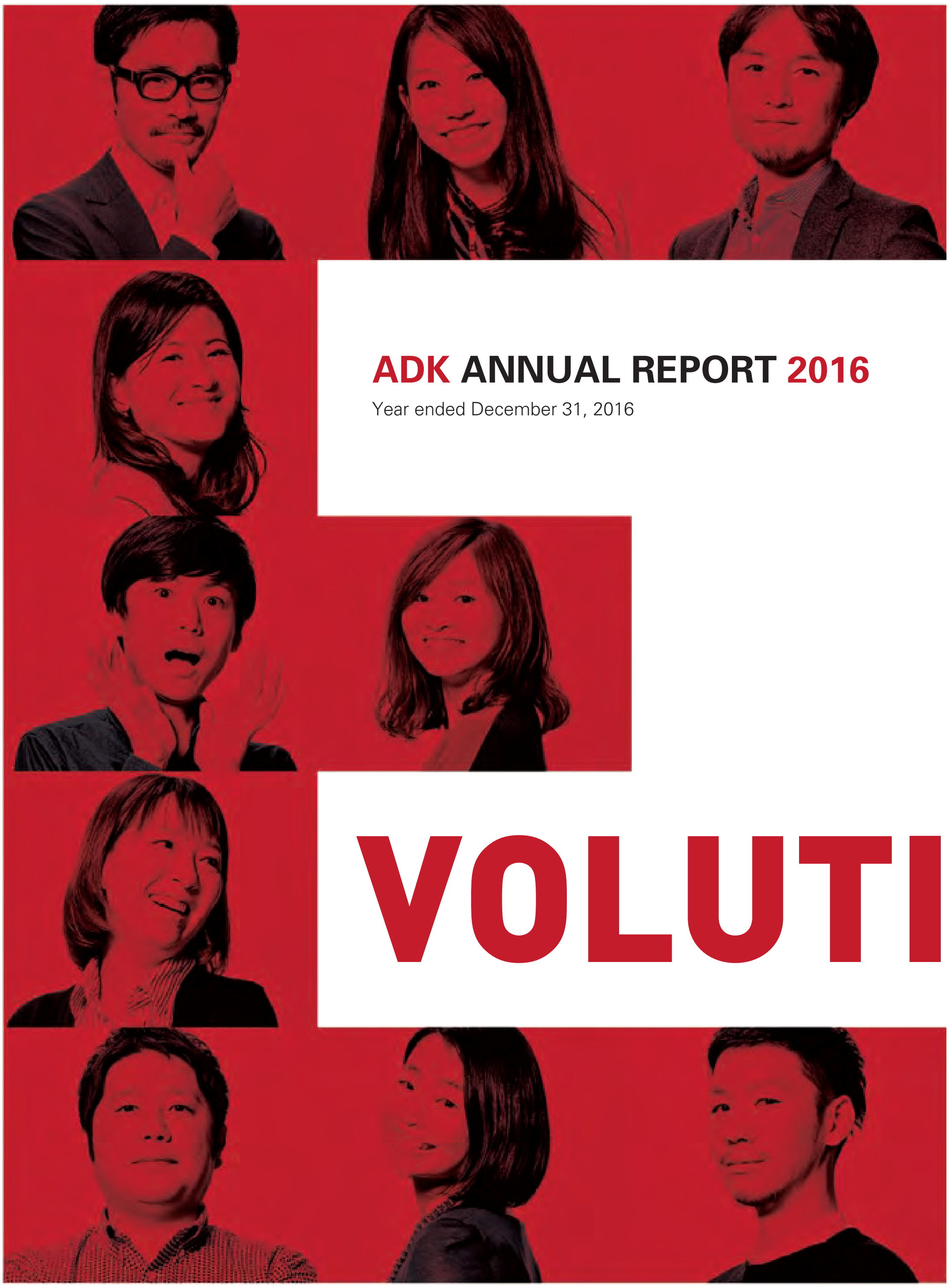
ADK ANNUAL REPORT 2016

Year ended December 31, 2016



VOLUTION

for the NEXT STAGE

Evolution

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.

1956
Launch of ASATSU Inc.

1987
Listed on the Second Section of the Tokyo Stock Exchange, a first for an advertising company in Japan

1990
Listed on the First Section of the Tokyo Stock Exchange

1998
Business and capital tie-up with WPP, the world's largest advertising group

1999
Merger of ASATSU Inc. and Dai-ichi Kikaku Co., Ltd.
Launch of ASATSU-DK Inc.

Contents

FY2016 Results

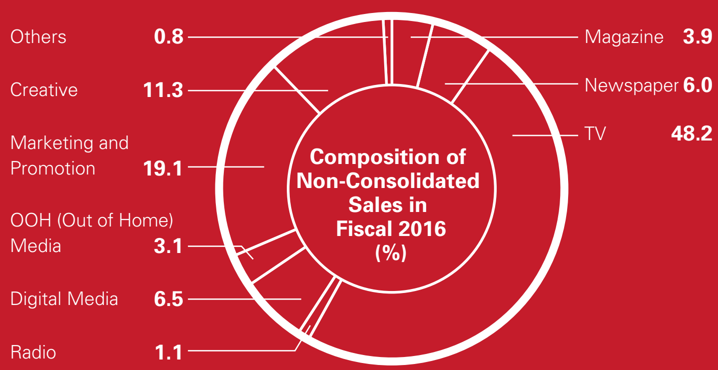
Gross billings
¥352,671Mn

Operating income
¥5,569Mn

Gross billings for the domestic ad agency sector
No.3

VISION 2020
Consumer Activation Company

ADK provides its clients with comprehensive solutions in such fields as magazines, newspapers, TV, radio, digital media advertising, store promotions, and events. In fiscal 2016, we recorded year-on-year gains in gross billings in the fields of TV, digital media, OOH (Out of Home) media, creative, radio, and marketing and promotion.



Our Strengths

More than an extension of the conventional advertising agency business model, We Will Motivate Consumers

ER

"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.

STRATEGIC INSIGHTS

CREATIVITY

THE POWER OF ACTION

CTIVATION

Three Strengths that Motivate Consumers

STRATEGIC INSIGHTS

Determining motivation

Knowing what motivates people

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."

CREATIVITY

Reaching out

Proposing world-shaking ideas

THE POWER OF ACTION

Motivating

Creating value for our clients

THE POWER OF

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 to serve as the venue for a meeting of the consumer and the brand. Throughout this process, we ask ourselves repeatedly, "Is this something that will shake up the world?" as we leverage creativity from all perspectives and motivate the consumer to take action.

We are a group of professionals that constantly tracks progress toward the completion of our objectives and strives to contribute to the business success of our clients with ideas and execution that move consumers. We continue to take on challenges in a range of fields not limited to advertising, ranging from entertainment such as sports and art, to the content business including animation, and development of experience spaces that take advantage of new technologies.

Business at a Glance

Consolidated Five-Year Summary

	2012	2013	2014	2015	2016
Income Statement Data					Millions of Yen
Gross billings	¥ 350,822	¥ 342,786	¥ 352,984	¥ 351,956	**¥ 352,671**
Gross profit	46,169	45,104	48,568	48,824	**51,182**
Selling, general and administrative expenses	42,993	43,721	44,470	43,923	**45,613**
Operating income	3,175	1,383	4,097	4,901	**5,569**
Ordinary income	5,314	4,327	7,251	8,590	**8,688**
Income before income taxes	4,069	5,600	6,433	9,189	**6,260**
Profit attributable to owners of parent	2,781	3,430	3,696	5,362	**2,376**
Comprehensive income	13,559	27,187	10,189	12,950	**(747)**
Balance Sheet Data					Millions of Yen
Total assets	¥ 195,163	¥ 228,170	¥ 243,317	¥ 235,205	**¥ 227,260**
Total net assets*1	109,559	130,972	134,999	125,488	**113,225**
Shareholders' equity*2	108,521	129,873	134,184	124,004	**111,605**

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

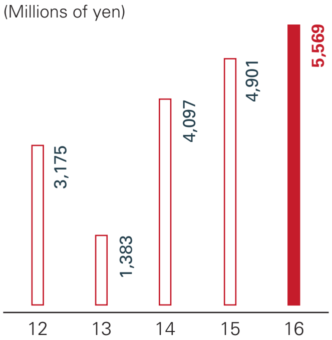
	2012	2013	2014	2015	2016
Per Common Share Data					Yen
Net income per share (EPS)	¥ 65.83	¥ 81.79	¥ 88.32	¥ 127.72	**¥ 56.96**
Dividend per share	111.00	141.00	571.00	248.00	**100.00**
Book value per share	¥2,567.03	¥3,105.40	¥3,204.87	¥2,947.40	**¥2,674.92**
No. of common shares outstanding*	42,655,400	42,155,400	42,155,400	42,155,400	**42,155,400**

* Includes treasury stock

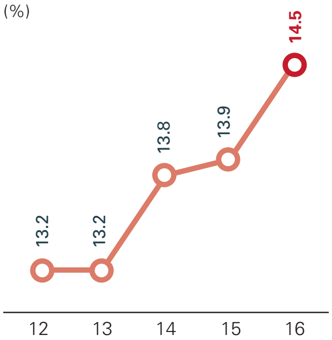
	2012	2013	2014	2015	2016
Financial Ratios					
Gross profit ratio	13.2%	13.2%	13.8%	13.9%	**14.5%**
Operating margin*1	6.9	3.1	8.4	10.0	**10.9**
Staff cost / Gross profit	62.5	65.4	61.5	60.5	**60.3**
Return on equity (ROE)*2	2.7	2.9	2.8	4.2	**2.0**
Equity ratio*3	55.6	56.9	55.1	52.7	**49.1**

*1. Operating margin = Operating income ÷ Gross profit
*2. ROE = Profit attributable to owners of parent ÷ 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

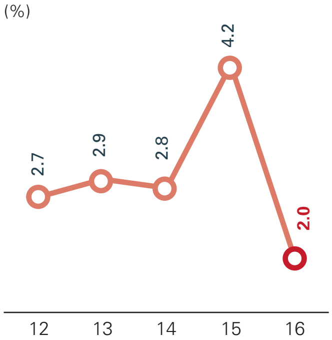
Operating income
(Millions of yen)



Gross profit ratio
(%)



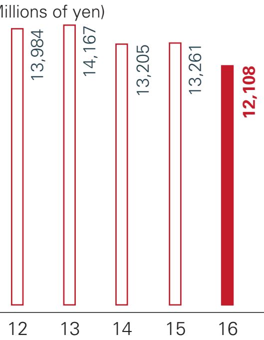
Return on equity (ROE)
(%)



Non-consolidated Gross Profit by Business Discipline

Magazine

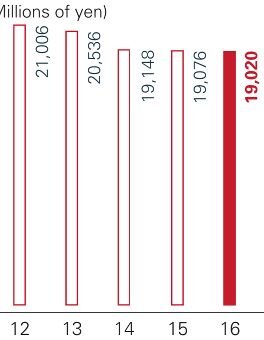
(Millions of yen)



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

Newspaper

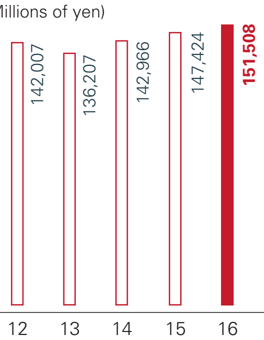
(Millions of yen)



We reported increased gross billings to clients in the Information/Communication, Transportation/Leisure, Publishing, although gross billings to clients in Cosmetics/Toiletry, Government/Organizations, Apparel/Jewelry declined.

Television

(Millions of yen)

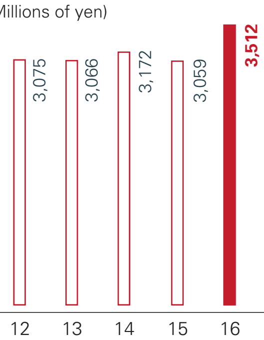


Overall "program*" gross billings from TV program ads decreased 1.8% year on year on growth in program sponsor ad orders from clients in Pharma/Medical Supplies. Overall "spot**" gross billings from TV program ads increased 4.2% year on year on growth in "spot" placement orders from clients in Pharma/Medical Supplies, Information/Communication. With regards to TV content, overall gross billings rose12.8% year on year. Overall gross billings on TV program, spot, and content ads rose 2.8% 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

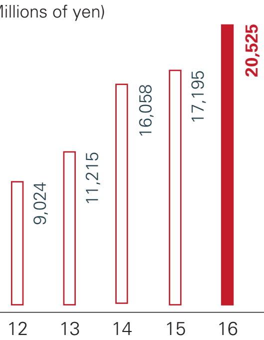
(Millions of yen)



We reported increased gross billings to clients in the Information/Communication, Cosmetics/Toiletry, Real Estate/Housing, although gross billings to clients in Finance/Insurance, Food, Automobile/Automobile-related Products declined.

Digital Media

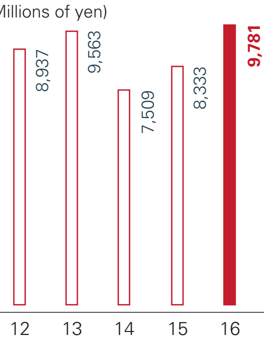
(Millions of yen)



We reported increased gross billings to clients in the Food, Cosmetics/Toiletry, Apparel/Jewelry, although gross billings to clients in Finance/Insurance, Pharma/Medical Supplies, Home Appliances/AV Equipment declined.

OOH Media

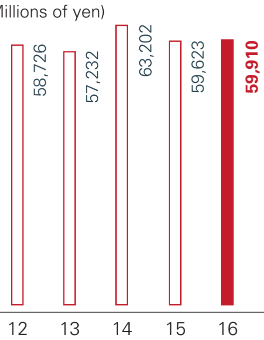
(Millions of yen)



We reported increased gross billings to clients in the Food, Beverage/Tobacco, Real Estate/Housing, although gross billings to clients in Publishing, Distribution/Retail, Information/Communication declined.

Marketing and Promotion

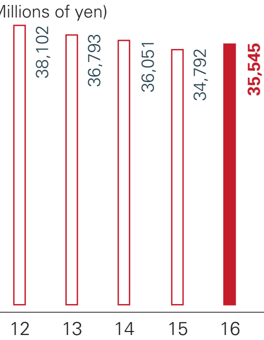
(Millions of yen)



We reported increased gross billings to clients in the Distribution/Retail, Real Estate/Housing, Automobile/Automobile-related Products, although gross billings to clients in Beverage/Tobacco, Government/Organizations, Apparel/Jewelry declined.

Creative

(Millions of yen)



We reported increased gross billings to clients in the Transportation/Leisure, Restaurants/Other Service, Food, although gross billings to clients in Beverage/Tobacco, Pharma/Medical Supplies, Finance/Insurance declined.

To Our Stakeholders

EVOLUTION FOR THE NEXT STAGE

We are committed to accomplishing foundation building and structural reform for our transformation to a Consumer Activation Company.

Shinichi Ueno

Shinichi Ueno

Representative Director,
President & Group CEO

Fiscal 2016 Performance Review

Operating Income Grows for Third Consecutive Year as Profitability Steadily Improves

Looking at performance in fiscal 2016, operating income amounted to ¥5.5 billion, up 13.6% year on year, while gross billings were ¥352.6 billion, up 0.2% year on year. We posted non-operating income of ¥3.2 billion, including dividend income from shares in WPP, with whom ADK has a business and capital alliance. However, profit attributable to owners of parent was ¥2.3 billion, down 55.7% year on year, due to the posting of ¥2.6 billion in extraordinary losses, including loss on liquidation of business.

In terms of revenue, sales of TV spot and digital media advertisements increased at the parent company ADK, helped by a moderate recovery in the Japanese economy. On the profit front, the gross profit ratio improved steadily, as a result of efforts in reviewing low-profit projects, promoting in-house production, and strengthening the profit management structure through organizational reforms. We increased bonus provision to recognize the hard work and results of employees in expanding gross profit. Even so, we managed to control other costs and saw double-digit growth in operating income for a third consecutive year.

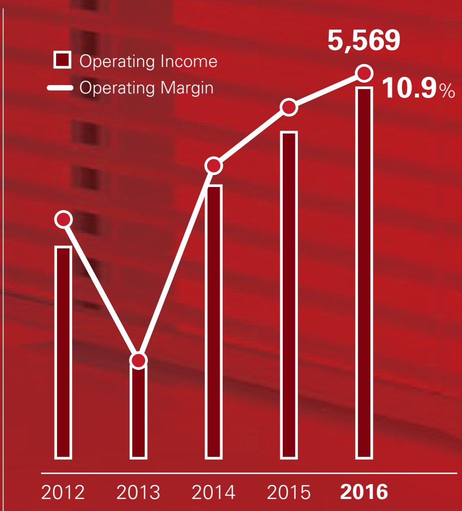
Accelerating Selection and Concentration of Businesses

Among Group companies, ADK Digital Communications Inc. performed strongly, and ADK Arts Inc. showed robust performance as a result of promoting in-house production within the Group.

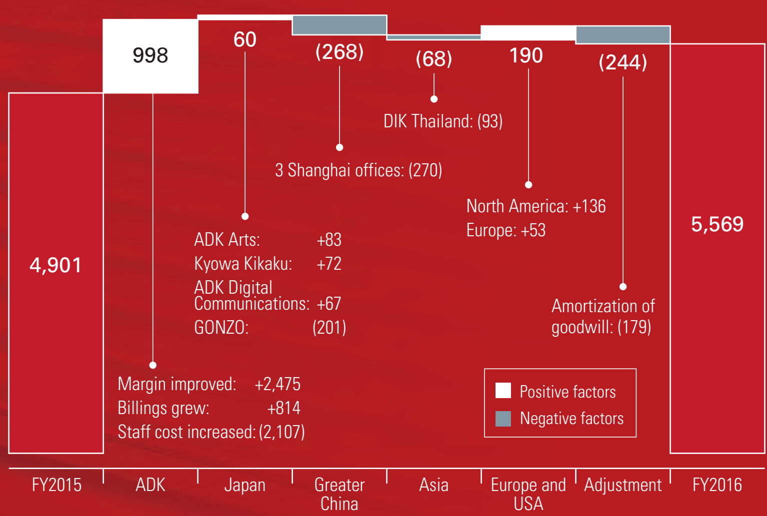
Meanwhile, we accelerated selection and concentration of businesses, with an eye to the future. We carried out a tender offer for GONZO K.K. with the aim of enhancing the content business and sold our shares in NIHONBUNGEISHA Co., Ltd., which operates a magazine and book publishing and sales business. A correction to inadequate accounting practice conducted by GONZO before it was acquired by ADK was a cause of concern to all our stakeholders. However, this does not affect the ability of ADK and GONZO to create business value, and the impact on results is minimal. We will thoroughly reinforce Group governance by dispatching directors, corporate auditors, and employees from ADK to GONZO.

Looking overseas, our subsidiaries in China recorded significant declines in profit due to a delayed response to changes in the business environment. However, our subsidiaries in Europe and the United States turned profitable, owing to the effects of integrating offices and optimizing human resources.

Operating Income (Millions of Yen)



Operating Profit; Y-o-Y Comparison (Millions of Yen)



To Our Stakeholders

Review of Medium-Term Business Plan to Fiscal 2016

Feeling the Results of Transformation to a Consumer Activation Company

The proliferation of smartphones and spread of social media have been significantly altering the needs of advertisers. In this context, the ADK Group aims to transform itself from a conventional advertising agency business, which mainly creates advertisements and provides advertising spots, into a Consumer Activation Company focused on marketing support to resolve client issues.

In VISION 2020, announced in 2013, I declared that we would accomplish this major transformation by fiscal 2020. The Medium-Term Business Plan, which is the first stage of that transformation, ended in fiscal 2016. We have not reached the profit-generating stage as planned for the starting point in 2013. Still, we have produced certain results by strengthening the profit management structure, streamlining unprofitable businesses, and structural reform at subsidiaries in Japan and overseas. The consolidated gross profit ratio is at its highest level ever, and we were able to improve the operating margin by 7.8 points and staff cost/gross profit by 5.1 points compared to fiscal 2013.

At the same time, we have made steady progress in building the foundation for a Consumer Activation Company. First, we established Axival Inc. and moved ahead with development of the 3D Database that analyzes consumer behavior from the three perspectives of consumer attitudes, purchase patterns, and media contacts. In addition, we welcomed to the Group d-rights Inc., with its solid track record in rights management and programming sales for the international hit series "Beyblade," as well as GONZO K.K., with its established reputation for anime content production capability. These moves have strengthened our system for developing the content business from upstream to downstream with ADK's coordination and production capabilities at its core.

Review of Mid-term Business Plan (Millions of Yen)

	FY2016		
	Announced in August, 2013	Announced in February, 2016	**Results**
Gross Billings	373,600	354,000	**352,671**
Gross Profit	52,900	49,960	**51,182**
[SG&A]	[45,900]	[44,560]	**[45,613]**
Operating Income	7,000	5,400	**5,569**
Operating Margin	13.2%	10.8%	**10.9%**

Outcomes

Foundation Building and Structural Reform

	FY2013	**FY2016**	Improvement
Gross Profit	13.2%	**14.5%**	1.3 pts
Operating Margin	3.1%	**10.9%**	7.8 pts
Staff Cost / Gross Profit	65.4%	**60.3%**	5.1 pts

M&A

	Business Type	M&A
Jun. 2014	Digital	Established Axival (Consolidated from FY2016 Q1)
Jan. 2015	Content	Acquired stocks of d-rights
Sep. 2016	Content	Acquired stocks of GONZO

Basic Policy for Fiscal 2017

Completing Foundation Building and Structural Reform

We are making progress to improve our profitability. However, before moving on to the next stage, challenges remain with respect to establishing the revenue base, strengthening cooperation across the Group and among business sectors*, structural reform at subsidiaries in China, and creating Group synergies in the content business. In fiscal 2017, we will continue efforts focused on foundation building and structural reform.

*Business sector: A unit comprising a value chain within the Group, including subsidiaries and associates. ADK has five business sectors, namely the Domestic Core Business, ADK Global, Media & Data Insight, Content Business, and Entertainment & Sports Marketing.

Transforming from Sales Agency to Solutions Provider

Establishing the revenue base means evolving from a conventional sales agency that simply sells media to become a business partner for clients, and building a solid system that can expand the value of media as content. In terms of specific measures, we will shift from a media-based division system (TV, newspapers, magazines, digital media, etc.) to having a client-oriented/consumer-oriented perspective, and reorganize our system to provide optimal solutions for clients according to the categories of reach type (TV, newspapers, OOH*, digital banners, etc.), context type (magazines, radio, digital SNS, videos, etc.), and response type (digital programmatic advertising, TV-type spots, etc.).

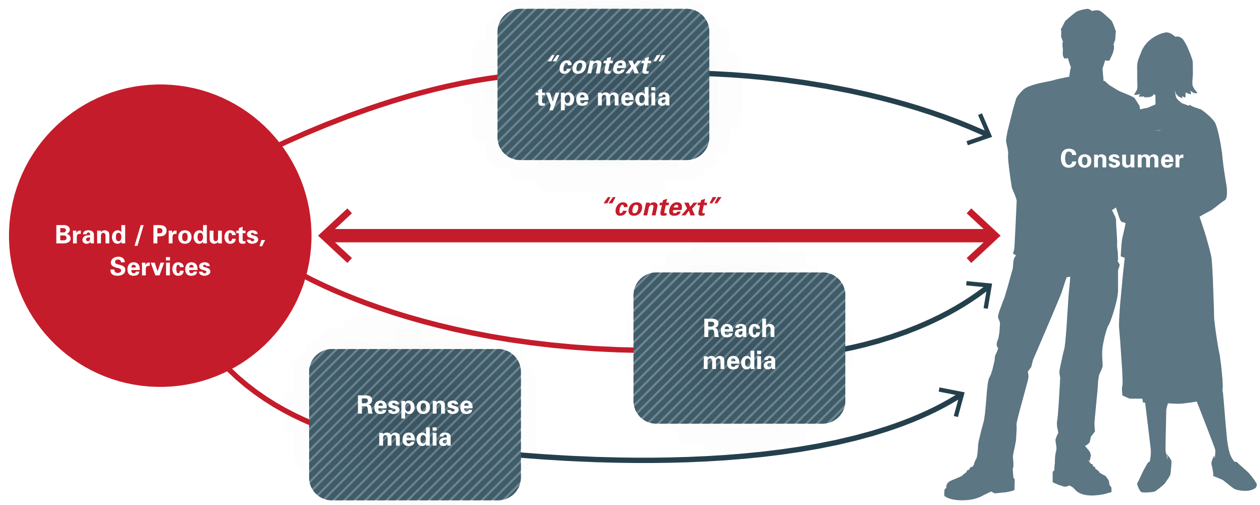
In addition, we will further promote the data science business by using Axival's database as well as other measures. We will refine our ability to provide marketing solutions that accurately identify consumer contexts such as time, place, and action, link our clients' products and services to these contexts and effectively increase consumers' desire to purchase.

*OOH (Out of Home): General term for advertisements such as hanging ads inside trains or buses and other ads on public transport, outdoor advertising such as signs on the sides of buildings, insertions, etc.

Promoting Cooperation Across the Group and Among Business Sectors

Through the organizational reforms of fiscal 2016, we put in place a system under which each business sector takes responsibility for creation of added value and profit management. Since the effects of those reforms have started to appear, we will press ahead further with in-house production and cooperation among business sectors, with the aim of increasing Group profits across the board. Specifically, we will lay out a

Develop a Marketing Plan which Associates Consumers with Products in *"context"*



To Our Stakeholders

system to clarify the roles of Group companies and pursue functional reorganization and mutually beneficial opportunities while promoting a flexible mobilization and reallocation of human resources.

We will also move ahead with functional integration at Group companies in Japan and overseas, beginning with administrative divisions including finance, legal, and human resources. The aim will be to reduce the cost burdens and strengthen governance at each company.

Structural Reform of Subsidiaries in China

A major issue for structural reform is the reshaping of our subsidiaries in China. While China remains a region with great potential for growth, results at the main subsidiaries we operate in Shanghai continue to be challenging. This is due to our failure to fully respond to rapid changes in the advertising market.

In the Chinese market, distribution of daily goods in particular is undergoing a sudden shift from bricks-and-mortar stores to e-commerce. We will therefore push through with radical structural reform in order to break away from simply being a total-services advertising agency offering one-stop brokerage and instead become an advertising company that is also highly specialized in digital solutions.

Creating Group Synergies in the Content Business

In the content business, which has been an ADK strength since our foundation, we have expanded the value chain by carrying out M&As, but creation of Group synergies from those deals has yet to be seen.

In the content business in particular, the focus will be on how many diverse income opportunities can be created from a single piece of IP,* ranging from planning and production of television programs and movies, to character merchandising and their use in advertising and sales promotion, development of events and musicals, and so on. We are therefore strengthening the Group's collaborative value chain in planning and production, rights management, campaign development, and programming sales.

For example, GONZO, with which we recently conducted an M&A, is a content production company that has a track record in Europe and the United States and strengths in cool anime for adults, an area where ADK has little experience. GONZO has been unable to plan an aggressive growth strategy due to challenging financial issues and other matters. However, as an ADK subsidiary, we expect it to contribute significantly to creating Group synergies through secondary developments in areas such as pachinko and pachislot machines and game apps, in addition to recovering its creditworthiness and enhancing its title lineup.

In terms of new needs, we are focusing on Asia as a market and public as a theme, and cooperating with local toy manufacturers and overseas affiliates to pursue total development of the content business from anime production to distribution. We will aggressively expand the content business overseas as well, based on the "market-in" concept that starts with providing solutions to clients.

*IP (Intellectual Property): General term for items that are non-physical products of ideas and expressions created by people and that have economic value.

Forecasts for Fiscal 2017

Maintain Double-Digit Growth in Operating Income While Aiming for Major Improvement in Net Income

We will maintain double-digit growth in operating income in fiscal 2017 by focusing our efforts on issues mentioned earlier, while aiming for a major improvement in net income.

We expect consolidated gross billings for fiscal 2017 to increase slightly to ¥354.7 billion. Meanwhile, we are projecting an 11.9% increase in operating income to ¥6.2 billion, thanks to further improvement in profitability. In addition, no significant extraordinary loss such as loss on liquidation of business is anticipated, and profit attributable to owners of parent is expected to be ¥5.5 billion.

Return to Shareholders and Measures to Enhance Shareholder Value

Continuing Efforts to Improve Capital Efficiency

We implement a shareholder return with a target annual total payout ratio, including buy-backs, of 50% of consolidated net income, in principle, while ensuring long-term stability of dividends by setting a minimum annual dividend at ¥20 per share. The payout ratio was 176% in fiscal 2016, due to the posting of one-off expenses, but considering long-term stability, we paid an annual dividend of ¥100 per share, including the ¥60 commemorative dividend marking ADK's 60th anniversary. In addition, as a target for enhancing shareholder value, our policy is to raise ROE to 5% in the medium term and to 8% in the medium to long term through income growth and capital optimization.

From fiscal 2014 to fiscal 2015, we actively returned capital surplus to shareholders by disposing of securities holdings in an effort to promote capital optimization and improve ROE. However, fluctuations in the market value of shares in WPP, with whom we have a business and capital alliance, have a considerable impact on the "E" (equity) in ROE. In addition, the posting of loss on liquidation of business associated with the disposal of non-core businesses in fiscal 2016 had a considerable impact on the "R" (return), driving down ROE to 2%. However, I believe this extraordinary loss was a positive decision, both in terms of strategy and in terms of cash flow, to resolve the long-standing issue of liquidating ADK's non-core businesses. Accomplishing our structural reform without fixating just on single-year ROE will ultimately lead to enhancement of corporate value and shareholder value in the medium to long term.

Aggressive Pursuit of Meaningful and Substantial Work

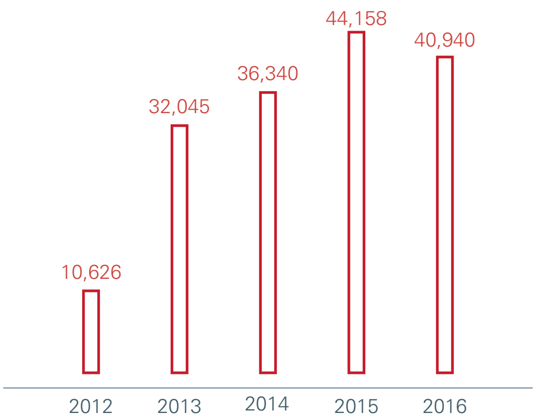
It goes without saying that human resources are the primary driving force for improvement of capital efficiency in the medium to long term. We will therefore foster a corporate culture that rewards the hard work and results of employees more than ever. At the same time, we will promote the development of human resources, including people who can draft plans and expand the business in addition to professionals who work on the front lines. Furthermore, overwork has become a social issue, not only in the advertising industry. I believe that a way of addressing this issue at its root is to aggressively expand business that is rich in meaning and substance and with high in added value, and to improve the productivity and efficiency of every employee in every division—in fact, to transform into a Consumer Activation Company.

I respectfully ask for your continued support and understanding of the ADK Group going forward.

Forecast for FY2017 (Millions of yen)

	FY2016 Results	**FY2017 Forecast**	Y-o-Y Change
Gross Billings	352,671	**354,700**	+0.6%
Gross Profit	51,182	**53,260**	+4.1%
[SG&A Expenses]	[45,613]	**[47,030]**	+3.1%
[Staff Cost]	[30,847]	**[31,060]**	+0.7%
Operating Income	5,569	**6,230**	+11.9%
Ordinary Income	8,688	**9,250**	+6.5%
Profit attributable to owners of parent	2,376	**5,580**	+134.8%

Comprehensive Income Related to WPP Shares*
(Millions of yen)



*Comprehensive income related to WPP shares: Expanded from ¥10.6 billion in FY2012 to ¥40.9 billion in FY2016.

Special Feature: Strategy for Content Business

ANIME WAVE

A tailwind for "ADK, a pioneer of TV animation programs"

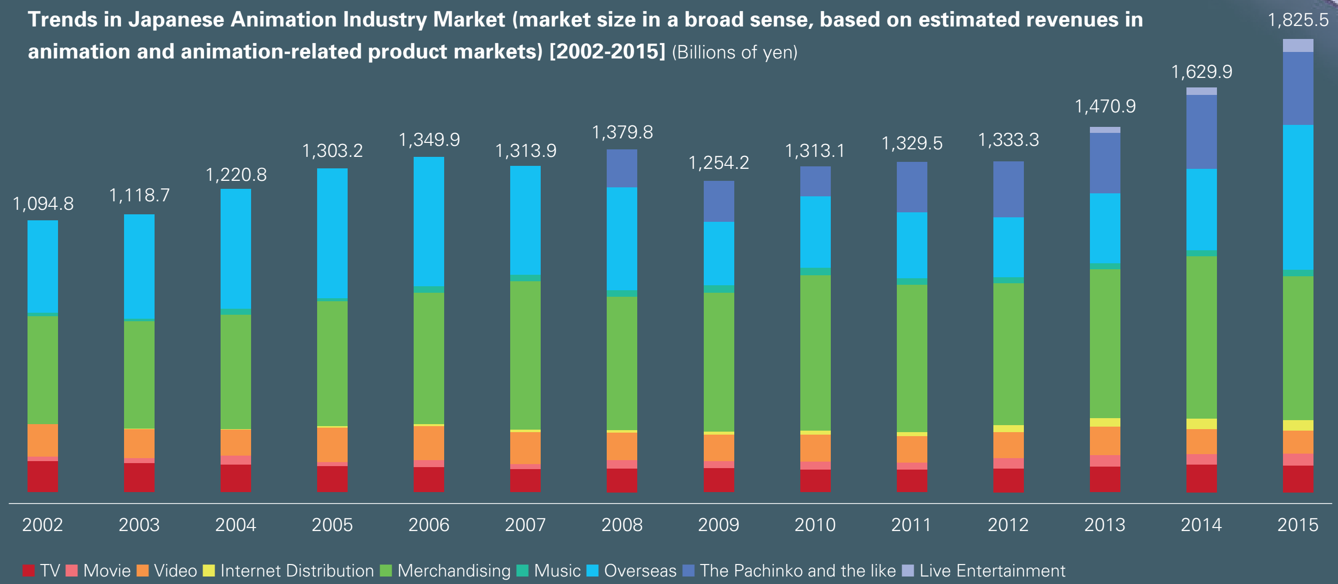
Japan's anime market expanding despite declining birth rate

The size of Japan's anime market marked a record high of ¥1,825.5 billion* in 2015, even though TV animation programs for kids and families via terrestrial broadcasting network are on a declining trend due to the falling birth rate. Factors behind this are thought to include an expansion of the anime fan base from kids to teens and adults, as well as a rapid spread of online distribution services, diversification of ways to enjoy content, such as participation-type movies and live events, in addition to traditional viewing, and a growing presence of Japanese anime overseas.

The ADK Group began focusing on the kids market in Japan's advertising industry in the 1960s amid the baby boom. Since then, the Group has been involved in the planning and production of many landmark anime programs, such as Doraemon and Crayon Shinchan. ADK still enjoys an established position as a pioneer of TV animation programs, and new growth trends in the anime market represent major business opportunities for us.

*Size of Japanese animation market in 2015 ("Anime Industry Report 2016")

Trends in Japanese Animation Industry Market (market size in a broad sense, based on estimated revenues in animation and animation-related product markets) [2002-2015] (Billions of yen)



Source: Association of Japanese Animations

[Afro Samurai]
"Afro Samurai" is a cyber action historical anime produced by GONZO in 2007 and based on the comic by Takashi Okazaki. Intrigued by the comic, Samuel L. Jackson voiced the main character and served as a co-producer of the program, which was broadcast in the United States and received high viewer ratings.

ADDING VALUE

Producing the Content Business Globally

Comprehensive content production capability is our strength

ADK's strength as a pioneer of TV animation programs lies in comprehensive production capability that enables us to coordinate the many people involved in a single piece of intellectual property (IP), so as to maximize content value. A prime example of that content is Doraemon. The program holds an enduring place for its nationally beloved character and is being used in various places in Japan as well as overseas even now, nearly 40 years after it was first made into a TV animation program.

In order to increase the profitability of this content business, the ADK Group is currently working to strengthen its value chain, focusing on the key themes of building the business from upstream (acquiring and developing outstanding IP), expanding business for major titles and creating new income sources, and increasing income in overseas markets.

Growing markets

Domestic

Increase in viewing opportunities
- Broadcasting opportunities: BS channels
- More distribution services

Diversified ways to enjoy
- "2.5 Dimensional Entertainment" (theater), participating type movie, IT technology

Growing adult market
- Late-night anime
- Pachinko and Pachislot
- Merchandising

Overseas

Expanding needs for made-in-Japan anime

Cool Japan, a public & private initiative, facilitating inbound tourism

Expanding opportunities to gain income through Group synergies

In the ADK Group's content business, we are leveraging internal synergies through various collaborations among Group companies in order to build a value chain that can expand opportunities to gain income.

For example, ADK discovers outstanding IP and acquires client touchpoints in the course of handling sales of advertising slots for animation programs, sponsor tie-ups, and rights marketing. Meanwhile, companies such as Eiken and GONZO specialize in in-house production of anime content. Overseas, d-rights and IMMG take care of programming sales and rights sales. Moreover, content is developed from multiple angles across the Group as a whole. Going forward, we will aggressively take on the challenge of expanding other businesses such as pachinko and pachislot machines and game apps by applying GONZO's gaming business knowhow.

Strategy 1

Enrich the content lineup

Create business from the upper stream

Acquire & develop good content (IP)

Eiken and GONZO specialize in in-house production of anime content targeted at audiences ranging from kids and families to young adults.

Strategy 2

Multiple development of content

Game apps
Theater and live events
Online distribution
Merchandising
Pachinko and pachislot machines
Sales promotion for clients

Use major titles to create new income sources

[Beyblade Burst]
A third-generation TV animation program inspired by "Beyblade," a spinning-top battle toy, "Beyblade Burst" has become familiar to children around the world under the rights management of d-rights. The animation program was broadcast in Japan in 2016 following the launch of toy sales in 2015, and is being adapted for local conditions in overseas markets. "Beyblade Burst God," a new series which began broadcasting in Japan from April 2017, has been well received.

Strategy 3

Overseas development

Grow income from overseas markets

Expand our own network independent from local distributors

d-rights has its own network in the European and U.S. markets, as does IMMG in China and Asia.

GOES GLOBAL

Aiming for new growth through anime content with global brand power

Ryoichi Katsumura
Executive Vice President, GONZO K.K.

Please tell us about the distinctive roles played by d-rights and GONZO in the ADK Group.

Wada The main role of d-rights is to provide one-stop development of video and merchandising businesses worldwide in Asia, Europe, the United States, and South America, with our strong animation content such as the Beyblade series and the Yu-Gi-Oh! series. In particular, d-rights has a subsidiary, SUNRIGHTS, in New York, U.S.A., in order to expand business in North America, the world's largest toy market.

Katsumura GONZO specializes in the planning, production, and development of cool anime content designed for young adults, such as "Last Exile," and is therefore in a position to complement the ADK Group's lineup, which has focused on kids and families. In addition, although GONZO is a Japanese company, it is oriented toward producing content with global brand power, such as "Afro Samurai," and plays a leading role in overseas expansion.

GONZO K.K.

President:	Shinichiro Ishikawa
Executive Vice President:	Ryoichi Katsumura
Number of Employees:	51 (in addition to approximately 280 creators)

Main business:
Planning, development, and production of animation; sales and import/export of animation; content investment; investment in works; and copyright management, etc.

What these two companies have in common is strength in overseas business.
How do you view the overseas anime market?

Wada North America is currently the largest overseas anime market. However, China and other Asian countries, where the kids and young adult markets are growing, are also attractive markets with high growth potential. Moreover, the Chinese and Asian markets have a strong affinity for made-in-Japan animation, and creating a hit in the Japanese market is a shortcut for expanding our business in China and Asia.

d-rights is focusing on the Chinese market, which is the world's second-largest toy market and is continuing to grow, and is pursuing a project in partnership with a Chinese company with a strong track record in toy-linked anime.

Katsumura GONZO's leading title, "Afro Samurai," targeted the North American market from the very beginning. Voiced by Samuel L. Jackson, it became wildly popular in 2007, when it was broadcast in the United States prior to airing in Japan. In addition, the sequel, "Afro Samurai: Resurrection," broadcast in 2009, won an Emmy Award, which is regarded as the U.S. television industry's equivalent to an Academy Award. GONZO is one of the few companies that have been popular with North America's core fan base. With the support of the ADK Group, we hope to make full use of our strong abilities to provide and develop content not only for Japan, but for overseas markets, as well.

Shuji Wada
President, d-rights Inc.

What are your thoughts on the creation of new income sources?

Wada Among manga- and animation-based businesses, the live entertainment market has the greatest growth potential. Especially in the mature Japanese market, there is now a major shift in consumption from "things" to "experiences." Rather than simply watching a video, there is a growing tendency for consumers to discover added value in the participatory experience entertainment market. Looking at the achievements of the ADK Group, we have examples such as the musical, "THE PRINCE OF TENNIS," the Sound Theater production of "Natsume's Friends Diary," and Super Kabuki II "One Piece." At d-rights, we plan to develop Sound Theater as one of our live entertainment businesses.

Katsumura For GONZO, one major income opportunity involves the development of its abundant content in 2.5D. In addition, GONZO is a company that has been developing its gaming business as a pioneer in digital animation production since the emergence of PlayStation and other next-generation game machines. It has accumulated knowhow with regard to providing rights for pachinko and pachislot machines and smartphone game apps, which are areas in which the ADK Group has not been substantially involved. Furthermore, GONZO is constantly taking on new challenges by incorporating the latest video and production technologies. In a new initiative, GONZO is also considering entry into the virtual reality (VR) market.

In conclusion, please tell us about your aspirations for the future.

Wada The mission of d-rights is "to provide people around the world with fresh surprises and emotional experiences that stay in the heart, through the dissemination and utilization of content." With that in mind, we would like to first disseminate and harness made-in-Japan animation content across global markets, and if these content franchises can with our support build up global fan bases, they will then become a collection of superb businesses.

Katsumura Anime, which has a growing fan base that extends across generations and borders, is valuable content that can be expanded globally as software originating in Japan. Furthermore, we are in an era when anime can be integrated into various platforms and used in many ways. I believe that GONZO will not miss out on these opportunities, and will become a core presence that brings diverse income sources to the ADK Group from a global perspective.

d-rights Inc.

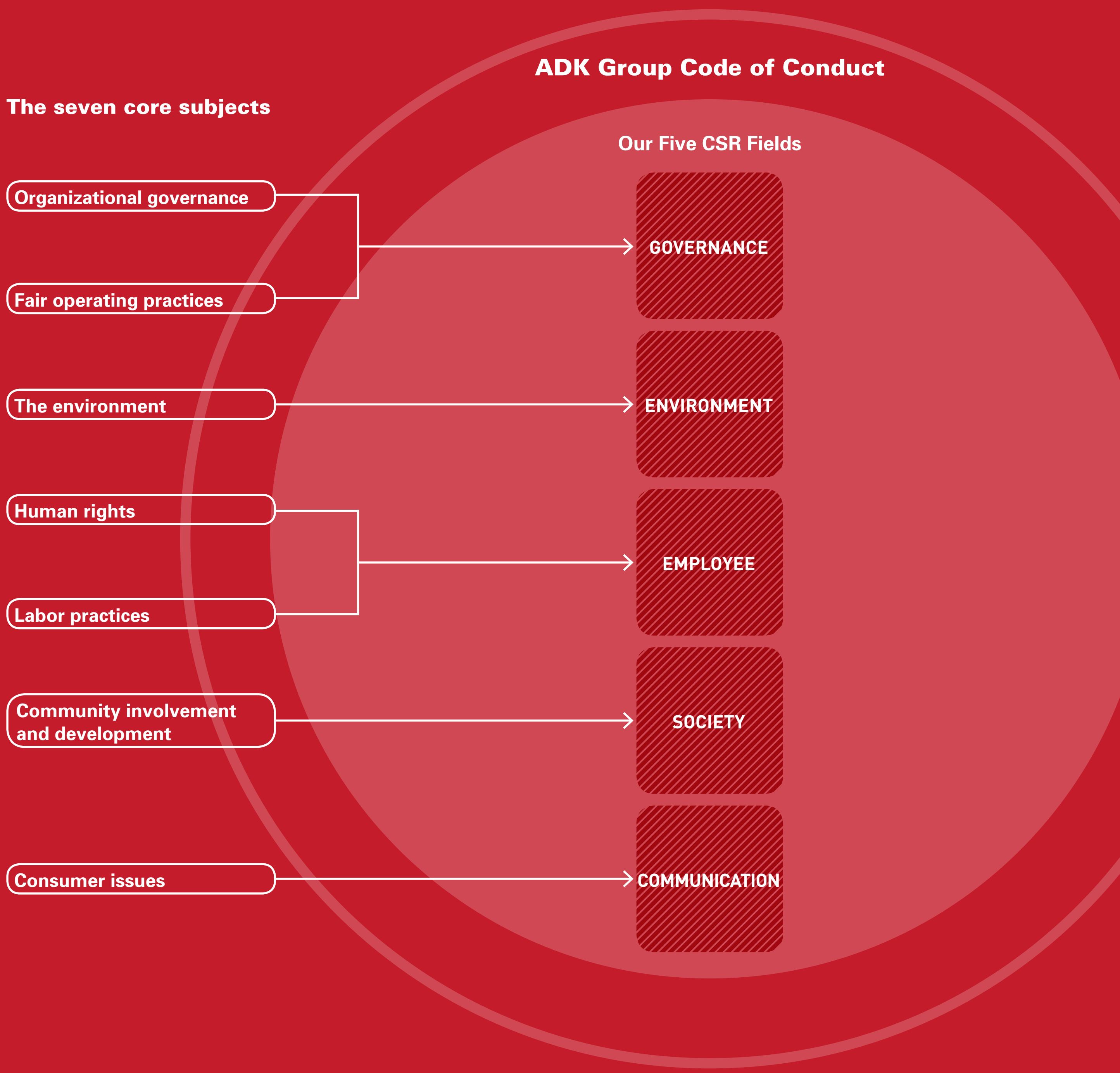
President:	Shuji Wada
Executive Vice President:	Kenji Tada
Number of Employees:	40

Main business:
Wide-ranging content production, including planning, production, and development of content such as original characters, anime, games, and online content.

Our CSR Activities

ADK is also a marketing company that knows consumers and clients the best, 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.

VISION 2020
CONSUMER ACTIVATION



GOVERNANCE

Organizational Governance

Earning the Trust of Society

ADK is carrying out a variety of initiatives on corporate governance to achieve sustained growth and the enhancement of corporate value.

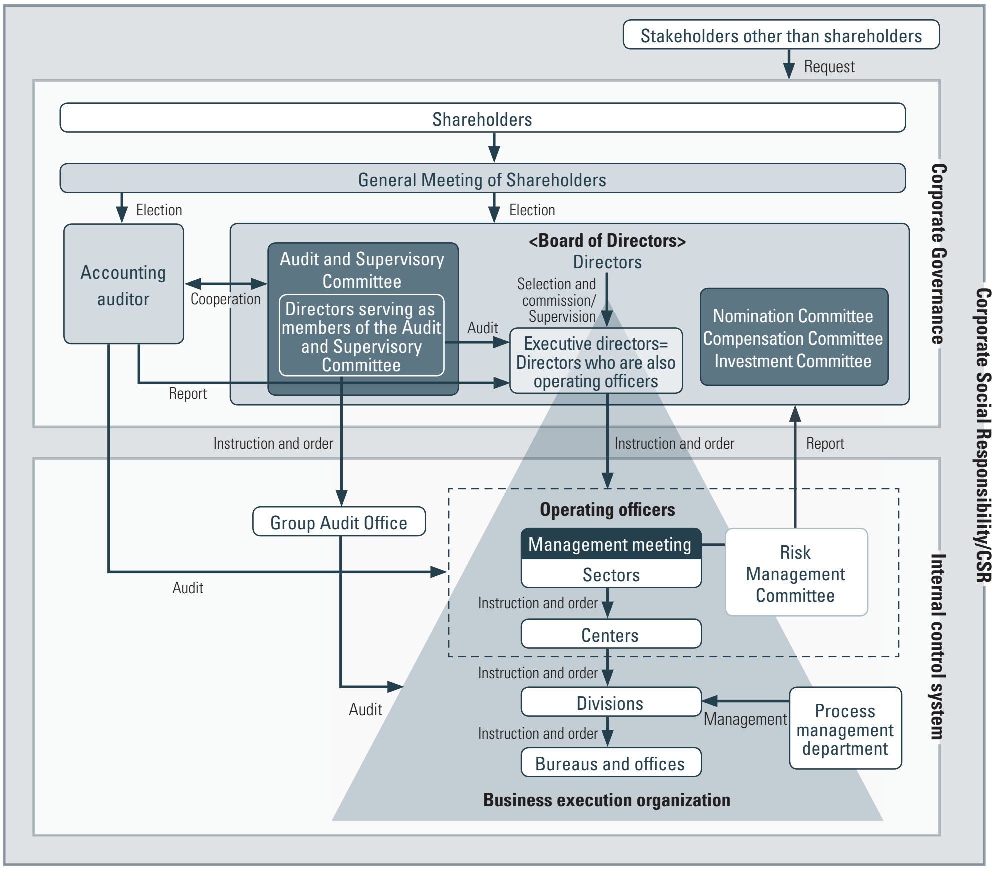
Basic Philosophy

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.

The Company has instituted the "ADK Corporate Governance Guideline," which articulates the basic policy on corporate governance, and posted it on the Company website below.
https://www.adk.jp/en/company/governance/

Corporate Governance Framework

ADK has opted to be a Company with an Audit and Supervisory Committee to enhance the thoroughness of corporate governance. The aim is to improve the supervisory function of the Board of Directors and thereby further strengthen corporate governance.



Our CSR Activities

GOVERNANCE

Board of Directors

As of March 29, 2017

Directors

Shinichi Ueno
Representative Director,
President & Group CEO

2005 Operating Officer
2007 Corporate Division Director
2008 Director and Operating Officer, in charge of Corporate Department
2011 In charge of Integrated Solution Center and Corporate Center
In charge of Integrated Solution Center
2012 Director and Senior Operating Officer
2013 Representative Director and President & Group CEO (Current position)

Reasons for Appointment
The Company has appointed Shinichi Ueno, the CEO, as a Director because he has the ability to efficiently execute the Company's operations based on his experience as a person in charge of the Company's Account Service Department and Corporate Management Department, etc., and as Representative Director and President & Group CEO, and based also on his advanced expertise in overall corporate management acquired through his experience. We believe that he will contribute to the realization of the Company's sustainable growth and enhancement of its corporate value.

Noriyuki Nakai
Executive Director,
Senior Operating Officer

2011 Operating Officer
2015 Director and Operating Officer
2017 Director and Senior Operating Officer, Division Director of Corporate Strategy Division and in charge of Human Resources and Legal Matters Center (Current position)

Reasons for Appointment
The Company has appointed Noriyuki Nakai as a Director because he has the ability to efficiently execute the Company's operations based on his experience as a person in charge of the Company's International Account Service Department and Corporate Strategy Department, etc., and based also on his advanced expertise in marketing and management control acquired through his experience. We believe that he will contribute to the realization of the Company's sustainable growth and enhancement of its corporate value.

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, in charge of Domestic Core Business Sector (Current position)

Reasons for Appointment
The Company has appointed Yoshiki Uemura as a Director because he has the ability to execute the Company's operations efficiently based on his experience as a person in charge of the Company's Creative Department and Account Service Department, etc., and based also on his advanced expertise in creativity and account service strategy acquired through his experience. We believe that he will contribute to the realization of the Company's sustainable growth and enhancement of its corporate value.

Yoshitaka Ishiwata
Executive Director,
Operating Officer, CFO

1999 Financial Controller of WPP Group plc
Director of WPP International Holding B.V.
2009 Chief Operating Officer of KVH Co., Ltd.
2013 Representative Director and Chief Financial Officer of MarketPrizm Japan
2014 Chief Financial Officer of Asurion Japan K.K.
2015 Operating Officer
2016 Director and Operating Officer, CFO, in charge of Finance & Process Management Center (Current position)

Reasons for Appointment
The Company has appointed Yoshitaka Ishiwata as a Director because he has the ability to efficiently execute the Company's operations based on his experience as a Chief Financial Officer, etc. of business corporations, and based also on his advanced expertise in finance and accounting acquired through his experience. We believe that he will contribute to the realization of the Company's sustainable growth and enhancement of its corporate value.

Stuart Neish
Non-Executive Director

1988 Qualified as a Chartered Accountant, Admitted to membership of The Institute of Chartered Accountants of Scotland
1991 Joined Coopers Deloitte in London, Senior Audit Manager
1994 Joined the WPP, Group Financial Controller of Associates and Joint Ventures
2006 WPP Group (Asia Pacific) Ltd., Director (Current position)
2011 Director (Current position)

Reasons for Appointment
The Company has appointed Stuart Neish as a Director because he has the ability to supervise and offer appropriate advice on the execution of duties by executive directors based on his experience as an accountant and Group Financial Controller of subsidiaries and affiliates of the WPP Group, and based also on his advanced expertise in finance and accounting acquired through his experience. We believe that he will contribute to the realization of the Company's sustainable growth and enhancement of its corporate value through partnership with the WPP Group.

Outside Directors

Hideaki Kido
Outside Director,
Chairman of the Board

1999 Vice President & General Manager of ITOCHU International Inc.
2001 Deputy President & Representative Director of Star Channel Inc.
2003 President & CEO of Japan Entertainment Network K.K.
2008 Senior Managing Executive Officer of JSAT Corporation
Director and COO of Space Communications Corporation
2009 Senior Managing Executive Officer of SKY Perfect JSAT Corporation & President of SKY Perfect Entertainment Corporation
2011 Executive Director and Chairman of IMAGICA TV Corporation (Current position)
2012 Outside Director (Current position)
2015 Chairman of the Board (Current position)

Reasons for Appointment
The Company has appointed Hideaki Kido because he is independent from the Company's management and he has the ability to supervise and offer appropriate advice on the execution of duties by executive directors based on his advanced expertise in the global business and broadcasting business acquired through his experience in international businesses and corporate management. We believe that he will contribute to the realization of the Company's sustainable growth and enhancement of its corporate value.

Toshio Kinoshita
Outside Director,
Chairman of Audit and Supervisory Committee

1980 Joined Cooper & Lybrand Japan
1983 Registered as Certified Public Accountant (Japan)
1989 Partner of Coopers & Lybrand (US)
1998 Managing Partner for Japanese Business Network of PricewaterhouseCoopers LLP National Office
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
2015 Outside Director (Current position)
2016 Chairman of Audit and Supervisory Committee (Current position)

Reasons for Appointment
The Company has appointed Toshio Kinoshita because he is independent from the Company's management and he has the ability to supervise and offer appropriate advice on the execution of duties by executive directors based on his advanced expertise in accounting and auditing acquired through his experience as an accountant. We believe that he will contribute to the realization of the Company's sustainable growth and enhancement of its corporate value.

Masayuki Yoshinari
Outside Director,
Member of Audit and Supervisory Committee

1975 Admitted to the bar (Daini Tokyo Bar Association)
1997 Vice President, Daini Tokyo Bar Association
2001 Executive Governor, Japan Federation of Bar Association
2007 President, Daini Tokyo Bar Association
Vice president, Japan Federation of Bar Association
2011 Outside Corporate Auditor
2016 Outside Director, Member of Audit and Supervisory Committee (Current position)

Reasons for Appointment
The Company has appointed Masayuki Yoshinari because he is independent from the Company's management and he has the ability to supervise and offer appropriate advice on the execution of duties by executive directors based on his advanced expertise in general legal matters acquired through his experience as a lawyer. We believe that he will contribute to the realization of the Company's sustainable growth and enhancement of its corporate value.

Megumi Suto
Outside Director,
Member of Audit and Supervisory Committee

1985 Senior Research Engineer of Japan Securities Research Institute
1993 Professor of the School of Economics, Chuo University
2001 Member of the Council on Customs, Tariff, Foreign Exchange and other Transactions
Member of the Financial Council
2003 Member of the Disclosure Work Group of the Financial Council
2004 Professor of the Waseda University Center for Finance Research
2008 Dean of the Waseda University Graduate School of Finance, Accounting and Law, and Director of the Waseda University Center for Finance Research
2015 Outside Corporate Auditor
2016 Outside Director, Member of Audit and Supervisory Committee (Current position)
Professor of the Waseda University Graduate School of Business and Finance (Current position)

Reasons for Appointment
The Company has appointed Megumi Suto because she is independent from the Company's management and she has the ability to supervise and offer appropriate advice on the execution of duties by executive directors based on her advanced expertise in economics and finance acquired through her experience as a researcher. We believe that she will contribute to the realization of the Company's sustainable growth and enhancement of its corporate value.

Our CSR Activities

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	5	3	2	Outside directors
Compensation committee	5	3	2	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.

Summary of BOD Effectiveness Evaluation

ADK states the policy on Board Evaluation in accordance with the request of “Corporate Governance Code.” ADK implemented the Board Evaluation in accordance with said policy. The summary of result is as follows.

Fiscal 2016 results summary of BOD effectiveness evaluation

[Evaluator]
Board of Directors by means of self-evaluation

[Evaluand]
Board of Directors
(including voluntarily-established Nomination, Compensation, Investment Committees that come under the supervision of BOD)

[Method]
Evaluation of each director based on the result of a questionnaire prepared by the Secretariat for BOD and discussion at BOD based on the said result.

[Items to evaluate]
I. Effectiveness of BOD
II. Pre-conditions to ensure the effectiveness of BOD
III. Facilitation of more active deliberation at BOD
IV. Deliberation at BOD
V. Director training

[Result]
The majority of directors answer affirmatively most of the questions in relation to effectiveness of BOD. As a result of that, we conclude that BOD in fiscal 2016 is functioning “largely effectively.”

[Matters to address]
By conducting a questionnaire to evaluate the effectiveness of BOD, ADK confirmed to engage comprehensively in “ensuring extensive deliberation on the strategic direction of the company” and “strengthening the company’ monitoring function of executive directors,” which are requested by the Corporate Governance Code. We set up a forum for discussion about the result of the effectiveness of BOD based on the result of a questionnaire and matters pointed out by directors. Directors exchanged their opinions and outside directors, in particular, pointed out “what is deliberated at BOD,” “how things are deliberated at BOD,” “the number of topics proposed to BOD,” “the function of the Executive Meeting, a high-ranking body to discuss matters related to business execution.” As a result of that, we confirmed the following matters to deal with.

<Improve what is deliberated at BOD>
- Confirm the internal consensus on topics proposed to BOD and improve materials/information attached to them, etc.
- Improve the function of the Executive Meeting

<Improve the status of agenda topics proposed to BOD>
- Re-examine the criteria for topics proposed to BOD
- Examine topics and narrow down the number before proposing them to BOD

ADK continues to enhance corporate governance through improving functions of BOD.

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 anti-social 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 2016	Attendance	Contents
Financial results briefings	2 times	President explains first-half and full-year results
Accepted separate interviews	59 times	Interviews with analysts and institutional investors in Japan and overseas

GOVERNANCE

Comment by an Outside Director

Checking the appropriateness of management from a long-term perspective, based on the keywords of "people" and "society"

Megumi Suto
Outside Director,
Member of Audit and Supervisory Committee

As a representative of general shareholders, I am in a position of thoroughly supervising and auditing the Company's management by receiving reports on the status of performance of duties by directors and requesting explanations when necessary. At the same time, I take into account shareholders' interests from a long-term perspective based on the going concern assumption.

Members of the Audit and Supervisory Committee are now able to ask questions and give opinions as directors having voting rights, unlike corporate auditors, since ADK's transition to a "Company with Audit and Supervisory Committee" system in 2016. ADK has also placed the internal audit division under the Audit and Supervisory Committee. This move establishes a system that guarantees the independence of internal audits and ensures meetings are held systematically from external and internal perspectives including for Group audits. This is, I believe, a very significant governance reform.

From an external perspective, checks must be performed in light of shareholders' long-term interests. At the same time, it is important to recognize the associated risks. There are concerns that the advertising industry is prone to exercise insufficient caution when assessing risks, given its strong tendency to aggressively pursue profits. Moreover, the range of risk-taking is expanding, as the ADK Group transforms itself into a "Consumer Activation Company." Therefore, it is now important than ever to avoid unnecessary risks, while not missing out on business opportunities, by carefully investigating risks associated with business processes and clarifying areas where responsibilities lie. With respect to this point, my assessment is that the strengthening of the profit management structure through organizational reform is progressing steadily.

A company is an organization that generates profit with the involvement of various stakeholders. These are not limited to the shareholders who provide capital and customers who bring direct revenue. They also include employees, business partners, and society. So, it is necessary to check the appropriateness of management from the perspective of these other stakeholders. In particular, the ADK Group's corporate value always depends to a large extent on the skills and motivation of its employees. I, therefore, pay attention to see whether management provides a comfortable working environment, including measures to accommodate diversity, so that the skills of diverse employees can be steadily developed over the long term. Furthermore, when I am reminded that human resources are drawn to companies that are highly regarded by society, and that society respects companies that attract human resources, I recognize that "people" and "society" are keywords to keep in mind when evaluating the ADK Group.

ENVIRONMENT

The environment

Acting With Consideration for the Environment

ADK operates an Environmental Management System (EMS) under the CSR Committee at our head office to promote eco-friendly businesses conducted by our clients.

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.

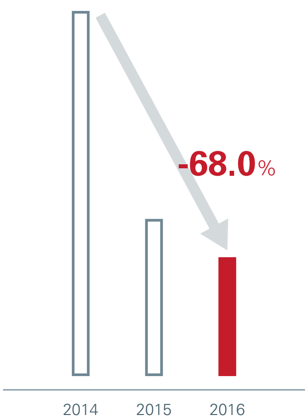
Activity Guide

- 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.

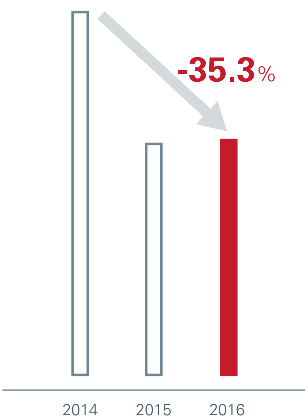
Activities Considering the Environment

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.

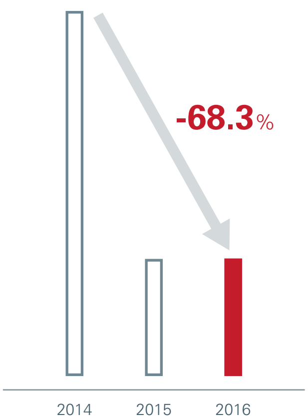
Heating & cooling expenses for non-regular work hours (Head office, total floor space)



Electric power consumption (Head office, total floor space)



Waste volume (Head office, total floor space)



EMPLOYEE

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 Code of Conduct

The ADK Group Code of Conduct respects the human rights of employees, calls for compliance with labor laws and regulations, and fully commits the Group to objective evaluations of the strengths and demonstrated capabilities of individuals that do not permit any discrimination based on race, religion, nationality, gender, age, or disability.

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. One of these initiatives designates every Wednesday as "No Overtime Day." Since February 8, 2017, the lights on all floors have been turned off at 8:00 p.m. on No Overtime Day.

We previously set roughly one day a month to encourage employees to use their paid vacation time. Starting in 2017, we have set five days per year as mandatory paid vacation days. These are company-wide days off, in principle.

ADK's head office holds a "Children's Visiting Day" every August with the aim of creating a workplace environment conducive to child-rearing. Employees' children are invited to the Company to tour the offices and participate in programs produced by ADK creators.

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, we called" The Breakfast Time," is served free of charge from 8 a.m. on meeting days.

Morning meeting

Unique Recruitment System that Respects Individuality

ADK introduced its new "Find Your Buddy" recruitment system after it took a fresh look at hiring practices in Japan that make it difficult for applicants to determine what companies are actually like. With this system, applicants can see real individual employees who are both the face and assets of the Company. This provides an opportunity for applicants to think about what kind of people they want to work with and how they want to work, which is reflected in recruit selection.

The system led to a 23% rise in the acceptance ratio for job offers in FY2017 from the previous year. ADK also received the Award of Excellence in the corporate human-resources category of the HR Award 2016, hosted by Nihon no Jinjibu, Japan's largest human resources network.

"Find Your Buddy" recruitment website
http://www.adk-recruit.jp/

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.

Joined Government-led Initiative to Make International Contribution through Sports

ADK has a long history of helping provide people with entertainment and the chance to interact with each other, by staging sports events and marketing activities. We also proactively promote cross-border sports exchanges, by organizing events open to the public. These include the Honolulu Marathon in Hawaii in the United States and marathons at World Heritage cities in Thailand, as well as youth football tournaments in the ASEAN region. In recognition of these activities, ADK was approved to become a member of the SPORT FOR TOMORROW* Consortium by the Steering Committee of SPORT FOR TOMORROW, an initiative led by the Japanese government to make an international contribution through sports leading up to the 2020 Olympic and Paralympic Games.

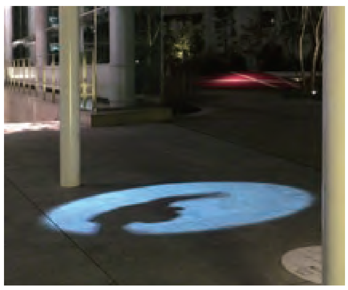
*The initiative is intended to deliver the values of sports to people of all generations and is aimed at more than 10 million people in over 100 countries including developing nations. The program runs for seven years from 2014 to 2020.

Art Workshop for Children

ADK hosted the "ADK Global Workshop" in August 2016, one of several summer break events at Toranomon Hills where our head office is located. The workshop lets children experience art while also providing them an opportunity to develop familiarity with foreign languages. ADK staff used the intellectual picture book "Alphapet," created by ADK Creative Director Ms. Shiho Ishikawa, to help the children create original artworks while speaking English as well as Japanese.

Sponsored Interactive Artwork "Shadowing"

"Shadowing," an interactive artwork by an artist from the U.K., was displayed in Toranomon Hills, home to ADK's head office. The event was part of an urban technology art festival, "Media Ambition Tokyo 2016." ADK became a corporate supporter of "Shadowing," hoping to play a role in the creation of Toranomon's future. "Shadowing" is a cutting-edge technological artwork that records actual shadows of pedestrians coming and going on the streets, and then plays them back under lights after dark.



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. Through this art gallery, ADK supports talented young people who are unfettered by conventional ideas. While creating the artwork currently on display, the artist observed the ADK office and expressed in the work the energy and "forward-moving power" she felt there.

From Dec. 4, 2016
Name: Red mirror closet I,II 2016
Created by: Midori Sato

Our CSR Activities

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 presents publications that bring together surveys it has conducted and its knowledge of planning, marketing, communications and other fields in the advertising business.

"A New Society Created by Young People Who Give it Their All"
Publisher: Bestsellers Co., Ltd.

2020 Report on Media Environment Forecasts

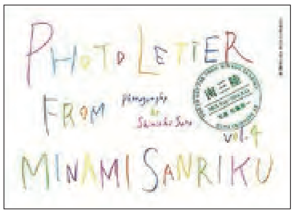
ADK has formed the "2020 Media Environment Forecast Project" made up of experts within the Group. It has also published the project's report that predicts changes in the media environment and the media-using lifestyle of consumers in that environment, targeting the year 2020.

2020 Report on Media Environment Forecasts Booklet

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.

March 2016 marked five years since the first publication of "Photo Letter From Minami Sanriku." Four volumes have now been issued. This activity has been sustained through the interest of people at ADK, with publishing handled by NIHONBUNGEISHA. Donations from the proceeds of book sales amounted to ¥10.6 million as of March 2016.



Photograph collection "Photo Letter From Minami Sanriku, Vol. 4," and photographer Shinichi Sato

Braintal

Launch of Service that Loans Out the Unique "Brains" of an Advertising Company

We implemented "Braintal," a limited-time service, to mark the 60th anniversary of ADK's founding. ADK employees use skills unique to an advertising company to offer ideas and solutions that address social issues or problems of everyday life.

"Braintal" is a term coined from the words "brain" and "rental." The service draws on volunteers from ADK who are active in various fields, regardless of their department or position, including creators, planners and members of the marketing, media and sales departments. Their "brains" (ideas) are loaned out free of charge.

As a Consumer Activation Company, ADK motivates consumers to take specific actions and helps our advertisers deliver and distribute their products and services to the world through ideas and solutions. The aim is to contribute to the business success of our clients. Braintal is an effort that extends the skills and knowhow we have acquired through our business to areas beyond our usual field of operations and returns them to the world as pro bono.*

We invite the public at large to submit issues and problems to a special website. The Braintal staff select a number of cases in which they judge ADK can be of help. We then provide support.

About 80 employees responded to the in-house call for volunteers to serve as brains, and 51 issues were submitted by organizations, companies, individuals, local governments and others.

From those, we chose five themes and implemented Braintal as a project to run for a limited time until March 2017.

Our aim is to make a social contribution in line with an advertising company and to create a showcase for ADK.

*Pro bono: Volunteer activities by experts in various fields who use their professional knowledge, skills and experience to contribute to society.

Special website set up for Braintal

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 2016 Annual Security Report (62nd 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.

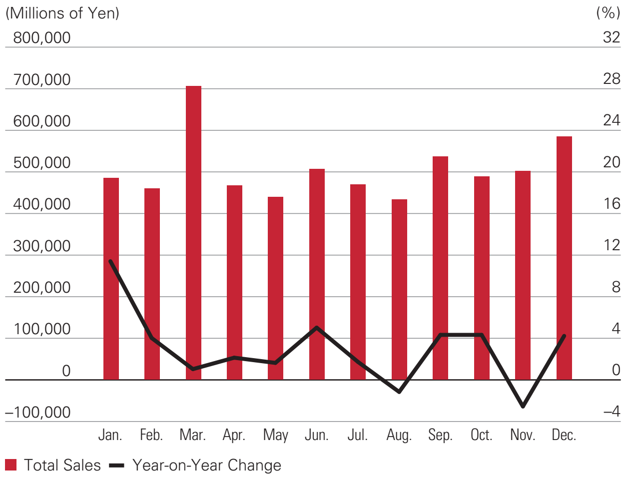
Management's Discussion and Analysis

Fiscal 2016 Consolidated Performance Highlights	
	> Gross billings up **0.2%**, to **¥352.6** billion
	> Gross profit up **4.8%**, to **¥51.1** billion
	> Gross margin up **0.6%**, to **14.5%**
	> Operating income up **13.6%**, to **¥5.5** billion
	> Profit attributable to owners of parent of **¥2.3** billion; net income per share of **¥56.96**

Overview of Fiscal 2016

During the period under review (from January 1, 2016 to December 31, 2016), the Japanese economy made a moderate improvement with corporate earnings performing steadily backed up by continued economic measures and monetary policies fostered by the government and the Bank of Japan. With a broad view, however, the prospect remains opaque due to growing uncertainties including slowdown in emerging markets, the Brexit, and repercussions of the result of the US presidential election. While consumer spending showed a recovery in the wake of improvements in employment conditions, consumers are still likely to buy products selectively because actual wages is increasing slower than expected. 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 2016 continued to grow during the period of January and November, outpacing the one of the previous year.

2016 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

Under these circumstances, ADK continues to press forward with structural reforms to build a stronger foundation and improve earnings strength, upholding "VISION 2020" that the Company declared in 2013, aiming to transform itself to the "Consumer Activation Company," which not only delivers messages via advertisements but inspires consumers to take specific actions, thereby contributing to clients' results. During the period under review, we carried out bold re-organization and fortified the structure to create more added value and exercise more accurate income management. Our group companies both at home and abroad also stepped up their efforts in making a foray into growing sectors through M&A activities, and restructuring and streamlining unprofitable businesses.

As a result of those efforts, the Group reported gross billings of ¥352,671 million, up 0.2% from the previous corresponding period. Gross profit was up 4.8% to ¥51,182 million, while operating income increased 13.6% to ¥5,569 million. Ordinary income grew to ¥8,688 million, up 1.1% year-on-year, by adding ¥3,290 million non-operating income including dividend received and ¥170 million non-operating expenses. Income before income taxes for the current fiscal year decreased 31.9% to ¥6,260 million with extraordinary income of ¥230 million and extraordinary loss of ¥2,658 million caused mainly by loss on liquidation of business, and therefore, the profit attributable to owners of parent for the current year decreased 55.7% to ¥2,376 million on the year-to-year comparison.

Regarding inadequate accounting conducted by GONZO K.K. before it was acquired by ADK in September 2016, we fully understand that we are obliged to work out measures to prevent recurrence including disciplinary action and put them in execution without fail seeking to improve internal control of ADK and its group companies, and consequently enhance confidence among any and all shareholders and stakeholders. We would appreciate your understanding and continued support. We will inform you immediately of any decision we make which require timely disclosure.

Financial Section

Segment Information

Advertising Business

As announced previously, the Company divested NIHONBUNGEISHA Co., Ltd., a subsidiary of magazine and book publication and sales, on April 18, 2016. Subsequently, the main business of the Company and its consolidated subsidiaries has consisted the single segment of advertising business since the second quarter under review.

Overall domestic business registered an increase in revenue and profit propelled by media business at ADK-Tokyo, in particular TV spot and digital media advertisements with profitability derived from TV time ad, marketing & promotion, creative business recovering strongly. Other contributing factors were a growth in a creative subsidiary associated with further improvement in in-house production ratio and a robust performance in a digital subsidiary although a content company performed on a weak note. While overseas business saw a decrease both in revenue and profit due to exchange fluctuation and prolonged structural reform efforts in China even though business in other Asian nations performed healthily and the US and Europe turned around the business. All overseas billings are generated from advertising business, which represents 8.3% (as opposed to 9.3% in 2015) of the consolidated billings during the period under review.

The parent company, the core competence of the Group business, generated gross billings of ¥314,389 million, up 2.5% from the previous fiscal year. Gross profit rose to ¥36,216 million, up 10.0% and operating income surged to ¥3,982 million, up 33.5%. Gross billings grew over the one of the previous year with gross profit ratio improving as a result of efforts in reviewing low-profit projects and strengthening the income management structure. Although staff cost was on a rise due to an increase in bonus provision brought forward, etc., the company continued to control selling and general administrative expenses strictly. As a result of all that, ADK standalone business achieved a robust growth in revenue and profit.

Broken down by client business, ADK posted increases in gross billings from clients in such industries as Pharma / Medical Supplies, Food, and Restaurants / Other service sectors. However, gross billings declined from clients in such industries as Government / Organizations, Beverage / Tobacco, and Finance / Insurance sectors.

Non-Consolidated Gross Billings Breakdown by Client Industry

Millions of Yen

	2016	Composition	2015	Composition	Change	Year–on–year change
Energy / Material / Machinery	¥ 4,032	1.3%	¥ 3,792	1.2%	¥ 239	6.3%
Food	32,068	10.2	29,033	9.5	3,035	10.5
Beverage / Tobacco	19,595	6.2	21,824	7.1	(2,228)	-10.2
Pharma / Medical Supplies	19,121	6.1	15,818	5.2	3,303	20.9
Cosmetics / Toiletry	29,826	9.5	30,137	9.8	(311)	-1.0
Apparel / Jewelry	13,636	4.3	14,236	4.6	(600)	-4.2
Precision Machinery / Office Supplies	2,787	0.9	2,635	0.9	152	5.8
Home Appliances / AV Equipment	3,165	1.0	2,789	0.9	376	13.5
Automobile / Automobile-related Products	17,451	5.6	18,140	5.9	(689)	- 3.8
Household Goods	1,017	0.3	1,368	0.4	(351)	- 25.7
Hobbies / Sport Goods	19,818	6.3	18,501	6.0	1,316	7.1
Real Estate / Housing	10,386	3.3	9,374	3.1	1,012	10.8
Publishing	2,496	0.8	2,624	0.9	(127)	-4.8
Information / Communication	36,319	11.6	35,027	11.4	1,291	3.7
Distribution / Retail	26,290	8.4	25,726	8.4	563	2.2
Finance / Insurance	24,411	7.8	25,845	8.4	(1,434)	-5.5
Transportation / Leisure	9,344	3.0	8,568	2.8	776	9.1
Restaurants / Other Service	11,650	3.7	8,709	2.8	2,941	33.8
Government / Organizations	11,025	3.5	14,362	4.7	(3,337)	-23.2
Education / Medical Service / Religion	6,129	1.9	5,625	1.8	503	9.0
Signage / Other	13,814	4.4	12,659	4.1	1,154	9.1
Total	¥ 314,389	100.0%	¥ 306,801	100.0%	¥ 7,587	2.5%

Broken down by business discipline, gross billings in TV, Digital Media, OOH Media, Creative, Radio, Marketing and Promotion experienced an increase over the previous year but gross billings in disciplines of Other, Magazine, and Newspaper declined on a year on 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	¥ 12,108	3.9%	-8.7%	Beverage / Tobacco, Government / Organizations, Energy / Material / Machinery
					Hobbies / Sport Goods, Apparel / Jewelry, Cosmetics / Toiletry
	Newspaper	19,020	6.0	-0.3	Information / Communication, Transportation / Leisure, Publishing
					Cosmetics / Toiletry, Government / Organizations, Apparel / Jewelry
	TV	151,508	48.2	2.8	Pharma / Medical Supplies, Information / Communication, Restaurants / Other service
					Government / Organizations, Distribution / Retail, Cosmetics / Toiletry
	Program	54,658	17.4	-1.8	Pharma / Medical Supplies, Hobbies / Sport Goods, Precision Machinery / Office Supplies
					Distribution / Retail, Information / Communication, Finance / Insurance
	Spot	81,291	25.9	4.2	Pharma / Medical Supplies, Information / Communication, Restaurants / Other Service
					Government / Organizations, Cosmetics / Toiletry, Automobile / Automobile-related Products
	Content	15,558	4.9	12.8	Home Appliances / AV Equipment, Transportation / Leisure, Automobile / Automobile-related Products
					Distribution / Retail, Restaurants / Other Service, Information / Communication
	Radio	3,512	1.1	14.8	Information / Communication, Cosmetics / Toiletry, Real Estate / Housing
					Finance / Insurance, Food, Automobile / Automobile-related Products
	Digital Media	20,525	6.5	19.4	Food, Cosmetics / Toiletry, Apparel / Jewelry
					Finance / Insurance, Pharma / Medical Supplies, Home Appliances / AV Equipment
	OOH Media	9,781	3.1	17.4	Food, Beverage / Tobacco, Real Estate / Housing
					Publishing, Distribution / Retail, Information / Communication
Sub-total		¥ 216,456	68.8	3.9	Pharma / Medical Supplies, Food, Information / Communication
					Government / Organizations, Distribution / Retail, Automobile / Automobile-related Products
Non-Media	Marketing and Promotion	59,910	19.1	0.5	Distribution / Retail, Real Estate / Housing, Automobile / Automobile-related Products
					Beverage / Tobacco, Government / Organizations, Apparel / Jewelry
	Creative	35,545	11.3	2.2	Transportation / Leisure, Restaurants / Other Service, Food
					Beverage / Tobacco, Pharma / Medical Supplies, Finance / Insurance
	Others	2,476	0.8	-38.6	Restaurants / Other Service, Finance / Insurance, Energy / Material / Machinery
					Information / Communication, Cosmetics / Toiletry, Home Appliances / AV Equipment
Sub-total		¥ 97,932	31.2	-0.5	Distribution / Retail, Restaurants / Other Service, Transportation / Leisure
					Beverage / Tobacco, Government / Organizations, Finance / Insurance
Total		¥ 314,389	100.0%	2.5%	Pharma / Medical Supplies, Food, Restaurants / Other Service
					Government / Organizations, Beverage / Tobacco, Finance / Insurance

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.

Forecasts for Fiscal 2017

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

While on the other hand, there are conceivable uncertainties in political and economic climate from Europe, to the US, and to emerging markets. Concerning 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, as well as unstable currency rates. All remain to be seen since each of them may well impact on our clients' performance.

In such an environment, we expect consolidated gross billings of ¥354,700 million, operating income of ¥6,230 million, ordinary income of ¥9,250 million, and profit attributable to owners of parent of ¥5,580 million. This means that net income per share is projected to be ¥134.55.

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, 2017). 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 charge-free applications and 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 them 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 behaviors analysis and subsequent planning. However, if the Group fails to adapt to changes in the 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 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 business 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 toward 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 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 advertising agency 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 nontraditional mass media advertising market. Non-industry players such as retailers, trading houses, now IT and consulting firms have entered into 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 larger than 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 2016, the parent company (ADK) generated 68.8% 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 48.2% 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 Persons 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 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 60.3% of gross profit in fiscal 2016.

e. Overseas Operations

The ADK Group has been striving to develop overseas revenues. In fiscal 2016, the ADK Group generated 8.3% 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 further aging with a lower birth rate 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. Mergers and Acquisitions

ADK Group aims to expand the business scale by mergers and acquisitions. In conducting mergers and acquisitions, we thoroughly review and discuss before any acquisitions are made. Nonetheless, in case an acquired business may not progress as expected and we may suffer a loss on valuation of shares of subsidiaries or impairment loss, it could experience a significant impact on its performance and financial conditions.

i. Management of Group Companies

The ADK Group consists of the parent company, 52 subsidiaries, 11 affiliates, and 1 related company, and operates in the advertising 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.

j. Relationship with WPP plc

ADK has maintained strategic operating and equity ties with WPP plc since August 1998, holding a 2.41% equity stake (as of December 31, 2016). 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 cultivating 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 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 ¥81,271 million (at a stock price of £18.16 per share) as of the end of December 2016, compared with the acquisition cost factored 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.

k. Marketable Securities and Investment Securities

The ADK Group's holdings of marketable and investment securities (including the aforementioned stake in WPP) totaled ¥95,313 million, representing 41.9% of its ¥227,260 million in total assets as of December 31, 2016. Of this amount, ¥91,523 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 ¥45,344 million after deducting deferred tax liabilities on such gains (compared with ¥48,188 million as of December 31, 2015). However, in the event of a major decline in the market prices of these holdings, ADK would be forced to account for valuation losses.

l. 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.

m. 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.

n. Risk Related to Legal Restrictions, etc.

The advertising activities of an advertiser are subject to legal restrictions under various laws—such as "the Law for Preventing Unjustifiable Lagniappes and Misleading Representation," "the Copyright Law," "the Trademark Law," "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 can severely impact the Group at the time when this document is 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.

Financial Section

Consolidated Ten-Year Summary

ASATSU-DK INC. and Consolidated Subsidiaries
Years ended December 31

	2007	2008	2009	2010
Income Statement Data				
Gross billings	¥ 435,011	¥ 399,452	¥ 350,211	¥ 346,565
Gross profit	51,754	49,143	41,367	42,028
Selling, general and administrative expenses	44,619	45,444	42,124	42,006
Operating income (loss)	7,134	3,699	(756)	22
Ordinary income	8,960	5,335	1,094	1,885
Income (loss) before income taxes	10,122	3,774	343	(4,748)
Profit (loss) attributable to owners of parent	5,350	2,125	73	(4,656)
Comprehensive income	—	—	—	—

	2007	2008	2009	2010
Balance Sheet Data				
Total assets	¥ 246,097	¥ 191,782	¥ 190,024	¥ 194,510
Total net assets*1	131,846	101,617	107,465	103,168
Shareholders' equity*2	130,695	100,588	106,423	102,169

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

	2007	2008	2009	2010
Per Common Share Data				
Net income (loss) per share (EPS)	¥ 116.40	¥ 48.14	¥ 1.73	¥ (110.28)
Dividend per share	42.00	20.00	20.00	20.00
Book value per share	¥2,898.49	¥2,334.48	¥2,499.05	¥2,423.06
No. of common shares outstanding*	45,155,400	45,155,400	45,155,400	45,155,400

* Includes treasury stock

	2007	2008	2009	2010
Financial Ratios				
Gross profit ratio	11.9%	12.3%	11.8%	12.1%
Operating margin*1	13.8	7.5	(1.8)	0.1
Staff cost / Gross profit	57.8	62.4	67.0	67.3
Return on equity (ROE)*2	3.9	1.8	0.1	(4.5)
Return on assets (ROA)*3	3.6	2.4	0.6	1.0
Equity ratio*4	53.1	52.4	56.0	52.5

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

2011	2012	2013	2014	2015	2016
					Millions of Yen
¥ 347,111	¥ 350,822	¥ 342,786	¥ 352,984	¥ 351,956	**¥ 352,671**
45,836	46,169	45,104	48,568	48,824	**51,182**
41,983	42,993	43,721	44,470	43,923	**45,613**
3,852	3,175	1,383	4,097	4,901	**5,569**
5,627	5,314	4,327	7,251	8,590	**8,688**
5,028	4,069	5,600	6,433	9,189	**6,260**
2,293	2,781	3,430	3,696	5,362	**2,376**
(1,794)	13,559	27,187	10,189	12,950	**(747)**

					Millions of Yen
¥ 184,188	¥ 195,163	¥ 228,170	¥ 243,317	¥ 235,205	**¥ 227,260**
96,800	109,559	130,972	134,999	125,488	**113,225**
95,834	108,521	129,873	134,184	124,004	**111,605**

					Yen
¥ 54.37	¥ 65.83	¥ 81.79	¥ 88.32	¥ 127.72	**¥ 56.96**
109.00	111.00	141.00	571.00	248.00	**100.00**
¥2,270.23	¥2,567.03	¥3,105.40	¥3,204.87	¥2,947.40	**¥2,674.92**
45,155,400	42,655,400	42,155,400	42,155,400	42,155,400	**42,155,400**

13.2%	13.2%	13.2%	13.8%	13.9%	**14.5%**
8.4	6.9	3.1	8.4	10.0	**10.9**
61.8	62.5	65.4	61.5	60.5	**60.3**
2.3	2.7	2.9	2.8	4.2	**2.0**
3.0	2.8	2.0	3.1	3.6	**3.8**
52.0	55.6	56.9	55.1	52.7	**49.1**

Consolidated Balance Sheets

ASATSU-DK INC. and Consolidated Subsidiaries
December 31, 2015 and 2016

Millions of Yen

Assets	Note	2015	Note	2016
Current assets				
Cash and deposits	3	25,790	3	**19,042**
Notes and accounts receivable—trade	5	84,326	5	**81,712**
Securities		2,172		**3,678**
Inventories	1	7,048	1	**5,319**
Deferred tax assets		568		**1,419**
Other		2,033		**3,048**
Allowance for doubtful accounts		(568)		**(1,103)**
Total current assets		121,370		**113,118**
Non-current assets				
Property, plant and equipment				
Buildings and structures		4,299		**3,625**
Accumulated depreciation		(1,720)		**(1,402)**
Buildings and structures, net		2,579		**2,223**
Land		1,004		**396**
Other		3,509		**3,662**
Accumulated depreciation		(2,294)		**(2,509)**
Other, net		1,215		**1,153**
Total property, plant and equipment		4,800		**3,773**
Intangible assets				
Goodwill		623		**7,538**
Software		1,536		**1,350**
Other		26		**1,230**
Total intangible assets		2,186		**10,118**
Investments and other assets				
Investment securities	2,3	101,516	2,3	**95,313**
Long-term loans receivable		54		**133**
Net defined benefit asset		697		**974**
Deferred tax assets		246		**233**
Other	2	5,151	2	**4,345**
Allowance for doubtful accounts		(819)		**(751)**
Total investments and other assets		106,847		**100,250**
Total non-current assets		113,834		**114,142**
Total assets		235,205		**227,260**

See notes to consolidated financial statements.

Millions of Yen

Liabilities	Note	2015	Note	2016
Current liabilities				
Notes and accounts payable—trade	5	74,130	5	**75,688**
Short-term loans payable		96		**459**
Current portion of long-term loans payable		—		**1,553**
Income taxes payable		1,269		**2,273**
Provision for bonuses		355		**2,343**
Provision for directors' bonuses		4		**38**
Provision for sales returns		471		**—**
Other		8,228		**9,261**
Total current liabilities		84,556		**91,618**
Non-current liabilities				
Long-term loans payable		—		**60**
Deferred tax liabilities		22,966		**20,608**
Provision for directors' retirement benefits		42		**15**
Provision for loss on business of subsidiaries and associates		—		**20**
Net defined benefit liability		935		**510**
Other		1,215		**1,202**
Total non-current liabilities		25,160		**22,416**
Total liabilities		109,716		**114,034**
Net assets				
Shareholders' equity				
Capital stock		37,581		**37,581**
Capital surplus		11,982		**11,977**
Retained earnings		24,336		**16,260**
Treasury shares		(210)		**(1,205)**
Total shareholders' equity		73,690		**64,613**
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		48,188		**45,344**
Deferred gains or losses on hedges		(0)		**20**
Foreign currency translation adjustment		1,859		**1,155**
Remeasurements of defined benefit plans		266		**471**
Total accumulated other comprehensive income		50,314		**46,992**
Subscription rights to shares		23		**24**
Non-controlling interests		1,461		**1,595**
Total net assets		125,488		**113,225**
Total liabilities and net assets		235,205		**227,260**

Consolidated Statements of Income

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2015 and 2016

Millions of Yen

	Note	2015	Note	2016
Gross billings		351,956		**352,671**
Cost of sales	1	303,131	1	**301,488**
Gross profit		48,824		**51,182**
Selling, general and administrative expenses				
Salaries and allowances		23,353		**22,581**
Provision for bonuses		333		**2,310**
Retirement benefit expenses		1,649		**1,275**
Provision for directors' retirement benefits		2		**—**
Provision for directors' bonuses		4		**38**
Welfare expenses		3,637		**4,082**
Rent expenses		3,103		**2,909**
Provision of allowance for doubtful accounts		279		**242**
Depreciation		814		**749**
Amortization of goodwill		89		**268**
Other		10,655		**11,155**
Total selling, general and administrative expenses	2	43,923	2	**45,613**
Operating income		4,901		**5,569**
Non-operating income				
Interest income		207		**112**
Dividend income		2,704		**2,380**
Share of profit of entities accounted for using equity method		292		**249**
Dividend income of life insurance		17		**33**
Real estate rent		81		**61**
Other		595		**452**
Total non-operating income		3,898		**3,290**
Non-operating expenses				
Interest expenses		31		**40**
Loss on sales of securities		24		**—**
Provision of allowance for doubtful accounts		2		**7**
Rent expenses on real estates		35		**26**
Loss on insurance cancellation		59		**27**
Other		56		**67**
Total non-operating expenses		209		**170**
Ordinary income		8,590		**8,688**

Millions of Yen

	Note	2015	Note	2016
Extraordinary income				
Gain on sales of non-current assets	3	64	3	**136**
Gain on liquidation of subsidiaries and associates		146		**—**
Gain on sales of investment securities		1,077		**65**
Other		4		**28**
Total extraordinary income		1,293		**230**
Extraordinary loss				
Loss on sales of non-current assets	4	2	4	**0**
Loss on retirement of non-current assets	5	16	5	**24**
Loss on sales of investment securities		0		**4**
Loss on valuation of investment securities	6	51	6	**438**
Special retirement expenses	7	285	7	**129**
Loss on liquidation of business	8	128	8	**1,994**
Office transfer expenses	9	117	9	**26**
Provision of allowance for doubtful accounts		0		**6**
Other		90		**32**
Total extraordinary loss		695		**2,658**
Income before income taxes		9,189		**6,260**
Income taxes—current		2,861		**4,323**
Income taxes—deferred		718		**(671)**
Total income taxes		3,579		**3,652**
Profit		5,609		**2,608**
Profit attributable to non-controlling interests		246		**231**
Profit attributable to owners of parent		5,362		**2,376**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2015 and 2016

Millions of Yen

	Note	2015	Note	2016
Profit		5,609		**2,608**
Other comprehensive income (loss)				
Valuation difference on available-for-sale securities		8,069		**(2,858)**
Deferred gains or losses on hedges		(6)		**20**
Foreign currency translation adjustments		(1,002)		**(704)**
Remeasurements of defined benefit plans, net of tax		287		**204**
Share of other comprehensive income of entities accounted for using equity method		(6)		**(18)**
Total other comprehensive income (loss)	1	7,341	1	**(3,355)**
Comprehensive income		12,950		**(747)**
Comprehensive income attributable to:				
Comprehensive income attributable to owners of the parent		12,752		**(944)**
Comprehensive income attributable to non-controlling interests		198		**197**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

ASATSU-DK INC. and Consolidated Subsidiaries
Year 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 attributable to owners of parent			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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling 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 attributable to owners of parent								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.

ASATSU-DK INC. and Consolidated Subsidiaries
Year Ended December 31, 2016 (From January 1, 2016 to December 31, 2016)

Year Ended December 31, 2016 — 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	24,336	(210)	73,690
Cumulative effects of changes in accounting policies					—
Restated balance	**37,581**	**11,982**	**24,336**	**(210)**	**73,690**
Changes of items during period					
Dividends of surplus			**(10,430)**		**(10,430)**
Profit attributable to owners of parent			**2,376**		**2,376**
Change of scope of consolidation			**(27)**		**(27)**
Purchase of treasury shares				**(1,003)**	**(1,003)**
Disposals of treasury shares		**(5)**		**8**	**3**
Other			**3**		**3**
Net changes of items other than shareholders' equity					
Total changes of items during period	**—**	**(5)**	**(8,076)**	**(995)**	**(9,077)**
Balance at end of current period	**37,581**	**11,977**	**16,260**	**(1,205)**	**64,613**

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	Non-controlling interests	Total net assets
Balance at beginning of current period	48,188	(0)	1,859	266	50,314	23	1,461	125,488
Cumulative effects of changes in accounting policies								—
Restated balance	**48,188**	**(0)**	**1,859**	**266**	**50,314**	**23**	**1,461**	**125,488**
Changes of items during period								
Dividends of surplus								**(10,430)**
Profit attributable to owners of parent								**2,376**
Change of scope of consolidation								**(27)**
Purchase of treasury shares								**(1,003)**
Disposals of treasury shares								**3**
Other								**3**
Net changes of items other than shareholders' equity	**(2,843)**	**20**	**(703)**	**204**	**(3,321)**	**1**	**134**	**(3,186)**
Total changes of items during period	**(2,843)**	**20**	**(703)**	**204**	**(3,321)**	**1**	**134**	**(12,263)**
Balance at end of current period	**45,344**	**20**	**1,155**	**471**	**46,992**	**24**	**1,595**	**113,225**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ASATSU-DK INC. and Consolidated Subsidiaries
Years Ended December 31, 2015 and 2016

Millions of Yen

	Note	2015	Note	2016
Cash flows from operating activities				
Income before income taxes		9,189		**6,260**
Depreciation	2	1,544	2	**1,476**
Loss (gain) on valuation of investment securities		51		**438**
Increase (decrease) in allowance for doubtful accounts		282		**150**
Increase (decrease) in provision for bonuses		(655)		**2,019**
Increase (decrease) in provision for directors' bonuses		1		**34**
Increase (decrease) in provision for sales returns		(22)		**(84)**
Increase (decrease) in net defined benefit asset		28		**(4)**
Increase (decrease) in net defined benefit liability		4		**(18)**
Increase (decrease) in provision for directors' retirement benefits		(9)		**(34)**
Interest and dividend income		(2,911)		**(2,492)**
Interest expenses		31		**40**
Foreign exchange losses (gains)		(43)		**(154)**
Share of (profit) loss of entities accounted for using equity method		(292)		**(249)**
Loss (gain) on sales of investment securities		(1,077)		**(61)**
Amortization of goodwill		89		**268**
Loss (gain) on sales and retirement of non-current assets		(44)		**(111)**
Decrease (increase) in notes and accounts receivable—trade		2,046		**684**
Decrease (increase) in inventories		927		**1,248**
Increase (decrease) in notes and accounts payable—trade		1,870		**1,853**
Loss (gain) on liquidation of subsidiaries and associates		(146)		**—**
Decrease (increase) in accounts receivable—other		(47)		**(172)**
Increase (decrease) in accounts payable—other		321		**450**
Extra retirement payments		285		**129**
Loss on liquidation of business		128		**1,994**
Office transfer expenses		117		**26**
Other, net		(1,155)		**(726)**
Subtotal		10,511		**12,968**
Interest and dividend income received		2,955		**2,643**
Interest expenses paid		(30)		**(40)**
Payments for extra retirement payments		(94)		**(293)**
Payments for office transfer expenses		(81)		**(12)**
Income taxes (paid) refund		(3,028)		**(3,601)**
Other		(39)		**(26)**
Net cash provided by (used in) operating activities		10,192		**11,637**

	Note	2015	Note	2016
				Millions of Yen
Cash flows from investing activities				
Payments into time deposits		(3,668)		**(1,428)**
Proceeds from withdrawal of time deposits		6,658		**1,454**
Purchase of property, plant and equipment		(673)		**(432)**
Proceeds from sales of property, plant and equipment		79		**158**
Purchase of intangible assets		(499)		**(525)**
Purchase of investment securities		(70)		**(42)**
Proceeds from sales of investment securities		1,833		**191**
Proceeds from liquidation of subsidiaries and associates		412		**—**
Payments of loans receivable		(127)		**(463)**
Collection of loans receivable		136		**161**
Net increase (decrease) in insurance funds		194		**554**
Payments for guarantee deposits		(364)		**(268)**
Proceeds from collection of guarantee deposits		1,496		**286**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	3	(276)	3	**(5,266)**
Payments for establishment of subsidiaries		—		**(150)**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation		—		**(71)**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation		—	4	**1,266**
Other, net		(83)		**100**
Net cash provided by (used in) investing activities		5,046		**(4,475)**
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable		53		**(185)**
Proceeds from long-term loans payable		—		**25**
Repayment of long-term loans payable		(82)		**(0)**
Net decrease (increase) in treasury shares		358		**(1,003)**
Cash dividends paid		(23,909)		**(10,430)**
Cash dividends paid to non-controlling interests		(42)		**(78)**
Other, net		(182)		**(240)**
Net cash provided by (used in) financing activities		(23,803)		**(11,912)**
Effect of exchange rate change on cash and cash equivalents		(651)		**(302)**
Net increase (decrease) in cash and cash equivalents		(9,214)		**(5,053)**
Cash and cash equivalents at beginning of period		35,082		**25,924**
Increase in cash and cash equivalents from newly consolidated subsidiary		56		**136**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries		—		**20**
Cash and cash equivalents at end of period	1	25,924	1	**21,027**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ASATSU-DK INC. and Consolidated Subsidiaries
December 31, 2015 and 2016

(Items Related to Going Concern Assumption)

Not applicable

(Basis of Presenting Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 37

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

Axival Inc., which had been a non-consolidated subsidiary in the fiscal year ended December 31, 2015, has been included in the scope of consolidation from the beginning of the fiscal year ended December 31, 2016, due to an increase in materiality.

GONZO K.K. became a subsidiary due to the acquisition of its shares and has been included in the scope of consolidation from the end of the third quarter under review.

NIHONBUNGEISHA Co., Ltd. and BIOMEDIS International Ltd., which had been consolidated subsidiaries in the fiscal year ended December 31, 2015, have been ruled out from the scope of consolidation from the beginning of the second quarter under review, as all of their shares have been transferred.

(2) Major non-consolidated subsidiaries

Absolute one Inc.

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.

(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

Of consolidated subsidiaries, the closing date of GONZO K.K. is March 31. In the preparation of the consolidated financial statements, financial statements based on the provisional closing as of the consolidated closing date are used. The closing dates of other consolidated subsidiaries are the same as the consolidated closing date.

4. Items related to accounting policies

(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)

However, the straight-line method is applied to ancillary equipment and structures acquired on or after April 1, 2016.

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).

For content-related assets included in other, the straight-line method is applied based on the period in which future revenues are expected to be generated (10 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.

[6] Provision for loss on business of subsidiaries and associates

To provide for losses associated with businesses of subsidiaries and associates, one domestic consolidated subsidiary records the estimated amount of losses calculated by taking into account the details of the assets and other factors.

(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. However, non-deductible consumption tax, etc., is treated as an expense for the fiscal year ended December 31, 2016.

(Changes in Accounting Policies)

(Adoption of Accounting Standard for Business Combinations)

On September 13, 2013, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No.21 "Revised Accounting Standard for Business Combinations," ASBJ Statement No.22 "Revised Accounting Standard for Consolidated Financial Statements," and ASBJ statement No.7 "Revised Accounting Standard for Business Divestitures." These revised accounting standards are applied from the fiscal year ended December 31, 2016. Accordingly, differences resulting from these changes in ownership interest in a subsidiary when control over the subsidiary is retained are recorded under capital surplus, and costs related to acquisition of increased ownership interest are recognized in the period in which they incur. Also, transitional accounting is applied to business combinations performed on or after the beginning of the fiscal year ended December 31, 2016, with revision of purchase price allocation applied to the consolidated financial statements during the fiscal year in which the date of the business combination occurs. The presentation method of net income was amended, and "minority interests" were changed to "non-controlling interests." To reflect such changes, information for the fiscal year ended December 31, 2015 is shown in accordance with the new standards in the accompanying consolidated financial statements.

We applied these standards in accordance with the transitional treatment specified in Section 58-2 (4) of the Business Combinations Accounting Standard, Section 44-5 (4) of the Consolidated Accounting Standard, and Section 57-4 (4) of the Business Divestitures Accounting Standard. We began applying them from the beginning of the fiscal year ended December 31, 2016, and will continue to do so in future periods.

Consequently, operating income, ordinary income and income before income taxes for the period ended December 31, 2016 decreased ¥105 million respectively.

The consolidated statements of cash flows for the fiscal year ended December 31, 2016 have been changed to a method in which cash flows related to the acquisition or sale of stock of subsidiaries not associated with a change in the scope of consolidation is presented under "Net cash provided by (used in) financing activities" and cash flows related to expenses for acquisition of stock of subsidiaries associated with a change in the scope of consolidation or expenses incurred in connection with the acquisition or sale of stock of subsidiaries not associated with a change in the scope of consolidation is presented under "Net cash provided by (used in) operating activities."

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

(Adoption of "Practical Solution on a change in depreciation method due to Tax Reform 2016")
The ASBJ issued PITF No.32 "Practical Solution on a change in depreciation method due to Tax Reform 2016" on June 17, 2016. This revised accounting standard is applied from the fiscal year ended December 31, 2016. The Company has changed the method of depreciation for facilities attached to buildings and structures purchased on and after April 1, 2016 from the declining-balance method to the straight-line method.

These changes have no material impact on the company's income statement for the period under review.

(New Accounting Standards, not yet Applied)

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

(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 balance sheets)
"Goodwill," which was included in "other, net" under "intangible assets" in the fiscal year ended December 31, 2015, is presented separately for the fiscal year ended December 31, 2016, due to an increase in materiality. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended December 31, 2015, have been restated.

Consequently, the ¥650 million that was presented in "other, net" under "intangible assets" in the Consolidated Balance Sheets for the fiscal year ended December 31, 2015, has been restated as "goodwill" of ¥623 million and "other, net" of ¥26 million.

(Consolidated statements of income)
"Amortization of goodwill," which was included in "other" under "selling, general and administrative expenses," and "loss on sales of investment securities" and "provision of allowance for doubtful accounts," which were included in "other" under "extraordinary loss" in the fiscal year ended December 31, 2015, are presented separately for the fiscal year ended December 31, 2016, due to an increase in materiality. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended December 31, 2015, have been restated.

Consequently, the ¥10,744 million that was presented in "other" under "selling, general and administrative expenses" in the Consolidated Statements of Income for the fiscal year ended December 31, 2015, has been restated as "amortization of goodwill" of ¥89 million and "other" of ¥10,655 million; and the ¥91 million that was presented in "other" under "extraordinary loss" in the Consolidated Statements of Income for the fiscal year ended December 31, 2015, has been restated as "loss on sales of investment securities" of ¥0 million, "provision of allowance for doubtful accounts" of ¥0 million and "other" of ¥90 million.

"Reversal of allowance for doubtful accounts," which was presented separately in "extraordinary income" in the fiscal year ended December 31, 2015, is included in "other" for the fiscal year ended December 31, 2016, 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, 2015, have been restated.

Consequently, the ¥1 million that was presented in "reversal of allowance for doubtful accounts" and the ¥2 million that was presented in "other" under "extraordinary income" in the Consolidated Statements of Income for the fiscal year ended December 31, 2015, have been restated as "other" of ¥4 million.

(Consolidated statements of cash flows)
"Amortization of goodwill," which was included in "other" under "net cash provided by (used in) operating activities" in the fiscal year ended December 31, 2015, is presented separately for the fiscal year ended December 31, 2016, due to an increase in materiality. To reflect this change in the method of presentation, the consolidated financial statements for the fiscal year ended December 31, 2015, have been restated.

Consequently, the ¥(1,066) million that was presented in "other" under "net cash provided by (used in) operating activities" in the Consolidated Statements of Cash Flows for the fiscal year ended December 31, 2015, has been restated as "amortization of goodwill" of ¥89 million and "other" of ¥(1,155) million.

(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, 2015	December 31, 2016
Investment securities (Stocks)	¥2,340 million	¥2,074 million
Investments and other assets		
Other assets (Capital)	¥178 million	¥181 million

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

	December 31, 2015	December 31, 2016
Cash and deposits (time deposits)	¥357 million	¥429 million
Investment securities	¥19 million	¥18 million

4. Incidental obligations
(1) Guarantee Obligations
Aggregated amount of guarantees are as follows:

	December 31, 2015	December 31, 2016
GroupM Japan K.K.	Accounts payable	Accounts payable
	¥211 million	¥159 million

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

	December 31, 2015	December 31, 2016
	¥1,184 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, 2015 and 2016.

	December 31, 2015	December 31, 2016
Notes receivable—trade	¥338 million	¥499 million
Notes payable—trade	¥939 million	¥911 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, 2015	Fiscal year ended December 31, 2016
Cost of sales	¥728 million	¥641 million

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

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
	¥627 million	¥404 million

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

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Buildings	¥55 million	¥132 million
Vehicles	¥6 million	¥4 million
Tools, furniture and fixtures	¥2 million	¥0 million
Land	¥— million	¥0 million

*4. Loss on sales of non-current assets was as follows:

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Vehicles	¥0 million	¥0 million
Tools, furniture and fixtures	¥0 million	¥0 million
Land	¥2 million	¥— million

*5. Loss on retirement of non-current assets was as follows:

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Buildings	¥3 million	¥7 million
Vehicles	¥— million	¥0 million
Tools, furniture and fixtures	¥5 million	¥4 million
Software	¥0 million	¥12 million
Leased assets	¥7 million	¥— million

*6. It was mainly due to impairment.

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

*8. Loss on liquidation of business
Fiscal year ended December 31, 2015
It was due to the closure of business offices by ADK America Inc., a consolidated subsidiary of the Company, and the liquidation of business of BIOMEDIS International Ltd., a consolidated subsidiary of the Company.

Fiscal year ended December 31, 2016
It was mainly due to the liquidation of business of NIHONBUNGEISHA Co., Ltd., which was a consolidated subsidiary of the Company.

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

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Loss on retirement of non-current assets	¥36 million	¥3 million
Remaining rent	¥28 million	¥9 million
Moving cost	¥52 million	¥13 million

(Consolidated Statements of Comprehensive Income)

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

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Valuation difference on available-for-sale securities		
Amount arising during fiscal year	¥9,913 million	¥(5,764 million)
Reclassification adjustments	¥(1,024 million)	¥(25 million)
Prior to tax effect	¥8,889 million	¥(5,790 million)
Tax effect	¥(819 million)	¥2,931 million
Valuation difference on available-for-sale securities	¥8,069 million	¥(2,858 million)
Deferred gains or losses on hedges		
Amount arising during fiscal year	¥(9 million)	¥30 million
Prior to tax effect	¥(9 million)	¥30 million
Tax effect	¥3 million	¥(9 million)
Deferred gains or losses on hedges	¥(6 million)	¥20 million
Foreign currency translation adjustment		
Amount arising during fiscal year	¥(1,002 million)	¥(704 million)
Foreign currency translation adjustment	¥(1,002 million)	¥(704 million)
Remeasurements of defined benefit plans, net of tax		
Amount arising during fiscal year	¥333 million	¥272 million
Reclassification adjustments	¥112 million	¥(5 million)
Prior to tax effect	¥446 million	¥267 million
Tax effect	¥(158 million)	¥(62 million)
Remeasurements of defined benefit plans, net of tax	¥287 million	¥204 million
Share of other comprehensive income of entities accounted for using equity method		
Amount arising during fiscal year	¥(6 million)	¥(18 million)
Share of other comprehensive income of entities accounted for using equity method	¥(6 million)	¥(18 million)
Total accumulated other comprehensive income	¥7,341 million	¥(3,355 million)

(Consolidated Statements of Changes in Equity)

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

Fiscal year ended December 31, 2016

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

Type of shares	Number of shares as of January 1, 2016	Increase in the number of shares	Decrease in the number of shares	Number of shares as of December 31, 2016
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, 2016	Increase in the number of shares	Decrease in the number of shares	Number of shares as of December 31, 2016
Common stock	82,923	352,557	3,080	432,400

(Outline of reason for change)
The breakdown of the increase is as follows:
Increase due to acquisition in accordance with resolution of the Board of Directors: 351,200 shares
Increase due to purchase of shares constituting less than one trading unit: 1,357 shares
The breakdown of the decrease is as follows:
Decrease due to exercise of stock options: 2,900 shares
Decrease due to sale of shares constituting less than one trading unit: 180 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, 2016
			Number of shares as of January 1, 2016	Increase in the number of shares	Decrease in the number of shares	Number of shares as of December 31, 2016	
Company submitting	Subscription rights for shares as stock options	—	—	—	—	—	¥24 million
Total			—	—	—	—	¥24 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 23, 2016	Common stock	¥10,013 million	¥238.00	December 31, 2015	March 23, 2016
Board of Directors' meeting held on August 12, 2016	Common stock	¥417 million	¥10.00	June 30, 2016	September 13, 2016

(2) Dividends for which the reference date is within the fiscal year ended December 31, 2016, 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 20, 2017	Common stock	Retained earnings	¥3,755 million	¥90.00	December 31, 2016	March 22, 2017

(Consolidated Statements 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, 2015	Fiscal year ended December 31, 2016
Cash and deposits	¥25,790 million	¥19,042 million
Marketable securities	¥2,172 million	¥3,678 million
Total	¥27,962 million	¥22,721 million
Time deposits with tenors exceeding 3 months	¥(2,038 million)	¥(1,694 million)
Cash and cash equivalents	¥25,924 million	¥21,027 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
Fiscal year ended December 31, 2015
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)
Non-controlling interests	¥(530 million)
Acquisition cost	¥1,264 million
Cash and cash equivalents	¥(988 million)
Less: Payment for the acquisition	¥276 million

Fiscal year ended December 31, 2016
The relationship between the breakdown of assets and liabilities at the time of initial consolidation of GONZO K.K., acquired by an acquisition of shares, the total acquisition price of GONZO K.K., and the payment for the acquisition (net amount) of GONZO K.K. is as follows.

Current assets	¥349 million
Non-current assets	¥1,344 million
Goodwill	¥7,182 million
Current liabilities	¥(3,141 million)
Non-current liabilities	¥(441 million)
Acquisition cost	¥5,292 million
Cash and cash equivalents	¥(25 million)
Less: Payment for the acquisition	¥5,266 million

*4. Breakdown of principal assets and liabilities of a company that ceased to be a consolidated subsidiary from the sales of shares
Fiscal year ended December 31, 2016
The breakdown of assets and liabilities at the time of sale, in conjunction with NIHONBUNGEISHA Co., Ltd. ceasing to be a consolidated subsidiary due to the sales of shares, the selling price of the shares and proceeds from the sales are as follows.

Current assets	¥4,155 million
Non-current assets	¥1,094 million
Current liabilities	¥(1,096 million)
Non-current liabilities	¥(439 million)
Loss on sales of shares	¥(1,699 million)
Selling price of shares	¥2,012 million
Cash and cash equivalents	¥(746 million)
Less: Proceeds from the sales	¥1,266 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, 2015	December 31, 2016
Within one year	1,026	1,004
Beyond one year	1,459	536
Total	2,486	1,540

(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, 2015 and 2016, 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, 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) Current portion of long-term loans payable	(—)	(—)	—
(7) Derivative transactions[2]	(57)	(57)	—

December 31, 2016

Millions of Yen

	Carrying amount[1]	Fair value[1]	Difference
(1) Cash and deposits	19,042	19,042	—
(2) Notes and accounts receivable	81,712	81,712	—
(3) Securities and investment securities	95,202	95,202	—
(4) Notes and accounts payable	(75,688)	(75,688)	—
(5) Short-term loans payable	(459)	(459)	—
(6) Current portion of long-term loans payable	(1,553)	(1,553)	—
(7) Derivative transactions[2]	67	67	—

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 and (6) Current portion of long-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, 2015	December 31, 2016
Investment securities		
Investments in securities with no available fair value	1,739	1,681
Investments in affiliates	2,340	2,074
Other	90	34
Long-term loans payable	—	60

Investments in securities with no available fair value, investments in affiliates and other do not have market values and it is not possible to estimate their future cash flows, making it extremely difficult to obtain their market values. They are therefore not included in "(3) Securities and investment securities."

In addition, certain long-term loans payable includes repayment conditions that are not clear and their estimated repayment terms cannot be specified, making it extremely difficult to obtain their market values. They are therefore not included in "(6) Current portion of long-term loans payable."

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

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	—	—	—

December 31, 2016

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	19,042	—	—	—
Notes and accounts receivable	81,712	—	—	—
Securities and investment securities	—	—	—	—
Total	100,755	—	—	—

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

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	—	—	—	—	—

December 31, 2016

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	459	—	—	—	—	—
(Current portion of) Long-term loans payable	1,553	—	—	—	—	—
Total	2,012	—	—	—	—	—

Certain long-term loans payable (amount recorded on consolidated balance sheet: ¥60 million) includes repayment conditions that are not clear and their estimated repayment terms cannot be specified. They are therefore not included in the above table.

(Securities)

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

3. Securities subject to impairment (Fiscal year ended December 31, 2015)

In the fiscal year ended December 31, 2015, impairment was recognized, and loss on valuation of investment securities of ¥51 million was recorded. Impairment loss is recognized when the fair value of a security declines significantly and its recovery cannot be expected.

Fiscal year ended December 31, 2016

1. Other securities (December 31, 2016)

Millions of Yen

Classification	Amount recorded on consolidated balance sheet	Cost	Difference
For which market value exceeds amount recorded on consolidated balance sheet			
Stocks	91,474	26,062	65,411
Bonds	—	—	—
Other	—	—	—
Subtotal	91,474	26,062	65,411
For which market value does not exceed amount recorded on consolidated balance sheet			
Stocks	49	84	(34)
Bonds	—	—	—
Other	3,678	3,678	—
Subtotal	3,727	3,762	(34)
Total	95,202	29,825	65,376

2. Other securities sold during the current fiscal year (Fiscal year ended December 31, 2016)

Millions of Yen

Classification	Amount of sale	Total gain on sale	Total loss on sale
Stocks	115	59	4
Bonds	—	—	—
Other	3	—	—
Total	118	59	4

3. Securities subject to impairment (Fiscal year ended December 31, 2016)

In the fiscal year ended December 31, 2016, impairment was recognized, and loss on valuation of investment securities of ¥438 million was recorded. Impairment loss is recognized when the fair value of a security declines significantly and its recovery cannot be expected.

(Derivatives)

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.

Fiscal year ended December 31, 2016

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				
	(HKD)	—	338	—	376

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 ¥(38) 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$)	Payables	252	—	271
	(HKD)	Payables	16	—	18
	(CHF)	Payables	52	—	57
	(EUR)	Payables	45	—	48
	Subtotal		366	—	395
Deferral method Forward foreign exchange contracts	Forward foreign exchange contracts				
	—buying				
	(US$)	Payables	218	—	Note: 2
	(SGD)	Payables	0	—	Note: 2
	(EUR)	Payables	4	—	Note: 2
	Subtotal		223	—	—
Total			590	—	—

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 ¥(29) 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.

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, 2015	Fiscal year ended December 31, 2016
Beginning balance of retirement benefit obligations	10,419	9,320
Cumulative effects of changes in accounting policies	(1,054)	—
Restated balance	9,364	9,320
Service cost	765	754
Interest cost	36	36
Actuarial differences	(292)	(353)
Payment of retirement benefits	(552)	(702)
Ending balance of retirement benefit obligations	9,320	9,055

(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, 2015	Fiscal year ended December 31, 2016
Beginning balance of pension fund assets	9,756	10,018
Expected return on pension fund assets	146	150
Actuarial differences	41	(80)
Contributions by the Company	625	641
Payment of retirement benefits	(547)	(700)
Other	(4)	—
Ending balance of pension fund assets	10,018	10,029

(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, 2015	Fiscal year ended December 31, 2016
Beginning balance of net defined benefit liability	942	935
Retirement benefit expenses	68	83
Payment of retirement benefits	(75)	(102)
Contribution to the plan	(7)	—
Decrease due to exclusion of a subsidiary from the scope of consolidation	—	(402)
Other	7	(3)
Ending balance of net defined benefit liability	935	510

(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, 2015	December 31, 2016
Funded projected benefit obligation	9,320	9,055
Pension fund assets	(10,018)	(10,029)
	(697)	(974)
Unfunded projected benefit obligation	935	510
Net amount of liabilities and assets in consolidated balance sheet	238	(464)
Net defined benefit liability	935	510
Net defined benefit assets	(697)	(974)
Net amount of liabilities and assets in consolidated balance sheet	238	(464)

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, 2015	Fiscal year ended December 31, 2016
Service cost	765	754
Interest cost	36	36
Expected return on pension fund assets	(146)	(150)
Amortization of actuarial differences	112	(5)
Retirement benefit expenses calculated using the simplified method	68	83
Other	19	68
Retirement benefit expenses related to defined benefit plans	855	786

(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, 2015	Fiscal year ended December 31, 2016
Actuarial differences	446	267

(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, 2015	December 31, 2016
Unrecognized actuarial differences	(414)	(682)

(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, 2015	December 31, 2016
Japanese bonds	27%	22%
Foreign bonds	14%	11%
Japanese stocks	12%	3%
Foreign stocks	7%	7%
General accounts	35%	36%
Other	2%	21%
Total	100%	100%

Note: Other includes short-term funds.

[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, 2015	Fiscal year ended December 31, 2016
Discount rate	0.3%	0.3%
Long-term expected rate of return	1.5%	1.5%
Expected rate of rise in salary	4.8%	5.2%

3. Defined contribution plans
The required amount of contributions to defined contribution plans for the Company and its consolidated subsidiaries was ¥371 million in the fiscal year ended December 31, 2015 and is ¥499 million in the fiscal year ended December 31, 2016.

(Stock Options, etc.)

1. Expense items related to stock options recorded

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Stock-based compensation expense of selling, general and administrative expenses	¥(17 million)	¥3 million

2. Stock option details, size, and changes in status
(1) Stock option details

	Subscription rights to shares (2nd series) (Stock options as stock-based compensation for Company directors)	Subscription rights to shares (3rd series) (Stock options as stock-based compensation for senior executive officer)	Subscription rights to shares (4th series) (Stock options as stock-based compensation for Company directors)	Subscription rights to shares (5th series) (Stock options as stock-based compensation for operating officers)
Company name	Company submitting	Company submitting	Company submitting	Company submitting
Record date	May 13, 2013	May 13, 2013	August 12, 2014	August 12, 2014
Groups and numbers of recipients	Directors (excluding outside directors): 4	Senior executive officers: 4	Directors (excluding outside directors): 4	Operating officers: 18
Number of options granted	37,500 shares	22,700 shares	26,400 shares	59,900 shares
Date of grant	May 30, 2013	May 30, 2013	August 29, 2014	August 29, 2014
Conditions for setting rights	Note: 1	Note: 2	Note: 1	Note: 3
Period of service	From May 30, 2013 to May 30, 2016	From May 30, 2013 to May 30, 2016	From August 29, 2014 to August 29, 2017	From August 29, 2014 to August 29, 2017
Exercise period	From May 31, 2016 to May 30, 2023	From May 31, 2016 to May 30, 2023	From August 30, 2017 to August 29, 2024	From August 30, 2017 to August 29, 2024

	Subscription rights to shares (6th series) (Stock options as stock-based compensation for Company directors)	Subscription rights to shares (7th series) (Stock options as stock-based compensation for operating officers)	Subscription rights to shares (8th series) (Stock options as stock-based compensation for Company directors)	Subscription rights to shares (9th series) (Stock options as stock-based compensation for operating officers)
Company name	Company submitting	Company submitting	Company submitting	Company submitting
Record date	August 13, 2015	August 13, 2015	August 12, 2016	August 12, 2016
Groups and numbers of recipients	Directors (excluding outside directors): 4	Operating officers: 16	Directors (excluding outside directors): 4	Operating officers: 16
Number of options granted	13,400 shares	33,000 shares	26,200 shares	63,600 shares
Date of grant	August 28, 2015	August 28, 2015	August 30, 2016	August 30, 2016
Conditions for setting rights	Note: 1	Note: 3	Note: 1	Note: 3
Period of service	From August 28, 2015 to August 28, 2018	From August 28, 2015 to August 28, 2018	From August 30, 2016 to August 30, 2019	From August 30, 2016 to August 30, 2019
Exercise period	From August 29, 2018 to August 28, 2025	From August 29, 2018 to August 28, 2025	From August 31, 2019 to August 30, 2026	From August 31, 2019 to August 30, 2026

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 2016), the number of stock options is shown after conversion to number of shares.

[1] Number of stock options

	Subscription rights to shares (2nd series)	Subscription rights to shares (3rd series)	Subscription rights to shares (4th series)	Subscription rights to shares (5th series)
Company name	Company submitting	Company submitting	Company submitting	Company submitting
Record date	May 13, 2013	May 13, 2013	August 12, 2014	August 12, 2014
Prior to determining rights				
Outstanding at December 31, 2015	37,500	22,700	26,400	59,900
Granted	—	—	—	—
Expired	28,300	17,200	—	—
Rights determined	9,200	5,500	—	—
Rights not determined	—	—	26,400	59,900
After determining rights				
Outstanding at December 31, 2015	—	—	—	—
Rights vested	9,200	5,500	—	—
Rights exercised	1,500	1,400	—	—
Expired	—	—	—	—
Outstanding unexercised	7,700	4,100	—	—

	Subscription rights to shares (6th series)	Subscription rights to shares (7th series)	Subscription rights to shares (8th series)	Subscription rights to shares (9th series)
Company name	Company submitting	Company submitting	Company submitting	Company submitting
Record date	August 13, 2015	August 13, 2015	August 12, 2016	August 12, 2016
Prior to determining rights				
Outstanding at December 31, 2015	13,400	33,000	—	—
Granted	—	—	26,200	63,600
Expired	—	—	—	—
Rights determined	—	—	—	—
Rights not determined	13,400	33,000	26,200	63,600
After determining rights				
Outstanding at December 31, 2015	—	—	—	—
Rights vested	—	—	—	—
Rights exercised	—	—	—	—
Expired	—	—	—	—
Outstanding unexercised	—	—	—	—

[2] Cost information

	Subscription rights to shares (2nd series)	Subscription rights to shares (3rd series)	Subscription rights to shares (4th series)	Subscription rights to shares (5th series)
Company name	Company submitting	Company submitting	Company submitting	Company submitting
Record date	May 13, 2013	May 13, 2013	August 12, 2014	August 12, 2014
Exercise price (yen)	¥1 per share	¥1 per share	¥1 per share	¥1 per share
Average share price when exercised (yen)	2,562	2,706	—	—
Impartially assessed cost when granted (yen)	906	906	1,735	1,735

	Subscription rights to shares (6th series)	Subscription rights to shares (7th series)	Subscription rights to shares (8th series)	Subscription rights to shares (9th series)
Company name	Company submitting	Company submitting	Company submitting	Company submitting
Record date	August 13, 2015	August 13, 2015	August 12, 2016	August 12, 2016
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)	2,399	2,399	2,348	2,348

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	31.38%
Estimated remaining outstanding period	Note: 2	3 years
Estimated dividend per share	Note: 3	1.35%
Risk-free interest rate	Note: 4	(0.184%)

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, 2015	December 31, 2016
(Deferred tax assets)		
Allowance for doubtful accounts	387	527
Provision for bonuses	31	666
Net defined benefit liability	256	144
Inventories	145	280
Investment securities (including shares of subsidiaries and associates)	602	615
Loss carryforwards	1,116	2,374
Asset retirement obligation	259	267
Other	1,059	863
Deferred tax assets subtotal	3,858	5,740
Valuation allowance	(2,642)	(3,796)
Total deferred tax assets	1,215	1,943
(Deferred tax liabilities)		
Unrealized gain on available-for-sale securities	(22,911)	(19,979)
Tax effects from intangible assets related to business combination	—	(368)
Remeasurements of defined benefit plans	(147)	(210)
Other	(310)	(347)
Total deferred tax liabilities	(23,369)	(20,905)
Total net deferred tax assets (liabilities)	(22,154)	(18,962)

2. The reconciliation between the statutory tax rate for the years ended December 31, 2015 and 2016, and the actual effective tax rate reflected in the accompanying consolidated statements of income and comprehensive income

	December 31, 2015	December 31, 2016
Statutory tax rate	35.64%	33.06%
(Adjustments)		
Certain expenses, including, but not limited to, entertainment expenses, permanently not deductible for tax purposes	2.44%	4.01%
Certain income, including, but not limited to, dividend income, permanently not taxable for tax purposes	(0.66%)	(1.44%)
Per capita levy and similar	0.37%	0.62%
Consolidation adjustment for gain (loss) on sales of shares of subsidiaries and associates	—%	14.95%
Change in tax loss carry forwards	(0.50%)	(0.91%)
Change in amendment of statutory tax rate	0.63%	0.75%
Change in tax rate difference applicable to overseas subsidiaries	(2.53%)	(2.04%)
Change in valuation allowance	2.20%	6.15%
Amortization of goodwill	0.35%	1.42%
Other—net	1.02%	1.76%
Effective tax rate	38.96%	58.33%

3. Revision of amounts of deferred tax assets and liabilities due to changes in rates of corporate income tax, etc.

"Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act to Amend the Local Taxation Act, etc." (Act No. 13 of 2016) were enacted by the Diet on March 29, 2016, and the "Act on Partial Revision, etc. of the Consumption Tax Act for Comprehensive Reform of Tax to Secure Stable Financial Resources for Social Security, etc." (Act No. 85 of 2016) and the "Act on Partial Revision, etc. of Local Taxation Act and Local Allocation Tax Act for Comprehensive Reform of Tax to Secure Stable Financial Resources for Social Security, etc." (Act No. 86 of 2016) were enacted by the Diet on November 18, 2016. In accordance with this, the statutory tax rate used to calculate deferred tax assets and liabilities for the fiscal year ended December 31, 2016 will be changed from the previous 32.26% to 30.86% for the temporary differences expected to be reversed in the consolidated fiscal years beginning on January 1, 2017 and January 1, 2018, or to 30.62% for the temporary differences expected to be reversed in the fiscal years beginning on or after January 1, 2019.

As a result of this tax rate change, deferred tax liabilities (net of deferred tax assets) has decreased by ¥1,020 million, and for the amounts recorded in the fiscal year ended December 31, 2016, income taxes—deferred, valuation difference on available-for-sale securities, deferred gains or losses on hedges, and remeasurements of defined benefit plans have increased by ¥58 million, ¥1,067 million, ¥0 million, and ¥11 million, respectively.

(Business Combinations, etc.)

Business divestiture

1. Outline of the business divestiture

(1) Name of the company subject to divestiture
NIHONBUNGEISHA Co., Ltd.

(2) Business description of the divested business
Publishing and sales of books and magazines

(3) Main reason for the business divestiture
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. Therefore, we transferred all shares of NIHONBUNGEISHA to Kenkou Corporation.

(4) Date of business divestiture
April 18, 2016

(5) Other matters related to the transaction including the legal form of the transaction
Share transfer in which the consideration received shall comprise only cash and other assets

2. Outline of the accounting treatment performed

(1) Amount of transferred gains or losses
Loss on liquidation of business: ¥1,699 million

(2) The appropriate net book value of assets and liabilities related to the transferred business and its breakdown

Current assets	¥4,155 million
Non-current assets	¥1,094 million
Total assets	¥5,250 million
Current liabilities	¥1,096 million
Non-current liabilities	¥439 million
Total liabilities	¥1,536 million

(3) Accounting treatment
The share transfer was accounted for in accordance with the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on September 13, 2013) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013).

3. Reporting segment in which the divested business had been included
Other business

4. Estimated amount of profit or loss associated with the divested business recorded in the consolidated statements of income for the fiscal year ended December 31, 2016

Gross billings	¥885 million
Operating loss	¥61 million

Business combination through acquisition

1. Outline of the business combination

(1) Name of the acquiree and business description
Name of the acquiree: GONZO K.K.
Description of the business: Planning, development and production of animation; and sales, import and export of animation

(2) Main reason for the business combination
The Company is making efforts to strengthen its presence in the content business industry by developing and acquiring new IP (Intellectual Property), and further developing domestic and overseas broadcasting, distribution, merchandizing and other fields. GONZO K.K. is mainly engaged in the animation business. The Company recognizes that the rights owned by GONZO K.K. in animation works and its animation production functions, which are highly valued in Japan and overseas, are material assets. The Company considers that it would be possible to realize further growth of GONZO K.K. and increase its corporate

value by effectively utilizing the knowledge regarding the content business, which the Group has developed until now, and its network with sponsors and publishers, etc., based on such assets. Consequently, the Company acquired the common stock of GONZO K.K. through a tender offer and made it a subsidiary.

(3) Acquisition date
September 28, 2016

(4) Legal form of the business combination
Share acquisition in exchange for cash

(5) Name after the business combination
There will be no change.

(6) Ratio of acquired voting rights

Ratio of voting rights held immediately before the business combination:	0.00%
Ratio of voting rights acquired on the acquisition date:	84.01%
Ratio of voting rights after acquisition:	84.01%

(7) Rationale for determining that the Company is the acquirer
The Company acquired the shares of GONZO K.K. through a tender offer.

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 September 30, 2016, the earnings of acquired company was recorded in consolidated accounts from the integration date in the period from October 1, 2016 through December 31, 2016.

3. Cost of acquisition of the acquiree and breakdown by type of consideration

Consideration paid	Cash	¥5,292 million
Cost of acquisition		¥5,292 million

4. Details and amounts of major acquisition expenses

Advisory fees	¥105 million

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

(1) Amount of goodwill
¥7,182 million
In terms of determination and allocation of the acquisition cost, provisional accounting treatments were performed at the end of the third quarter under review based on information available at that time. The determination and allocation of the acquisition cost have been completed as of December 31, 2016.

(2) Reason for recognition
Excess earning capacity is expected based on future business development.

(3) Amortization method and amortization period
The straight-line method for 12 years

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

Current assets	¥349 million
Non-current assets	¥110 million
Total assets	¥459 million
Current liabilities	¥3,161 million
Non-current liabilities	¥43 million
Total liabilities	¥3,205 million

7. Amount allocated to intangible assets other than goodwill, the breakdown by major type of asset and the weighted-average amortization period for total or by major type of asset

Type of asset	Amount	Amortization period
Content-related assets	¥1,234 million	10 years

8. 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

All shares of NIHONBUNGEISHA Co., Ltd. and BIOMEDIS International Ltd. were transferred during the current fiscal year and subsequently ruled out from the scope of the consolidated accounting.

Accordingly, "Publishing" included in "Other business" has been removed. This has lessened significance of "Other business" and therefore the reporting segment now comprises a single segment of "Advertising business."

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, 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.

Fiscal year ended December 31, 2016

The Group's reporting segment comprises an advertising business alone. Disclosure of segment information is omitted since it holds a marginal position as disclosed information.

[Related information]

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.

Fiscal year ended December 31, 2016

1. Information about products and services
Information about products and services is omitted as sales to external customers in a single product and service category account for more than 90% of the net sales in the consolidated statements of income and comprehensive income for the year ended December 31, 2016.

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, 2016.

(2) Property, plant and equipment

Millions of Yen

Japan	Overseas	Total
3,195	577	3,773

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, 2016.

[Information about impairment losses of assets by reportable segment]
Fiscal year ended December 31, 2015
Not applicable

Fiscal year ended December 31, 2016
Not applicable

[Information related to amounts of goodwill amortized and unamortized goodwill outstanding by reporting segment]
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

Fiscal year ended December 31, 2016

Millions of Yen

	Advertising	Eliminations	Total
Negative goodwill amortization	268	—	268
Remaining negative goodwill (unamortized)	7,538	—	7,538

In the fiscal year ended December 31, 2016, NIHONBUNGEISHA Co., Ltd. and BIOMEDIS International Ltd. were excluded from the scope of consolidation in conjunction with the transfer of all of their shares, resulting in a decrease of materiality of the "Other business." Consequently, the Group has a single reportable segment of "Advertising."

[Information related to gain on negative goodwill by reportable segment]
Fiscal year ended December 31, 2015
Not applicable

Fiscal year ended December 31, 2016
Not applicable

[Related party information]
Not applicable

(Per Share Information)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Net assets per share (yen)	2,947.40	2,674.92
Basic earnings per share (yen)	127.72	56.96
Diluted earnings per share (yen)	127.63	56.93

Notes: 1. As noted in the "Changes in Accounting Policies," the Group has adopted the Accounting Standard for Business Combinations, etc. As a result, net assets per share, basic earnings per share and diluted earnings per share for the fiscal year under review decreased by ¥2.53, respectively.

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, 2015	Fiscal year ended December 31, 2016
Basic earnings per share (yen)		
Profit attributable to owners of parent (¥ millions)	5,362	2,376
Amounts not attributable to common stockholders (¥ millions)	—	—
Profit attributable to owners of parent related to common shares (¥ millions)	5,362	2,376
Average number of common shares during term (shares)	41,982,754	41,726,562
Diluted earnings per share (yen)		
Increase in number of shares (shares)	28,541	17,998
(Subscription rights) (shares)	(28,541)	(17,998)
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." The relevant trusts ended in April 2015.

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

Item	December 31, 2015	December 31, 2016
Total net assets (¥ millions)	125,488	113,225
Amounts excluded from net assets (¥ millions)	1,484	1,620
(Subscription rights) (¥ millions)	(23)	(24)
(Non-controlling interests) (¥ millions)	(1,461)	(1,595)
Net assets as of fiscal year-end related to common shares (¥ millions)	124,004	111,605
Common shares as of fiscal year-end used to calculate net assets per share	42,072,477	41,723,000

(Significant Subsequent Events)

At a March 29, 2017 meeting of the Board of Directors, the Board passed a resolution to cancel the Company's treasury stock on April 14, 2017, in accordance with Article 178 of the Companies Act.
(1) Class of shares to be cancelled: Common stock
(2) Number of shares to be cancelled: 400,000 shares (ratio to the total number of shares issued prior to cancellation: 0.95%)
(3) Planned cancellation date: April 14, 2017

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	96	459	10.58	—
Current portion of long-term loans payable	—	1,553	2.59	—
Current portion of lease obligations	35	34	2.38	—
Long-term loans payable (excluding current portion)	—	60	10.98	—
Lease obligations (excluding current portion)	93	85	2.10	August 3, 2018-October 4, 2021
Other interest-bearing liabilities	—	—	—	—
Total	224	2,192	—	—

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

2. Amounts of lease obligations (excluding current portion) scheduled for repayment within five years from the fiscal year-end are as follows. As certain long-term loans payable includes repayment conditions that are not clear and their estimated repayment terms cannot be specified, their amounts are not stated.

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	73	6	2	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)	92,253	174,092	257,219	352,671
Quarterly income before income taxes (¥ millions)	1,432	3,484	4,042	6,260
Quarterly profit attributable to owners of parent (¥ millions)	51	1,010	1,251	2,376
Quarterly net income per common share (yen)	1.24	24.22	29.99	56.96

(3-month consolidated fiscal period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Quarterly net income per common share (yen)	1.24	22.99	5.77	26.97

ADK Group Network

(As of April 1, 2017)

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■ 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.
18F, TNR Tower, 180-192 Nguyen Cong
Tru Street, Nguyen Thai Bin Ward,
District 1, Ho Chi Minh City, Vietnam
TEL: +84-8-3821-8852/54

■ DIK Vietnam Co., Ltd.
18F, TNR Tower, 180-192 Nguyen Cong
Tru Street, Nguyen Thai Bin Ward,
District 1, Ho Chi Minh City, Vietnam
TEL: +84-8-3821-8835

Korea

■ ASATSU-DK Korea Co., Ltd.
2F Taewoo bldg., 285, Gangnam-daero,
Seocho-gu, Seoul, 06729, Korea
TEL: +82-2-511-5934

■ Consolidated subsidiaries
■ Affiliates accounted for by the equity method

Corporate Information

(As of December 31, 2016)

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	1,871 (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	14,305 shareholders

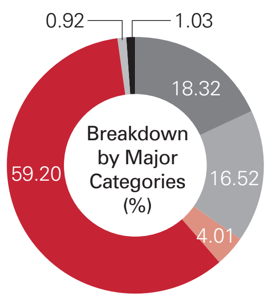
Note: 432,400 shares of treasury stock held by the Company are included.

Major Shareholders

	Number of shares	Ratio of total shares (excluding treasury stock)
WPP INTERNATIONAL HOLDING B.V.	10,331,100	24.51
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	2,882,000	6.84
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	1,745,700	4.14
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,164,600	2.76
Japan Trustee Services Bank, Ltd. (Trust Account)	1,159,700	2.75
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	1,071,800	2.54
NORTHERN TRUST CO. (AVFC) ACCOUNT NON TREATY	1,025,700	2.43
The Bank of New York Mellon SA/NV 10	886,600	2.10
The Master Trust Bank of Japan, Ltd. (Mitsubishi Corporation Account, Retirement Benefit Trust Account)	765,000	1.81
Japan Trustee Services Bank, Ltd. (Trust Account 9)	659,400	1.56

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	13,860	7,724,194
Financial institutions	42	6,963,803
Other domestic corporations	188	1,692,075
Foreigners	185	24,954,468
Securities companies	29	388,460
Treasury stock	1	432,400

Note: Ratios are rounded off at two decimal places.

ASATSU-DK INC.
http://www.adk.jp/en/

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