experience workshops on specific themes to high school and junior high school students. Through these workshops, students can experience for themselves the appeal and process of advertising, from originating concepts to the shaping of ideas in ways that effectively communicate the intended message to target audiences. In 2015, creators led workshops on commercial and graphic production at ADK Arts studio, featuring themes such as the Olympics.


Workplace experience workshop

## ADK Art Gallery

ADK has set up a gallery next to the entrance of its Toranomon head office, where original works by up-and- coming artists are displayed. In this and other ways, ADK supports talented young people unfettered by conventional ideas.



From Jun. 2014 to Sep. 26, 2015
Name: Power of Action
Created by: Satoshi Hirose

From Sep. 26, 2015
Name: Rabbit House
Created by: Shintaro Miyake

COMMUNICATION

Consumer issues

# Moving People's Lives in a Better Direction

**ADK discovers and makes good use of generation- and category-specific consumer insights to resolve issues for our clients, as well as providing this information to the broader public through seminars and books.**

## Establishment of Research Centers by Generation

ADK carries out generation-specific marketing activities, further exploiting them to resolve client issues.

### Kids Marketing Center

We offer suggestions ranging from insights into parent-child dynamics to business opportunities, based on multi-faceted analyses of the kids and family market built up through our extensive history in content businesses such as TV animation.

### Aradan (Baby Boomer) Research Center

ADK conducts research and analysis on consumer behavior and attitudes among seniors, mainly targeting the generation in and around their 60s who represent Japan's baby boomers and comprise a substantial part of the population.

### Wakamono (Young Consumers) Studio

ADK has initiated the "Wakamono (Young Consumers) Studio," a marketing group made up of university students. Working together, we track the actual situation of young people and use this information to help plan youth-oriented brand campaigns and product development.

## Category Teams

ADK implements category teams with specialized knowledge and skills to provide finely tuned solutions in 10 business fields, including Finance, IT, Medical Care, Distribution & Retail, Automobile, Real Estate & Energy, Food, Game & Toy, Drink & Beverage and Cosmetic & Toiletry.


## The Book of ADK

ADK utilizes a range of publications to promulgate surveys it has conducted based on its knowledge of planning, marketing, communications, and other fields in the advertising business.


"R3 Communications Relevance, Reputation, Relationship"
Publisher: Sendenkaigi Co., Ltd.

## 60th Anniversary CSR and CSV Projects

In 2016, ADK celebrates the 60th anniversary of its foundation. To mark the occasion, ADK has conducted a contest for CSR and CSV projects and activities throughout the entire ADK Group including its Japanese and overseas subsidiaries. From the total of 52 proposals received, including some from abroad, ADK will begin preparations to implement selected projects following their announcement during the anniversary celebrations.

# FINANCIAL SECTION

CONTENTS



The financial statements and notes thereto in this section are the English-language translation of the Japanese original and were prepared by the Company at its sole discretion from financial information, including consolidated financial statements included in the 2015 Annual Security Report (61th Yukashoken Hokokusho). Please be advised that this English-language version of the annual report was not audited by our external auditors Ernst & Young ShinNihon LLC. It was solely and exclusively prepared for the convenience of readers outside of Japan.

# Management's Discussion and Analysis

**Fiscal 2015 Consolidated Performance Highlights**

- Gross billings down **0.3%**, to **¥351.9** billion
- Gross profit up **0.5%**, to **¥48.8** billion
- Gross margin up **0.1%**, to **13.9%**
- Operating income up **19.6%**, to **¥4.9** billion
- Net income of **¥5.3** billion; net income per share of **¥127.72**

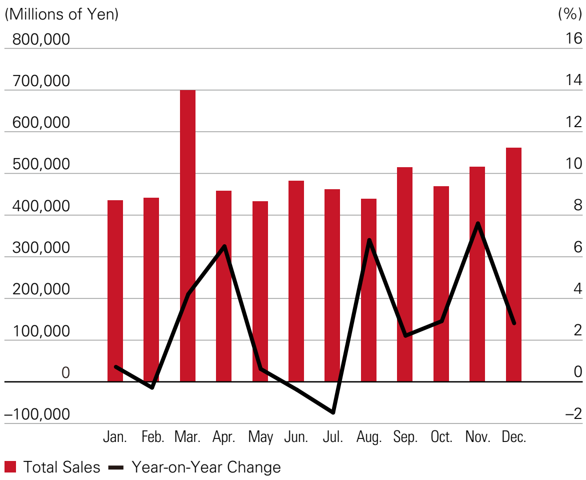
## Overview of Fiscal 2015

During the current period (from January 1, 2015 to December 31, 2015), the Japanese economy made a moderate improvement in corporate earnings backed up by the government-and the Bank of Japan-initiated economic measures and monetary policies despite unsettling factors the world economy faces such as a crude oil price drop and financial market volatility triggered by concerns over a slowdown in the Chinese economy. At the same time, more companies stepped up efforts to improve employment and increase wages, helping consumer spending to pick up. Yet, the higher consumption tax and concerns over potential price hikes gave a new slant to consumers so they are now more likely to buy products selectively.

According to the "Current Survey of Selected Service Industries" by the Ministry of Economy, Trade and Industry, total gross billings in the advertising industry in 2015 are steady with accumulated billings up to November exceeding that of the corresponding period of the previous year.

Under these circumstances, with "VISION 2020" that ADK declared in 2013, aiming to transform itself into a "Consumer Activation Company", which not only delivers messages via advertisements but also encourages consumers to take specific actions, thereby contributing to clients' business performance. The Company expects the stage for the foundation establishment and structural reform scheduled to be completed by the end of 2016, and the stage of the accelerated growth for the period from 2017 to 2020. To make those objectives come true, in this fiscal year, ADK, the parent company of the group, continued to improve the solution base and the income management structure while each group company stepped up its efforts to contribute to building the group foundation and promoting structural reform, prompting in-house production, infra-sharing and cost control.

### 2015 Advertising Expenditures in Japan




Source: Preliminary Report on the Current Survey of Selected Service Industries: Research and Statistics Department, Minister's Secretariat, Ministry of Economy, Trade and Industry

As a result of those efforts, the Group reported gross billings of ¥351,956 million, down 0.3% from the previous fiscal year. Gross profit was up 0.5% to ¥48,824 million, while operating income increased 19.6% to ¥4,901 million. Ordinary income grew 18.5% to ¥8,590 million with the addition of ¥3,898 million non-operating income from dividend received, etc., and ¥209 million non-operating expenses. Income before income taxes and minority interests for this fiscal year increased 42.8%to ¥9,189 million with extraordinary profit of ¥1,293 million and extraordinary loss shrinking to ¥695 million as a result of decreased office relocation cost while net income for the previous fiscal year expanded 45.1% to ¥5,362 million.

## Segment Information

### Advertising Business

Gross billings to customers amounted to ¥347,522 million during this fiscal year, down 0.2% from the previous fiscal year, and segment income increased 12.4% to ¥5,018 million.

Overall domestic business registered a decrease in revenue but an increase in operating income. It saw parent company's once-improved gross profit ratio return to the FY 2014 level and a slowdown at the medical advertising subsidiary, an increase in advertisement placements at the parent company, particularly in TV, efforts to control selling, general and administrative expenses, an improvement in the gross profit ratio of production subsidiaries and a boost from a digital subsidiary and a newly consolidated content affiliate. All these contributed to results.

While overseas business is undertaking structural reforms to adopt to tough situations in offices in US, Europe and China, subsidiaries in Asia, particularly those in Thailand and Singapore, continued to perform healthily, resulting in a rise both in revenue and profits. All overseas billings are generated from advertising business, which represents 9.3% (as opposed to 8.4% in 2014) of the consolidated billings during the period under review.

ADK-Tokyo, the core unit of the Group business, reported results as follows.

The parent company generated gross billings of ¥306,801 million, almost flat compared to the previous fiscal year. Gross profit was down 5.0% to ¥32,925 million and operating income was also down 4.7% to ¥2,983 million. On a more specific note, an increase in advertisement placements in TV and Digital Media made up for a decline in Marketing & Promotion, resulting in a slight increase in gross billings. A decrease in operating income was attributed to a drop in the gross profit ratio, which was not offset by efforts to control selling and general administrative expenses including office rent and payroll.

Broken down by industry, we reported increased gross billings to clients in the Information / Communication, Beverage / Tobacco, Apparel / Jewelry, Real Estate / Housing, Food, while gross billings declined to clients in Finance / Insurance, Cosmetics / Toiletry, Distribution / Retail, Hobbies / Sport Goods, Restaurants / Other service.

### Non-Consolidated Gross Billings Breakdown by Client Industry

Millions of Yen

| | 2015 | Composition | 2014 | Composition | Change | Year–on–year change |
|---|---|---|---|---|---|---|
| Energy / Material / Machinery | **¥ 3,792** | 1.2% | ¥ 2,865 | 0.9% | ¥ 927 | 32.4% |
| Food | **26,122** | 8.5 | 25,109 | 8.2 | 1,012 | 4.0 |
| Beverage / Tobacco | **24,735** | 8.1 | 22,527 | 7.3 | 2,208 | 9.8 |
| Pharma / Medical Supplies | **15,818** | 5.2 | 15,766 | 5.1 | 51 | 0.3 |
| Cosmetics / Toiletry | **30,137** | 9.8 | 32,698 | 10.7 | (2,560) | -7.8 |
| Apparel / Jewelry | **14,236** | 4.6 | 13,082 | 4.3 | 1,154 | 8.8 |
| Precision Machinery / Office Supplies | **2,635** | 0.9 | 2,435 | 0.8 | 199 | 8.2 |
| Home Appliances / AV Equipment | **2,789** | 0.9 | 2,878 | 0.9 | (89) | -3.1 |
| Automobile / Automobile-related Products | **18,140** | 5.9 | 18,358 | 6.0 | (218) | -1.2 |
| Household Goods | **1,368** | 0.4 | 1,288 | 0.4 | 79 | 6.2 |
| Hobbies / Sport Goods | **18,501** | 6.0 | 20,006 | 6.5 | (1,505) | -7.5 |
| Real Estate / Housing | **9,374** | 3.1 | 8,332 | 2.7 | 1,041 | 12.5 |
| Publishing | **2,624** | 0.9 | 2,902 | 0.9 | (278) | -9.6 |
| Information / Communication | **35,027** | 11.4 | 28,744 | 9.4 | 6,282 | 21.9 |
| Distribution / Retail | **25,726** | 8.4 | 27,904 | 9.1 | (2,189) | -7.8 |
| Finance / Insurance | **25,845** | 8.4 | 29,574 | 9.6 | (3,728) | -12.6 |
| Transportation / Leisure | **8,568** | 2.8 | 8,158 | 2.7 | 409 | 5.0 |
| Restaurants / Other Service | **8,709** | 2.8 | 10,050 | 3.3 | (1,330) | -13.2 |
| Government / Organizations | **14,362** | 4.7 | 15,044 | 4.9 | (681) | -4.5 |
| Education / Medical Service / Religion | **5,625** | 1.8 | 5,788 | 1.9 | (162) | -2.8 |
| Signage / Other | **12,659** | 4.1 | 13,198 | 4.3 | (538) | -4.1 |
| Total | **¥ 306,801** | 100.0% | ¥ 306,718 | 100.0% | ¥ 83 | 0.0% |

Broken down by business discipline, TV Advertising, Digital Media, OOH Media and Magazine reported increased gross billings, while Marketing / Promotion, Creative, Radio, Others, and Newspaper posted decreased gross billings on a year-over-year basis.

**Non-Consolidated Performance by Discipline**

Millions of Yen

| Breakdown by discipline | | Gross billings | Composition | Y-o-Y change | Main client business industries (Top: increased industries, Bottom: decreased industries) |
|---|---|---|---|---|---|
| Media | Magazine | ¥ 13,261 | 4.3% | 0.4% | Cosmetics / Toiletry, Hobbies / Sport Goods, Apparel / Jewelry |
| | | | | | Beverage / Tobacco, Government / Organizations, Information / Communication |
| | Newspaper | 19,076 | 6.2 | -0.4 | Transportation / Leisure, Distribution / Retail, Food |
| | | | | | Cosmetics / Toiletry, Information / Communication, Automobile / Automobile-related Products |
| | TV | 147,424 | 48.1 | 3.1 | Information / Communication, Food, Real Estate / Housing |
| | | | | | Finance / Insurance, Cosmetics / Toiletry, Hobbies / Sport Goods |
| | Program | 55,634 | 18.1 | 1.9 | Information / Communication, Finance / Insurance, Real Estate / Housing |
| | | | | | Government / Organizations, Home Appliances / AV Equipment, Food |
| | Spot | 77,991 | 25.4 | 3.7 | Information / Communication, Food, Apparel / Jewelry |
| | | | | | Finance / Insurance, Hobbies / Sport Goods, Cosmetics / Toiletry |
| | Content | 13,798 | 4.5 | 4.9 | Distribution / Retail, Food, Government / Organizations |
| | | | | | Energy / Material / Machinery, Transportation / Leisure, Pharma / Medical Supplies |
| | Radio | 3,059 | 1.0 | -3.6 | Real Estate / Housing, Cosmetics / Toiletry, Information /Communication |
| | | | | | Finance / Insurance, Beverage / Tobacco, Transportation / Leisure |
| | Digital Media | 17,195 | 5.6 | 7.1 | Apparel / Jewelry, Information / Communication, Pharma / Medical Supplies |
| | | | | | Finance / Insurance, Restaurants / Other Service, Transportation / Leisure |
| | OOH Media | 8,333 | 2.7 | 11.0 | Information / Communication, Publishing, Cosmetics / Toiletry |
| | | | | | Restaurants / Other Service, Pharma / Medical Supplies, Home Appliances / AV Equipment |
| Sub-total | | ¥ 208,351 | 67.9 | 3.1 | Information / Communication, Food, Real Estate / Housing |
| | | | | | Finance / Insurance, Cosmetics / Toiletry, Hobbies / Sport Goods |
| Non-Media | Marketing and Promotion | 59,623 | 19.4 | -5.7 | Beverage / Tobacco, Energy / Material / Machinery, Education / Medical Service / Religion |
| | | | | | Distribution / Retail, Finance / Insurance, Cosmetics / Toiletry |
| | Creative | 34,792 | 11.3 | -3.5 | Information / Communication, Beverage / Tobacco, Home Appliances / AV Equipment |
| | | | | | Food, Automobile / Automobile-related Products, Hobbies / Sport Goods |
| | Others | 4,034 | 1.3 | -25.3 | Cosmetics / Toiletry, Finance / Insurance, Energy / Material / Machinery |
| | | | | | Government / Organizations Information / Communication, Pharma / Medical Supplies |
| Sub-total | | ¥ 98,450 | 32.1 | -5.9 | Beverage / Tobacco, Energy / Material / Machinery, Home Appliances / AV Equipment |
| | | | | | Distribution / Retail, Finance / Insurance, Food |
| Total | | ¥ 306,801 | 100.0% | 0.0% | Information / Communication, Beverage / Tobacco, Apparel / Jewelry |
| | | | | | Finance / Insurance, Cosmetics / Toiletry, Distribution / Retail |

Notes 1. Because we offer cross-media programs, data may not represent gross billings exactly by media.
2. Content includes Animation, Culture and Sports Marketing, etc.
3. Digital Media includes Internet and Mobile-related media.
(Digital Solutions, such as Website Creation and System Development are included in "Marketing and Promotion".)
4. OOH (Out of Home) Media includes transportation and outdoor advertising and insertions.
5. Marketing and Promotion includes Marketing, Communication Planning, Promotion, Events, PR, Exposition events and Digital Solutions, etc.

**Other Business**

In other business, gross billings to customers amounted to ¥4,433 million, down 5.9% year-on-year, and the segment loss amounted to ¥118 million, compared with a ¥368 million loss in the previous year.

In an environment where it is hard to generate a profit in its main business of publishing and marketing of books and magazines with the overall publishing market contracting, the business posted an operating loss. Yet the size of loss was smaller compared to the same period in the previous year through efforts to cut the cost of goods and optimize the volume of distribution as well as ongoing efforts to control SG&A expenses.

## Forecasts for Fiscal 2016

The consolidated business under review largely performed strongly. We expect that the Japanese economy to remain in a mild recovery in the coming year backed by the economic measures and monetary easing policies driven by the government and the Bank of Japan. Consequently, the advertising market is expected to grow healthily in the medium-to-long run.

On the other hand, there are near-term concerns, such as a possible global economic recession triggered by a crude oil price drop and a slowdown in emerging markets. Factors at home include a slower recovery in the nominal GDP and consumer spending which are thought to be highly correlated with the advertising market, and rising prices for imported goods due to a weaker yen. Such factors may well impact on our clients' performance.

In such an environment, we expect consolidated gross billings of ¥354,000 million, operating income of ¥5,400 million, ordinary income of ¥8,550 million, and net income of ¥5,500 million. This means that net income per share is projected to be ¥131.55.

# Forward-Looking Statements and Risk Factors

This report may contain forward-looking statements based on ADK management's view and assumptions of future developments as of the date of such statements (securities filings as of March 30, 2016). The foregoing statements herein are inherently subject to risks, including, but not limited to, those shown below (under the Tokyo Stock Exchange's guidance), and uncertainties that could lead to material differences between such statements and actual outcomes. Therefore, ADK does not warrant any certainty and accuracy thereto. ADK also expressly disclaims any obligation to update or revise its forward-looking statements.

## 1. Domestic Economy

In general, Japanese national advertising spending is directly influenced by corporate advertisers' budgets and, therefore, is closely correlated with nominal consumer spending and GDP. The Group generates much of its gross billings from the Japanese domestic market. In the event that the domestic economy deteriorates seriously, the ADK Group's performance and financial condition could be negatively affected.

## 2. Response to Diversification and Digitalization of Media and Changing Consumers' Media Consumption

Advertising media continues to diversify with further penetration of new devices such as smartphones and tablet-type PCs. At the same time, people's media consumption and behaviors are changing with the rapid diffusion of social networks. As a consequence of that, markets of traditional mass media, especially print media, are shrinking, whereas the Internet business has grown to be the largest medium second to television. Advertisers expect their advertising agencies to offer advanced solutions utilizing digital media, thereby allowing clients to gather and analyze data of people's media consumption and purchasing behavior more effectively.

The traditional mass media remain an important income source for us, but we are now expanding our business domain by riding a wave of the Internet advertising market and taking agile responses to changes in advertising marketing methods such as consumer behavior analysis and subsequent planning. However, if the Group fails to adapt to changes in advertising media, its performance and financial condition could be adversely affected.

## 3. Risks Arising from Trading Customs

### a. Relationship with Advertisers

In Japan, traditionally advertisers do not strictly require an exclusive relationship with their agencies, which may have business with competitors even when planning and proposals are well accepted. However, there is no assurance that this practice will continue in the future. In the event that ADK fails to adapt to such changes in the advertising market, its performance and financial condition could be adversely affected. Furthermore, transactions with clients are made by individual project and there is no guarantee that the work will continue in the future.

Advertising companies in Japan do not always have documented contracts with media and clients, so as to maximize their flexibility to adapt to sudden changes. However, ADK works to ensure that it has written contracts with more media and more clients. When this is the rule, not the exception, the Company believes accountability by both parties will minimize disputes. Until that time, however, there remains the possibility of disputes with the media and clients.

An advertising agency buys media time or space and materials on behalf of its clients on its own account. By custom, an agency makes transactions with media companies at its own risk. Sometimes a purchase is made through another agency. Therefore, even if a client and/or such other agency defaults, the advertising company is still liable for the media and/or materials to a media owner and/or a subcontracting production company.

### b. Media Inventories

In Japan, advertising agencies seeking to nurture high-quality content or secure valuable advertising space sometimes purchase media inventories at fixed prices in advance. In such cases, the agency is obligated to pay advertising fees to the media company, regardless of the ultimate sales appeal of the inventories purchased. If the sales appeal is inadequate, this could have an adverse effect on the Group's performance and financial condition.

**c. Credit Risks of Subcontractors**

Advertising companies work hard to enhance the quality of products and services provided by its subcontractors. However, there are risks associated with a subcontractor's ability to fulfill an order or maintain its business as a going concern, and it is difficult to transfer such risks to the advertising client. Moreover, services offered by the advertising industry are delineated, so there are cases where the subcontractor may outsource work to a sub-subcontractor, or where another agency is included in the arrangement between the ADK Group, its subcontractors, and the media company. Given such multilayered arrangements, the Group may need to provide small and specialty subcontractors with financial backup. In international business, meanwhile, sometimes partial or full payment is required in advance as a custom. In the event that a subcontractor is unable to stay in business until an order is fulfilled, or the subcontractor is unable to accept responsibility for losses related to defective products that do not fully satisfy the advertising client's scrutiny, the ADK Group may not be able to recover funds paid in advance, or may be obligated to accept responsibility for losses related to such defective products.

## 4. Competitive Risk

The ADK Group, as Japan's third-largest advertising group, competes against other large companies. Advertising clients select their products to spend their advertising budgets and tend to appoint a small number of agencies to reduce their costs. This further accelerates price competitiveness among agencies. Competition gets even more fierce by the integration of brands in the wake of clients' globalization and industry re-organization, leading to consolidation of procurement. In addition, competition is accelerated by the entry of foreign mega-agency groups into the Japanese market, as well as many new and rapidly growing entrants in the Internet and other non-traditional mass media advertising market. Non-industry players such as retailers and trading houses have entered the advertising market, in particular, non-mass media sectors, which will make tough competition even tougher.

In the event that ADK is unable to respond appropriately to client needs and changes in the advertising industry, and loses its competitiveness as a result, there is significant risk that its market share could decline and profits could deteriorate. This would have a serious impact on its performance and financial condition.

## 5. Risks Arising from Operations

**a. Client Portfolio**

To achieve business stability and growth, the ADK Group has for many years maintained relationships with numerous advertising clients in various industries, and will continue striving to make proposals that meet their needs. However, it is possible that the Group's client portfolio will change, and diversity across sectors will be inadequate. The parent company's largest 10 and 20 clients accounted for around 20% and 30%, respectively.

**b. Relationship with the Media**

The ADK Group buys and resells various media, including mass media and rapidly growing digital media, such as mobile and Internet. In fiscal 2015, the parent company (ADK) generated 67.9% of its gross billings by handling the four major mass media, as well as the Internet, digital advertising, and OOH media. Gross billings from television represented 48.1% of ADK's non-consolidated gross billings. ADK continues to strive to secure advertising time and/or space in these media. However, in the event of a decrease in advertising volume and/or changes in business terms and conditions and advertising methods, and/or the emergence of new advertising formats, and the ADK Group does not respond to these changes appropriately, there is a significant possibility that its performance and financial condition could be adversely affected.

**c. Relationship with Subcontractors**

Although the ADK Group carries out planning for advertising and sales promotion campaigns, the execution of these activities is mostly outsourced to qualified subcontractors. In the case of a change in trading relationships with these subcontracted companies, and in the event that ADK is unable to respond appropriately, this could have a negative impact on its performance and financial condition.

**d. Securing & Training Proper People and Cost Control**

Advertising is a people business, and human talents are critical assets in the advertising industry. For this reason, the ADK Group works constantly to secure exceptional human resources, assign them to appropriate locations, train them so they can respond to changing market environments agilely and facilitate smooth internal communications. A series of new laws were enacted in April 2013, including the revised Labor Contract Act, the revised Worker Dispatch Act, and the Law Concerning Stabilization of Employment of Older Persons. In response, the Group is now working on the current personnel policies to be compliance with them and also establishing a new employee training framework to match its new business policies. In the event that ADK is unable to secure and train its talented staff adequately, there could be a negative impact on its performance and financial condition. In addition, most of its staff costs are fixed costs and represent the largest portion of its selling, general and administrative expenses. On a consolidated basis, staff expenses represented as much as 60.5% of gross profit in fiscal 2015.

**e. Overseas Operations**

The ADK Group has been striving to develop overseas revenues. In fiscal 2015, the ADK Group generated 9.3% of its gross billings from overseas sources. In overseas markets, because of differences in culture, society, law, and commercial customs, a variety of problems may arise. In addition, both country risk and currency risk are inherent in conducting international business. In the event that the ADK Group is unable to expand its overseas operations as planned, its performance and financial condition could be significantly affected.

**f. Content Business**

The ADK Group has been successful in the animation content business, as well as in sports and cultural event marketing, which enables ADK to differentiate itself from competitors. ADK continues to develop new content under existing and new business models. However, the demography of Japan is aging and people's preferences and media consumption are changing. Accordingly, the content business is getting more complicated, and competition is becoming tougher. The typical amount of content development investment is increasing, volatility is growing, and the time to recoup investments is increasing. In sum, the content business is getting riskier but less profitable. There is no guarantee that this content or its derivatives will continue to succeed. Continued resale income from existing content is not guaranteed either. Accordingly, in the case that the ADK Group is not able to generate income as it expects, it could experience a significant impact on its performance and financial conditions.

**g. Investment in Competitiveness**

To enhance its competitiveness in the changing advertising market, ADK invests in the digital business domain. Moreover, ADK invests in data collection and R&D, which would be critical in offering cross-communications program ideas, and invests in IT to enhance operational efficiency. However, in the event that the ADK Group is unable to realize benefits from its investments as planned, its performance and financial condition could be significantly affected.

**h. Management of Group Companies**

The ADK Group consists of the parent company, 48 subsidiaries, 11 affiliates, and one related company, and operates in the advertising and publications businesses. Although the ADK Group strives hard to realize synergies among these companies, in the event that it is unable to do so as planned, its performance and financial condition could be affected.

**i. Relationship with WPP plc**

ADK has maintained strategic operating and equity ties with WPP plc since August 1998, holding a 2.41% equity stake in WPP (as of December 31, 2015). WPP is the largest shareowner of ADK, holding 24.50% of the voting rights. By way of operating alliances with WPP Group operating companies including JWT, ADK has formed joint ventures, collaborated in media buying and cultivated new advertisers. WPP plc has sent a non-executive director to the ADK's board.

Although ADK plans to continue and expand its capital and business alliance with the WPP Group, in the event that the ADK Group is unable to realize the benefits from this relationship or if the relationship should negatively change in any way, there could be an impact on the ADK Group's performance and financial condition in the future.

The yen-translated market value of the equity stake in WPP was ¥87,450 million (at a stock price of £15.63 per share) as of the end of December 2015, compared with the acquisition cost, factoring in loss on valuation of investment securities, of ¥22,262 million (at a stock price of £3.6517 per share under the lower-of-cost-or-market method). However, in the event of a major deterioration in the Group's sterling-based stock price, there is a possibility that ADK would have to account for valuation losses on this holding.

**j. Marketable Securities and Investment Securities**

The ADK Group's holdings of marketable and investment securities (including the aforementioned stake in WPP) totaled ¥101,516 million, representing 43.2% of its ¥235,205 million in total assets as of December 31, 2015. Of this amount, ¥97,346 million consisted of publicly traded equity securities, mostly the equity alliance with WPP plc and cross-shareholdings in advertising clients and other trading partners. The balance of unrealized gains on available-for-sale securities was ¥48,188 million after deducting deferred tax liabilities on such gains (compared with ¥40,118 million as of December 31, 2014). However, in the event of a major decline in the market prices of these holdings, ADK would be forced to account for valuation losses.

**k. Retirement Benefits and Pension Plans**

ADK and some of its Group companies adopt combinations of defined contribution and defined benefits pension plans, as well as lump-sum retirement allowances.

In the event of deterioration in pension asset management performance, and a significant change in actuarial assumptions, the ADK Group could face a negative impact on its performance and financial condition.

**l. Contingent Litigation Risks**

The ADK Group cannot disregard the possibility of becoming involved in future lawsuits or disputes, either directly or indirectly, due to various circumstances. If the Group does become involved in a lawsuit or dispute, its business results and financial position could be affected depending on the nature, progress, and outcome of said lawsuit or dispute.

**m. Risk Related to Legal Restrictions, etc.**

The advertising activities of an advertiser are subject to legal restrictions under various laws—such as the Act against Unjustifiable Premiums and Misleading Representation, the Copyright Act, the Trademark Act, Law for Ensuring the Quality, Efficacy, and Safety of Drugs and Medical Devices, and the Specified Commercial Transactions Law—as well as to various self-imposed restrictions regarding advertisement criteria defined by advertisement media such as newspaper and television companies, evaluation criteria, and so on. In the event that tightening or new establishment of such legal restrictions, or self-imposed control restrains the advertising activities of an advertiser or our client, this may sometimes influence business results and financial status of the Group.

In addition, although there are no laws or regulations specific to the advertising business itself or the Group's core competence, the accompanying businesses are subject to restrictions under various laws, such as the Construction Industry Act and the Security Services Act. The Group is also subject to the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, the Law on the Prevention of Delay in the Payment of Subcontracting Charges and Related Matters, the Law Concerning the Protection of Personal Information held by administrative organs, and other laws regulating business activities in general. Moreover, the Group is required to strictly observe the Internal Control Reporting System stipulated in the Financial Instruments and Exchange Act. Although we believe that none of the above could severely impact the Group at the time when this document was being prepared, in the event that we are unable to appropriately respond to changes in these legal restrictions in the future, such inability could affect the business results and financial status of the Group, such as an increase in expenses required to cope with the situation.

# Consolidated Balance Sheets

ASATSU-DK INC. and Consolidated Subsidiaries
December 31, 2014 and 2015

Millions of Yen

| Assets | Note | 2014 | Note | **2015** |
|---|---|---|---|---|
| Current assets | | | | |
| Cash and deposits | 3 | 32,738 | 3 | **25,790** |
| Notes and accounts receivable—trade | 5 | 87,112 | 5 | **84,326** |
| Securities | | 7,534 | | **2,172** |
| Inventories | 1 | 8,088 | 1 | **7,048** |
| Deferred tax assets | | 976 | | **568** |
| Other | | 1,443 | | **2,033** |
| Allowance for doubtful accounts | | (687) | | **(568)** |
| Total current assets | | 137,205 | | **121,370** |
| Non-current assets | | | | |
| Property, plant and equipment | | | | |
| Buildings and structures | | 4,255 | | **4,299** |
| Accumulated depreciation | | (1,664) | | **(1,720)** |
| Buildings and structures, net | | 2,591 | | **2,579** |
| Land | | 1,011 | | **1,004** |
| Other | | 3,549 | | **3,509** |
| Accumulated depreciation | | (2,313) | | **(2,294)** |
| Other, net | | 1,236 | | **1,215** |
| Total property, plant and equipment | | 4,839 | | **4,800** |
| Intangible assets | | | | |
| Software | | 1,642 | | **1,536** |
| Other, net | | 29 | | **650** |
| Total intangible assets | | 1,672 | | **2,186** |
| Investments and other assets | | | | |
| Investment securities | 2,3 | 93,185 | 2,3 | **101,516** |
| Long-term loans receivable | | 73 | | **54** |
| Net defined benefit asset | | — | | **697** |
| Deferred tax assets | | 448 | | **246** |
| Other | 2 | 6,649 | 2 | **5,151** |
| Allowance for doubtful accounts | | (756) | | **(819)** |
| Total investments and other assets | | 99,601 | | **106,847** |
| Total non-current assets | | 106,112 | | **113,834** |
| Total assets | | 243,317 | | **235,205** |

See notes to consolidated financial statements.

Millions of Yen

| Liabilities | Note | 2014 | Note | 2015 |
|---|---|---|---|---|
| Current liabilities | | | | |
| Notes and accounts payable—trade | 5 | 71,574 | 5 | **74,130** |
| Short-term loans payable | | 46 | | **96** |
| Current portion of long-term loans payable | | 82 | | **—** |
| Income taxes payable | | 1,561 | | **1,269** |
| Provision for bonuses | | 1,013 | | **355** |
| Provision for directors' bonuses | | 3 | | **4** |
| Provision for sales returns | | 493 | | **471** |
| Other | | 9,078 | | **8,228** |
| Total current liabilities | | 83,853 | | **84,556** |
| Non-current liabilities | | | | |
| Deferred tax liabilities | | 21,578 | | **22,966** |
| Provision for directors' retirement benefits | | 74 | | **42** |
| Net defined benefit liability | | 1,605 | | **935** |
| Other | | 1,206 | | **1,215** |
| Total non-current liabilities | | 24,464 | | **25,160** |
| Total liabilities | | 108,317 | | **109,716** |
| **Net assets** | | | | |
| Shareholders' equity | | | | |
| Capital stock | | 37,581 | | **37,581** |
| Capital surplus | | 11,982 | | **11,982** |
| Retained earnings | | 42,265 | | **24,336** |
| Treasury shares | | (569) | | **(210)** |
| Total shareholders' equity | | 91,260 | | **73,690** |
| Accumulated other comprehensive income | | | | |
| Valuation difference on available-for-sale securities | | 40,118 | | **48,188** |
| Deferred gains or losses on hedges | | 5 | | **(0)** |
| Foreign currency translation adjustment | | 2,819 | | **1,859** |
| Remeasurements of defined benefit plans | | (20) | | **266** |
| Total accumulated other comprehensive income | | 42,923 | | **50,314** |
| Subscription rights to shares | | 40 | | **23** |
| Minority interests | | 775 | | **1,461** |
| Total net assets | | 134,999 | | **125,488** |
| Total liabilities and net assets | | 243,317 | | **235,205** |

# Consolidated Statements of Income

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2014 and 2015

Millions of Yen

| | Note | 2014 | Note | 2015 |
|---|---|---|---|---|
| Gross billings | | 352,984 | | **351,956** |
| Cost of sales | 1 | 304,416 | 1 | **303,131** |
| Gross profit | | 48,568 | | **48,824** |
| Selling, general and administrative expenses | | | | |
| Salaries and allowances | | 22,916 | | **23,353** |
| Provision for bonuses | | 918 | | **333** |
| Retirement benefit expenses | | 2,062 | | **1,649** |
| Provision for directors' retirement benefits | | 18 | | **2** |
| Provision for directors' bonuses | | — | | **4** |
| Welfare expenses | | 3,427 | | **3,637** |
| Rent expenses | | 3,467 | | **3,103** |
| Provision of allowance for doubtful accounts | | 184 | | **279** |
| Depreciation | | 692 | | **814** |
| Other | | 10,782 | | **10,744** |
| Total selling, general and administrative expenses | 2 | 44,470 | 2 | **43,923** |
| Operating income | | 4,097 | | **4,901** |
| Non-operating income | | | | |
| Interest income | | 261 | | **207** |
| Dividend income | | 2,156 | | **2,704** |
| Share of profit of entities accounted for using equity method | | 220 | | **292** |
| Dividend income of life insurance | | 107 | | **17** |
| Real estate rent | | 54 | | **81** |
| Other | | 555 | | **595** |
| Total non-operating income | | 3,355 | | **3,898** |
| Non-operating expenses | | | | |
| Interest expenses | | 8 | | **31** |
| Loss on sales of securities | | — | | **24** |
| Provision of allowance for doubtful accounts | | 22 | | **2** |
| Rent expenses on real estates | | 28 | | **35** |
| Loss on insurance cancellation | | 40 | | **59** |
| Other | | 101 | | **56** |
| Total non-operating expenses | | 201 | | **209** |
| Ordinary income | | 7,251 | | **8,590** |

Millions of Yen

| | Note | 2014 | Note | 2015 |
|---|---|---|---|---|
| Extraordinary income | | | | |
| Gain on sales of non-current assets | 3 | 13 | 3 | **64** |
| Gain on liquidation of subsidiaries and associates | | — | | **146** |
| Gain on sales of investment securities | | 1,222 | | **1,077** |
| Reversal of allowance for doubtful accounts | | 8 | | **1** |
| Other | | 39 | | **2** |
| Total extraordinary income | | 1,284 | | **1,293** |
| Extraordinary loss | | | | |
| Loss on sales of non-current assets | | 0 | | **2** |
| Loss on retirement of non-current assets | 4 | 142 | 4 | **16** |
| Loss on valuation of investment securities | 5 | 78 | 5 | **51** |
| Special retirement expenses | 6 | 535 | 6 | **285** |
| Loss on liquidation of business | | — | 7 | **128** |
| Office transfer expenses | 8 | 1,080 | 8 | **117** |
| Other | | 266 | | **91** |
| Total extraordinary loss | | 2,102 | | **695** |
| Income before income taxes | | 6,433 | | **9,189** |
| Income taxes—current | | 2,669 | | **2,861** |
| Income taxes—deferred | | (69) | | **718** |
| Total income taxes | | 2,599 | | **3,579** |
| Income before minority interests | | 3,833 | | **5,609** |
| Minority interests in income | | 137 | | **246** |
| Net income | | 3,696 | | **5,362** |

See notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2014 and 2015

Millions of Yen

| | Note | 2014 | Note | 2015 |
|---|---|---|---|---|
| Income before minority interests | | 3,833 | | **5,609** |
| Other comprehensive income (loss) | | | | |
| Valuation difference on available-for-sale securities | | 4,975 | | **8,069** |
| Deferred gains or losses on hedges | | 4 | | **(6)** |
| Foreign currency translation adjustments | | 1,361 | | **(1,002)** |
| Remeasurements of defined benefit plans, net of tax | | — | | **287** |
| Share of other comprehensive income of entities accounted for using equity method | | 13 | | **(6)** |
| Total accumulated other comprehensive income (loss) | 1 | 6,355 | 1 | **7,341** |
| Comprehensive income | | 10,189 | | **12,950** |
| Comprehensive income attributable to: | | | | |
| Comprehensive income attributable to owners of the parent | | 9,982 | | **12,752** |
| Comprehensive income attributable to minority interests | | 206 | | **198** |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2014 (From January 1, 2014 to December 31, 2014)

Year Ended December 31, 2014 | Millions of Yen

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 37,581 | 11,982 | 44,303 | (651) | 93,216 |
| Cumulative effects of changes in accounting policies | | | | | — |
| Restated balance | 37,581 | 11,982 | 44,303 | (651) | 93,216 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (5,932) | | (5,932) |
| Profit | | | 3,696 | | 3,696 |
| Change of scope of consolidation | | | 154 | | 154 |
| Purchase of treasury shares | | | | (6) | (6) |
| Disposals of treasury shares | | 0 | | 87 | 87 |
| Other | | | 43 | | 43 |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | — | 0 | (2,037) | 81 | (1,956) |
| Balance at end of current period | 37,581 | 11,982 | 42,265 | (569) | 91,260 |

Millions of Yen

| | Accumulated other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Subscription rights to shares | Minority interests | Total net assets |
| Balance at beginning of current period | 35,142 | 1 | 1,513 | — | 36,657 | 21 | 1,077 | 130,972 |
| Cumulative effects of changes in accounting policies | | | | | | | | — |
| Restated balance | 35,142 | 1 | 1,513 | — | 36,657 | 21 | 1,077 | 130,972 |
| Changes of items during period | | | | | | | | |
| Dividends of surplus | | | | | | | | (5,932) |
| Profit | | | | | | | | 3,696 |
| Change of scope of consolidation | | | | | | | | 154 |
| Purchase of treasury shares | | | | | | | | (6) |
| Disposals of treasury shares | | | | | | | | 87 |
| Other | | | | | | | | 43 |
| Net changes of items other than shareholders' equity | 4,975 | 4 | 1,306 | (20) | 6,266 | 19 | (302) | 5,982 |
| Total changes of items during period | 4,975 | 4 | 1,306 | (20) | 6,266 | 19 | (302) | 4,026 |
| Balance at end of current period | 40,118 | 5 | 2,819 | (20) | 42,923 | 40 | 775 | 134,999 |

See notes to consolidated financial statements.

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2015 (From January 1, 2015 to December 31, 2015)

Year Ended December 31, 2015

Millions of Yen

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 37,581 | 11,982 | 42,265 | (569) | 91,260 |
| Cumulative effects of changes in accounting policies | | | **678** | | **678** |
| Restated balance | **37,581** | **11,982** | **42,944** | **(569)** | **91,939** |
| Changes of items during period | | | | | |
| Dividends of surplus | | | **(24,024)** | | **(24,024)** |
| Profit | | | **5,362** | | **5,362** |
| Change of scope of consolidation | | | **62** | | **62** |
| Purchase of treasury shares | | | | **(7)** | **(7)** |
| Disposals of treasury shares | | **0** | | **366** | **366** |
| Other | | | **(7)** | | **(7)** |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | **—** | **0** | **(18,607)** | **358** | **(18,248)** |
| Balance at end of current period | **37,581** | **11,982** | **24,336** | **(210)** | **73,690** |

Millions of Yen

| | Accumulated other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumu-lated other comprehensive income | Subscription rights to shares | Minority interests | Total net assets |
| Balance at beginning of current period | 40,118 | 5 | 2,819 | (20) | 42,923 | 40 | 775 | 134,999 |
| Cumulative effects of changes in accounting policies | | | | | | | | **678** |
| Restated balance | **40,118** | **5** | **2,819** | **(20)** | **42,923** | **40** | **775** | **135,678** |
| Changes of items during period | | | | | | | | |
| Dividends of surplus | | | | | | | | **(24,024)** |
| Profit | | | | | | | | **5,362** |
| Change of scope of consolidation | | | | | | | | **62** |
| Purchase of treasury shares | | | | | | | | **(7)** |
| Disposals of treasury shares | | | | | | | | **366** |
| Other | | | | | | | | **(7)** |
| Net changes of items other than shareholders' equity | **8,069** | **(6)** | **(960)** | **287** | **7,390** | **(17)** | **686** | **8,059** |
| Total changes of items during period | **8,069** | **(6)** | **(960)** | **287** | **7,390** | **(17)** | **686** | **(10,189)** |
| Balance at end of current period | **48,188** | **(0)** | **1,859** | **266** | **50,314** | **23** | **1,461** | **125,488** |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2014 and 2015

Millions of Yen

| | Note | 2014 | Note | 2015 |
|---|---|---|---|---|
| Cash flows from operating activities | | | | |
| Income before income taxes and minority interests | | 6,433 | | **9,189** |
| Depreciation | 2 | 1,384 | 2 | **1,544** |
| Loss (gain) on valuation of investment securities | | 78 | | **51** |
| Increase (decrease) in allowance for doubtful accounts | | 142 | | **282** |
| Increase (decrease) in provision for bonuses | | 581 | | **(655)** |
| Increase (decrease) in provision for directors' bonuses | | 3 | | **1** |
| Increase (decrease) in provision for sales returns | | 4 | | **(22)** |
| Increase (decrease) in net defined benefit asset | | — | | **28** |
| Increase (decrease) net defined benefit liability | | 283 | | **4** |
| Increase (decrease) in provision for directors' retirement benefits | | (365) | | **(9)** |
| Interest and dividend income | | (2,417) | | **(2,911)** |
| Interest expenses | | 8 | | **31** |
| Foreign exchange losses (gains) | | (4) | | **(43)** |
| Share of (profit) loss of entities accounted for using equity method | | (220) | | **(292)** |
| Loss (gain) on sales of investment securities | | (1,220) | | **(1,077)** |
| Loss (gain) on sales and retirement of non-current assets | | 129 | | **(44)** |
| Decrease (increase) in notes and accounts receivable—trade | | (5,081) | | **2,046** |
| Decrease (increase) in inventories | | 533 | | **927** |
| Increase (decrease) in notes and accounts payable—trade | | 4,849 | | **1,870** |
| Loss (gain) on liquidation of subsidiaries and associates | | — | | **(146)** |
| Decrease (increase) in accounts receivable—other | | 90 | | **(47)** |
| Increase (decrease) in accounts payable—other | | 763 | | **321** |
| Extra retirement payments | | 535 | | **285** |
| Loss on liquidation of business | | — | | **128** |
| Office transfer expenses | | 1,080 | | **117** |
| Other | | 2,881 | | **(1,066)** |
| Subtotal | | 10,474 | | **10,511** |
| Interest and dividend income received | | 2,427 | | **2,955** |
| Interest expenses paid | | (8) | | **(30)** |
| Payments for extra retirement payments | | (478) | | **(94)** |
| Payments for office transfer expenses | | (1,080) | | **(81)** |
| Income taxes (paid) refund | | (3,164) | | **(3,028)** |
| Other | | — | | **(39)** |
| Net cash provided by (used in) operating activities | | 8,169 | | **10,192** |

| | | | | Millions of Yen |
|---|---|---|---|---|
| | Note | 2014 | Note | 2015 |
| Cash flows from investing activities | | | | |
| Payments into time deposits | | (9,173) | | **(3,668)** |
| Proceeds from withdrawal of time deposits | | 9,161 | | **6,658** |
| Purchase of property, plant and equipment | | (2,049) | | **(673)** |
| Proceeds from sales of property, plant and equipment | | 38 | | **79** |
| Purchase of intangible assets | | (374) | | **(499)** |
| Purchase of investment securities | | (1,660) | | **(70)** |
| Proceeds from sales of investment securities | | 1,745 | | **1,833** |
| Proceeds from liquidation of subsidiaries and associates | | — | | **412** |
| Payments of loans receivable | | (91) | | **(127)** |
| Collection of loans receivable | | 103 | | **136** |
| Net increase (decrease) in insurance funds | | 141 | | **194** |
| Payments for guarantee deposits | | (318) | | **(364)** |
| Proceeds from collection of guarantee deposits | | 2,654 | | **1,496** |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | | — | 3 | **(276)** |
| Other | | (353) | | **(83)** |
| Net cash provided by (used in) investing activities | | (177) | | **5,046** |
| Cash flows from financing activities | | | | |
| Net increase (decrease) in short-term loans payable | | 4 | | **53** |
| Repayment of long-term loans payable | | (164) | | **(82)** |
| Net decrease (increase) in treasury shares | | (367) | | **358** |
| Cash dividends paid | | (5,816) | | **(23,909)** |
| Cash dividends paid to minority shareholders | | (109) | | **(42)** |
| Other | | (187) | | **(182)** |
| Net cash provided by (used in) financing activities | | (6,640) | | **(23,803)** |
| Effect of exchange rate change on cash and cash equivalents | | 846 | | **(651)** |
| Net increase (decrease) in cash and cash equivalents | | 2,197 | | **(9,214)** |
| Cash and cash equivalents at beginning of period | | 32,410 | | **35,082** |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | | 502 | | **56** |
| Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation | | (28) | | **—** |
| Cash and cash equivalents at end of period | 1 | 35,082 | 1 | **25,924** |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

ASATSU-DK INC. and Consolidated Subsidiaries
December 31, 2014 and 2015

## (Items Related to Going Concern Assumption)

Not applicable

## (Basis of Presenting Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 39

The names of major consolidated subsidiaries are omitted here because they are listed on page 78-79.

d-rights Inc., which became a subsidiary due to the acquisition of its shares, and its subsidiary, Sunrights Inc. have been included in the scope of consolidation from the fiscal year ended December 31, 2015. China Stories Inc. has also been included in the scope of consolidation due to an increase in materiality.

(2) Major non-consolidated subsidiaries

flag Co., Ltd.

All non-consolidated subsidiaries are small in size, and neither their aggregate total assets, sales, net income, or retained earnings (amounts corresponding to ownership portion) have a significant impact on the Company's consolidated financial statements.

2. Items related to application of equity-method accounting

(1) Number of affiliates for which the equity method is applied: 7

The names of major affiliates for which the equity method is applied are not listed here because they are listed on page 78-79.

A2 (Shanghai) Marketing Service Co., Ltd. has been included in the scope of equity-method application from the fiscal year ended December 31, 2015, due to an increase in materiality.

(2) Major non-consolidated subsidiaries and affiliates for which the equity method is not applied

Anime Consortium Japan Inc.

Reason for exclusion from scope of equity-method application

The effect of these nonequity-method companies individually and as a whole on net income and retained earnings is not material, and are therefore excluded from the scope of equity-method application.

3. Items related to fiscal year-ends, etc., for consolidated subsidiaries

The closing dates of consolidated subsidiaries are the same as the consolidated closing date.

4. Items related to accounting treatment and standards

(1) Valuation standards and method for major assets

[1] Securities

Other securities

- For which a market value is available

  Stated at fair market value based on market prices, etc., as of the fiscal year-end (Unrealized gains or losses, net of applicable taxes, are recorded in a separate component of net assets and cost of sales is calculated using primarily total average method.)

- For which a market value is unavailable

  Primarily, total average cost method

  In regard to investments in limited liability investment partnerships and similar associations (deemed to be securities under Article 2, Section 2 of the Financial Instruments and Exchange Act), the Company uses the net amount corresponding to the ownership portion, based on the most recent obtainable settlement documents for the settlement reporting date stipulated in the partnership contract.

[2] Inventories

Primarily, the individually identified cost method is used (with balance sheet values calculated by writing down book values based on decreased profitability).

[3] Derivative transactions
Market value method

(2) Depreciation methods for major depreciable assets
[1] Property, plant and equipment (excluding lease assets)
Buildings (excluding ancillary equipment)
i Acquired on or before March 31, 1998: Previous declining balance method
ii Acquired on or after April 1, 1998: Previous straight-line method
iii Acquired on or after April 1, 2007: Straight-line method
Other than buildings
i Acquired on or before March 31, 2007: Previous declining balance method
ii Acquired on or after April 1, 2007: Declining balance method (250% declining balance method)
iii Acquired on or after January 1, 2013: Declining balance method (200% declining balance method)
The straight-line method is primarily applied at overseas consolidated subsidiaries.
Major periods of useful life are as follows.
Buildings and structures 10–50 years
[2] Intangible assets (excluding lease assets): Straight-line method
For software (used internally), the straight-line method is applied based on the Company's internal period of useful life (3–5 years).
[3] Lease assets
Lease assets associated with finance lease transactions that do not transfer ownership rights
The straight-line method is applied, with the lease period as the period of useful life and a residual value of zero.

(3) Accounting policy for significant provisions
[1] Allowance for doubtful accounts
In order to prepare for losses from the nonrepayment of claims, the Company and domestic consolidated subsidiaries record the estimated irrecoverable amount. For general claims, actual default rates are used, and for specific claims known to be doubtful, individual collectibility is examined.

Overseas consolidated subsidiaries principally record necessary estimated amounts for specific accounts with reference to the collectibility of those accounts.
[2] Provision for bonuses
In order to provide for the payment of bonuses to employees, an amount corresponding to the estimated amount of bonus payments to be made for the fiscal year is recorded.
[3] Provision for directors' bonuses
In order to provide for the payment of bonuses to directors, the estimated amount of bonus payments to be made for the fiscal year is recorded.
[4] Provision for sales returns
Provision for sales returns includes provision for sales returns and special account for claims on returned goods unsold.
i. Provision for sales returns
To provide for losses on returns of publications (principally books), one domestic consolidated subsidiary records the estimated amount of losses calculated in accordance with the actual return rate for a specified period of time.
ii. Special account for claims on returned goods unsold
To provide for losses on returns of publications (magazines), one domestic consolidated subsidiary records the estimated amount of losses on returns calculated in accordance with the actual return rate for a specified period of time.
[5] Provision for directors' retirement benefits
At certain domestic consolidated subsidiaries, in order to prepare for the payment of retirement benefits to directors, an amount to be paid at the fiscal year-end based on internal guidelines is recorded.

(4) Accounting method for retirement benefits
[1] Method of attributing expected retirement benefits to the period
In calculating retirement benefit obligations, the benefit formula basis is used as a method of attributing estimated retirement benefits to the period up to the end of this fiscal year.

[2] Recognition of unrecognized actuarial differences

Unrecognized actuarial differences are recognized as income or expenses from the following fiscal year using the straight-line method over a certain term within the average remaining service period of the employees (13 years) of the respective fiscal years.

(5) Significant hedge accounting methods

[1] Method of hedge accounting

Deferred hedge accounting is applied.

However, for forward foreign exchange transactions that are used to hedge foreign currency-denominated monetary claims and obligations, the designation method is applied.

[2] Hedging methods and scope of hedging

Hedging methods: Scheduled foreign currency transactions.

Scope of hedging: Hedge foreign currency-denominated monetary claims and obligations

[3] Hedging policy

Primarily, forward foreign exchange transactions are used to manage risks from exchange rate movements in foreign currency-denominated transactions.

[4] Method for evaluating effectiveness of hedging

In line with risk management policies, the forward foreign exchange transactions used by the Company are implemented in accordance with actual demand, and in principle, when a forward foreign exchange transaction is concluded, a forward foreign exchange transaction that has the same amount, currency, and term as the hedged item is designated. Consequently, correlation regarding foreign exchange rate fluctuations is completely maintained, and accordingly the evaluation of effectiveness as of the settlement date is omitted.

(6) Amortization method and period for goodwill

Goodwill is amortized on a straight line basis over the estimated useful life, up to a maximum of 20 years, in which each acquisition is expected to benefit the Group. Where the amount is immaterial, goodwill is charged or credited to income in the year incurred.

(7) Scope of cash included in the consolidated statements of cash flows

Cash on hand, deposits available on demand, and short-term investments with maturities of up to three months that are highly liquid, easy to convert, and have little risk of price fluctuation.

(8) Accounting treatment for consumption tax, etc.

Consumption tax and local consumption tax are accounted for by the net-of-tax method. However, non-deductible consumption tax, etc., is treated as an expense in the fiscal year in which it is incurred.

## (Changes in Accounting Policies)

Effective from the fiscal year ended December 31, 2015, the Group has adopted Article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012; the "Accounting Standard for Retirement Benefits") and Article 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of March 26, 2015; the "Guidance on Retirement Benefits"). Therefore, the Group has changed the calculation methods for retirement benefit obligations and current service costs, and has changed the method of attributing estimated retirement benefits to periods from the straight-line basis to the benefit formula basis. In addition, the Group has changed the method of determining the discount rate from using the bond rate determined by reference to the terms closely related to average remaining working lives of the employees, to using a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

With regard to the application of the Accounting Standard for Retirement Benefits, in accordance with the transitional accounting treatments as stated in Article 37 of the Accounting Standard for Retirement Benefits, the Group has reflected the effect of changing the determination of retirement benefit obligations and current service costs in retained earnings at the beginning of the fiscal year ended December 31, 2015.

As a result, net defined benefit asset increased by ¥423 million and net defined benefit liability has decreased by ¥631 million for the beginning of the fiscal year ended December 31, 2015, while retained earnings have increased by ¥678 million. Operating income, ordinary income and income before income taxes and minority interests have had minimal impact for the fiscal year ended December 31, 2015.

The effect on per share information is presented in the appropriate section.

## (New Accounting Standards, not yet Applied)

Accounting standards, etc., related to business combinations

- "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013)
- "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on September 13, 2013)
- "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on September 13, 2013)
- "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, revised on September 13, 2013)
- "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013)
- "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, revised on September 13, 2013)

(1) Outline

The revisions of these accounting standards, etc., were principally as follows: [1] treatment of changes in a parent company's ownership interest in a subsidiary, such as changes due to the acquisition of additional interest, when the parent company retains control over the subsidiary; [2] treatment of acquisition-related costs; [3] change in the presentation of net income and change from "minority interests" to "non-controlling interest," and [4] treatment of provisional accounting treatment.

(2) Planned date of application

Application is planned from the beginning of the fiscal year ending December 31, 2016. In regard to the treatment of provisional accounting treatment, application is planned for business combinations implemented after the beginning of the fiscal year ending December 31, 2016.

(3) Effect of application of these accounting standards, etc.

The amount of the effect was under consideration as of the time these financial statements were being prepared.

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, December 28, 2015)

(1) Outline

With regard to the treatment of the recoverability of deferred tax assets, required reviews were conducted on the following treatment basically in accordance with the framework of the JICPA Auditing Standards Committee Report No. 66 "Audit Treatment for Determining the Recoverability of Deferred Tax Assets," whereby companies are classified according to five categories and deferred tax assets are estimated based on each of these categories.

[1] Treatment of companies that do not fulfill either of the requirements for classification from Category 1 to Category 5
[2] Requirements for classifications of Category 2 and Category 3
[3] Treatment of deductible temporary differences that cannot be scheduled for companies applicable to Category 2
[4] Treatment concerning the reasonable estimable period of future taxable income before temporary difference adjustments for companies applicable to Category 3
[5] Treatment in cases where a company fulfilling the requirements of Category 4 is also applicable to Category 2 or Category 3.

(2) Planned date of application

Application is planned from the beginning of the fiscal year ending December 31, 2017.

(3) Effect of application of these accounting standards, etc.

The amount of the effect was under consideration as of the time these financial statements were being prepared.

## (Changes in Presentation)

(Consolidated statements of income)

"Loss on investments in partnership," which was presented separately in "non-operating expenses" in the fiscal year ended December 31, 2014, is included in "other" for the fiscal year ended December 31, 2015, due to a decrease in materiality. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended December 31, 2014, have been restated.

Consequently, the ¥58 million that was presented in "loss on investments in partnership" and the ¥43 million that was presented in "other" under "non-operating expenses" in the Consolidated Statements of Income for the fiscal year ended December 31, 2014, have been restated as "other" of ¥101 million.

"Impairment loss" and "loss on sales of investment securities," which were presented separately in "extraordinary loss" in the fiscal year ended December 31, 2014, are included in "other" for the fiscal year ended December 31, 2015, due to a decrease in materiality. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended December 31, 2014, have been restated.

Consequently, the ¥207 million that was presented in "impairment loss," the ¥2 million that was presented in "loss on sales of investment securities" and the ¥55 million that was presented in "other" under "extraordinary loss" in the Consolidated Statements of Income for the fiscal year ended December 31, 2014, have been restated as "other" of ¥266 million.

(Consolidated statements of cash flows)

"Proceeds from sales of securities," which was presented separately in "net cash provided by (used in) investing activities" in the fiscal year ended December 31, 2014, is included in "other" for the fiscal year ended December 31, 2015, due to a decrease in materiality. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended December 31, 2014, have been restated.

Consequently, the ¥98 million that was presented in "proceeds from sales of securities" and the ¥(451) million that was presented in "other" under "net cash provided by (used in) investing activities" in the Consolidated Statements of Cash Flows for the fiscal year ended December 31, 2014, have been restated as "other" of ¥(353) million.

(Retirement benefits)

In accordance with the revision of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of March 26, 2015), the Group has changed the method of presentation of the notes to retirement benefits based on multi-employer plans and has accordingly restated the consolidated financial statements for the fiscal year ended December 31, 2014.

The details of the reclassification and the amounts related to the major items in the consolidated financial statements for the fiscal year ended December 31, 2014 are stated in the relevant sections.

## (Additional Information)

Transaction which grants the Company's shares to the employees through a trust

(1) Outline of the transaction

The Company establishes a trust, the beneficiaries of which are employee members of the "ADK Employee Shareholding Association" (hereinafter the "Association") who satisfy certain requirements. The trust acquires a certain number of ADK shares, determined according to the Association's expected share acquisitions over the following five years. The shares are acquired over a predetermined acquisition period. Subsequently, the trust sells the shares to the Association each month on a set date. In the event a trust income is generated due to rises in ADK's share price at the end of the trust's term, the funds are distributed to each beneficiary employee according to his or her contribution ratio. In the event a transfer loss is incurred due to declines in ADK's share price, leaving obligations related to the trust property, the Company makes a lump sum payment to the bank based on guarantee provisions of a loan agreement, with no additional obligations for employees.

The term of the trust ended in the fiscal year ended December 31, 2015.

(2) The Company's shares remaining in the trust

The Company's shares remaining in the trust are recorded in net assets as treasury stock at the book value in the trust (less ancillary expenses). The book value was ¥366 million and number of the treasury stock was 206,000 shares for the fiscal year ended December 31, 2014. As the term of the trust ended in the fiscal year ended December 31, 2015, there were no shares remaining in the trust.

(3) Book value of loans posted through the application of the gross method

Fiscal year ended December 31, 2014: ¥82 million

As the term of the trust ended in the fiscal year ended December 31, 2015, there is no book value of loans posted.

## (Consolidated Balance Sheets)

*1. Inventories

The Group's inventories include a variety of items incidental to advertising related operations, such as expenses related to operations in progress and various copyrights, etc., related to the production, etc., of advertising materials. Because it is difficult to classify them appropriately, they are presented as a lump sum.

*2. Amounts corresponding to non-consolidated subsidiaries and affiliates are as follows:

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Investment securities (Stocks) | ¥2,226 million | ¥2,340 million |
| Investments and other assets | | |
| Other assets (Capital) | ¥399 million | ¥178 million |

*3. Items provided as trade guarantees, etc., for newspapers, etc., are as follows:

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Cash and deposits (time deposits) | ¥357 million | ¥357 million |
| Investment securities | ¥17 million | ¥19 million |

4. Incidental obligations

(1) Guarantee Obligations

Aggregated amount of guarantees are as follows:

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| GroupM Japan K.K. | Accounts payable | Accounts payable |
| | ¥153 million | ¥211 million |

(2) Repurchase obligations in conjunction with the securitization of guarantee deposits

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| | ¥— million | ¥1,184 million |

*5. Notes maturing on the closing date are settled on the date of clearance. Because December 31 was a financial institution holiday, the following notes were included in the outstanding amounts as of December 31, 2014 and 2015.

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Notes receivable—trade | ¥434 million | ¥338 million |
| Notes payable—trade | ¥947 million | ¥939 million |

## (Consolidated Statements of Income)

*1. Write-downs of inventories held for sale in the ordinary course of business due to decreased profitability were as follows:

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Cost of sales | ¥611 million | ¥728 million |

*2. Research and development expenses included in selling, general and administrative expenses were as follows:

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| | ¥799 million | ¥627 million |

*3. Gain on sales of non-current assets were as follows:

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Buildings | ¥— million | ¥55 million |
| Vehicles | ¥4 million | ¥6 million |
| Tools, furniture and fixtures | ¥8 million | ¥2 million |

*4. Loss on retirement of non-current assets

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Buildings | ¥24 million | ¥3 million |
| Vehicles | ¥0 million | ¥— million |
| Tools, furniture and fixtures | ¥36 million | ¥5 million |
| Software | ¥2 million | ¥0 million |
| Leased assets | ¥77 million | ¥7 million |
| Other | ¥0 million | ¥— million |

*5. It was mainly due to impairment.

*6. Principally extra retirement payments paid to retirees under early retirement scheme.

*7. It was mainly due to the closures of a business office by an overseas subsidiary and a publishing business by a subsidiary in Japan.

*8. Expenses associated with the transfer of the head office, breakdowns and domestic subsidiaries are as follows.

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Loss on retirement of non-current assets | ¥443 million | ¥36 million |
| Remaining rent | ¥320 million | ¥28 million |
| Moving cost | ¥317 million | ¥52 million |

## (Consolidated Statements of Comprehensive Income)

*1. Reclassification adjustments and income tax relating to other comprehensive income

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Valuation difference on available-for-sale securities | | |
| Amount arising during fiscal year | ¥8,597 million | ¥9,913 million |
| Reclassification adjustments | ¥(841 million) | ¥(1,024 million) |
| Prior to tax effect | ¥7,755 million | ¥8,889 million |
| Tax effect | ¥(2,780 million) | ¥(819 million) |
| Valuation difference on available-for-sale securities | ¥4,975 million | ¥8,069 million |
| Deferred gains or losses on hedges | | |
| Amount arising during fiscal year | ¥6 million | ¥(9 million) |
| Prior to tax effect | ¥6 million | ¥(9 million) |
| Tax effect | ¥(2 million) | ¥3 million |
| Deferred gains or losses on hedges | ¥4 million | ¥(6 million) |
| Foreign currency translation adjustment | | |
| Amount arising during fiscal year | ¥1,361 million | ¥(1,002 million) |
| Foreign currency translation adjustment | ¥1,361 million | ¥(1,002 million) |
| Remeasurements of defined benefit plans, net of tax | | |
| Amount arising during fiscal year | ¥— million | ¥333 million |
| Reclassification adjustments | ¥— million | ¥112 million |
| Prior to tax effect | ¥— million | ¥446 million |
| Tax effect | ¥— million | ¥(158 million) |
| Remeasurements of defined benefit plans, net of tax | ¥— million | ¥287 million |
| Share of other comprehensive income of entities accounted for using equity method | | |
| Amount arising during fiscal year | ¥13 million | ¥(6 million) |
| Share of other comprehensive income of entities accounted for using equity method | ¥13 million | ¥(6 million) |
| Total accumulated other comprehensive income | ¥6,355 million | ¥7,341 million |

## (Consolidated Statement of Changes in Equity)

Fiscal year ended December 31, 2014

1. Items related to types and total number of shares issued

| Type of shares | Number of shares as of January 1, 2014 | Increase in the number of shares | Decrease in the number of shares | Number of shares as of December 31, 2014 |
|---|---|---|---|---|
| Common stock | 42,155,400 | — | — | 42,155,400 |

2. Items related to treasury stock shares

| Type of shares | Number of shares as of January 1, 2014 | Increase in the number of shares | Decrease in the number of shares | Number of shares as of December 31, 2014 |
|---|---|---|---|---|
| Common stock | 333,481 | 2,432 | 49,337 | 286,576 |

Note: The treasury stock at December 31, 2014, includes 206,000 shares of the Company's stock held in the ESOP Trust Account.

(Outline of reason for change)

The breakdown of the increase is as follows:

Increase due to purchase of shares constituting less than one trading unit: 2,432 shares

The breakdown of the decrease is as follows:

Decrease due to sale of shares in ESOP Trust Account: 49,200 shares

Decrease due to sale of shares constituting less than one trading unit: 137 shares

3. Items related to subscription rights for shares

| Company name | Breakdown | Class of shares to be issued or transferred upon exercise of the subscription rights | Number of shares to be issued or transferred upon exercise of the subscription rights (shares) | | | | Balance at December 31, 2014 |
|---|---|---|---|---|---|---|---|
| | | | Number of shares as of January 1, 2014 | Increase in the number of shares | Decrease in the number of shares | Number of shares as of December 31, 2014 | |
| Company submitting | Subscription rights for shares as stock options | — | — | — | — | — | ¥40 million |
| Total | | | — | — | — | — | ¥40 million |

4. Items related to dividends

(1) Cash dividends paid

| Resolution by | Type of shares | Total amount of dividends | Cash dividends per share (yen) | Reference date | Effective date |
|---|---|---|---|---|---|
| Board of Directors' meeting held on February 14, 2014 | Common stock | ¥5,478 million | ¥131.00 | December 31, 2013 | March 17, 2014 |
| Board of Directors' meeting held on August 12, 2014 | Common stock | ¥418 million | ¥10.00 | June 30, 2014 | September 16, 2014 |

Notes: 1. Dividends paid to the ESOP trust in the amount of ¥33 million have been excluded from the total amount of dividends at February 14, 2014.
2. Dividends paid to the ESOP trust in the amount of ¥2 million have been excluded from the total amount of dividends at August 12, 2014.

(2) Dividends with reference date in the current fiscal year and effective date after the current fiscal year-end

| Resolution by | Type of shares | Fund for dividends | Total amount of dividends | Cash dividends per share (yen) | Reference date | Effective date |
|---|---|---|---|---|---|---|
| Board of Directors' meeting held on February 24, 2015 | Common stock | Retained earnings | ¥23,488 million | ¥561.00 | December 31, 2014 | March 23, 2015 |

Note: Dividends paid to the ESOP trust in the amount of ¥115 million have been excluded from the total amount of dividends.

Fiscal year ended December 31, 2015

1. Items related to types and total number of shares issued

| Type of shares | Number of shares as of January 1, 2015 | Increase in the number of shares | Decrease in the number of shares | Number of shares as of December 31, 2015 |
|---|---|---|---|---|
| Common stock | 42,155,400 | — | — | 42,155,400 |

2. Items related to treasury stock shares

| Type of shares | Number of shares as of January 1, 2015 | Increase in the number of shares | Decrease in the number of shares | Number of shares as of December 31, 2015 |
|---|---|---|---|---|
| Common stock | 286,576 | 2,485 | 206,138 | 82,923 |

(Outline of reason for change)

The breakdown of the increase is as follows.

Increase due to purchase of shares constituting less than one trading unit: 2,485 shares

The breakdown of the decrease is as follows.

Decrease due to sale of shares in ESOP Trust Account: 206,000 shares

Decrease due to sale of shares constituting less than one trading unit: 138 shares

3. Items related to subscription rights for shares

| Company name | Breakdown | Class of shares to be issued or transferred upon exercise of the subscription rights | Number of shares to be issued or transferred upon exercise of the subscription rights (shares) | | | | Balance at December 31, 2015 |
|---|---|---|---|---|---|---|---|
| | | | Number of shares as of January 1, 2015 | Increase in the number of shares | Decrease in the number of shares | Number of shares as of December 31, 2015 | |
| Company submitting | Subscription rights for shares as stock options | — | — | — | — | — | ¥23 million |
| Total | | | — | — | — | — | ¥23 million |

4. Items related to dividends

(1) Cash dividends paid

| Resolution by | Type of shares | Total amount of dividends | Cash dividends per share (yen) | Reference date | Effective date |
|---|---|---|---|---|---|
| Board of Directors' meeting held on February 24, 2015 | Common stock | ¥23,488 million | ¥561.00 | December 31, 2014 | March 23, 2015 |
| Board of Directors' meeting held on August 13, 2015 | Common stock | ¥420 million | ¥10.00 | June 30, 2015 | September 14, 2015 |

Note: Dividends paid to the ESOP trust in the amount of ¥115 million have been excluded from the total amount of dividends at February 24, 2015.

(2) Dividends for which the reference date is within the fiscal year ended December 31, 2015, but the effective date is in the following fiscal year

| Resolution by | Type of shares | Fund for dividends | Total amount of dividends | Cash dividends per share (yen) | Reference date | Effective date |
|---|---|---|---|---|---|---|
| Board of Directors' meeting held on February 23, 2016 | Common stock | Retained earnings | ¥10,013 million | ¥238.00 | December 31, 2015 | March 23, 2016 |

## (Consolidated Statement of Cash Flows)

*1. Relationship between cash and cash equivalents at fiscal the year-end and amounts shown on consolidated balance sheet

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Cash and deposits | ¥32,738 million | ¥25,790 million |
| Marketable securities | ¥7,534 million | ¥2,172 million |
| Total | ¥40,272 million | ¥27,962 million |
| Time deposits with tenors exceeding 3 months | ¥(5,189 million) | ¥(2,038 million) |
| Cash and cash equivalents | ¥35,082 million | ¥25,924 million |

*2. Depreciation and amortization expense includes amounts recorded in other accounts, such as amortization expense for software recorded in computer expenses.

*3. Breakdown of principal assets and liabilities of a company that became a consolidated subsidiary from the acquisition of shares

The relationship between the breakdown of assets and liabilities at the time of initial consolidation of d-rights inc., acquired by an acquisition of shares, the total acquisition price of d-rights Inc., and the payment for the acquisition (net amount) of d-rights Inc. is as follows.

| | |
|---|---|
| Current assets | ¥1,224 million |
| Non-current assets | ¥243 million |
| Goodwill | ¥713 million |
| Current liabilities | ¥(382 million) |
| Non-current liabilities | ¥(3 million) |
| Minority interests | ¥(530 million) |
| Acquisition cost | ¥1,264 million |
| Cash and cash equivalents | ¥(988 million) |
| Less: Payment for the acquisition | ¥276 million |

## (Lease Transactions)

1. Finance lease transactions

Finance lease transactions that do not transfer ownership

(1) Details of lease assets

Tangible fixed assets

Principally, tools, furniture and fixtures and vehicles.

Intangible assets

Principally, software.

(2) Method of amortizing lease assets

The straight-line method is applied, with the lease period as the period of useful life and a residual value of zero.

2. Operating lease transactions

Future lease payments related to noncancelable operating leases

Millions of Yen

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Within one year | 926 | 1,026 |
| Beyond one year | 1,843 | 1,459 |
| Total | 2,769 | 2,486 |

## (Financial Instruments)

1. Items related to financial instruments

(1) Group policy for financial instruments

The Group invests its cash surplus in low risk and liquid marketable financial asset classes. The Group is working to diversity its sources of funding beyond bank loans to securitized receivables and the like. Derivatives are used, not for speculative purposes, but to manage financial exposure to the volatility of exchange rates by way of hedging transactions.

(2) Nature and extent of risks arising from financial instruments, and risk management method

Receivables, such as trade notes and accounts, are exposed to customer credit risk.

Investment securities, mainly equity instruments of customers for the purpose of building strong business relationships in addition to equity instruments of business alliances, are exposed to the risk of market price fluctuations.

The payment terms of payables, such as trade notes and accounts payable, are only short term.

Bank loans are mainly used to raise funds needed for working capital. Most of these loans are at floating rates and are thus exposed to the risk of rate fluctuations.

Bank loans, most of which are contracted with floating rates, are exposed to the risk of rate fluctuations.

Derivatives comprise forward foreign currency contracts used to hedge against market risks from changes in the foreign exchange rates of foreign currency-denominated receivables and payables.

Regarding Hedge Accounting, please see “Basis of Presenting of Consolidated Financial Statements”- “Significant hedge accounting methods” for more-detailed information.

(3) Risk Management for Financial Instruments

[1] Credit Risk Management

The Company manages its credit risk from receivables on the basis of internal accounting rules, which include screening customers, setting credit limits for each customer, designating due date controls for each receivable, and monitoring the financial status of major customers through the cooperation of the accounting department and each front office to prevent the default risk of customers.

Consolidated subsidiaries of the Company manage their credit risk and control their receivables, and are required to report certain substantial events to the Company when they happen.

[2] Market Risk Management (Foreign exchange risk and interest rate risk)

To hedge the foreign currency exchange risk associated with foreign currency trade receivables and payables, foreign currency forward contracts are entered into for the purpose of hedging risks associated with the ordinary course of business.

Loan payables are exposed to market risks from changes in interest rates, however, these market risks are considered limited as the balance of loans payable is not significant.

The market values of marketable and investment securities are managed by monitoring market prices and the financial position of the issuers on a regular basis, considering the relationships with the issuers.

Derivative transactions are determined in specified types and volume based on the Company's internal guidelines to be approved by the authorized person. After approval, derivative transactions are entered into and managed by the accounting department. In addition, the accounting department is required to report the financial position and the results of derivative transactions to the management of the Company on a regular basis.

[3] Liquidity Risk Management (Management of the risk that payment cannot be made by the due date)

The Company manages its liquidity risk by the corporate treasury department preparing and updating the fund management plan based on reports from each department, and manages liquidity by holding adequate volumes of liquid assets.

(4) Supplementary explanation on the estimated fair value

The fair values of financial instruments are based on the quoted price in active markets. If the quoted price is not available, other rational valuation techniques are used instead. Because various assumptions and factors are reflected in computing the fair value, different assumptions and actual factors could result in different fair values. The amounts of derivative contracts presented in Note do not indicate market risk.

2. Fair value of financial instruments

Carrying amounts, the fair values, and unrealized gains (losses) as of December 31, 2014 and 2015, were as follows. Financial instruments whose fair values cannot be reliably determined were not included in the following tables. (Please refer to Note 2.)

December 31, 2014

Millions of Yen

| | Carrying amount[1] | Fair value[1] | Difference |
|---|---|---|---|
| (1) Cash and deposits | 32,738 | 32,738 | — |
| (2) Notes and accounts receivable | 87,112 | 87,112 | — |
| (3) Securities and investment securities | 96,605 | 96,605 | — |
| (4) Notes and accounts payable | (71,574) | (71,574) | — |
| (5) Short-term loans payable | (46) | (46) | — |
| (6) Long-term loans payable | (82) | (82) | — |

December 31, 2015

Millions of Yen

| | Carrying amount[1] | Fair value[1] | Difference |
|---|---|---|---|
| (1) Cash and deposits | 25,790 | 25,790 | — |
| (2) Notes and accounts receivable | 84,326 | 84,326 | — |
| (3) Securities and investment securities | 99,519 | 99,519 | — |
| (4) Notes and accounts payable | (74,130) | (74,130) | — |
| (5) Short-term loans payable | (96) | (96) | — |
| (6) Long-term loans payable | (—) | (—) | — |
| (7) Derivative transactions[2] | (57) | (57) | — |

1. Liabilities are shown in parentheses.
2. Derivative transactions presented in the table above are net amounts. Total net payables are shown in parentheses.

Notes: 1. Items related to securities, calculation methods, and derivative transactions for market value of financial instruments

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

The carrying values of cash and time deposits, and notes and accounts receivable due in one year or less approximate the fair value because of their short maturities.

(3) Securities and investment securities

These mainly consist of stocks, bonds, and mutual funds. The fair values of stocks are measured at the quoted market price on the stock exchange, whereas the fair values of bonds are measured at the quoted price obtained from a financial institution, and the fair values of mutual funds are measured at the quoted values available.

(4) Notes and accounts payable, (5) Short-term loans payable

The carrying values of notes and accounts payable and short-term debt approximate the fair value because of their short maturities.

(7) Derivative transactions

Information on the fair value for derivatives is included in “Derivatives.”

2. Carrying amount of financial instruments whose fair value cannot be reliably determined

Millions of Yen

| Type | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Investments in securities with no available fair value | 1,776 | 1,739 |
| Investments in affiliates | 2,226 | 2,340 |
| Other | 109 | 90 |

These instruments do not have a market value and it is not possible to estimate their future cash flow, making it extremely difficult to obtain a market value. They are therefore not included in “(3) Securities and investment securities.”

3. Maturity Analysis for Financial Assets and Securities with Contractual Maturities

December 31, 2014

Millions of Yen

| | Due in one year or less | Due after one year through five years | Due after five years through 10 years | Due after 10 years |
|---|---|---|---|---|
| Cash and deposits | 32,738 | — | — | — |
| Notes and accounts receivable | 87,112 | — | — | — |
| Securities and investment securities | — | — | — | — |
| Total | 119,850 | — | — | — |

December 31, 2015

Millions of Yen

| | Due in one year or less | Due after one year through five years | Due after five years through 10 years | Due after 10 years |
|---|---|---|---|---|
| Cash and deposits | 25,790 | — | — | — |
| Notes and accounts receivable | 84,326 | — | — | — |
| Securities and investment securities | — | — | — | — |
| Total | 110,116 | — | — | — |

4. Scheduled redemption amounts in subsequent fiscal years of corporate bonds, long-term borrowings, and other interest-bearing liabilities

December 31, 2014

Millions of Yen

| | Up to 1 year | More than 1 year and up to 2 years | More than 2 years and up to 3 years | More than 3 years and up to 4 years | More than 4 years and up to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| Short-term loans payable | 46 | — | — | — | — | — |
| Long-term loans payable | 82 | — | — | — | — | — |
| Total | 128 | — | — | — | — | — |

December 31, 2015

Millions of Yen

| | Up to 1 year | More than 1 year and up to 2 years | More than 2 years and up to 3 years | More than 3 years and up to 4 years | More than 4 years and up to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| Short-term loans payable | 96 | — | — | — | — | — |
| Long-term loans payable | — | — | — | — | — | — |
| Total | 96 | — | — | — | — | — |

## (Securities)

Fiscal year ended December 31, 2014

1. Other securities (December 31, 2014)

Millions of Yen

| Classification | Amount recorded on consolidated balance sheet | Cost | Difference |
|---|---|---|---|
| For which market value exceeds amount recorded on consolidated balance sheet | | | |
| Stocks | 88,967 | 26,747 | 62,220 |
| Bonds | — | — | — |
| Other | — | — | — |
| Subtotal | 88,967 | 26,747 | 62,220 |
| For which market value does not exceed amount recorded on consolidated balance sheet | | | |
| Stocks | 104 | 110 | (5) |
| Bonds | — | — | — |
| Other | 422 | 422 | — |
| Subtotal | 527 | 532 | (5) |
| Total | 89,494 | 27,280 | 62,214 |

2. Other securities sold during the current fiscal year (Fiscal year ended December 31, 2014)

Millions of Yen

| Classification | Amount of sale | Total gain on sale | Total loss on sale |
|---|---|---|---|
| Stocks | 1,529 | 1,222 | — |
| Bonds | 106 | — | 2 |
| Other | — | — | — |
| Total | 1,636 | 1,222 | 2 |

Fiscal year ended December 31, 2015

1. Other securities (December 31, 2015)

Millions of Yen

| Classification | Amount recorded on consolidated balance sheet | Cost | Difference |
|---|---|---|---|
| For which market value exceeds amount recorded on consolidated balance sheet | | | |
| Stocks | 97,266 | 26,115 | 71,150 |
| Bonds | — | — | — |
| Other | — | — | — |
| Subtotal | 97,266 | 26,115 | 71,150 |
| For which market value does not exceed amount recorded on consolidated balance sheet | | | |
| Stocks | 80 | 90 | (9) |
| Bonds | — | — | — |
| Other | 2,087 | 2,087 | — |
| Subtotal | 2,168 | 2,178 | (9) |
| Total | 99,434 | 28,294 | 71,140 |

2. Other securities sold during the current fiscal year (Fiscal year ended December 31, 2015)

Millions of Yen

| Classification | Amount of sale | Total gain on sale | Total loss on sale |
|---|---|---|---|
| Stocks | 1,692 | 1,008 | 0 |
| Bonds | 19 | — | 0 |
| Other | — | — | — |
| Total | 1,711 | 1,008 | 0 |

## (Derivatives)

Fiscal year ended December 31, 2014

1. Derivative transactions to which hedge accounting was not applied

(1) Currency related

Not applicable

2. Derivative transactions to which hedge accounting was applied

(1) Currency related

Millions of Yen

| Hedge accounting method | Transaction type | Primary hedged item | Notional amounts | Due after one year | Fair value |
|---|---|---|---|---|---|
| Principal method Forward foreign exchange contracts | Forward foreign exchange contracts | | | | |
| | —buying | | | | |
| | (US$) | Payables | 292 | — | 240 |
| | (EUR) | Payables | 22 | — | 22 |
| | (HKD) | Payables | 8 | — | 9 |
| | (THB) | Payables | 25 | — | 25 |
| | (RMB) | Payables | 132 | — | 131 |
| | Subtotal | | 481 | — | 429 |
| Deferral method Forward foreign exchange contracts | Forward foreign exchange contracts | | | | |
| | —buying | | | | |
| | (US$) | Payables | 79 | — | Note: 2 |
| | (SGD) | Payables | 0 | — | Note: 2 |
| | (RMB) | Payables | 15 | — | Note: 2 |
| | Subtotal | | 95 | — | — |
| Total | | | 576 | — | — |

Notes: 1. Method of calculating fair value with principal method
Forward foreign exchange contracts: Calculated based on prices, etc., provided by counterparty financial institutions
2. Forward foreign exchange contracts to which designation accounting is applied are accounted for together with the foreign currency-denominated monetary claims and obligations that are being hedged, and accordingly their fair values are included in the fair values of the foreign currency-denominated monetary claims and obligations.

Fiscal year ended December 31, 2015

1. Derivative transactions to which hedge accounting was not applied

(1) Currency related

Millions of Yen

| Classification | Transaction type | Primary hedged item | Notional amounts | Due after one year | Fair value |
|---|---|---|---|---|---|
| Transactions apart from market transactions | Forward foreign exchange contracts | | | | |
| | —buying | | | | |
| | (EUR) | — | 983 | — | 930 |
| | (RMB) | — | 299 | — | 294 |
| Total | | | 1,283 | — | 1,225 |

Notes: 1. Regarding market prices, these depend on prices displayed by financial institutions acting as transaction counterparties.
2. In the case of the above forward foreign exchange contract transactions, hedge accounting does not apply to the financial statements of individual companies for transactions between consolidated group companies that accompany loans from subsidiaries, and hedge accounting does not apply to consolidated financial statements for transactions between the relevant consolidated group companies, which cancel out at the consolidated level.
3. As for relevant market prices, this refers to contract prices, and the net liability (net claim) that arises from the Group's derivative transactions comes to ¥57 million.

2. Derivative transactions to which hedge accounting was applied

(1) Currency related

Millions of Yen

| Hedge accounting method | Transaction type | Primary hedged item | Notional amounts | Due after one year | Fair value |
|---|---|---|---|---|---|
| Principal method Forward foreign exchange contracts | Forward foreign exchange contracts | | | | |
| | —buying | | | | |
| | (US$) | Payables | 259 | — | 260 |
| | (HKD) | Payables | 0 | — | 0 |
| | (RMB) | Payables | 104 | — | 103 |
| | Subtotal | | 364 | — | 363 |
| Deferral method Forward foreign exchange contracts | Forward foreign exchange contracts | | | | |
| | —buying | | | | |
| | (US$) | Payables | 67 | — | Note: 2 |
| | (SGD) | Payables | 0 | — | Note: 2 |
| | (HKD) | Payables | 5 | — | Note: 2 |
| | (THB) | Payables | 22 | — | Note: 2 |
| | (RMB) | Payables | 46 | — | Note: 2 |
| | Subtotal | | 143 | — | — |
| Total | | | 507 | — | — |

Notes: 1. Method of calculating fair value with principal method
Forward foreign exchange contracts: Calculated based on prices, etc., provided by counterparty financial institutions
2. Forward foreign exchange contracts to which designation accounting is applied are accounted for together with the foreign currency-denominated monetary claims and obligations that are being hedged, and accordingly their fair values are included in the fair values of the foreign currency-denominated monetary claims and obligations.
3. As for relevant market prices, this refers to contract prices, and the net liability (net claim) that arises from the Group's derivative transactions comes to ¥1 million.

## (Retirement Benefits and Pension Plans)

1. Overview of retirement benefit plans

To provide employee retirement benefits, the Company and its consolidated subsidiaries utilize funded and unfunded defined benefit plans and defined contribution plans. The defined benefit plans include welfare pension fund plans, cash balance plans, and lump-sum payment plans. Certain consolidated subsidiaries use the simplified method for the calculation of net defined benefit liability and retirement benefit expenses.

The multi-employer welfare pension fund plans (the Japan Advertising Industry Pension Fund), in which the Company and certain consolidated subsidiaries had been enrolled, was dissolved on July 27, 2015, with the approval of the Minister of Health, Labour and Welfare. In regard to plans for which it is difficult to reasonably calculate the amount of pension assets corresponding to each company's contributions, the accounting treatment is handled in the same manner as for defined contribution plans.

2. Defined benefit plans

(1) Changes of beginning and ending balances of retirement benefit obligations (excluding plans using the simplified method)

Millions of Yen

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Beginning balance of retirement benefit obligations | 10,359 | 10,419 |
| Cumulative effects of changes in accounting policies | — | (1,054) |
| Restated balance | 10,359 | 9,364 |
| Service cost | 656 | 765 |
| Interest cost | 136 | 36 |
| Actuarial differences | 70 | (292) |
| Payment of retirement benefits | (804) | (552) |
| Ending balance of retirement benefit obligations | 10,419 | 9,320 |

(2) Changes of beginning and ending balances of pension fund assets (excluding plans using the simplified method)

Millions of Yen

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Beginning balance of pension fund assets | 9,400 | 9,756 |
| Expected return on pension fund assets | 141 | 146 |
| Actuarial differences | 394 | 41 |
| Contributions by the Company | 624 | 625 |
| Payment of retirement benefits | (787) | (547) |
| Other | (17) | (4) |
| Ending balance of pension fund assets | 9,756 | 10,018 |

(3) Changes of beginning and ending balances of pension fund assets for plans using the simplified method.

Millions of Yen

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Beginning balance of net defined benefit liability | 907 | 942 |
| Retirement benefit expenses | 96 | 68 |
| Payment of retirement benefits | (110) | (75) |
| Contribution to the plan | — | (7) |
| Other | 49 | 7 |
| Ending balance of net defined benefit liability | 942 | 935 |

(4) Reconciliation of the ending balances of retirement benefit obligations and pension fund assets, and the amounts of net defined benefit liability and net defined benefit asset in the consolidated balance sheet

Millions of Yen

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Funded projected benefit obligation | 10,419 | 9,320 |
| Pension fund assets | (9,756) | (10,018) |
| | 662 | (697) |
| Unfunded projected benefit obligation | 942 | 935 |
| Net amount of liabilities and assets in consolidated balance sheet | 1,605 | 238 |
| Net defined benefit liability | 1,605 | 935 |
| Net defined benefit assets | — | (697) |
| Net amount of liabilities and assets in consolidated balance sheet | 1,605 | 238 |

Note: Includes plans using the simplified method.

(5) Retirement benefit expenses and breakdown of retirement benefit expenses

Millions of Yen

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Service cost | 656 | 765 |
| Interest cost | 136 | 36 |
| Expected return on pension fund assets | (141) | (146) |
| Amortization of actuarial differences | 221 | 112 |
| Retirement benefit expenses calculated using the simplified method | 96 | 68 |
| Other | 64 | 19 |
| Retirement benefit expenses related to defined benefit plans | 1,034 | 855 |

(6) Remeasurements of defined benefit plans, net of tax

The breakdown of items recorded in remeasurements of defined benefit plans, net of tax (before deducting tax effects) is as follows:

Millions of Yen

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Actuarial differences | — | 446 |

(7) Remeasurements of defined benefit plans

The breakdown of items recorded in remeasurements of defined benefit plans (before deducting tax effects) is as follows:

Millions of Yen

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Unrecognized actuarial differences | 31 | (414) |

(8) Items related to pension fund assets

[1] Details of principal pension fund assets

The percentages of principal categories of total pension fund assets are as follows:

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Japanese bonds | 26% | 27% |
| Foreign bonds | 15% | 14% |
| Japanese stocks | 11% | 12% |
| Foreign stocks | 9% | 7% |
| General accounts | 37% | 35% |
| Other | 1% | 2% |
| Total | 100% | 100% |

[2] Long-term expected rate of return on pension fund assets

The long-term expected rate of return on pension fund assets is determined with consideration for the current and expected allocation of pension fund assets and the current and expected long-term return from the various assets that make up the pension fund assets.

(9) Basis of actuarial calculation

Basis of the major actuarial calculations (shown using weighted averages)

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Discount rate | 1.3% | 0.3% |
| Long-term expected rate of return | 1.5% | 1.5% |

3. Defined contribution plans

The required amount of contributions to defined contribution plans for the Company and its consolidated subsidiaries was ¥332 million in the fiscal year ended December 31, 2014 and is ¥371 million in the fiscal year ended December 31, 2015.

4. Multi-employer plans

The required amount of contributions to multi-employer welfare pension fund plans for which the accounting treatment is handled in the same manner as for defined contribution plans was ¥694 million in the fiscal year ended December 31, 2014 and is ¥422 million in the fiscal year ended December 31, 2015.

(1) Funded status of multi-employer pension plans

Millions of Yen

| | As of March 31, 2014 | As of March 31, 2015 |
|---|---|---|
| Pension fund assets | 81,856 | — |
| The total amount of actuarial liability based on the pension plan funding formula and the amount of minimum reserves* | 99,824 | — |
| Net balance | (17,968) | — |

*In the fiscal year ended March 31, 2014, this item was presented as "Benefit obligations based on the pension plan funding formula."

(2) The Group's share of contributions to multi-employer plans

Fiscal year ended March 31, 2014: 17.9% (April 1, 2013 to March 31, 2014)

Fiscal year ended March 31, 2015: —% (April 1, 2014 to March 31, 2015)

(3) Supplementary explanation

Fiscal year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

The net balance in (1) above resulted mainly from the balance of prior service cost of ¥16,021 million and insufficient carry forwards ¥1,947 million based on the pension plan funding formula. The plans' prior service cost is amortized over a period of 20 years using the annuity repayment method. Over the period from April 1, 2013 to March 31, 2014, the Group charged to income ¥114 million as special contribution corresponding to this amortization. The share in (2) above does not correspond to the Group's actual share in the obligations of the plan.

Fiscal year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

Not applicable

## (Stock Options, etc.)

1. Expense items related to stock options recorded

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Stock-based compensation expense of selling, general and administrative expenses | ¥19 million | ¥(17 million) |

2. Stock option details, size, and changes in status

(1) Stock option details

| | Subscription rights to shares (1st series) | Subscription rights to shares (2nd series) | Subscription rights to shares (3rd series) | Subscription rights to shares (4th series) |
|---|---|---|---|---|
| | (Stock options as stockbased compensation for Company directors) | (Stock options as stockbased compensation for Company directors) | (Stock options as stockbased compensation for senior executive officer) | (Stock options as stockbased compensation for Company directors) |
| Company name | Company submitting | Company submitting | Company submitting | Company submitting |
| Record date | May 11, 2012 | May 13, 2013 | May 13, 2013 | August 12, 2014 |
| Groups and numbers of recipients | Directors (excluding outside directors): 9 | Directors (excluding outside directors): 4 | Senior executive officers: 4 | Directors (excluding outside directors): 4 |
| Number of options granted | 50,000 shares | 37,500 shares | 22,700 shares | 26,400 shares |
| Date of grant | May 30, 2012 | May 30, 2013 | May 30, 2013 | August 29, 2014 |
| Conditions for setting rights | Note: 1 | Note: 1 | Note: 2 | Note: 1 |
| Period of service | From May 30, 2012 to May 30, 2015 | From May 30, 2013 to May 30, 2016 | From May 30, 2013 to May 30, 2016 | From August 29, 2014 to August 29, 2017 |
| Exercise period | From May 31, 2015 to May 30, 2022 | From May 31, 2016 to May 30, 2023 | From May 31, 2016 to May 30, 2023 | From August 30, 2017 to August 29, 2024 |

| | Subscription rights to shares (5th series) | Subscription rights to shares (6th series) | Subscription rights to shares (7th series) |
|---|---|---|---|
| | (Stock options as stockbased compensation for operating officers) | (Stock options as stockbased compensation for operating officers) | (Stock options as stockbased compensation for operating officers) |
| Company name | Company submitting | Company submitting | Company submitting |
| Record date | August 12, 2014 | August 13, 2015 | August 13, 2015 |
| Groups and numbers of recipients | Operating officers: 18 | Directors (excluding outside directors): 4 | Operating officers: 16 |
| Number of options granted | 59,900 shares | 13,400 shares | 33,000 shares |
| Date of grant | August 29, 2014 | August 28, 2015 | August 28, 2015 |
| Conditions for setting rights | Note: 3 | Note: 1 | Note: 3 |
| Period of service | From August 29, 2014 to August 29, 2017 | From August 28, 2015 to August 28, 2018 | From August 28, 2015 to August 28, 2018 |
| Exercise period | From August 30, 2017 to August 29, 2024 | From August 29, 2018 to August 28, 2025 | From August 29, 2018 to August 28, 2025 |

Notes: 1. Conditions for exercise of subscription rights to shares
[1] Stock option holders must be a director of the Company at the time he/she exercises the stock options unless he/she retires due to the expiration of his/her term as a director or for any other justifiable reason.
[2] The number of stock options that may be exercised shall increase in stages from 0% to 100% from the grant date to the first day of the exercise period based on the Total Shareholder Return Results formula. The Total Shareholder Return Results 64 Financial Section formula is the average closing stock price on the Tokyo Stock Exchange during the three months immediately preceding the month of the first day of the exercise period (excluding any non-trading days); less the average closing stock price on the Tokyo Stock Exchange during the three months immediately preceding the month of the grant date (excluding any non-trading days); plus any dividends per share during the period from the grant date to the first day of the exercise period; all divided by the three-month average closing stock price immediately preceding the month of the grant date (excluding any non-trading days).

2. Conditions for exercise of subscription rights to shares
[1] Stock option holders must be a director or senior executive officer of the Company at the time he/she exercises the stock options unless he/she retires due to the expiration of his/her term as a director or senior executive officer for any other justifiable reason.
[2] The number of stock options that may be exercised shall increase in stages from 0% to 100% from the grant date to the first day of the exercise period based on the Total Shareholder Return Results formula. The Total Shareholder Return Results 64 Financial Section formula is the average closing stock price on the Tokyo Stock Exchange during the three months immediately preceding the month of the first day of the exercise period (excluding any non-trading days); less the average closing stock price on the Tokyo Stock Exchange during the three months immediately preceding the month of the grant date (excluding any non-trading days); plus any dividends per share during the period from the grant date to the first day of the exercise period; all divided by the three-month average closing stock price immediately preceding the month of the grant date (excluding any non-trading days).

3. Conditions for exercise of subscription rights to shares
[1] Stock option holders must be a director or executive officer of the Company at the time he/she exercises the stock options unless he/she retires due to the expiration of his/her term as a director or senior executive officer for any other justifiable reason.
[2] The number of stock options that may be exercised shall increase in stages from 0% to 100% from the grant date to the first day of the exercise period based on the Total Shareholder Return Results formula. The Total Shareholder Return Results 64 Financial Section formula is the average closing stock price on the Tokyo Stock Exchange during the three months immediately preceding the month of the first day of the exercise period (excluding any non-trading days); less the average closing stock price on the Tokyo Stock Exchange during the three months immediately preceding the month of the grant date (excluding any non-trading days); plus any dividends per share during the period from the grant date to the first day of the exercise period; all divided by the three-month average closing stock price immediately preceding the month of the grant date (excluding any non-trading days).

(2) Stock option size and changes in status

For stock options that existed in the fiscal year under review (fiscal year ended December 2015), the number of stock options is shown after conversion to number of shares.

[1] Number of stock options

| | Subscription rights to shares (1st series) | Subscription rights to shares (2nd series) | Subscription rights to shares (3rd series) | Subscription rights to shares (4th series) |
|---|---|---|---|---|
| Company name | Company submitting | Company submitting | Company submitting | Company submitting |
| Record date | May 11, 2012 | May 13, 2013 | May 13, 2013 | August 12, 2014 |
| Prior to determining rights | | | | |
| Outstanding at December 31, 2014 | 50,000 | 37,500 | 22,700 | 26,400 |
| Granted | — | — | — | — |
| Expired | 50,000 | — | — | — |
| Rights determined | — | — | — | — |
| Rights not determined | — | 37,500 | 22,700 | 26,400 |
| After determining rights | | | | |
| Outstanding at December 31, 2014 | — | — | — | — |
| Rights vested | — | — | — | — |
| Rights exercised | — | — | — | — |
| Expired | — | — | — | — |
| Outstanding unexercised | — | — | — | — |

| | Subscription rights to shares (5th series) | Subscription rights to shares (6th series) | Subscription rights to shares (7th series) |
|---|---|---|---|
| Company name | Company submitting | Company submitting | Company submitting |
| Record date | August 12, 2014 | August 13, 2015 | August 13, 2015 |
| Prior to determining rights | | | |
| Outstanding at December 31, 2014 | 59,900 | — | — |
| Granted | — | 13,400 | 33,000 |
| Expired | — | — | — |
| Rights determined | — | — | — |
| Rights not determined | 59,900 | 13,400 | 33,000 |
| After determining rights | | | |
| Outstanding at December 31, 2014 | — | — | — |
| Rights vested | — | — | — |
| Rights exercised | — | — | — |
| Expired | — | — | — |
| Outstanding unexercised | — | — | — |

[2] Cost information

| | Subscription rights to shares (1st series) | Subscription rights to shares (2nd series) | Subscription rights to shares (3rd series) | Subscription rights to shares (4th series) |
|---|---|---|---|---|
| Company name | Company submitting | Company submitting | Company submitting | Company submitting |
| Record date | May 11, 2012 | May 13, 2013 | May 13, 2013 | August 12, 2014 |
| Exercise price (yen) | ¥1 per share | ¥1 per share | ¥1 per share | ¥1 per share |
| Average share price when exercised (yen) | — | — | — | — |
| Impartially assessed cost when granted (yen) | 1,218 | 906 | 906 | 1,735 |

| | Subscription rights to shares (5th series) | Subscription rights to shares (6th series) | Subscription rights to shares (7th series) |
|---|---|---|---|
| Company name | Company submitting | Company submitting | Company submitting |
| Record date | August 12, 2014 | August 13, 2015 | August 13, 2015 |
| Exercise price (yen) | ¥1 per share | ¥1 per share | ¥1 per share |
| Average share price when exercised (yen) | — | — | — |
| Impartially assessed cost when granted (yen) | 1,735 | 2,399 | 2,399 |

3. Method for estimating impartially assessed cost

The fair value at the grant date was estimated using the following assumptions:

[1] Method used

Monte Carlo Method

[2] Primary assumptions and estimation method

| | | |
|---|---|---|
| Volatility of stock price | Note: 1 | 28.76% |
| Estimated remaining outstanding period | Note: 2 | 3 years |
| Estimated dividend per share | Note: 3 | 1.78% |
| Risk-free interest rate | Note: 4 | 0.021% |

Notes: 1. Volatility of stock price is computed based on the historical stock prices over the past three years.
2. The above calculations assume stock option rights will be exercised immediately after they vest.
3. Calculated based on a dividend yield in the most recent, regularly scheduled period.
4. Risk-free interest rate is based on the Japanese government bond yield corresponding to the estimated remaining outstanding period.

4. Method for estimating the number of stock option rights vested

The number of stock options forfeited due to not vesting is estimated with consideration for such factors as vesting conditions.

## (Tax Effect Accounting)

1. The deferred tax assets and liabilities as a result of the tax effects of significant temporary differences as of December 31

Millions of Yen

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| (Deferred tax assets) | | |
| Allowance for doubtful accounts | 399 | 387 |
| Provision for bonuses | 312 | 31 |
| Net defined benefit liability | 493 | 256 |
| Inventories | 39 | 145 |
| Investment securities (including shares of subsidiaries and associates) | 778 | 602 |
| Loss carryforwards | 776 | 948 |
| Deferred tax assets in overseas consolidated subsidiaries* | 65 | 68 |
| Other | 1,493 | 1,137 |
| Deferred tax assets subtotal | 4,359 | 3,576 |
| Valuation allowance | (2,113) | (2,360) |
| Total deferred tax assets | 2,246 | 1,215 |
| (Deferred tax liabilities) | | |
| Unrealized gain on available-for-sale securities | (22,091) | (22,911) |
| Deferred tax liabilities in overseas consolidated subsidiaries* | (13) | (2) |
| Other | (295) | (455) |
| Total deferred tax liabilities | (22,400) | (23,369) |
| Total net deferred tax assets (liabilities) | (20,154) | (22,154) |

* Deferred tax assets and liabilities in overseas consolidated subsidiaries as a result of the tax effects of significant temporary differences and losses carried forward as of December 31

Millions of Yen

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Deferred tax assets: | | |
| Tax loss carry forwards | 27 | 168 |
| Other | 207 | 181 |
| Deferred tax assets subtotal | 234 | 349 |
| Less valuation allowance | (169) | (281) |
| Total deferred tax assets | 65 | 68 |
| (Deferred tax liabilities) | | |
| Depreciation | (8) | — |
| Other | (4) | (2) |
| Deferred tax liabilities | (13) | (2) |
| Net deferred tax assets (liabilities) | 52 | 66 |

2. The reconciliation between the statutory tax rate for the years ended December 31, 2014 and 2015, and the actual effective tax rate reflected in the accompanying consolidated statements of income and comprehensive income

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Statutory tax rate | 38.01% | 35.64% |
| (Adjustments) | | |
| Certain expenses, including, but not limited to, entertainment expenses, permanently not deductible for tax purposes | 4.51% | 2.44% |
| Certain income, including, but not limited to, dividend income, permanently not taxable for tax purposes | (0.95%) | (0.66%) |
| Per capita levy and similar | 0.54% | 0.37% |
| Tax loss carry forwards | (0.18%) | (0.50%) |
| Amendment of statutory tax rate | 1.15% | 0.63% |
| Tax rate difference applicable to overseas subsidiaries | (3.48%) | (2.53%) |
| Change in valuation allowance | 2.58% | 2.20% |
| Other—net | (1.87%) | 1.37% |
| Effective tax rate | 40.31% | 38.96% |

3. Revision of amounts of deferred tax assets and liabilities due to changes in rates of corporate income tax, etc.
Following the promulgation of the "Act for Partial Revision of the Income Tax Act, etc." (Act No.9 of 2015) and the "Act to Amend the Local Taxation Act, etc." (Act. No.2 of 2015) on March 31, 2015, the corporate income tax rate, etc., will be lowered from the consolidated fiscal years beginning on or after April 1, 2015. In accordance with this, the statutory tax rate used to calculate deferred tax assets and liabilities will be changed from the previous 35.64% to 33.06% for the temporary differences expected to be reversed in the consolidated fiscal year beginning on January 1, 2016, or to 32.26% for the temporary differences expected to be reversed in the fiscal years beginning on or after January 1, 2017.

As a result of this tax rate change, deferred tax liabilities (net of deferred tax assets) has decreased by ¥2,361 million, and for the amounts recorded in the fiscal year ended December 31, 2015, income taxes—deferred, remeasurements of defined benefit plans, and valuation difference on available-for-sale securities have increased by ¥52 million, ¥14 million, and ¥2,400 million, respectively, while deferred gains or losses on hedges have decreased by ¥0 million.

## (Business Combinations, etc.)

Business combination through acquisition

1. Outline of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: d-rights Inc.

Description of the business: Producing content of a diverse range, including planning of original characters, anime content, games and web content, to production and development

(2) Main reason for the business combination

The Company decided to acquire these shares upon determining that welcoming d-rights Inc., with its track record throughout the world, global network in rights management, and sales of programs of high-quality content, to the ADK Group would lead the Company's content business to further enhance its content portfolio and expand business areas.

(3) Acquisition date

February 16, 2015

(4) Legal form of the business combination

Share acquisition in exchange for cash

(5) Name after the business combination

d-rights Inc.

(6) Ratio of Acquired Voting Rights

Ratio of voting rights held immediately before the business combination: 0.0%

Ratio of voting rights after acquisition: 51.0%

(7) Rationale for determining that the Company is the acquirer

The Company acquired all the shares in d-rights Inc. in exchange for cash.

2. Period for which reported earnings of the aforementioned acquired company was included in consolidated financial statements

As the date of acquisition is presumed to be March 31, 2015, the earnings of acquired company was recorded in consolidated accounts from the integration date in the period from April 1, 2015 through December 31, 2015.

3. Cost of acquisition of the acquiree and breakdown

| | | |
|---|---|---|
| Consideration paid | Cash | ¥1,224 million |
| Costs directly associated with the acquisition | Advisory fees, etc. | ¥40 million |
| Cost of acquisition | | ¥1,264 million |

4. Amount of goodwill, reason for recognition, amortization method and amortization period

(1) Amount of goodwill

¥713 million

(2) Reason for recognition

The acquisition cost exceeded the fair value of net assets of the acquiree at the date of the business combination.

(3) Amortization method and amortization period

The straight-line method for six years

5. Simple breakdown of assets and liabilities received on the aforementioned translations as of the integration date

| | |
|---|---|
| Current assets | ¥1,224 million |
| Non-current assets | ¥243 million |
| Total assets | ¥1,467 million |
| Current liabilities | ¥382 million |
| Non-current liabilities | ¥3 million |
| Total liabilities | ¥386 million |

6. Estimated monetary impact on consolidated income statement items and the calculation method for cases where business combinations are consummated as of the commencement date of the fiscal year for consolidated accounts

This information has been omitted in view of its low pertinence.

## (Asset Retirement Obligation)

Presentation is omitted due to limited materiality.

## (Real Estate for Rent, etc.)

Presentation is omitted because the total amount of real estate for rent, etc., has limited materiality.

## (Segment Information, etc.)

[Segment information]

1. Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments are "Advertising" and "Other business."

The Group's advertising segment covers various advertising activities that include planning and execution of advertisements in various media such as magazines, newspapers, TV, radio, digital media, and OOH media. The advertising activities also include planning and production for ad expressions and content, and service activities such as sales promotion, marketing, and public relations. The Group's other business segment includes publication and sales of magazines and books.

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

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

Segment profit (loss) is based on operating income of the consolidated statements of income and comprehensive income.

The pricing of inter segment sales or transfers is on an arm's length basis.

3. Information related to the amounts of gross billings, profit (loss), assets (liabilities) and other items by reporting segment

Fiscal year ended December 31, 2014

Millions of Yen

| | Segment | | | Adjustments[1] | Consolidated[2] |
|---|---|---|---|---|---|
| | Advertising | Other business | Total | | |
| Sales | | | | | |
| Sales to external customers | 348,273 | 4,710 | 352,984 | — | 352,984 |
| Inter-segment sales or transfers | 27 | 52 | 80 | (80) | — |
| Total | 348,301 | 4,763 | 353,064 | (80) | 352,984 |
| Segment profit (loss) | 4,465 | (368) | 4,097 | 0 | 4,097 |
| Segment assets | 237,959 | 6,533 | 244,492 | (1,175) | 243,317 |
| Other: | | | | | |
| Depreciation/amortization[3] | 1,345 | 38 | 1,384 | — | 1,384 |
| Investment in entities accounted for using equity method | 847 | — | 847 | — | 847 |
| Increase in property and equipment, and intangible assets | 2,487 | 17 | 2,505 | — | 2,505 |

Notes: 1. The details of the adjustments are as follows:
(1) Adjustments to segment profit (loss) consist of the elimination of inter-segment transactions and unrealized gains.
(2) Adjustment to segment assets consist of elimination of inter-segment transactions.
2. Segment profit (loss) reconciles to operating income of the consolidated statements of income and comprehensive income.
3. Depreciation/amortization includes amortization of software capitalized on the balance sheets.

Fiscal year ended December 31, 2015

Millions of Yen

| | Segment | | | Adjustments[1] | Consolidated[2] |
|---|---|---|---|---|---|
| | Advertising | Other business | Total | | |
| Sales | | | | | |
| Sales to external customers | 347,522 | 4,433 | 351,956 | — | 351,956 |
| Inter-segment sales or transfers | 21 | 132 | 153 | (153) | — |
| Total | 347,544 | 4,566 | 352,110 | (153) | 351,956 |
| Segment profit (loss) | 5,018 | (118) | 4,899 | 1 | 4,901 |
| Segment assets | 230,226 | 6,141 | 236,367 | (1,162) | 235,205 |
| Other: | | | | | |
| Depreciation/amortization[3] | 1,508 | 35 | 1,544 | — | 1,544 |
| Investment in entities accounted for using equity method | 1,110 | — | 1,110 | — | 1,110 |
| Increase in property and equipment, and intangible assets | 1,208 | 15 | 1,223 | — | 1,223 |

Notes: 1. The details of the adjustments are as follows:
(1) Adjustments to segment profit (loss) consist of the elimination of inter-segment transactions and unrealized gains.
(2) Adjustment to segment assets consist of elimination of inter-segment transactions.
2. Segment profit (loss) reconciles to operating income of the consolidated statements of income and comprehensive income.
3. Depreciation/amortization includes amortization of software capitalized on the balance sheets.

[Related information]
Fiscal year ended December 31, 2014

1. Information about products and services
Information about products and services is omitted as the same information is disclosed within "segment information."

2. Information by geographical areas
(1) Sales
Information about sales is omitted as sales to external customers in Japan account for more than 90% of the net sales in the consolidated statements of income and comprehensive income for the year ended December 31, 2014.

(2) Property, plant and equipment

Millions of Yen

| Japan | Overseas | Total |
|---|---|---|
| 4,138 | 700 | 4,839 |

3. Major customers
Information about major customers is omitted as no customer accounts for more than 10% of the net sales in the consolidated statements of income and comprehensive income for the year ended December 31, 2014.

Fiscal year ended December 31, 2015

1. Information about products and services
Information about products and services is omitted as the same information is disclosed within "segment information."

2. Information by geographical areas
(1) Sales
Information about sales is omitted as sales to external customers in Japan account for more than 90% of the net sales in the consolidated statements of income and comprehensive income for the year ended December 31, 2015.

(2) Property, plant and equipment

Millions of Yen

| Japan | Overseas | Total |
|---|---|---|
| 4,162 | 637 | 4,800 |

3. Major customers
Information about major customers is omitted as no customer accounts for more than 10% of the net sales in the consolidated statements of income and comprehensive income for the year ended December 31, 2015.

[Information about impairment losses of assets by reportable segment]
Fiscal year ended December 31, 2014

Millions of Yen

| | Advertising | Other business | Eliminations | Total |
|---|---|---|---|---|
| Impairment losses of assets | 207 | — | — | 207 |

Fiscal year ended December 31, 2015
Not applicable

[Information related to amounts of goodwill amortized and unamortized goodwill outstanding by reporting segment]
Fiscal year ended December 31, 2014
Not applicable

Fiscal year ended December 31, 2015

Millions of Yen

| | Advertising | Other business | Eliminations | Total |
|---|---|---|---|---|
| Negative goodwill amortization | 89 | — | — | 89 |
| Remaining negative goodwill (unamortized) | 623 | — | — | 623 |

[Information related to gain on negative goodwill by reportable segment]

Fiscal year ended December 31, 2014

Not applicable

Fiscal year ended December 31, 2015

Not applicable

[Related party information]

Not applicable

## (Per Share Information)

| | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Net assets per share (yen) | 3,204.87 | 2,947.40 |
| Basic earnings per share (yen) | 88.32 | 127.72 |
| Diluted earnings per share (yen) | 88.22 | 127.63 |

Notes: 1. As noted in the Group's amended accounting policy, the Group has adopted the "Accounting Standards for Retirement Benefits," following the transitional treatment stipulated by Article 37 of the retirement benefits accounting standards. As a result, net book value per share for the fiscal year under review increased by ¥16.13 on a consolidated accounting basis.

Meanwhile, there was little impact from adopting this standard on net income per share and net income per share after adjusting for dilutive shares for the fiscal year under review.

2. The fundamentals for calculating net income per share and net income per share after adjusting for dilutive shares for the fiscal year under review is as shown below.

| Item | Fiscal year ended December 31, 2014 | Fiscal year ended December 31, 2015 |
|---|---|---|
| Basic earnings per share (yen) | | |
| Net income (¥ millions) | 3,696 | 5,362 |
| Amounts not attributable to common stockholders (¥ millions) | — | — |
| Net income related to common shares (¥ millions) | 3,696 | 5,362 |
| Average number of common shares during term (shares) | 41,848,271 | 41,982,754 |
| Diluted earnings per share (yen) | | |
| Increase in number of shares (shares) | 47,977 | 28,541 |
| (Subscription rights) (shares) | (47,977) | (28,541) |
| Outline of dilutive shares that were not included in the calculation of "diluted earnings per share" because they do not have dilutive effect. | — | |

The Company has introduced an Employee Stock Ownership Plan (ESOP) Trust, and the shares of the Company held in the ESOP Trust Account are recorded as treasury stock in the consolidated financial statements. Accordingly, in calculating basic net income per share and diluted net income per share the number of these shares is included in treasury stock for the calculation of "average number of common shares during term."

3. Basis for calculating net assets per share is as follows.

| Item | December 31, 2014 | December 31, 2015 |
|---|---|---|
| Total net assets (¥ millions) | 134,999 | 125,488 |
| Amounts excluded from net assets (¥ millions) | 815 | 1,484 |
| (Subscription rights) (¥ millions) | (40) | (23) |
| (Minority interests) (¥ millions) | (775) | (1,461) |
| Net income as of fiscal year-end related to common shares (¥ millions) | 134,184 | 124,004 |
| Common shares as of fiscal year-end used to calculate net assets per share | 41,868,824 | 42,072,477 |

The Company has introduced an ESOP Trust, and the shares of the Company held in the ESOP Trust Account are recorded as treasury stock in the consolidated financial statements. Accordingly, in calculating net assets per share the number of these shares is included in treasury stock for the calculation of "common shares as of fiscal year-end." At the end of the consolidated fiscal year under review, there were no shares held via the relevant trusts due to the ending of the relevant trusts.

## (Significant Subsequent Events)

At a February 23, 2016 meeting of the Board of Directors, the Board passed a resolution on the basic policy concerning the sale of shares in consolidated subsidiary NIHONBUNGEISHA Co., Ltd. as a M&A transaction. After continued discussions with Kenkou Corporation on the terms of the share transaction etc., the Board consummated a transaction contract to sell the shares on March 24, 2016.

1. Reasons for the transaction

Founded in January 1959, NIHONBUNGEISHA is primarily a publisher of books, magazines, and other items. ADK converted the publisher into a consolidated subsidiary by acquiring a portion of its issued shares in October 1976. ADK then turned NIHONBUNGEISHA into a wholly owned subsidiary in December 2014.

The publishing industry, where NIHONBUNGEISHA competes, faces a shrinking conventional market attendant with the spread of internet use and media diversification. The proliferation of smartphones and tablets in the past several years has opened up new growth opportunities such as e-books. As a result of these trends, the publishing industry is expected to become even more fiercely competitive. In view of this backdrop, we strove to reduce operating losses by pushing through restructuring reforms at NIHONBUNGEISHA and worked to realize synergies between the publishing and advertising businesses, and after comprehensively examining NIHONBUNGEISHA in the context of the Group's management strategy, the Board decided that partnering NIHONBUNGEISHA with Kenkou Corporation in manuals and how-to books, a field where NIHONBUNGEISHA excels, would enable NIHONBUNGEISHA to expand its operations in the years ahead.

2. Name of share transfer recipient

Kenkou Corporation, Inc.

3. Date of share transfer

April 18, 2016 (scheduled)

4. Overview of relevant subsidiary

(1) Name: NIHONBUNGEISHA Co., Ltd.

(2) Business description: Publisher and marketer of books, magazines, etc.

(3) Transactions with ADK: The consolidated subsidiary consigned to the Group the purchasing of advertising space relating to its publications.

5. Number of shares transferred, post-transfer share ownership by ADK

(1) Number of shares ADK owned pre-sale: 4,067,000 (ownership ratio: 100%)

(2) Number of shares sold: 4,067,000

(3) Number of shares ADK owned post-sale: None (0%)

6. Transaction price for all shares issued, loss (gain) on share transfer

(1) ADK's proceeds on shares sold: ¥2,012 million

(2) Losses ADK recognized on share sale: ¥1,760 million

7. Reporting segment to which the transferred business had been assigned

Others (various businesses)

# Consolidated Supplementary Statements

[Corporate bond statement]

Not applicable

[Statement of loans payable, etc.]

| Classification | Outstanding as of current fiscal year-beginning (¥ millions) | Outstanding as of current fiscal year-end (¥ millions) | Average interest rate (%) | Repayment deadline |
|---|---|---|---|---|
| Short-term loans payable | 46 | 96 | 2.32 | — |
| Current portion of long-term loans payable | 82 | — | — | — |
| Current portion of lease obligations | 62 | 35 | 1.44 | — |
| Long-term loans payable (excluding current portion) | — | — | — | — |
| Lease obligations (excluding current portion) | 80 | 93 | 0.92 | January 31, 2017-September 30, 2020 |
| Other interest-bearing liabilities | — | — | — | — |
| Total | 271 | 224 | — | — |

Notes: 1. “Average interest rate” is the weighted average interest rate for amounts outstanding as of the fiscal year-end.

2. Long-term loans payable and amounts of lease obligations (excluding current portion) scheduled for repayment within five years from the fiscal year-end are as follows:

| Classification | Due after one year through two years (¥ millions) | Due after two years through three years (¥ millions) | Due after three years through four years (¥ millions) | Due after four years through five years (¥ millions) |
|---|---|---|---|---|
| Lease obligations | 67 | 16 | 8 | 1 |

[Statement of asset retirement obligations]

The amount of asset retirement obligations as of the fiscal year-end is less than 1% of total liabilities and net assets, and this statement has therefore not been prepared.

# Others

Quarterly billings, etc., for the current fiscal year are as follows:

| (Consolidated term) | 3 month-period to end of 1st quarter | 6 month-period to end of 2nd quarter | 9 month-period to end of 3rd quarter | Fiscal year |
|---|---|---|---|---|
| Gross billings (¥ millions) | 92,062 | 175,108 | 257,004 | 351,956 |
| Quarterly income before income taxes and minority interests (¥ millions) | 2,610 | 5,446 | 5,429 | 9,189 |
| Quarterly net income (¥ millions) | 1,540 | 3,155 | 3,015 | 5,362 |
| Quarterly net income per common share (yen) | 36.80 | 75.34 | 71.89 | 127.72 |

| (3-month consolidated fiscal period) | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter |
|---|---|---|---|---|
| Quarterly net income per common share, quarterly net loss per common share (yen) | 36.80 | 38.54 | (3.33) | 55.77 |

# ADK Group Network

(As of April 1, 2016)

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■ **ADK Dialog, Inc.**
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■ **ADK Digital Communications Inc.**
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■ **Kyowa Kikaku Ltd.**
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■ **China Stories Inc.**
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■ **d-rights Inc.**
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■ **Right Song Music Publishing Co., Ltd.**
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Jalan 19/3, 46300 Petaling Jaya,
Selangor, Malaysia
TEL: +603-7954-0388

■ **DAI-ICHI KIKAKU (Malaysia) Sdn. Bhd.**
Level 21, Menara Amfirst, No. 1, Jalan 19/3,
46300 Petaling Jaya, Selangor, Malaysia
TEL: +603-7960-8106

### Thailand

■ **ADK Thai Holding Ltd.**
23F, Shinawatra Tower III,
1010 Vibhavadi, Rangsit Road, Ladyao,
Chatuchak, Bangkok 10900, Thailand
TEL: +66-2-949-2700

■ **ASATSU (Thailand) Co., Ltd.**
24F, Sirinrat Bldg. 3388/86, 3388/88-
89 Rama 4 Road, Klongton, Klongtoey
Bangkok 10110, Thailand
TEL: +66-2-367-5951

■ **ASDIK Ltd.**
17F, Shinawatra Tower III,
1010 Vibhavadi, Rangsit Road, Ladyao,
Chatuchak, Bangkok 10900, Thailand
TEL: +66-2-949-2800

■ **DAI-ICHI KIKAKU (Thailand) Co., Ltd.**
23F, Shinawatra Tower III, 1010
Vibhavadi, Rangsit Road, Ladyao,
Chatuchak, Bangkok 10900, Thailand
TEL: +66-2-949-2700

### Vietnam

■ **ASATSU-DK VIETNAM Inc.**
28 Nguyen Van Thu Street,
District 1, Ho Chi Minh City, Vietnam
TEL: +84-8-3910-5550

■ **DIK VIETNAM CO., LTD.**
3F, 28 Nguyen Van Thu Street,
District 1, Ho Chi Minh City, Vietnam
TEL: +84-8-3911-8835

### Korea

■ **ASATSU-DK Korea Co., Ltd.**
2F Taewoo bldg., 285, Gangnam-daero,
Seocho-gu, Seoul, 137-862, Korea
TEL: +82-2-511-5934

■ Consolidated subsidiaries
■ Affiliates accounted for by the equity method

# Corporate Information

(As of December 31, 2015)

## Company Overview

| | |
|---|---|
| Company Name | ASATSU-DK INC. |
| Abbreviation | ADK |
| Head Office | 23-1 Toranomon 1 cho-me, Minatoku, Tokyo 105-6312, Japan |
| Date of Establishment | March 19, 1956 |
| Capital | ¥37,581,366,100 |
| No. of Employees | 1,853 (non-consolidated) |
| URL | http://www.adk.jp/en/ |

## Stock Basic Information

| | |
|---|---|
| Common Stock Authorized | 206,000,000 shares |
| Common Stock Issued | 42,155,400 shares |
| Number of Shareholders | 14,316 shareholders |

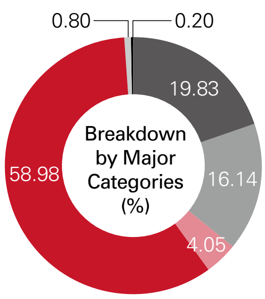
Note: 82,923 shares of treasury stock held by the Company are included.

## Major Shareholders

| | Number of shares | Ratio of total shares (excluding treasury stock) |
|---|---|---|
| WPP International Holding B.V. | 10,331,100 | 24.51 |
| Northern Trust Company (AVFC) Re Silchester International Investors International Value Equity Trust | 2,514,100 | 5.96 |
| Northern Trust Company AVFC Re U.S. Tax Exempted Pension Funds | 1,536,600 | 3.65 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 1,173,100 | 2.78 |
| The Bank of New York Mellon SA/NV 10 | 1,161,600 | 2.76 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 934,700 | 2.22 |
| Goldman, Sachs & Co. Regular Account | 871,011 | 2.07 |
| Northern Trust Company (AVFC) Account Non-treaty | 862,300 | 2.05 |
| The Master Trust Bank of Japan, Ltd. (Retirement Benefits Trust Account for Mitsubishi Corporation) | 765,000 | 1.81 |
| PIONEER FUNDS | 510,500 | 1.21 |

Note: Shareholdings are rounded off at two decimal places.

## Distribution of Share Ownership by Major Categories




| | No. of shareholders | No. of shares |
|---|---|---|
| Individuals and others | 13,855 | 8,358,213 |
| Financial institutions | 37 | 6,804,903 |
| Other domestic corporations | 193 | 1,707,638 |
| Foreigners | 198 | 24,862,258 |
| Securities companies | 32 | 339,465 |
| Treasury stock | 1 | 82,923 |

Note: Ratios are rounded off at two decimal places.

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