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Summary of Financial Statements for the Year Ended December 31, 2016 [Japanese GAAP]

February 14, 2017

Company Name ASATSU-DK INC. Exchange : Tokyo Stock Exchange First Section
Securities Code 9747 URL :http://www.adk.jp/en/
Representative Shinichi Ueno, President and Group CEO
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Date of Shareholders' meeting March 29, 2017 Start date of dividend payment TBD
Filing date of Securities report March 30, 2017
Supplementary information for financial results : Available
Organization of financial results briefing : Available (for institutional investors and analysts)

(Unit: millions of yen, Rounded down under 1 million yen)

1. Fiscal year 2016 Consolidated Results (January 1, 2016 to December 31, 2016)

(1) Consolidated Operating Results

(% : year-on-year changes)

	Gross Billings		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
FY 2016	352,671	0.2	5,569	13.6	8,688	1.1	2,376	(55.7)
FY 2015	351,956	(0.3)	4,901	19.6	8,590	18.5	5,362	45.1

(Note) Comprehensive income: at December 31, 2016 : (747) million yen (—%), at December 31, 2015 : 12,950 million yen (27.1%)

	Net Income per Share	Fully Diluted Net Income per Share	Return on Shareholders' Equity	Ratio of Ordinary Income to Total Assets	Ratio of Operating Income to Gross Billings
	Yen	Yen	%	%	%
FY 2016	56.96	56.93	2.0	3.8	1.6
FY 2015	127.72	127.63	4.2	3.6	1.4

(Reference) Equity in earnings of affiliated companies: FY 2016 : 249 million yen, FY 2015 : 292 million yen

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholder's Equity Ratio	Net Assets per Share
	millions of yen	millions of yen	%	
FY 2016	227,260	113,225	49.1	2,674.92
FY 2015	235,205	125,488	52.7	2,947.40

(Reference) Shareholders' equity: December 31, 2016 : 111,605 million yen, December 31, 2015 : 124,004 million yen

(3) Summary of Consolidated Cash Flows

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash and Cash Equivalents at the End of Term
	millions of yen	millions of yen	millions of yen	millions of yen
FY 2016	11,637	(4,475)	(11,912)	21,027
FY 2015	10,192	5,046	(23,803)	25,924

2. Dividend Information

	Annual Dividend per Share					Total Amount of dividends (Annual)	Dividend Payout Ratio (Consolidated)	Dividends on Equity ratio (Consolidated)
	1st quarter end	2nd quarter end	3rd quarter end	Fiscal year end	Total			
	Yen	Yen	Yen	Yen	Yen	millions of yen	%	%
Fiscal 2015(Actual)	—	10.00	—	238.00	248.00	10,433	194.2	8.1
Fiscal 2016(Actual)	—	10.00	—	90.00	100.00	4,172	175.6	3.6
Fiscal 2017(Forecast)	—	10.00	—	—	—		—	

(Notes) 1. The year-end dividend for FY 2015 consists of the ordinary dividend of 23 yen and extraordinary dividend of 215 yen.
2. The year-end dividend for FY 2016 consists of the ordinary dividend of 30 yen and commemorative dividend of 60 yen.
3. The sum of the year-end dividend for FY 2017 is undecided (But it is10 yen or more per share)

3. Forecast of Consolidated results Fiscal 2017 (January 1, 2017 to December 31, 2017)

(% : year-on-year changes)

	Gross Billings		Operating Income		Ordinary Income		Profit attributable to owners of parent		Net Income per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full-year	354,700	0.6	6,230	11.9	9,250	6.5	5,580	134.8	134.55

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* Notes

(1) Changes in the Scope of Consolidation and Application of the Equity Method : No.

New — Companies (Company Name) Except — Companies (Company Name)

(2) Changes to accounting policy, changes to accounting estimates, or restatements

1. Changes due to revisions to accounting standards, etc. : Yes.
2. Changes other than 1: : No.
3. Changes in accounting estimates : No.
4. Restatements : No.

(3) Number of outstanding stocks

1. Number of outstanding stocks (including treasury stock) issued, end of term	at December 31, 2016	42,155,400 shares	at December 31, 2015	42,155,400 shares
2. Number of treasury stock, end of term	at December 31, 2016	432,400 shares	at December 31, 2015	82,923 shares
3. Avg. number of shares (consolidated) outstanding during the terms ended	at December 31, 2016	41,726,562 shares	at December 31, 2015	41,982,754 shares

(Note) The Company had introduced an "ESOP Trust Utilizing Employee Shareholding Association" and the shares owned by this ESOP had been reported as "treasury stock" in the consolidated financial statements. Consequently, 90,831 shares owned by this ESOP were included in the average number of shares of 2015 as illustrated above. Please be noted that the ESOP program was terminated in April 2015.

(Reference) Fiscal Year 2016 Non-Consolidated Outline (January 1 to December 31, 2016)

1. Fiscal Year 2016 Non-Consolidated Results (January 1 to December 31, 2016)

(1) Operating Results (% : year-on-year changes)

	Gross Billings		Operating Income		Ordinary Income		Net Income	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
FY 2016	314,389	2.5	3,982	33.5	7,987	(28.1)	5,440	(43.2)
FY 2015	306,801	0.0	2,983	(4.7)	11,112	86.8	9,577	174.9

	Net Income per Share	Fully Diluted Net Income per Share
	Yen	Yen
FY 2016	130.38	130.33
FY 2015	228.14	227.98

(2) Financial Position

	Total Assets	Net Assets	Net Assets Ratio	Net Assets per Share
	millions of yen	millions of yen	%	Yen
FY 2016	202,641	102,211	50.4	2,449.19
FY 2015	214,017	111,013	51.9	2,638.07

(Reference) Shareholder's equity: at December 31, 2016: 102,187 million yen, at December 31, 2015: 110,989 million yen

※ Implementation status of audit procedures

This consolidated financial results summary report is not subject to audit procedures in accordance with the Financial Instruments and Exchange Act. At the time of disclosure of this consolidated financial results summary report, the audit procedures in respect of the consolidated financial statements have not been completed.

※ Appropriate use of business forecasts and other special matters

The business forecasts and future prospects in this document are made based on information currently available and contain potential risks and uncertainties. As such, actual business results may significantly differ from those expressed or implied in the forecasts due to changes in various factors.
Refer to "1. Operating Results and Financial State Analysis for the Fiscal 2016 (1) Performance Analysis " on page 2～5 for the suppositions that form the assumptions for the business forecasts and cautions concerning the use thereof.

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Contents

1. Operating Results and Financial State Analysis for the Fiscal 2016

(1) Performance Analysis

① Overview

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.

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 values 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.

As announced previously, the Company divested Nihon Bungeisha, Inc., 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 by industry (clients business) and composition ratio on a year-on-year comparison:

Breakdown by Clients business	Gross Billings (Millions of Yen)	Composition (%)	Y-o-Y change (%)
Energy/Material/ machinery	4,032	1.3	6.3
Food	32,068	10.2	10.5
Beverage/Tobacco	19,595	6.2	(10.2)
Pharma/Medical supplies	19,121	6.1	20.9
Cosmetics/Toiletry	29,826	9.5	(1.0)
Apparel/Jewelry	13,636	4.3	(4.2)
Precision machinery/Office supplies	2,787	0.9	5.8
Home appliances/AV equipment	3,165	1.0	13.5
Automobile/Automobile-related Products	17,451	5.6	(3.8)
Household Goods	1,017	0.3	(25.7)
Hobbies/Sport Goods	19,818	6.3	7.1
Real Estate/Housing	10,386	3.3	10.8
Publishing	2,496	0.8	(4.8)
Information/Communication	36,319	11.6	3.7
Distribution/Retail	26,290	8.4	2.2
Finance/Insurance	24,411	7.8	(5.5)
Transportation/Leisure	9,344	3.0	9.1
Restaurants/Other service	11,650	3.7	33.8
Government/Organizations	11,025	3.5	(23.2)
Education/Medical Service/Religion	6,129	1.9	9.0
Signage/Other	13,814	4.4	9.1
Total	314,389	100.0	2.5

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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 gross profit by business discipline and composition ratio on a year-on-year comparison:

Breakdown by Discipline			Gross Billings (Millions of Yen)	Composition (%)	Y-o-Y change (%)	Main clients 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/Medial 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.

②Forecasts 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.

Under such an environment, we will drive the business in line with what we mention in "3. Management Policies (page 13)", to deliver 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.

(2) Financial Position

① Analysis of Assets, Liabilities and Cash Flow Status

At the end of fiscal 2016, the Group had total assets of ¥227,260 million, down ¥7,945 million from a year earlier. The Company had a decreased amount of cash and deposit by means of, in particular, dividend payment and decreased investment securities due to a drop in the market while having an increased amount of non-tangible asset as a result of recording goodwill.

Total liabilities amounted to ¥114,034 million, up ¥4,318 million from a year earlier. This was due mainly to an increases in provision for bonus, notes and accounts payable-trade, and current portion of long-term loans payable.

At fiscal year-end, net assets totaled ¥113,225 million. Net asset ratio (excluding non-controlling interests and subscription rights to shares) was 49.1%.

In fiscal 2016, sum of net cash provided by operating activities fell below net cash used in investing activities and financing activities. After foreign currency translation adjustments, cash and cash equivalents stood at ¥21,027 million, down ¥4,896 million from a year earlier.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥11,637 million, compared with ¥10,192 million in the previous year. Major factors included ¥6,260 million in income before income taxes and minority interests after paying income tax of ¥3,601 million, and an increase in cash received from interest and dividends of ¥2,643 million, provision taken for performance-linked bonus of ¥2,019 million, accounts payable of ¥1,853.

(Cash flows from investing activities)

Net cash provided by investing activities this year totaled ¥4,475 million, compared with ¥5,046 million used in fiscal 2015. This was mainly reflected by income and expenditure of ¥1,266 million and ¥5,266 million respectively related to acquisitions which involved a change in the scope of the consolidated accounting.

(Cash flows from financing activities)

Net cash used in financing activities was ¥11,912 million, compared with ¥23,803 million in the previous year. This was due mainly to ¥10,430 million in dividends paid.

② The major indices of consolidated financial conditions are as follows:

Term	FY2013	FY2014	FY2015	FY2016
Equity Ratio	56.9%	55.1%	52.7%	49.1%
Market Cap. To Book Total Assets	45.2%	50.0%	52.6%	51.9%
Years to redeem debts	0.1	0.0	0.0	0.2
Interest Coverage Ratio (times)	293.9	983.8	325.1	286.1

(Equity Ratio) = (Equity*)÷(Total Assets)
*Equity is computed as below:
Total Assets at the end of the period - Minority at the end of the period – Equity warrant at the end of the period
(Market Cap. to Book Total Assets) = (Market Capitalization) ÷(Book Total Assets)
(Years to redeem debts) = (Interest-bearing debts)÷(Net cash provided by operating activities)
(Interest Coverage Ratio) = (Net cash provided by operating activities) ÷(Interest paid)

(3) Basic Policy for Profit Distribution and Dividends for FY2016 and FY2017

ADK defines in its article of incorporation that the Board of Directors is fully responsible for deciding a way of using the surplus by means of a dividend and such. The board determines a dividend amount based on a total shareholder return policy, including share repurchase, of 50% of the current term's net income while making long-lasting stability by, in principle, setting the minimum dividend per share of ¥20. An interim dividend, in principle, should be ¥10 per share as it has been, and a final dividend should be the higher of ¥10 per share or an amount which would make the annual total return ratio satisfy the guideline of 50%.

In March 2016, ADK marked the 60th anniversary in business. This is primarily due to the warm support received from all shareholders and stakeholders. To genuinely express our gratitude, we are envisaging to provide a commemorative dividend of ¥60 per share.

We paid an interim dividend of ¥10 per share and also plan to pay a year-end dividend of ¥90 (an ordinary dividend of ¥30 and a commemorative dividend of ¥60) followed by a resolution at the board of directors meeting scheduled to be on February 20, 2017. This means that the annual dividend per share is to be ¥100.

In 2017, we also plan to pay an interim dividend of ¥10 per share, yet we are unable to forecast the amount of a year-end dividend. Please be advised that it is guaranteed ¥10 or over.

(4)Risks

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 (February 14, 2017). The foregoing statements herein are inherently subject to risks, including, but not limited to, those shown below (under Tokyo Stock Exchange 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 2015, 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.

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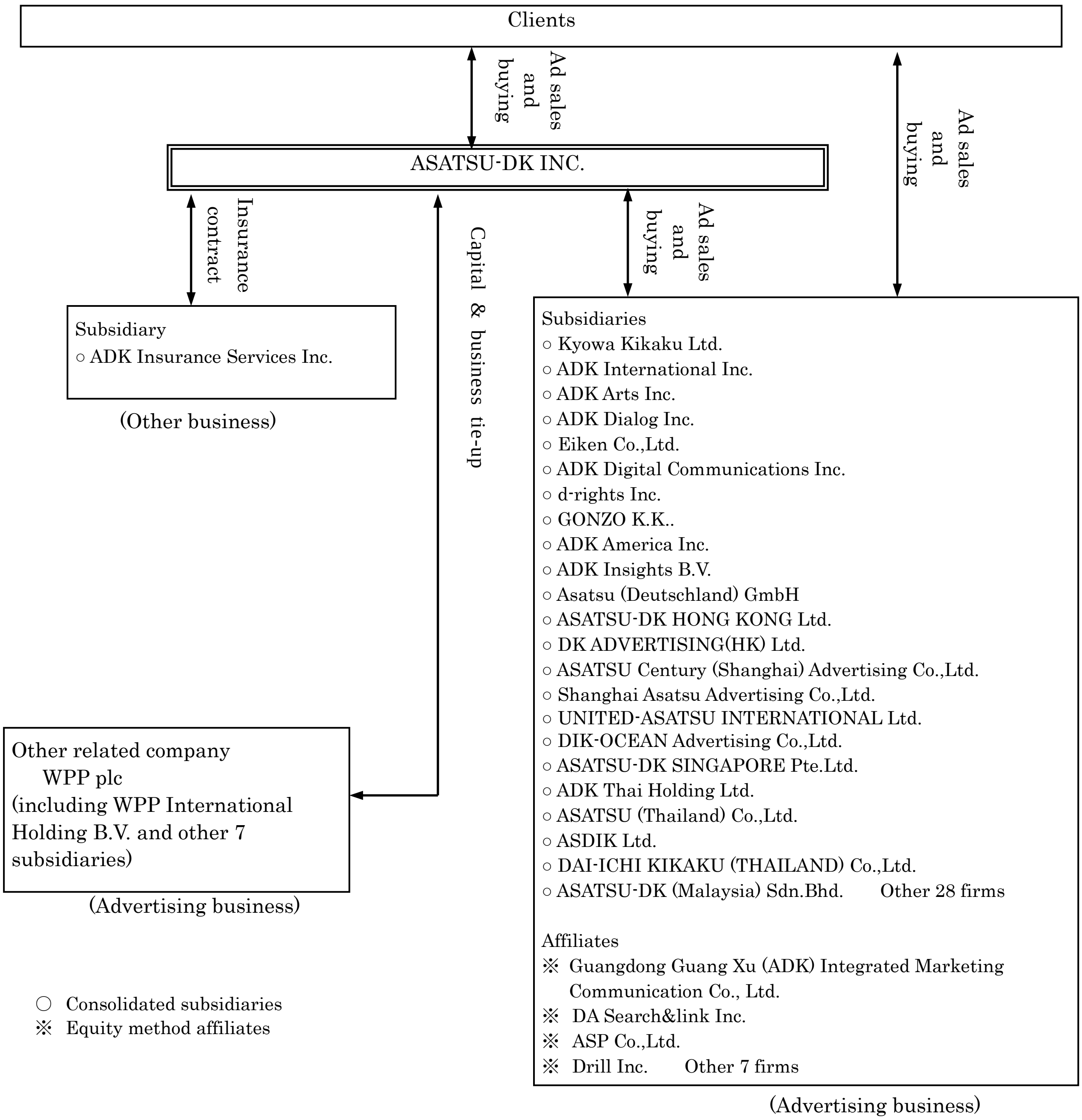
2. Status quo of the corporate group

The ADK Group consists of ADK-Tokyo, 52 subsidiaries, 11 affiliates and one related company (including their subsidiaries. The same shall apply hereafter). The major businesses are (1) planning and buying of advertising in such media as magazine, newspaper, TV, radio, digital and OOH, (2) planning and creating advertising expressions and content, (3) offering all advertising-related services such as sales promotion, marketing, public relations. It is also engaged in publishing and selling magazines and books as other business.

The following illustrates how the Group is built from:



3. Management Policies

(1) Basic Policy on Management

The mission of the ADK Group is to contribute to the business performances of its advertising clients by constantly offering optimal solutions through integration of both internal and external expertise and functions. In these efforts, we follow our "Management by All" philosophy, which has been in place since the Company's foundation.

Communications environments, including advertising, are changing dramatically due to such factors as rapid development of digital technology and the spread of social media. In this context, the ADK Group will monitor the ever-changing media interaction and purchasing patterns of consumers, and following changes in the needs of advertisers. Specifically, we will provide our clients with solutions and programs with a strong emphasis on return on investment (ROI) aimed at maximizing the effectiveness of advertisers' communications investments. This will entail integrating the various media surrounding consumers' touchpoints, including mass media, mass personal media—such as Internet and mobile—and out-of-home (OOH) media, including in-store media. In addition, we will strengthen our focus on overseas markets earmarked for growth and on expanding our content businesses.

The ADK Group will strengthen collaboration among its member companies and increase corporate value through sustainable growth suited to the changing business environment. At the same time, we will emphasize shareholder value by enhancing capital efficiency while preserving financial soundness and stability. Our aim is to ensure proper returns to shareholders while striking a good balance among all stakeholders.

In addition, we will strive to enhance internal control and otherwise strengthen our corporate structure.

(2) Medium-Term Business Plan

In August 2013, ADK Group announced the medium-term business plan, declaring to transform itself to the "Consumer Activation Company". Since then, we have stepped up efforts to improve earnings strength and the business foundation for Consumer Activation. The period ended December 2016 was in fact the final year set in the business plan. Although the consolidated operating profit of such period fell short of the management index of ¥7.0 billion, it grew to ¥5.5 billion from ¥1.3 billion in the period ended December 2013.

The advertising market, as previously described, has been undergoing the structural shifts for the past years while clients increasingly demand cost-effectiveness in advertisements. Facing these harsh conditions, ADK Group is determined to expand business domains and diversify profit sources. To complete its ambition, the Group keeps "Consumer Activation" in the center of its growth strategy, aiming to establish an integrated marketing model with high degree of professionalism, while promoting self-investment business, especially, in content domain, and advancing co-development business with media owners and clients.

Continuing to improve earnings strength, we aim to grow its consolidated operating profit at around 10% per annum on an organic basis to realize "VISION 2020" which we revealed along with the medium-term business plan in 2013. In addition, we continue to invest in talent and business to sharpen our competitive edge and advance development of business and services. We take on challenges to enhance enterprise value further.

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(3) Management Indices

The ADK Group has been working hard to achieve the following management targets. The achievement of the last four years is as follows:

	FY2013	FY2014	FY2015	FY2016	FY2017
Consolidated Operating Income	1,383 million	4,097 million	4,901 Million	5,569 Million	6,230 million
Consolidated Gross Profit Growth	(2.3%)	7.7%	0.5%	4.8%	4.1%
Consolidated Operating Margin(*)	3.1%	8.4%	10.0%	10.9%	11.7%

* (Operating Margin) = (Operating Income) ÷ (Gross Profit)

In fiscal 2016, operating margin was 10.9% and operating income was ¥5,569 million on a consolidated basis, exceeding the each respective target revealed to the market in February 2016.

On a non-consolidated basis, gross profit grew 10.0% as a consequence of improved profitability with efforts to strengthen the income management structure and such. Although selling, general and administrative expenses increased 7.7% albeit proper control, operating income increased 33.5%. Ordinary income, however, was down 28.1% due to a decrease in dividends paid by consolidated subsidiaries both at home and abroad.

Consolidated operating income experienced an increase of 13.6% despite the fact that subsidiaries at home and abroad saw a decline in both sales and profit due chiefly to continued structural reforms. We continue our efforts to improve efficiency through implementing measures included in the business plan in a steady and prompt manner.

Consolidated EPS and ROE

FY	FY2013	FY2014	FY2015	FY2016
EPS(Yen)	81.79	88.32	127.72	56.96
ROE(%)	2.9	2.8	4.2	2.0

(4) Medium- and Long-Term Business Strategies; Issues to be Addressed

The matured domestic advertising market has seen radical changes in consumers' media interaction and purchasing patterns induced by the advancement of digital technology and highly functional devices, evolving from the mass media-dominated ecosystem. In the context that much growth can't be expected in the domestic market with the matured economy and aging society with a low birth rate, we see growing need from advertisers who look at the Southeast markets where a solid growth is expected to continue.

Given such rapidly changing business conditions, ADK Group keeps working hard to become the "Consumer Activation Company" that directly contributes to clients' results through efforts to develop and offer marketing solutions to inspire consumers to take specific actions. Putting this in the center of our growth strategy, we continue to focus on the following themes.

① Develop and establish Consumer Activation Business (hereinafter called CAB)

To realize "VISION 2020", we are promoting CAB as a marketing support arm to resolve clients' challenges in collaboration with operating companies;

Axival Inc., a wholly-owned subsidiary of ADK, funded in May, 2014, has its proprietary database named "3-D Database" created by integrating ADK-accumulated consumer attitudes' data with purchase and media contact data stored by Intage Inc. Leveraging such database, the company delivers high added values to media business and offers marketing solutions that ensures to contribute to advertisers' results.

Setting key performance indicators (KPI) that are directly linked to consumers' purchase behavior, we have stepped up our efforts to improve the ability to develop planning methods to work out channel & campaign plans in a way to optimize advertising budget and maximize such KPI.

We have also advanced alliance with digital-specialized companies for the purpose of expanding services leveraging such technology. To name but a few; a co-project to develop progressive ideas fused together technology and creative of 1-10 design, Inc.; "textus", a co-business of solution offering and implementation in the field of direct marketing with adflex communications, inc.; "Sticki", a global network that offer optimal solutions in the field of video marketing; "Absolute One", a marketing consulting firm to offer a suite of services from marketing strategy idea to the introduction of tools, and creative operation. Leveraging all these assets, we are further advancing development and offers of "solutions that are conducive to resolving clients' business challenges and hence directly linked to results".

② Expand Content Business

The animation content business has been a traditional strength of ADK Group and made a good track record. We have proactively evolved businesses in multiple scenes including developing new projects. It has contributed to our profit immensely through producing and investing in television programs and movies, organizing events and musicals, using characters in sales promotions.

During the period under review, ADK acquired the majority of stakes in GONZO.K.K., which has the advantages in planning, developing and producing in anime content designed for the young adult bracket, allowing us to fortify content producing capability. d-rights, acquired in February 2015, has a strengthen in content producing capability and the global network, especially in the West. Combining the network in China and Asia that IMMG has created along with know-how accumulated at home and improved foundation to develop our business models internationally, we have focused on cultivating and creating new markets.

We further bolster up our efforts in the fields of new content development, broadcasting, distribution and merchandising both at home and abroad while advancing rights marketing such as the use of content characters for in-store promotion and campaigns. We believe that developing and monetizing content business in a multiple ways ensures to enhance the presence of ADK content business.

③ Global strategy

We would expand overseas business, providing marketing support to Japanese companies which were entering into offshore markets. We however continue structural reforms to keep pace up with recent changes in advertisers' overseas strategy and address the progression of segregation in specialty of the advertising industry. We have a view of further expanding content and digital businesses to international markets while improving expertise in each respective area and the structure to offer services in a way to grow overall overseas business.

④ Enhance profitability further

We continue to improve the inter-division transaction system and divisional income management system which we introduced in 2014. Assuring such efforts, we underwent, during the year under review, a large scale of organizational restructuring and classified the business into five sectors as well as independent accounting system by sector. Now each sector is responsible for creating unique added values and also income management with the shared objective of generating larger profit as a whole. We believe that improving such system ensures further improvement in profitability.

⑤ People Training

Recognizing that human resources are the most valuable assets of all for the Group, we hire right persons and give them right training so that they will be capable of tackling management challenges. During the period under review, we improved and launched more systematic training program for the purpose of nurturing professional to lead CAB and new generation of leaders. We continue to invest in people to make sure to raise the level of general skills through training focusing on strategic areas, deploy highly specialized professional who can push forward business strategy. Staff optimization group-wide will be addressed to add right people to a growth opportunity in a more agile manner.

⑥ Reinforce the Group management

The ADK Group will further reinforce cooperation and collaboration among group companies, promoting in-house production and moving the existing operational base to a common architecture, aiming to enhance profitability. We will also extend functions and develop the business through tie-ups and M&A.

In addition to the aforementioned initiatives, the ADK Group will strive to secure stable growth by promoting risk management policies including facilitating information security, internal structure in relation to compliances and internal control related to financial reporting. Furthermore, we will drive forward with an understanding of corporate social responsibility such as environment protection.

(5) Other Important Business Issues

Not applicable.

4. Basic principle in terms of a choice of an accounting standards

The ADK Group applies Japanese accounting standards in consideration of comparability of financial statements over time and such. We may introduce the International Financial Reporting Standards after exploring an approximately timing in the light of various situations at home and abroad.

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5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	December 31, 2015	December 31, 2016
Assets		
Current assets		
Cash and deposits	25,790	19,042
Notes and accounts receivable-trade	84,326	81,712
Short-term investment securities	2,172	3,678
Inventories	7,048	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
Noncurrent 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	101,516	95,313
Long-term loans receivable	54	133
Net defined benefit asset	697	974
Deferred tax assets	246	233
Other	5,151	4,345
Allowance for doubtful accounts	(819)	(751)
Total investments and other assets	106,847	100,250
Total noncurrent assets	113,834	114,142
Total assets	235,205	227,260

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(Millions of yen)

	December 31, 2015	December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable-trade	74,130	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
Noncurrent 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 noncurrent 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 stock	(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

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(2) Consolidated Income Statements and Consolidated Comprehensive Income Statements
Consolidated Income Statements

(Millions of yen)

	Year Ended December 31, 2015 (From January 1 to December 31, 2015)	Year Ended December 31, 2016 (From January 1 to December 31, 2016)
Gross billings	351,956	352,671
Cost of sales	303,131	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	43,923	45,613
Operating income	4,901	5,569
Non-operating income		
Interest income	207	112
Dividends income	2,704	2,380
Equity in earnings of affiliates	292	249
Dividends 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
Expenses of real estate rent	35	26
Loss on insurance cancellation	59	27
Other	56	67
Total non-operating expenses	209	170
Ordinary income	8,590	8,688

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(Millions of Yen)

	Year Ended December 31, 2015 (From January 1 to December 31, 2015)	Year Ended December 31, 2016 (From January 1 to December 31, 2016)
Extraordinary income		
Gain on sales of non-current assets	64	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	2	0
Loss on retirement of non-current assets	16	24
Loss on sales of investment securities	0	4
Loss on valuation of investment securities	51	438
Special retirement expenses	285	129
Loss on liquidation of business	128	1,994
Office transfer expenses	117	26
Provision of allowance for doubtful accounts	0	6
Other	90	32
Total extraordinary losses	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

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Statement of comprehensive income

(Millions of Yen)

	Year Ended December 31, 2015 (From January 1 to December 31, 2015)	Year Ended December 31, 2016 (From January 1 to December 31, 2016)
Income before minority interests	5,609	2,608
Other comprehensive income		
Valuation difference on available-for-sale securities	8,069	(2,858)
Deferred gains or losses on hedges	(6)	20
Foreign currency translation adjustment	(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	7,341	(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

(3) Consolidated Statements of changes in equity

Year Ended December 31, 2015

	SHAREHOLDERS' EQUITY				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of January 1,2015	37,581	11,982	42,265	(569)	91,260
Cumulative effects of changes in accounting policies			678		678
Balance as of January 1,2015, reflecting changes in accounting policies	37,581	11,982	42,944	(569)	91,939
Changes during the consolidated fiscal year					
Dividend payments			(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)
Disposal 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 as of December 31,2015	37,581	11,982	24,336	(210)	73,690

	ACCUMULATED OTHER COMPREHENSIVE INCOME					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance as of January 1,2015	40,118	5	2,819	(20)	42,923	40	775	134,999
Cumulative effects of changes in accounting policies								678
Balance as of January 1,2015, reflecting changes in accounting policies	40,118	5	2,819	(20)	42,923	40	775	135,678
Changes during the consolidated fiscal year								
Dividend payments								(24,024)
Profit attributable to owners of parent								5,362
Change of scope of consolidation								62
Purchase of treasury shares								(7)
Disposal 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 as of December 31,2015	48,188	(0)	1,859	266	50,314	23	1,461	125,488

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Year Ended December 31, 2016

	SHAREHOLDERS' EQUITY				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of January 1,2016	37,581	11,982	24,336	(210)	73,690
Cumulative effects of changes in accounting policies					–
Balance as of January 1,2016, reflecting changes in accounting policies	37,581	11,982	24,336	(210)	73,690
Changes during the consolidated fiscal year					
Dividend payments			(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)
Disposal 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 as of December 31,2016	37,581	11,977	16,260	(1,205)	64,613

	ACCUMULATED OTHER COMPREHENSIVE INCOME					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total			
Balance as of January 1,2016	48,188	(0)	1,859	266	50,314	23	1,461	125,488
Cumulative effects of changes in accounting policies								–
Balance as of January 1,2016, reflecting changes in accounting policies	48,188	(0)	1,859	266	50,314	23	1,461	125,488
Changes during the consolidated fiscal year								
Dividend payments								(10,430)
Profit attributable to owners of parent								2,376
Change of scope of consolidation								(27)
Purchase of treasury shares								(1,003)
Disposal 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 as of December 31,2016	45,344	20	1,155	471	46,992	24	1,595	113,225

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(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year Ended December 31, 2015 (From January 1 to December 31, 2015)	Year Ended December 31, 2016 (From January 1 to December 31, 2016)
Net cash provided by (used in) operating activities		
Income (loss) before income taxes	9,189	6,260
Depreciation and amortization	1,544	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 provision for retirement benefits	28	(4)
Increase (decrease) in net defined benefit liability	4	(18)
Increase (decrease) in provision for directors' retirement benefits	(9)	(34)
Interest and dividends income	(2,911)	(2,492)
Interest expenses	31	40
Foreign exchange losses (gains)	(43)	(154)
Equity in (earnings) losses of affiliates	(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
Special retirement expenses	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 dividends 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

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(Millions of yen)

	Year Ended December 31, 2015 (From January 1 to December 31, 2015)	Year Ended December 31, 2016 (From January 1 to December 31, 2016)
Net cash provided by (used in) 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	1,720	191
Proceeds from liquidation of subsidiaries and associates	412	—
Payments of loans receivable	(127)	(463)
Collection of loans receivable	136	161
Decrease (increase) 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	(276)	(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	112	1,266
Other, net	(83)	100
Net cash provided by (used in) investing activities	5,046	(4,475)
Net cash provided by (used in) 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 stock	358	(1,003)
Cash dividends paid	(23,909)	(10,430)
Cash dividends paid to minority shareholders	(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, beginning of the period	35,082	25,924
Increase in cash and cash equivalents from newly consolidated subsidiary	56	136
Cash and cash equivalents, end of the period	25,924	21,027

(5) Notes to Consolidated Financial Statements, Segment Information

(Items related to going concern assumption)

Not Applicable.

(Changes in accounting policies)

(Adoption of Accounting Standard for Business Combinations)

On September 13, 2014, 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, 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, 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, 2015 is shown in accordance with the new standards in the accompanying consolidated financial statements.

Consequently, operating income, ordinary income and net income before income taxes and others 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."

(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, 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.

(Segment Information, etc.)

【Segment Information】

1. Description of Reportable Segments

All shares of Nihon Bungeisha Inc. and BioMedis International Inc. 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 the principle and procedures of accounting processing to generate consolidated financial statements.

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

Year Ended December 31, 2015 (Millions of Yen)

	Reportable segments			Adjustment (*Note1)	Amount on Consolidated Income Statements (*Note2)
	Advertising	Non-advertising	Total		
GROSS BILLINGS					
Billings to customers	347,522	4,433	351,956	—	351,956
Inter-segment billings	21	132	153	(153)	—
Total billings	347,544	4,566	352,110	(153)	351,956
Segment income (loss)	5,018	(118)	4,899	1	4,901
Segment assets	230,226	6,141	236,367	(1,162)	235,205
Other:					
Depreciation/amortization(*Note3)	1,508	35	1,544	—	1,544
Investment for entities accounted for using equity method	1,110	—	1,110	—	1,110
Increase in property, plant and equipment and intangible assets	1,208	15	1,223	—	1,223

(Notes) 1 The details of the adjustments are as follows.

(1) Adjustment of segment income (loss) is mainly due to the deduction of the transaction between the segments and unrealized income.

(2) Adjustment to segment assets consist of elimination for inter-segment transactions.

2 Segment income (loss) has been adjusted to equal the operating income on the consolidated income statements.

3 Depreciation/amortization includes amortization of software capitalized on the balance sheets.

Year Ended December 31, 2016

1. Information in relation to gross billings and profit or loss by reporting segment

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.

(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 The basis for the calculation of net income per share and diluted net income per share are as follows.

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 shareholders (¥ 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 to shares) (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."

(Notes) 2 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 to shares) (¥ millions)	(23)	(24)
(Non-controlling interests) (¥ millions)	(1,461)	(1,595)
Net income 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

The Company has introduced an ESOP Trust and the shares of the Company held in the ESOP Trust Account are recorded as treasury stock in the consolidated financial statements. Accordingly, in calculating net assets per share the number of these shares is included in treasury stock for the calculation of "common shares as of fiscal year-end."

(Material Subsequent Events)

Not Applicable.

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6. Non-consolidated Financial Statements

(1) Non-consolidated Balance sheets

(Millions of yen)

	December 31, 2015	December 31, 2016
Assets		
Current assets		
Cash and deposits	14,683	9,967
Notes receivable-trade	4,697	5,075
Accounts receivable-trade	69,724	68,602
Inventories	4,591	3,462
Deferred tax assets	356	1,164
Accounts receivable-other	3,137	338
Other	1,205	2,297
Allowance for doubtful accounts	(440)	(933)
Total current assets	97,955	89,975
Noncurrent assets		
Property, plant and equipment		
Buildings	1,738	1,636
Vehicles	22	27
Tools, furniture and fixtures	538	523
Land	314	312
Lease assets	6	3
Total property, plant and equipment	2,620	2,502
Intangible assets		
Leasehold right	1	1
Software	1,424	1,202
Other	0	0
Total intangible assets	1,426	1,204
Investments and other assets		
Investment securities	11,294	11,600
Stocks of subsidiaries and affiliates	97,500	94,652
Investments in capital of subsidiaries and affiliates	858	858
Claims provable in bankruptcy, claims provable in rehabilitation and other	171	177
Guarantee deposits	557	560
Prepaid pension cost	282	292
Other	1,991	1,405
Allowance for doubtful accounts	(642)	(588)
Total investments and other assets	112,013	108,959
Total noncurrent assets	116,061	112,665
Total assets	214,017	202,641

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(Millions of yen)

	December 31, 2015	December 31, 2016
Liabilities		
Current liabilities		
Notes payable-trade	8,950	15,466
Accounts payable-trade	59,572	55,075
Accounts payable-other	3,547	3,738
Income taxes payable	893	1,755
Provision for bonuses	—	1,981
Provision for directors' bonuses	—	37
Deposits received	4,157	725
Other	2,493	1,042
Total current liabilities	79,614	79,822
Noncurrent liabilities		
Lease obligations	4	3
Deferred tax liabilities	22,757	19,973
Other	627	630
Total noncurrent liabilities	23,389	20,607
Total liabilities	103,004	100,429
Net assets		
Shareholders' equity		
Capital stock	37,581	37,581
Capital surplus		
Legal capital surplus	7,839	7,839
Other capital surplus	4,143	4,137
Total capital surpluses	11,982	11,977
Retained earnings		
Legal retained earnings	1,555	1,555
Other retained earnings		
General reserve	1,519	1,519
Retained earnings brought forward	10,502	5,512
Total retained earnings	13,577	8,587
Treasury stock	(210)	(1,205)
Total shareholders' equity	62,931	56,940
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	48,059	45,226
Deferred gains or losses on hedges	(0)	20
Total valuation and translation adjustments	48,058	45,246
Subscription rights to shares	23	24
Total net assets	111,013	102,211
Total liabilities and net assets	214,017	202,641

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(2) Non-consolidated Income Statements

(Millions of yen)

	Year Ended December 31, 2015	Year Ended December 31, 2016
Gross billings	306,801	314,389
Cost of sales	273,875	278,173
Gross profit	32,925	36,216
Selling, general and administrative expenses		
Salaries and allowances	15,074	14,993
Provision for bonuses	—	1,981
Retirement benefit expenses	1,388	1,064
Provision for directors' bonuses	—	37
Provision of allowance for doubtful accounts	267	223
Depreciation	442	382
Computer expenses	1,942	1,852
Other	10,826	11,699
Total selling, general and administrative expenses	29,942	32,233
Operating income	2,983	3,982
Non-operating income		
Interest income	21	13
Interest on securities	1	—
Dividends income	7,829	3,660
Foreign exchange gains	125	80
Other	330	344
Total non-operating income	8,307	4,098
Non-operating expenses		
Interest expenses	33	30
Rent expenses on real estates	12	9
Loss on investments in partnership	11	1
Other	120	52
Total non-operating expenses	178	93
Ordinary income	11,112	7,987
Extraordinary income		
Gain on liquidation of subsidiaries and associates	146	—
Gain on sales of non-current assets	56	132
Gain on sales of investment securities	1,008	59
Gain on sales of subsidiaries and affiliates' stocks	24	1,021
Other	17	33
Total extraordinary income	1,253	1,246
Extraordinary loss		
Loss on retirement of noncurrent assets	7	19
Loss on valuation of shares of subsidiaries and associates	30	508
Provision of allowance for doubtful accounts	4	14
Loss on liquidation of business of subsidiaries and associates	—	294
Office transfer expenses	115	25
Other	83	18
Total extraordinary losses	241	881
Income before income taxes	12,124	8,353
Income taxes-current	2,170	3,590
Income taxes-deferred	377	(677)
Total income taxes	2,547	2,912
Net income	9,577	5,440

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(3) Statements of Changes in Net Assets

Year Ended December 31, 2015

(Millions of yen)

	Shareholders' equity			
	Capital stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance as of January 1,2015	37,581	7,839	4,143	11,982
Cumulative effects of changes in accounting policies				
Balance as of January 1,2015, reflecting changes in accounting policies	37,581	7,839	4,143	11,982
Changes during the non-consolidated fiscal year				
Dividend payments				
Net income				
Purchase of treasury shares				
Disposal of treasury shares			0	0
Reversal of general reserve				
Net changes of items other than shareholders' equity				
Total changes of items during the period	—	—	0	0
Balance as of December 31,2015	37,581	7,839	4,143	11,982

	Shareholders' equity					
	Retained earnings				Treasury shares	Total shareholders' equity
	Legal retained earnings	Other retained earnings		Total retained earnings		
		General reserve	Retained earnings brought forward			
Balance as of January 1,2015	1,555	22,019	3,770	27,345	(569)	76,340
Cumulative effects of changes in accounting policies			678	678		678
Balance as of January 1,2015, reflecting changes in accounting policies	1,555	22,019	4,449	28,024	(569)	77,019
Changes during the non-consolidated fiscal year						
Dividend payments			(24,024)	(24,024)		(24,024)
Net income			9,577	9,577		9,577
Purchase of treasury shares					(7)	(7)
Disposal of treasury shares					366	366
Reversal of general reserve		(20,500)	20,500	—		—
Net changes of items other than shareholders' equity						
Total changes of items during the period	—	(20,500)	6,053	(14,446)	358	(14,088)
Balance as of December 31,2015	1,555	1,519	10,502	13,577	(210)	62,931

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	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of January 1,2015	40,030	5	40,035	40	116,416
Cumulative effects of changes in accounting policies					678
Balance as of January 1,2015, reflecting changes in accounting policies	40,030	5	40,035	40	117,095
Changes during the non-consolidated fiscal year					
Dividend payments					(24,024)
Net income					9,577
Purchase of treasury shares					(7)
Disposal of treasury shares					366
Reversal of general reserve					―
Net changes of items other than shareholders' equity	8,029	(6)	8,023	(17)	8,006
Total changes of items during the period	8,029	(6)	8,023	(17)	(6,082)
Balance as of December 31,2015	48,059	(0)	48,058	23	111,013

Year Ended December 31, 2016

(Millions of yen)

	Shareholders' equity			
		Capital surplus		
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus
Balance as of January 1,2016	37,581	7,839	4,143	11,982
Cumulative effects of changes in accounting policies				
Balance as of January 1,2016, reflecting changes in accounting policies	37,581	7,839	4,143	11,982
Changes during the non-consolidated fiscal year				
Dividend payments				
Net income				
Purchase of treasury shares				
Disposal of treasury shares			(5)	(5)
Reversal of general reserve				
Net changes of items other than shareholders' equity				
Total changes of items during the period	―	―	(5)	(5)
Balance as of December 31,2016	37,581	7,839	4,137	11,977

	Shareholders' equity					
	Retained earnings				Treasury shares	Total shareholders' equity
	Legal retained earnings	Other retained earnings		Total retained earnings		
		General reserve	Retained earnings brought forward			
Balance as of January 1,2016	1,555	1,519	10,502	13,577	(210)	62,931
Cumulative effects of changes in accounting policies						―
Balance as of January 1,2016, reflecting changes in accounting policies	1,555	1,519	10,502	13,577	(210)	62,931
Changes during the non-consolidated fiscal year						
Dividend payments			(10,430)	(10,430)		(10,430)
Net income			5,440	5,440		5,440
Purchase of treasury shares					(1,003)	(1,003)
Disposal of treasury shares					8	3
Reversal of general reserve				―		―
Net changes of items other than shareholders' equity						
Total changes of items during the period	―	―	(4,989)	(4,989)	(995)	(5,990)
Balance as of December 31,2016	1,555	1,519	5,512	8,587	(1,205)	56,940

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	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of January 1,2016	48,059	(0)	48,058	23	111,013
Cumulative effects of changes in accounting policies					—
Balance as of January 1,2016, reflecting changes in accounting policies	48,059	(0)	48,058	23	111,013
Changes during the non-consolidated fiscal year					
Dividend payments					(10,430)
Net income					5,440
Purchase of treasury shares					(1,003)
Disposal of treasury shares					3
Reversal of general reserve					—
Net changes of items other than shareholders' equity	(2,832)	20	(2,812)	1	(2,810)
Total changes of items during the period	(2,832)	20	(2,812)	1	(8,801)
Balance as of December 31,2016	45,226	20	45,246	24	102,211

(4) Notes to Non-consolidated financial statements

(Items related to going concern assumption)

Not applicable.