



January 31, 2017

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Securities code: 9747

(Progress report on) Notification of inadequate accounting applied by a consolidated subsidiary

As released on January 10, 2017 titled “Notification on disclosure of “Investigation Report” compiled by the special investigation panel regarding inadequate accounting applied by a consolidated subsidiary”, we carried out necessary investigations, based on findings provided by the special investigation panel through the means of forensic investigation method and the like, on inadequate accounting practice conducted by GONZO K.K. (hereinafter referred to as “GONZO”) before it became part of its consolidated accounting upon the completion of acquisition by Asatsu-DK, INC. (hereinafter referred to as “ADK”) in September 2016. Such investigation excluded ¥1,025 million attributed to the said practice that ADK recognized as of the end of September 2016 and factored as “goodwill” into its consolidated balance sheet created at the same time. Today, we have confirmed the outcome of such investigation and finalized validity of TOB price, etc. and impact on ADK results, of which we hereby inform you. Please be noted that words and terms used below correspond to what were used in the “Investigation Report for disclosure”* (hereinafter referred to as “Investigation Report”) released on January 10, 2017.

1. Summary of the investigation

- (1) Findings regarding fund transaction and sales transaction with the company c (i.e. recording of fictitious sales, the probable presence of off-the-book debts, etc.)

ADK concludes that there were recording of fictitious sales and off-the-book debts in relation to fund transaction and sales transaction with the company c.

The impact on “goodwill” as of September 2016 is assumed to be ¥201 million.

- (2) Findings regarding transaction with the company b (i.e. fictitious transaction of transfer of receivables, etc.)

ADK concludes that there were fictitious transaction of transfer of receivables. Regarding sales transaction dated March 31, 2016 with “suspicious context of naming the company b as a client”, we confirm the rationality of such transaction with the company b but appropriate transaction value shall be ¥6,695,000.

The impact on “goodwill” as of September 2016 is assumed to be marginal.

- (3) Findings regarding fund transaction with the company d (i.e. recording of fictitious sales, etc.)

ADK concludes that there were recording of fictitious sales, etc. in relation to fund transaction with the company d.

The impact on “goodwill” as of September 2016 is assumed to be marginal.

- (4) Findings regarding fund transaction conducted between GONZO and the party A and party B (i.e. probable presence of off-the-book debts)

ADK concludes that there were off-the-book debts in relation to transaction between GONZO and the party A and the party B.

The impact on “goodwill” as of September 2016 is assumed to be ¥115 million.

- (5) Findings regarding other suspicious transactions

- a) Transactions with the company qq

ADK concludes that transactions conducted with the company qq is the transaction of making deposits and withdrawals in associated with fund transaction.

The impact on “goodwill” as of September 2016 is assumed to be ¥55 million.

- b) The country X project

ADK concludes that there was no inadequate accounting practice applied to such transaction as pointed out by the investigation panel.

- (6) Additional transactions other than ones included in the Investigation Report

On a parallel with research necessitated for transactions included in the Investigation Report, ADK carried out an investigation as to whether to identify improper accounting practice applied to transactions other than ones included in the said report.

We in fact identified such transactions.

The impact on “goodwill” as of September 2016 is assumed to be ¥16 million.

- (7) Items that subsequently require corrections as a result of rectifying accounting on the abovementioned (1) –(6)

We are currently rectifying accounting for items that subsequently require corrections as a result of such exercise including an increase in excessive debts in relation to an increase in the number of subsidiaries, an increase in tax expenses in relation to corrections of account settlements of the past years.

The impact on “goodwill” as of September 2016 is assumed to be ¥51 million.

2. Corrections of reports GONZO issued in the past

GONZO has given its total efforts to submitting the corrected reports of securities reports once issued in the past and the semi-annual report for the period ending March 2016 by January 31, 2016, which is the extension of time to file approved by Kanto Local Finance Bureau on January 4, 2017. It has, however, taken longer time than initially expected on investigating matters identified other than the Investigation Report, as listed 1. (6) above, and is unable to submit such reports within the a time limit given. Now it is working with all its strength to submit by February 6, 2017.

3. Need to correct ADK results

Based on findings provided by the special investigation panels, that include off-the-book debts, recording of fictitious sales, and other transactions that ADK identified (listed on 1. above), all of which had been handled in inadequate accounting practice by GONZO before it was acquired by ADK, nothing has been decided at the time of writing this document to correct its past results (i.e. the financial report for the third quarter of the year ending in December 2016). If any facts pertaining to this matter are decided, a disclosure will be made immediately.

4. Validity on TOB price and impact on ADK results

(1) Validity on TOB price

The total impact on “goodwill” as of September 2016 attributed to off-the-book debts that were newly identified by the investigation panel would be confirmed ¥441 million. It is our understanding that such amount should have been included in GONZO’s net asset as of the same date.

As mentioned previously, we reflected ¥1,025 million in relation to inadequate accounting to the ADK consolidated balance sheet created at the end of September, 2016 as “goodwill” immediately after we had recognized that.

Nothing has been decided at this point in relation to how to deal with such damage to GONZO’s net asset. If any facts pertaining to this matter are decided, a disclosure will be made immediately.

(2) Impact on ADK results

Said amount of ¥441 million that would impact “goodwill” as of September 2016 is considered no influence over GONZO’s future cash flow (i.e. future enterprise value). We therefore have no plan to record impairment loss of “goodwill” in relation to such matter. Accordingly, ADK believes that this issue will not materially affect the company’s financial results for the year ended December 2016.

5. Measures to prevent recurrences and internal disciplinary action

Neither ADK nor GONZO has decided concrete measures to prevent recurrences including disciplinary action. If any facts pertaining to this matter are decided, a disclosure will be made immediately.

*Note: “Investigation Report for disclosure” that ADK disclosed on January 10, 2017 is currently being translated into English. The translated version of “Investigation Report for disclosure” will be disclosed around mid-February 2017.

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