Hakuhodo DY holdings

Annual Report 2017

[Annual Report + Information on ESG Initiatives]

PHILOSOPHY

The following seven principles are the Hakuhodo DY Group corporate philosophy. We believe that by following these principles in all of our business activities we contribute to growth for our stakeholders and society as a whole.

1. Strive continuously to provide our clients with the services they need to add value to their business.
2. Lead advances in media and be instrumental in building media value.
3. Build a dynamic global network to offer services wherever they are required.
4. Create abundance and further society, now and tomorrow, with our unique insight into *sei-katsu-sha*—people who have lives beyond what they consume.
5. Encourage individual personalities to flourish within a team work environment, leading to the creation of new values.
6. Become one of the world's top advertising and marketing services groups by constantly seeking out new challenges in the spirit of independence and solidarity.
7. Work relentlessly to increase corporate value and reward the trust that shareholders place in us.

Contents

POLICY

Since our founding, we of the Hakuhodo DY Group have adhered to the twin pillars of *sei-katsu-sha* insight and commitment to partnership.

Sei-katsu-sha Insight

Sei-katsu-sha insight is the foundation of our thinking and planning. It reminds us that consumers are more than just shoppers performing an economic function. They have heartbeats. These unique, autonomous individuals that we in the Hakuhodo DY Group refer to as *sei-katsu-sha* are the inhabitants of an increasingly complex world. We believe that deeper insight into their lives is the source from which new value springs. That is why we make it our business to know *sei-katsu-sha* better than anyone else and to use that knowledge to make media a stronger bridge between advertisers and customers.

Commitment to Partnership

Partnership is the way we do business, the starting point for all business activities. From the standpoint of *sei-katsu-sha*, we pay constant, careful attention to the needs of our clients and of media suppliers. We believe that engaging in dialogue and acting together are the best ways to find the solutions to those needs. As our clients' and media suppliers' partner, our aim is to build strong, long-lasting relationships. By working together over the long term, we are better able to provide durable and coherent solutions to our partners.

We believe that the times ahead will be marked by new innovations in these policies, as we work in partnership with advertisers to create marketing solutions that add value to every business domain in which they are involved. As a partner to media suppliers and content holders, we aim to add value across the whole diverse spectrum that media and content has become. We will continue to offer higher quality services through innovations in our policies of *sei-katsu-sha* insight and commitment to partnership.

About the Front Cover

The Hakuhodo DY Group comprises a diverse pool of talents and resources. The front cover depicts an image of those talents and resources coming together and growing.

Editorial Policy

To realize sustainable growth and continuous improvement in corporate value, the Hakuhodo DY Group believes that initiatives toward the resolution of social issues through its business, in addition to profitable growth, are extremely important.

Until now, our annual reports have focused primarily on reporting management strategies, business activities, and financial information.

However, to facilitate a deeper understanding of the Group, we recognize the importance of reporting not only financial information but also non-financial information such as social and environmental initiatives, which represent an essential part of the Group's value creation. Accordingly, *Annual Report 2017* was created in a way that better encompasses such non-financial aspects.

Forward-looking statements

This annual report contains forward-looking statements concerning the current business plans, management policies and strategies, goals and projections, and forecasts of future earnings and financial conditions of the Hakuhodo DY Group that are not historical facts but are based on forecasts, expectations, assumptions, plans, and the knowledge and judgment of management based on information available at the time of the report's preparation. Moreover, in order to calculate projection and forecast figures, it is essential to rely to a certain degree on assumptions in addition to confirmed historical facts. Readers should understand that there is no guarantee that such forward-looking statements and assumptions are objectively accurate, and actual results may differ substantially from such forecasts.

Group Overview

Advertising Companies

Three advertising companies with differing personalities and strengths to support all kinds of advertisers

Hakuhodo DY holdings

Pure Holding Company

- Advantages of a holding company structure
- Enhanced Group management fundamentals
- Developing synergies

Integrated Media Company

Strengthening partnerships with media companies and content holders as an integrated media company

Strategic Operating Unit

kyu is a collective of creative companies that will collaborate to harness creativity to propel the economy and society forward

HAKUHODO

Hakuhodo Inc. was founded in 1895. Based on the twin pillars of the Company's unchanging philosophy—*sei-katsu-sha* insight and commitment to partnership—Hakuhodo has been constantly evolving. With teams of highly creative professionals, we help clients resolve issues in a wide range of areas that include, but are not limited to, advertising, from management and business approach to measures for addressing social issues. We aim to be among the top class of global marketing companies, quickly identifying changes in the marketing environment and using our strength in comprehensive marketing management to enhance the corporate value of our clients.

DAIKO

Daiko Advertising Inc.'s philosophy, Ideas Win, grew from the conviction that only superior ideas can deliver the most effective communication. Daiko's winning ideas translate into strategic solutions to clients' marketing issues, and help the agency pursue its goal of delivering more effective, more powerful communications.

As a marketing solutions partner to our clients, Daiko has a role to play in everything from brand development & brand building to sales promotion and customer management.

YOMIKO

Founded in 1929, the strength of YOMIKO ADVERTISING INC. lies in the know-how cultivated from its many years of experience in the "Home" segment of residential real estate. Backed by this knowledge, YOMIKO excels in business development in the "Home" segment as well as areas of entertainment, including animated programs and live event businesses. Drawing on these strengths, the company will further pursue originality by deepening and expanding its areas of expertise to become a partner in its clients' success through the provision of promotion consulting insight—an approach of establishing solutions that put guiding clients' businesses on a path to success as their number one priority by focusing on promotion ideas based on *sei-katsu-sha* insight.

Hakuhodo DY media partners

Hakuhodo DY Media Partners Inc. was founded to be a fully integrated media company of the three advertising companies Hakuhodo, Daiko, and YOMIKO.

Undertaking the media business and the content business of the Hakuhodo DY Group, the company utilizes its primary functions of planning, production, buying, media traffic, and its knowledge in these two business areas. It also acts as a liaison between the three advertising companies and provides optimum marketing solutions for advertisers, media companies, and content holders.

With the *sei-katsu-sha* as the reader, viewer, or spectator, it creates new media value by connecting its customers with these consumers. In this way, Hakuhodo DY Media Partners considers media in its broadest sense and aims to be a media content business company that "designs media strategies."

kyu

kyu, the strategic operating unit of Hakuhodo DY Holdings, was created in 2014 to ensure the continuous enhancement of specialization and innovation in the Hakuhodo DY Group. *kyu* is a collective—one with a strategically curated and deliberately limited number of partner organizations. Each shares a belief that creative collaboration yields new solutions to the world's toughest problems. The *kyu* collective comes together to invent, make, prototype and design. All partner companies harness their creativity as a force of positive impact for the constituents they have always served—and our firms join together on key issues to propel the greater economy and society forward.

Snapshot

Unique Features of the Hakuhodo DY Group

- On October 1, 2003, Hakuhodo Inc., Daiko Advertising Inc., and YOMIKO ADVERTISING INC. established Hakuhodo DY Holdings Inc. as a joint holding company and integrated their management under the new company.
- In December 2003, the three companies completed the separation and transfer of their respective media arms to the newly established Hakuhodo DY Media Partners Inc. to strengthen and increase the efficiency of those functions.
- With four core operating companies—three dealing with advertisers and Hakuhodo DY Media Partners dealing with media and content holders—the Group has a unique organizational structure that is the only one of its kind in Japan. Furthermore, in May 2014 the Group established *kyu* as an independent strategic operating unit positioned in parallel with the core companies.
- We are pursuing a core medium-term strategy of providing industry-leading, comprehensive marketing solutions.
- Although we provide comprehensive marketing solutions to clients in a broad range of industries, billings to the Automobiles / Related products, Beverages / Cigarettes / Luxury foods, and Information / Communications industries account for a relatively large portion of total billings, with a combined share of close to 40%.

Global Presence

Today, the Hakuhodo DY Group is the No. 2 advertising group in Japan and No. 11* in the world.

As of March 31, 2017, the Hakuhodo DY Group consists of 312 subsidiaries and affiliates around the world with a combined total of 15,738 employees, and 11.1% of total revenue was generated overseas in fiscal 2016. Under the Medium-Term Business Plan, we aim to increase overseas revenue to account for 20% of total revenue by fiscal 2018, and will conduct proactive investment and pursue global development to this end. (Please refer to Pages 8–11 for details of the Medium-Term Business Plan.)

Global Ranking:

11

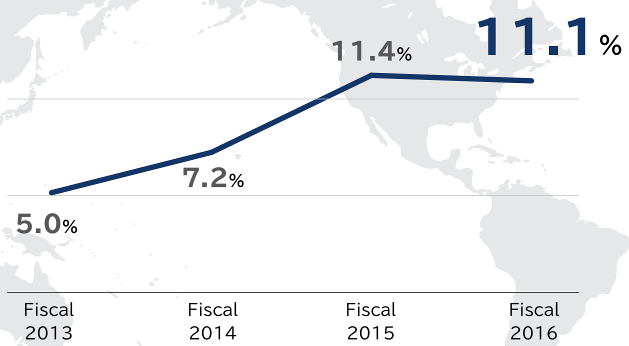
Subsidiaries and Affiliates:

312

Number of Employees:

15,738

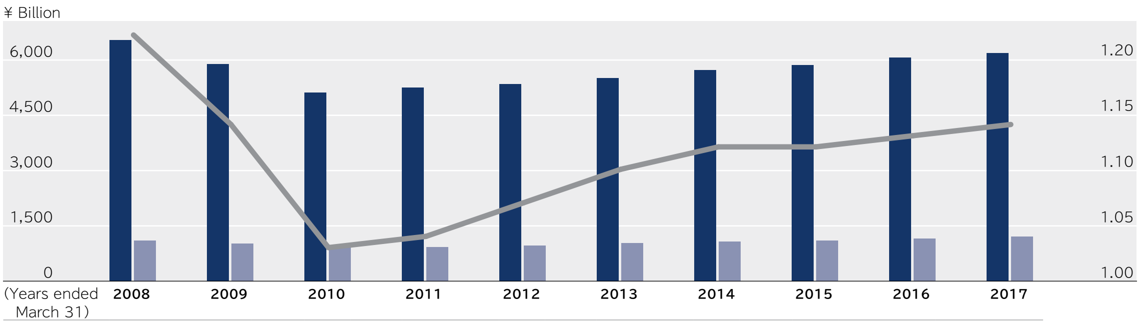
Portion of Revenue from Outside Japan:



* Advertising Age, May 2017

Domestic Advertising Market and Hakuhodo DY's Domestic Billings

Japan's advertising market entered a period of contraction after peaking in fiscal 2007, ended March 31, 2008, but bottomed out and began to recover from fiscal 2009. By fiscal 2016, the market had recovered to roughly 95% of its fiscal 2007 size. At the Hakuhodo DY Group, as a result of the successful implementation of our Medium-Term Business Plan, we have greatly surpassed our fiscal 2007 performance with a recovery of approximately 109% over the same period. On this basis, our market share rose to 19.5% in fiscal 2016, from 16.9% in fiscal 2007.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Domestic Advertising Market	100	90	78	80	82	84	88	90	93	95
HDY: Gross Billings (Domestic)	100	92	82	83	87	93	97	99	105	109

Domestic Advertising Market HDY: Gross Billings (Domestic) Domestic Advertising Market / Nominal GDP (right)

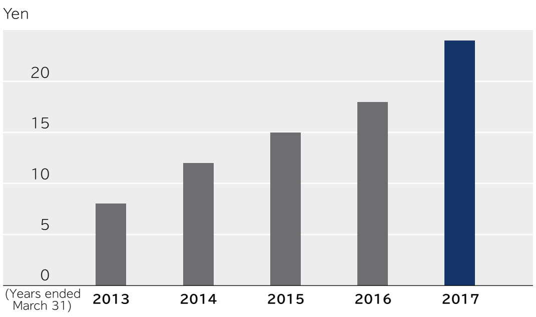
*1. Data for the domestic advertising market is taken from the Survey of Selected Service Industries (Ministry of Economy, Trade and Industry). For certain discontinuities in the numerical results published in the survey arising from changes in the survey pool, adjusted numerical results using growth rate data are used.
*2. The method for calculating nominal GDP was revised in December 2016. Accordingly, the above "Domestic Advertising Market / Nominal GDP" bar has been retroactively recalculated based on nominal GDP calculated using the revised calculation method.
*3. To quantify the annual change in the size of the domestic advertising market, each year's figure was calculated as an index benchmarked to fiscal 2007, the largest value for the past 10 years.

Our Fundamental Policy with Regard to Returns to Shareholders

Our fundamental policy is to consistently pay a stable dividend. In determining the dividend amount, we comprehensively take into account capital supply and demand, earnings from business operations, and the maintenance of sufficient internal reserves to strengthen our competitiveness as a company. Barring unforeseen circumstances in our business performance, our policy is to pay a minimum dividend of ¥5.0 per share.

Our policy with regard to stock repurchases is to consider repurchasing stock when appropriate, and to repurchase stock as necessary, as a means of providing returns to shareholders and increasing capital efficiency, and as a way of flexibly implementing capital policy in response to changes in the operating environment.

Cash dividends per share*



	2013	2014	2015	2016	2017
Full-year	8.0	12.0	15.0	18.0	24.0

Repurchases of treasury stock

Purchase period	Number of shares*	Purchase price (¥ Millions)	% of total issued shares
May 15–May 22, 2007	1,160,000	939	0.3%
Feb. 12–Feb. 20, 2008	1,695,100	999	0.4%
Feb. 8–Mar. 7, 2011	6,000,000	3,105	1.6%
May 12–May 28, 2014	7,000,000	6,289	1.8%

* The Company carried out a 10-for-one split of its common stock on October 1, 2013. To maintain conformity in historical trends and facilitate comparisons with previous years' data, dividends per share and number of shares for prior years are shown based on the new number of shares.

Key Figures

Years ended March 31	2013	2014	2015	2016	2017
					¥ Millions
For the year					
Gross billings	¥1,045,431	¥1,095,909	¥1,131,064	¥1,215,250	**¥1,255,474**
Revenue	175,964	190,150	205,867	232,498	**248,640**
Selling, general and administrative expenses	149,645	156,233	169,045	187,503	**201,379**
Operating income	26,319	33,916	36,821	44,994	**47,261**
Profit attributable to owners of parent	12,894	18,721	19,879	28,531	**25,880**
Amortization of goodwill and other intangible assets[1]	759	983	1,672	2,290	**3,120**
Operating income before amortization of goodwill[2]	27,078	34,900	38,494	47,285	**50,381**
At year-end					
Total assets	¥ 528,535	¥ 583,970	¥ 633,904	¥ 678,532	**¥ 722,051**
Interest-bearing debt[3]	3,050	5,068	4,597	8,086	**11,829**
Net assets	234,352	254,510	282,729	294,031	**325,818**
Per share data (yen)[4]					
Basic net income	¥ 33.96	¥ 49.31	¥ 53.22	¥ 76.56	**¥ 69.45**
Diluted net income	33.95	49.27	53.16	76.44	**69.44**
Cash dividends	8.00	12.00	15.00	18.00	**24.00**
Ratios (%)					
Revenue to gross billings margin	16.8	17.4	18.2	19.1	**19.8**
Operating margin before amortization of goodwill[5]	15.4	18.4	18.7	20.3	**20.3**
Operating margin[6]	15.0	17.8	17.9	19.4	**19.0**
Ratio of personnel costs to revenue[7]	57.8	56.3	55.5	54.2	**54.5**
Return on equity (ROE)	6.0	8.1	7.9	10.6	**9.0**
Shareholders' equity ratio	41.9	40.9	41.6	40.3	**42.2**

1. Amortization of goodwill and other intangible assets refers to the amortization of goodwill and other intangible assets arising from corporate acquisitions.
2. Operating income before amortization of goodwill refers to operating income that has been calculated excluding the amortization of goodwill and other intangible assets arising from corporate acquisitions.
3. The outstanding balance for interest-bearing debt represents the sum of short-term bank loans + long-term debt (including long-term debt due within one year).
4. On October 1, 2013, the Company's common stock was split 10-for-1. To enable evaluation of past trends and comparisons, figures in this annual report, including results in periods prior to the stock split, are based on the number of shares of common stock after the stock split. As a result, corresponding revisions have been made to dividends per share for the first half of the fiscal year ended March 31, 2014, and earlier periods, and to all other per share data for the fiscal year ended March 31, 2013.
5. Operating margin before amortization of goodwill = Operating income before amortization of goodwill ÷ Revenue
6. Operating margin = Operating income ÷ Revenue, or the ratio of operating income to revenue
7. Ratio of personnel costs to revenue = Revenue ÷ Personnel costs

Management Strategy

In this section, we explain the outline and progress of the Medium-Term Business Plan and provide a message from management with the aim of facilitating a deeper understanding of the Group's management strategies.

Medium-Term Business Plan

The Hakuhodo DY Group is striving to achieve the targets set in the Medium-Term Business Plan, which covers the period to fiscal 2018, by strengthening the plan's three growth drivers to create increasingly sophisticated and groundbreaking comprehensive marketing solutions. This section provides an overview of the Medium-Term Business Plan.

Core Mid-Term Strategy

With our mission of serving as the best marketing partner for each one of our clients, the Hakuhodo DY Group stands as one of the world's top advertising and marketing services groups.

Our cutting-edge creative ideas and integrated marketing solutions create new markets, trends, and movements that engage *sei-katsu-sha* and invigorate society.

Medium-Term Business Targets (FY2018)

In fiscal 2015, the second year of the Medium-Term Business Plan, we reached our target for operating income before amortization of goodwill three years ahead of schedule. Accordingly, we reformulated the management targets and key indicators of the Medium-Term Business Plan in November 2016.

Medium-Term Business Target

Operating income before amortization of goodwill

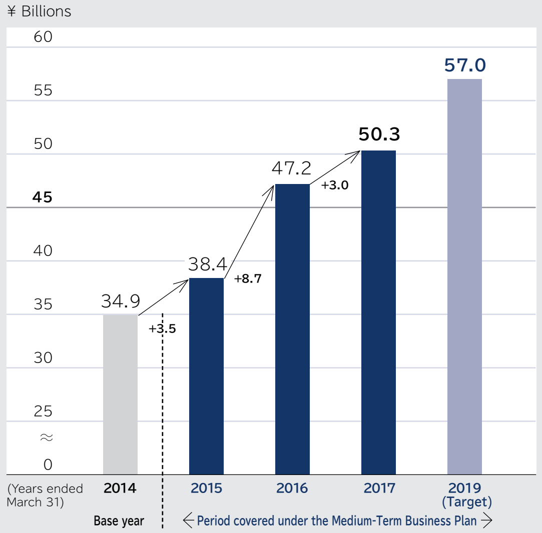
Announced in November 2013		Reformulated in November 2016
¥45.0 billion	▶	¥57.0 billion

Important indicator

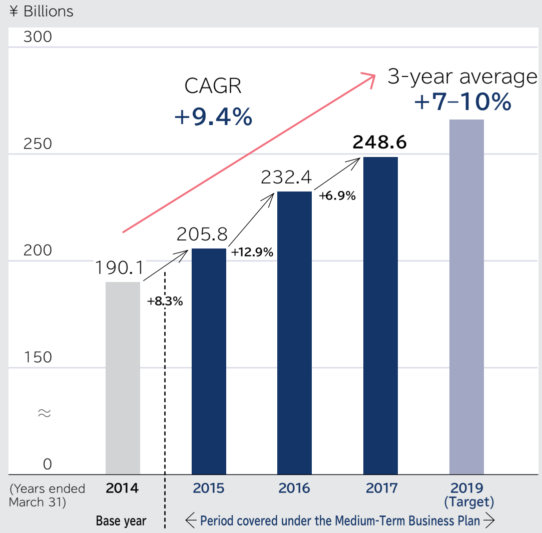
CAGR of revenue (Compound annual growth rate for the plan period)

Announced in November 2013		Reformulated in November 2016
5-year average*1		3-year average*2
More than +7%	▶	+7–10%

Operating income before amortization of goodwill



Revenue

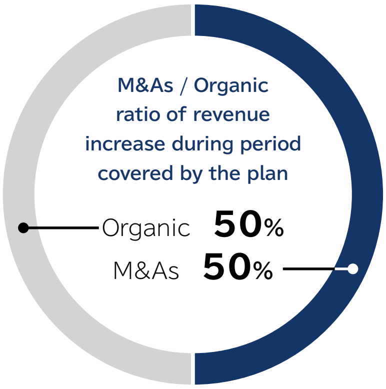


*1. CAGR from fiscal 2013 through fiscal 2018
*2. CAGR from fiscal 2015 through fiscal 2018

Growth image

The plan period is the five years from FY2014 to FY2018.

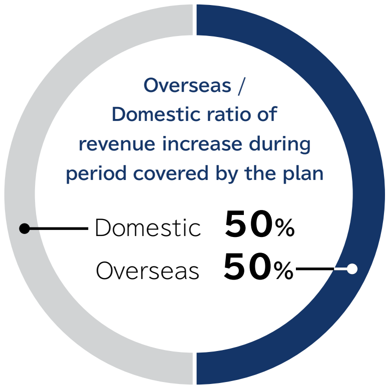
Financial resources equivalent to the greater part of the cash generated during the plan period will be invested in the three growth drivers.



Overseas ratio of revenue

20%

in FY2018



Important indicator

Operating margin before amortization of goodwill

Announced in November 2013		Reformulated in November 2016
17%	▶	18–20%

Operating margin before amortization of goodwill

Important indicator

Return on equity (ROE)

Announced in November 2013		Reformulated in November 2016
After Amortization of goodwill 8%	▶	Before amortization of goodwill*3 More than 10%

Return on equity (ROE)

*3. ROE before amortization of goodwill = Profit attributable to owners of parent excluding amortization of goodwill (including equity-method affiliates' portion) / Equity capital (average of FY-start and FY-end)

Three Growth Drivers and the Investment Strategy Supporting Them

1 Growth Driver

Strengthening of *sei-katsu-sha* data-driven marketing response capabilities

2 Growth Driver

Strengthening of business structures in emerging markets, particularly in Asia

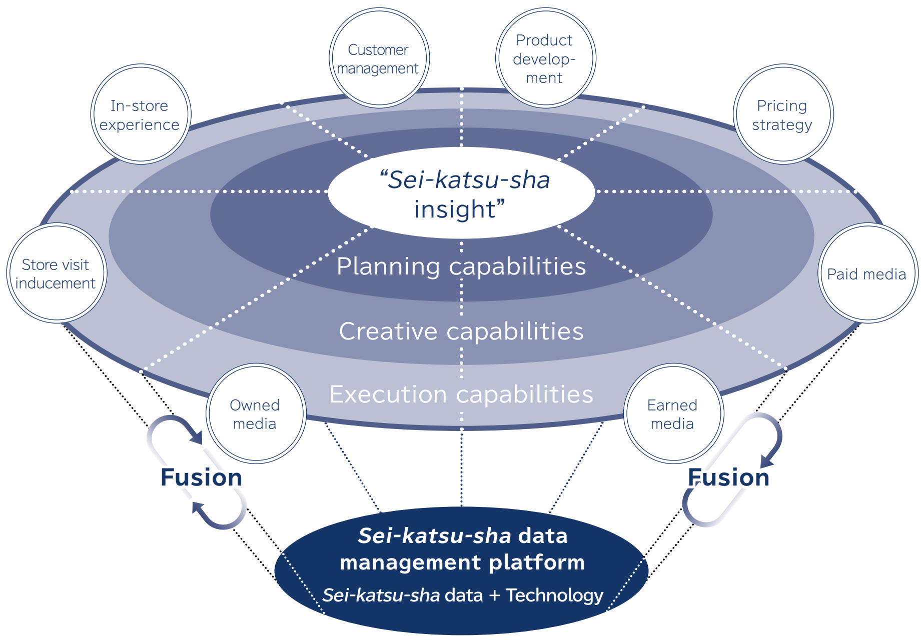
3 Growth Driver

Continuous enhancement of specialization and innovation

Proactive investment strategy

to support swift and sure growth

1 Strengthening of *sei-katsu-sha* data-driven marketing response capabilities

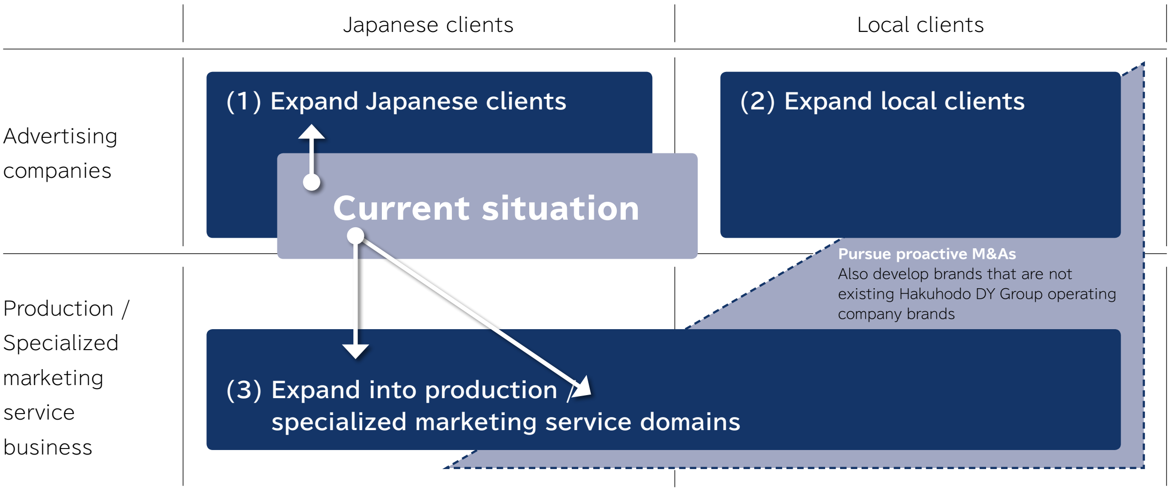


- Build a *sei-katsu-sha* data management platform and further enhance the *sei-katsu-sha* insight concept
- Provide *sei-katsu-sha* data-driven integrated marketing solutions

This means marketing activities developed on a "*sei-katsu-sha* data management platform" for providing various marketing services based on the collection, compilation, analysis, and management of a variety of *sei-katsu-sha* data.

In addition to data analysis, data-based marketing services require creativity and follow-through to implementation. Deploying this type of platform, Hakuhodo DY Group is striving to provide highly competitive and comprehensive marketing solutions.

2 Strengthening of business structures in emerging markets, particularly in Asia



- Acquire and expand local client business while strengthening our response to Japanese clients
- Conduct proactive M&As and enhance framework for integrated marketing solution provision

While strengthening our ongoing activities for Japanese clients in the region, we will focus on acquiring and expanding our base of local clients.

We also plan to work proactively to build up our earnings base and augment our lineup of solutions, including production and specialized marketing services, to establish a structure that will give us a firm foothold in Asia. Moreover, we will aggressively pursue M&As to build a structure for providing comprehensive solutions.

3 Continuous enhancement of specialization and innovation

- Establish specialized marketing service business models and continuously enhance specialization and innovation
- Satisfy advanced integrated marketing management needs through an optimum mix with conventional business

kyu, the strategic operating unit of Hakuhodo DY Holdings, was created in 2014 to ensure the continuous enhancement of specialization and innovation in the Hakuhodo DY Group.
(Please refer to Page 3 for details of the strategic operating unit.)

To Our Stakeholders

During fiscal 2016, there was a strong sense of stagnation in the Japanese economy stemming from such factors as the Kumamoto earthquakes, the BREXIT vote in Britain, and continued yen appreciation. However, there were also signs of an upward trend as the US dollar became stronger against the yen due to high expectations for growth in the US economy following the presidential election. In addition, corporate earnings in Japan improved, stock prices rose, and the consumer mindset became more positive. At the same time, the domestic advertising market saw steady growth.

Against this backdrop, the Hakuhodo DY Group continued to pursue proactive business development under its Medium-Term Business Plan (the "Plan"). This resulted in year-on-year increases in billings in a broad range of customer industries, led by Information / Communications, Cosmetics / Toiletries, and Household products. From the perspective of costs, while we actively carried out investments to promote the strategies of the Plan, we were able to secure an increase in operating income as a result of our efforts to control selling, general and administrative (SG&A) expenses. Accordingly, we realized record profit for the fifth consecutive year.

Under the Plan, the Group has adopted "Strengthening of *sei-katsu-sha* data-driven marketing response capabilities," "Strengthening of business structures in emerging markets, particularly in Asia," and "Continuous enhancement of specialization and innovation" as three important growth drivers. During fiscal 2016, we steadily executed the strategies of the Plan guided by these growth drivers. For example, we collaborated with other companies to promote data usage and application, strengthened our response capabilities in the CRM business by leveraging *sei-katsu-sha* data, expanded our network hubs in Asia, and enhanced media / specialty marketing service functions. We also made efforts to acquire expertise and innovation and generate synergies through *kyu*. Going forward, we will continue to promote the strategies adopted under the Plan as we aim for further growth.

Returns to shareholders are determined by comprehensively taking into account factors including the Group's business performance, and with a basic policy of maintaining a stable dividend. For fiscal 2016, we paid a full-year dividend of ¥24.0 per share as planned, marking a ¥6.0 increase from fiscal 2015. Furthermore, in accordance with our basic policy of stable dividends and taking into account performance forecasts, we intend to raise the full-year dividend by ¥2.0, to ¥26.0 per share, for fiscal 2017.

In addition, with the aspiration to realize sustainable growth and continuous improvement in corporate value, the Group aims to contribute to the creation of an affluent future for *sei-katsu-sha*, growth in the economy, and the development of society. To achieve this aim, the Group believes that initiatives toward the resolution of social issues through its business, in addition to profitable growth, are extremely important. In *Annual Report 2017*, in addition to financial information, we introduce ESG-related initiatives and our approach to sustainability, which is to resolve the constantly changing issues of *sei-katsu-sha* and society and provide new value to create and spread happiness among *sei-katsu-sha* and society. Going forward, we will fulfill our social responsibilities as a corporation through initiatives unique to the Hakuhodo DY Group.

We thank all of our stakeholders for their support to date, and we ask for your continued understanding and encouragement.

Representative Director & President
Chief Executive Officer
Hirokazu Toda

Hirokazu Toda

1 Review of Fiscal 2016 Results

The domestic advertising market continued to show signs of underlying strength during fiscal 2016, ended March 31, 2017. Given this environment, the Hakuhodo DY Group continued to pursue proactive business development under its Medium-Term Business Plan, and as a result, billings rose 3.3% from the previous fiscal year, to ¥1,255.4 billion. By type of service, billings for the four mass media declined as Television experienced a downturn after a strong performance in the previous fiscal year. Meanwhile, for other advertising services, billings increased due to the strong performance of Internet media and Creative.

Revenue grew 6.9%, to ¥248.6 billion, thanks to the steady expansion of existing businesses and the incorporation of profits from newly consolidated subsidiaries. Although there was an increase in M&A to strengthen our organization as well as other strategic investments, operating income rose 5.0% to ¥47.2 billion, as a result of our efforts to control SG&A expenses. This represented the fifth consecutive year of record high operating income. On the other hand, ordinary income fell 4.2%, to ¥45.4 billion, owing to the decline in non-operating income resulting from the recording of a loss on equity method investments, with profit attributable to owners of parent decreasing 9.3%, to ¥25.8 billion.

Operating income before amortization of goodwill rose ¥3.0 billion, or 6.5%, to ¥50.3 billion, with operating margin before amortization of goodwill remaining at 20.3%, a high level that is above the important indicator of 18%–20% in the Medium-Term Business Plan.

In addition, ROE before amortization of goodwill was 10.3%, remaining at a high level above the important indicator of 10% in the Medium-Term Business Plan. However, this represented a decrease of 1.2% compared with the previous fiscal year, when one-time factors occurred that reduced income taxes.

2 Progress under the Medium-Term Business Plan

Important indicators in the Medium-Term Business Plan were reformulated in November 2016 as a result of achieving the target for operating income before amortization of goodwill three years ahead of schedule in fiscal 2015, the plan's second year (see pages 8 and 9 for details). The following is a summary of the various initiatives carried out in fiscal 2016.

Revenue

Revenue has shown large growth over the three years from the base year of fiscal 2013 to fiscal 2016, with growth at existing operating companies combined with the boost from M&A resulting in a CAGR of revenue of 9.4%.

Operating margin before amortization of goodwill

The operating margin before amortization of goodwill was 20.3%, remaining at a high level and above the Medium-Term Business Plan's important indicator of 18%–20%.

Operating income before amortization of goodwill

As a result of steady revenue growth and operating margin before amortization of goodwill being maintained at the high level of 20.3%, operating income before amortization of goodwill increased ¥3.0 billion, surpassing the ¥50.0 billion level. This achievement represents the first step toward realizing the newly adopted targets under the Medium-Term Business Plan.

ROE before amortization of goodwill

While ROE before amortization of goodwill decreased 1.2% compared with the previous fiscal year, when one-time factors occurred that reduced income taxes, it still remained at 10.3%, a high level that is above the important indicator of 10% in the Medium-Term Management Plan.

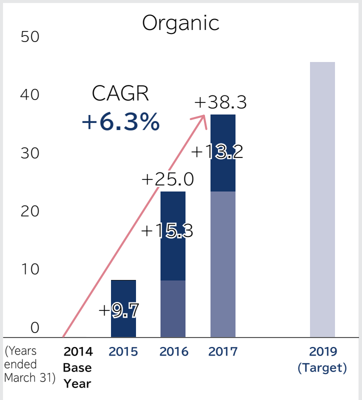
The following is an analysis of factors underpinning revenue growth, from the perspectives of “organic / M&As” and “domestic / overseas.”

Organic / M&As

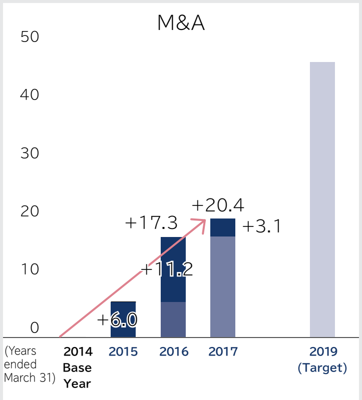
In terms of organic growth, revenue at existing companies grew ¥38.3 billion, for a CAGR of revenue of 6.3%. Particularly in Japan, the main location for the Group’ s operations, efforts to increase market share and boost the gross margin have been successful. While the domestic advertising market has grown significantly, with an organic growth rate at over 6%, we continue to outpace the market as a whole. Furthermore, revenue at existing companies accounted for roughly 65% of the entire Group’ s incremental revenue growth from the base year.

At the same time, companies newly contributing earnings as a result of M&A carried out under the Medium-Term Business Plan added total revenue of ¥20.4 billion, showing steady progress led by the strategic operating unit *kyu*.

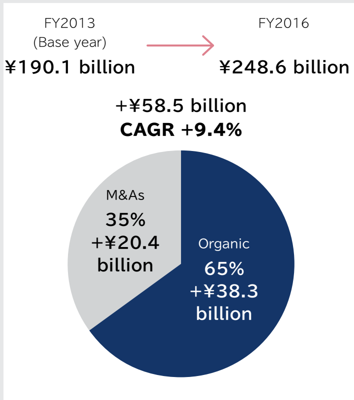
Revenue growth
¥ Billions



Revenue growth
¥ Billions



Breakdown of incremental revenue growth (from base year)

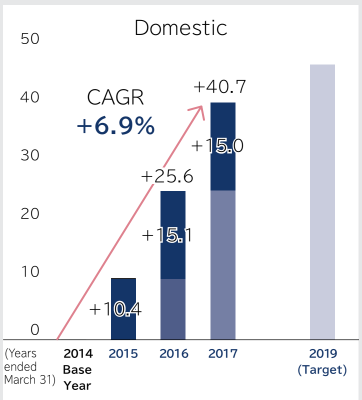


Domestic / Overseas

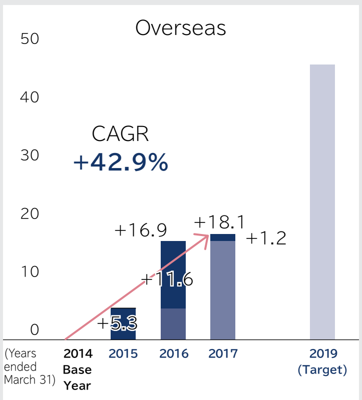
The domestic business recorded a CAGR of revenue of 6.9% over the three-year period, surpassing the growth of the adverting market.

Overseas, growth in revenue was held to an increase of ¥1.2 billion compared with the previous fiscal year as positive factors such as the boost from M&A and growth in the ASEAN region were offset by a sluggish performance in the Greater China Region and the impact of exchange rates. CAGR of revenue came to 42.9%. As a result, the portion of revenue generated overseas edged down to 11.1%.

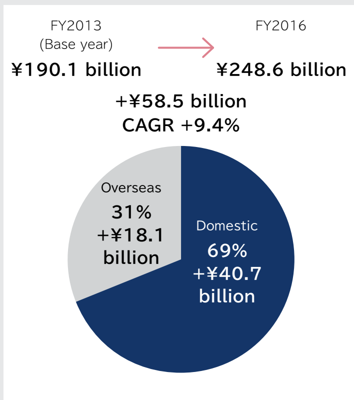
Revenue growth
¥ Billions



Revenue growth
¥ Billions



Breakdown of incremental revenue growth (from base year)



The following points outline our measures to strengthen the Medium-Term Business Plan's three growth drivers.

Progress of Three Growth Drivers

1. Strengthening of *sei-katsu-sha* data-driven marketing response capabilities

The promotion of data usage and application through alliances with other companies and the bolstering of our ability to respond to the *sei-katsu-sha* data-driven CRM business were the main ways in which we strengthened our *sei-katsu-sha* data-driven marketing response capabilities. Specific details on these initiatives are as follows.

i) Promotion of data use and application through alliances with other companies

Rollout of marketing solutions utilizing Yahoo! JAPAN data

- Commenced full-scale operations of Handy Marketing Inc., a joint venture with Yahoo! JAPAN
- Began offering planning tools that leverage survey panels that link actual television viewership data with Yahoo! JAPAN's website behavioral data, thereby allowing optimal television commercials and placement of online ads on computers and mobile devices

Strengthening of alliances with companies that possess such big data as actual purchasing and location data

- Promoted the use and application of *sei-katsu-sha* data through the pursuit of collaboration and capital and business alliances with companies that possess such big data as actual purchasing, service-use, and location data as well as through the combination of the Group's unique *sei-katsu-sha* data and analysis know-how

ii) Bolstering of ability to respond to the *sei-katsu-sha* data driven CRM business

Rollout of CRM integrated support services

- Began offering the CRM integrated support service HAKUHODO Advanced CRM Program™
- This service uses client data and the Group's own *sei-katsu-sha* Data Management Platform to deepen customer understanding and enable more practical CRM support. With a structure that includes the establishment of marketing systems that underpin data use and application, this service provides a one-stop response to the CRM business

2. Strengthening of business structures in emerging markets, particularly in Asia

Looking at revenue by region in Asia, revenue increased 5.8% year on year in the ASEAN region. On an actual basis that excludes the effects of exchange rates, this increase is even higher, at nearly 20%. Meanwhile, revenue fell significantly in the Greater China region due not only to the effect of exchange rates but also the Group's exit from unprofitable locations as well as the status of individual accounts. As a result, revenue in Asia as a whole fell 16.7%, or nearly 4% on an actual basis. We therefore recognize that fiscal 2016 was a tough year for our business in Asia.

However, we are currently proceeding with the establishment of new bases of operations, M&A, and the appointment of local hires. Through these efforts, we will reaccelerate growth in the region.

Specifically, from the perspective of enhancing our network hubs, we established HYBRID H and H:Three in Indonesia, in addition to Hakuhodo Korea in South Korea.

Furthermore, we made Media Intelligence, a media agency in Thailand, and Integrated Communications Group, an activation agency that conducts operations in 12 Asia Pacific countries, consolidated subsidiaries.

With the aim of strengthening our response structure in the digital field, we established DAC Taiwan and made DAC Tech Vietnam a consolidated subsidiary. We are also undertaking efforts to strengthen creativity in Asia.

Hakuhodo Inc. has appointed Yang Yeo, a globally active creative director from Singapore, as APAC Co-Chief Creative Officer. Under the dual leadership of Mr. Yeo and Kentaro Kimura of Hakuhodo Kettle, Hakuhodo will pursue initiatives to strengthen its integrated marketing capabilities in Asia and work to answer the diversifying needs of both Japanese and foreign companies.

3. Continuous enhancement of specialization and innovation

Since its launch in May 2014, *kyu* has steadily increased the number of its innovative and unique members from a variety of fields and expanded revenues to a ¥16.3 billion scale (US$150 million).

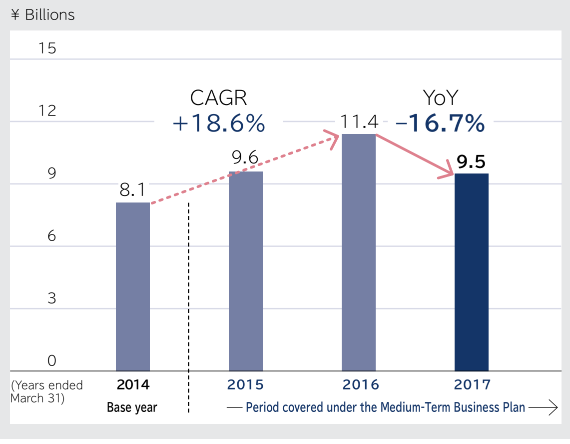
In FY2016, revenues show steady growth, up ¥3.5 billion (US$32 million) compared with the previous fiscal year, thanks in part to the incorporation of profits from Sid Lee and Digital Kitchen throughout the entire fiscal year.

In terms of profit contributions, despite a return to profitability in operating income before amortization of goodwill, operating margin before amortization of goodwill still remains in the single digits at this time. As such, we recognize that we have yet to reach a sufficient level for profits. Going forward, we will promote various measures to improve profitability.

In addition, we have made the consulting company BEworks, which specializes in providing business solutions using behavioral economics, a member of *kyu*.

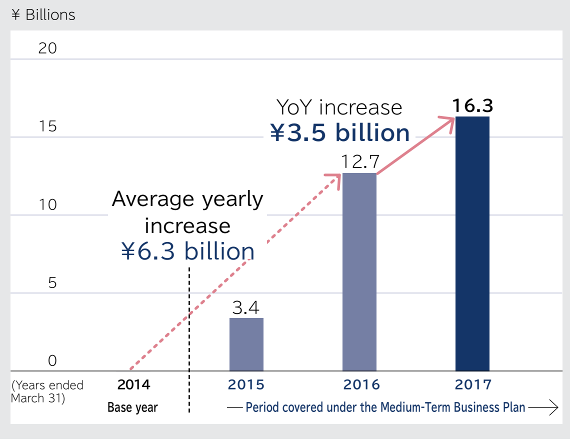
Also, we continue to carry out and accelerate initiatives to expand collaboration and cross-selling between *kyu* member companies and enhance synergies with existing operating companies.

Revenue in Asia



Notes: 1. Asia: Greater China, ASEAN, South Korea, India, etc. (excluding Oceania).
2. Figures are the simple sum for consolidated subsidiaries.

***kyu's* revenue**



The following is an introduction of the new *kyu* member company BEworks.

BEWORKS

BEworks Inc. is a consulting company that specializes in resolving business-related issues. They use an approach that combines consulting with academic theory centered on behavioral economics.* This approach has allowed BEworks to establish a unique position in the consulting industry.

Location: Toronto, Canada

* Behavioral economics
A branch of economics emphasizing real-world experiments and observations to determine how humans behave and make choices. Based on the idea that humans do not necessarily make decisions and act in a logical manner, behavioral economics studies the rationale behind such actions and decision-making. Recently, behavioral economics has been gaining attention in Europe and North America as it is believed to have a wide range of business applications.

4. Strengthening of specialized functions in Japan

The Group has been working for many years to strengthen its specialized functions in a variety of domains. Recently, due to the rising importance of the outdoor media domain following the progression of digitization, the Group consolidated and reorganized Hakuhodo DY Media Partners' specialized organizations in outdoor media as well as the resources of its specialized, functional subsidiaries in the same field to establish Hakuhodo DY Outdoor Inc.

In addition, we are moving forward with the functional enhancement of not only core operating companies but also of affiliated companies via M&A. For example, HAKUHODO PRODUCT'S has made CEREBRIX a subsidiary. CEREBRIX possesses strengths in such areas as sales consulting, store and street promotions, and the dispatch of store personnel.

Also, within the Hakuhodo Group, CRAFTAR, a company that has significantly expanded its image design business, has made Lucky Pictures a subsidiary with the aim of further enhancing smart CG technologies, an area in which Lucky Pictures excels.

While leveraging M&A, the Group will continue to make comprehensive efforts to accelerate functional enhancement in specialized domains going forward.

3 Looking Beyond Fiscal 2017

Despite rising geopolitical risks overseas and an uncertain outlook for the U.S. economy, the domestic economy in fiscal 2017 is expected to continue on a track of gradual expansion supported by not only an increase in exports but also by a rise in domestic demand brought about by monetary easing and other economic policies. Under these economic circumstances, the domestic advertising market is expected to grow by roughly 2%.

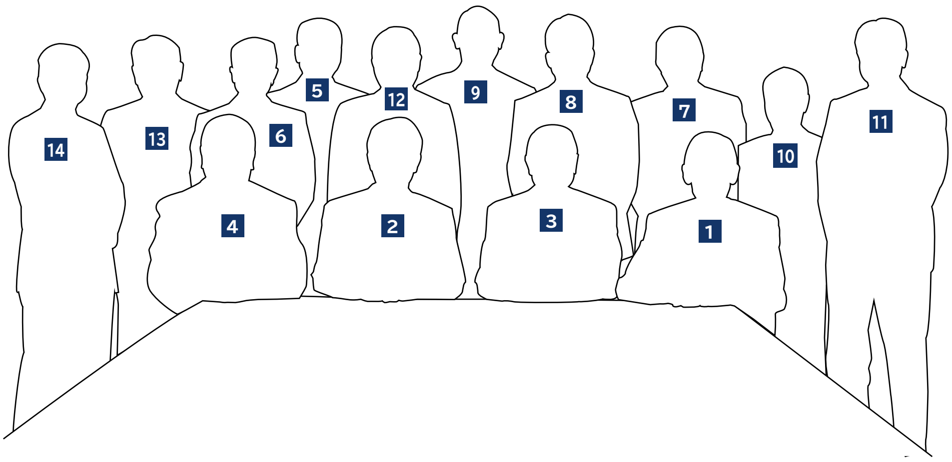
Overseas, while there are various risks for economic decline, we see the rate of growth in overseas advertising markets continuing to outpace the Japanese market' s growth rate.

Going forward, we will continue to keep a close eye on market trends while responding appropriately to a variety of issues, including the delayed progress of our Asian business and reforms to the workplace environment. Drawing on the strengths of the entire Group, we will make concerted efforts to achieve the high targets that we have newly established for the Medium-Term Business Plan.

Management / ESG

In this section, we explain non-financial information such as social and environmental initiatives, which represent an essential part of the Group's value creation, with a particular focus on our management structure and ESG-related initiatives.

Management Structure (As of June 29, 2017)



Directors

1 Director
Junji Narita
Director & Senior Advisor, Hakuhodo Inc.

2 Representative Director
Hirokazu Toda
Director & Chairman, Hakuhodo Inc.

3 Representative Director
Kunihiko Sawada
Director, Hakuhodo Inc.

4 Director
Mitsumasa Matsuzaki
Director & Senior Executive Corporate Officer, Hakuhodo Inc.
Director, Hakuhodo DY Media Partners Inc.

5 Director
Tomoyuki Imaizumi
Director & Senior Corporate Officer, Hakuhodo Inc.
Director & Senior Corporate Officer, Hakuhodo DY Media Partners Inc.

6 Director
Yoshitaka Nakatani
Director & Senior Corporate Officer, Hakuhodo Inc.

7 Director
Masanori Nishioka
Director & Corporate Officer, Hakuhodo Inc. Director, YOMIKO ADVERTISING INC.
Representative Director & President, Hakuhodo DY Capco Inc.

8 Director
Osamu Nishimura
Director & Corporate Officer, Hakuhodo Inc.
Director, Daiko Advertising Inc.
Corporate Officer, Hakuhodo DY Media Partners Inc.

9 Director
Masayuki Mizushima
Representative Director & President, Hakuhodo Inc.

10 Director
Hiroshi Ochiai
Representative Director & President, Daiko Advertising Inc.

11 Director
Daisuke Fujinuma
Representative Director & President, YOMIKO ADVERTISING INC.

12 Director
Hirotake Yajima
Representative Director & President, Hakuhodo DY Media Partners Inc.
Director, D.A. Consortium Holdings

13 Outside Director
Noboru Matsuda

14 Outside Director
Nobumichi Hattori

Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Member
Otoharu Hoshiko
Audit & Supervisory Board Member, Daiko Advertising Inc.

Full-time Audit & Supervisory Board Member
Teruo Adachi

Outside Audit & Supervisory Board Member
Minoru Uchida
Audit & Supervisory Board Member, YOMIKO ADVERTISING INC.

Outside Audit & Supervisory Board Member
Katsuyuki Yamaguchi
Audit & Supervisory Board Member, Hakuhodo DY Media Partners Inc.

Outside Audit & Supervisory Board Member
Kenji Ota
Audit & Supervisory Board Member, Daiko Advertising Inc.

Corporate Officers

Chairman
Junji Narita*

President & Chief Executive Officer
Hirokazu Toda*

Executive Vice President & Chief Financial Officer
Kunihiko Sawada*
Chief of General Management

Senior Executive Corporate Officer
Mitsumasa Matsuzaki*
Chief of Group Corporate Strategy

Michael Birkin
CEO, *kyu*

Senior Corporate Officer
Tomoyuki Imaizumi*
Advisor to General Management (in charge of Group Human Resource Management Division)

Yoshitaka Nakatani*
Advisor in charge of Group Corporate Strategy (in charge of Marketing Technology Development Division and Group Information System Division)

Corporate Officer
Masanori Nishioka*
Advisor to General Management (in charge of Group Accounting & Finance Division, Group PR & IR Division (IR), and Group Management Service Division)
General Manager, Group Management Service Division

Osamu Nishimura*
Advisor to General Management (in charge of Group General Affairs Division, Group Legal Division, and Group PR & IR Division (PR))

Naoto Akagi
Advisor to Group Corporate Strategy (in charge of Business Innovation Division and *kyu* Division)

* Serves concurrently as a director

Hakuhodo DY Group's ESG

With the aspiration of realizing sustainable growth and continuous improvement in corporate value, the Group aims to contribute to the creation of an affluent future for *sei-katsu-sha*, growth in the economy, and the development of society. To achieve this aim, the Group believes that initiatives toward the resolution of social issues through its business, in addition to profitable growth, are extremely important. This section introduces the Group's approach to sustainability and some of its ESG* initiatives.

Approach to Sustainability

Resolving the constantly changing issues of *sei-katsu-sha* and society and providing new value to create and spread happiness among *sei-katsu-sha* and society

The value creation that the Group envisions involves leveraging its strengths and assets to make contributions through its business activities that help realize a society in which *sei-katsu-sha* can flourish and live an active lifestyle of their own choosing. The Group believes that the source of such value creation is its most valuable asset—human resources. The total sum of value created by each Group employee represents value for the Group as a whole. Our employees ascertain social issues from their own perspective, working to become partners to all of our stakeholders by fully immersing themselves in the issues facing *sei-katsu-sha* and society and making efforts to resolve them. In doing so, our employees aim to bring happiness to *sei-katsu-sha* and society as a whole.

Initiatives to Identify Materiality

The Group is currently working to identify materiality that could impact both its corporate value and society in general. Accordingly, the Group is conducting repeated examinations of each of its core operating companies from a CSR* perspective and moving forward with the following processes toward materiality identification.

Process for Identifying Materiality in Core Operating Companies

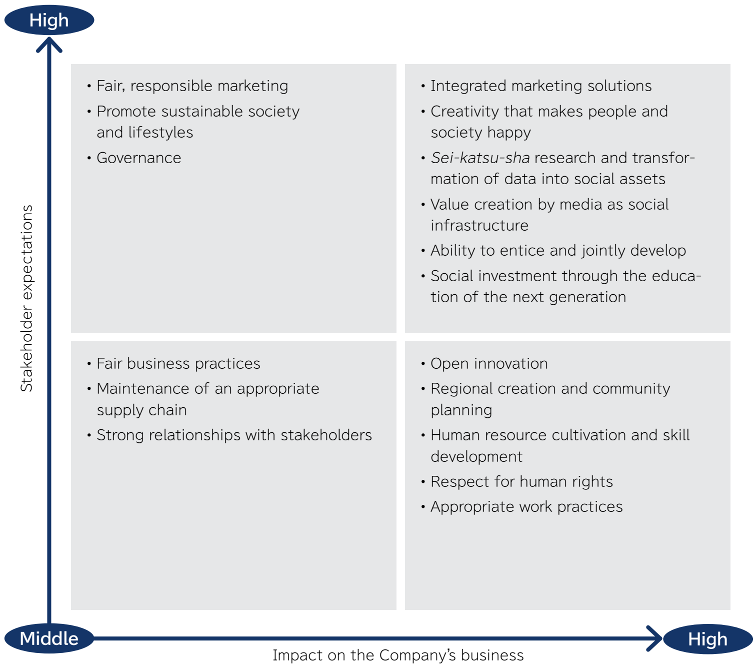
1. Investigate issues based on reporting guidelines such as GRI* and SASB*, the 10 principles of the Global Compact, and global indices such as ISO 26000. At the same time, with the aim of achieving the SDGs*, conduct group discussions and identify highly important factors regarding the issues the Group is currently facing and social issues toward which the Group could help resolve.

▼

2. Giving consideration to the perspective of our various stakeholders as well as the perspective of employees active in all of our business domains, establish 26 items related to sustainability issues that our operating companies should tackle. Also, create a provisional materiality matrix to identify items that are of extremely high importance to the Group and its stakeholders (from middle and above in the diagram on the right).

▼

3. Rank issues the Group should tackle by level of priority and promote the selection of materiality. Such efforts should include reflecting relevant issues within the management of core operating companies as well as within management and business strategies, in addition to implementing specific initiatives based on the determined direction for addressing such issues.



*Glossary:

ESG: Environment, Social, Governance

CSR: Corporate Social Responsibility

GRI: Global Reporting Initiative

SASB: Sustainability Accounting Standards Board

SDGs: Sustainable Development Goals

Social Initiatives

Rethinking the approach they take in their respective professions, employees of the Group will leverage their individual knowledge and skills to bring happiness to *sei-katsu-sha* and society as a whole.

Educational Program H-CAMP (Hakuhodo, Hakuhodo DY Media Partners, YOMIKO ADVERTISING)

At the Seventh Career Education Awards* hosted by the Ministry of Economy, Trade and Industry (METI), H-CAMP received both the Economy, Trade and Industry Minister's Award, the highest award in the large enterprise category, and the Grand Award, the highest award out of all three categories.

Hakuhodo DY Group places the utmost value on creativity. With the educational program H-CAMP, we aim to have people experience the excitement that creativity has to offer through hands-on experiences. Targeting primarily junior high and high school students, H-CAMP's goal is to have participants realize their individual potential and provide opportunities for participants to expand on that potential while having fun. H-CAMP consists of the following three activities.

• Open Camp

Open Camp is a one-on-one, hands-on workshop where Hakuhodo DY Group employees (planners, copywriters, designers, etc.) who are active on the frontlines serve as teachers.

• Corporate-Visit Camp

Corporate-Visit Camp is a workshop that answers the career education needs of schools. In Corporate-Visit Camp, we carry out interactive and hands-on learning sessions while adjusting content to cater to the individual needs of schools and the status of the students participating.

• External Relations

With the external relations part of H-CAMP, we implement collaborative lectures with external organizations and hold individual programs in cooperation with schools, NPOs, and local governments.

As of March 2017, H-CAMP workshops have been participated in roughly 3,500 times by students since the program's beginning in 2013, with Group employees participating 167 times. As such, the program has been steadily promoting learning opportunities for children, who will carry on the next generation, thereby allowing them to make new discoveries and be intellectually stimulated. In terms of collaboration with external organizations in fiscal 2016, 123 Group employees conducted a total of 586 lectures at 89 educational institutions (elementary schools, junior high schools, high schools, two-year colleges, colleges, graduate schools, and vocational schools).

* Career Education Awards
To encourage and popularize initiatives to support education by corporations and economic organizations, METI established the Career Education Awards in fiscal 2010. The award system comprises three categories: large enterprise, small- to medium-sized enterprise, and coordinator. In the large enterprise category, H-CAMP won the First Award for Excellence, which recognizes initiatives with the highest level of excellence. In addition, H-CAMP won the Grand Award, which is given to the best initiative out of all three categories.

TAP PROJECT JAPAN (Hakuhodo DY Group)

TAP PROJECT JAPAN is a joint project between the Japan Committee for UNICEF and the Hakuhodo DY Group that seeks to use the power of design to realize a future where children all over the world can access clean water. The project was initially started in New York in 2007 and then later expanded into Japan in 2009, where volunteer Group employees carry out activities each summer to provide people with new opportunities to learn about water. The events conducted in Tokyo in August 2016 drew crowds of more than 4,000 people. Initiatives conducted through this project to date include building 45 wells and other water supply facilities and 146 restroom units for 48 elementary schools* in Madagascar.

* As of March 2017, including spinoff initiatives and activities funded by private, direct donations.

Environment

Response to the CDP 2017 Climate Change Questionnaire (Hakuhodo DY Group)

In June 2017, the Hakuhodo DY Group took a step forward in its efforts to properly disclose information about the Group's activities for addressing climate change by responding, for the first time, to the climate change questionnaire implemented by the CDP* to investigate environmental conditions.

* An international NPO that collaborates with institutional investors to encourage companies to disclose information on their strategies for combating climate change and on their emissions of greenhouse gases

Green Bird Akasaka Team (Hakuhodo DY Group)

Green Bird is an NPO started by a former Hakuhodo employee under the concept of "a clean city makes people happy" and now has roughly 80 branches around the world. After moving to its Akasaka office, Hakuhodo started the Akasaka Team, which has conducted cleaning activities roughly 190 times since 2008, with over 1,200 participants. In addition to picking up garbage, the Green Bird Project values participating in local communities and forging connections between people.

Promotion of Environmental Management (Hakuhodo)

Hakuhodo Inc. has been engaged in the companywide promotion of environmental management since 2013. Major goals of these activities include reduction of CO_2 emissions through energy conservation, waste reduction, and recycling promotion. This company has also acquired certification under the ISO 14001 standard for environmental management systems in response to inquiries from clients and other stakeholders. In addition to Hakuhodo, this certification has been acquired by Group companies OZMA Inc. and HAKUHODO i-studio Inc.

Targets and Achievements in Fiscal 2016

Item	Target	Result
Reduction of CO_2 emissions through energy conservation	Reduction of 5% compared with averages in fiscal 2009 and fiscal 2010	Reduction of 2381kl (crude oil equivalent of energy consumed), or 6.8%, compared with the base fiscal years
Waste reduction	Reduction of 5% compared with fiscal 2010	Reduction of 570 tons, or 4.4%, compared with the base fiscal year
Recycling promotion	Recycling ratio of over 83%	Recycling ratio of 83.9%

Target: Hakuhodo head office in Tokyo

Employment and Human Resources Development

The Hakuhodo DY Group has adopted "Encourage individual personalities to flourish within a team work environment, leading to the creation of new values" as part of its Group philosophy. The Group believes that the creativity of its employees with strong individuality is essential in creating services and solutions to resolve issues. As such, the Group aims to become a corporate entity in which all employees can leverage their creativity to its full potential. The various initiatives the Group is undertaking to make the new proposals and innovations of its employees a reality lead not only to an improved business performance but also to increased employment.

Workstyle Reforms (Hakuhodo DY Group)

In December 2016, Hakuhodo and Hakuhodo DY Media Partners unveiled to employees their new workstyle manifesto, which was centered on growth, health, and time design. Based on this manifesto, the Workstyle Design Division was established in April 2017 to draft and implement measures for improving employees' ability to design their work and for contributing to employee health improvement. Meanwhile, at Daiko Advertising and YOMIKO ADVERTISING, committees chaired by company presidents have been established and examining the creation of next-generation workstyles since fall of 2016.

Promotion of Active Role of Women (Hakuhodo, Hakuhodo DY Media Partners)

To promote the active role of women, we have introduced various systems related to maintaining a work-life balance in each life stage, including pregnancy, giving birth, and returning to work. The content of these systems far surpasses what a company is legally obligated to provide. In these ways, we are offering support for balancing child rearing with work.

The Groupwide Business Idea Recruiting and Cultivation Program AD+VENTURE (Hakuhodo DY Group)

The AD+VENTURE program aims to recruit, examine, and cultivate a wide range of new business ideas from each Group company and develop such ideas into actual businesses. Without being constricted to existing business domains, the program works to invigorate the entire Group by generating new creativity and forge a corporate culture that encourages new ideas. Over the seven years since its creation, the AD+VENTURE program has received 651 business plans, and 15 of these plans have been turned into actual businesses.

The Japan LGBT Research Institute, Inc. is a think tank started in 2016 through the AD+VENTURE program. The institute aims to provide support from a marketing perspective to companies that are focusing on the LGBT community and other diverse sexualities in an effort to give shape to a society that embraces diversity. In March 2017, we implemented an E-learning program that was developed and provided by Japan LGBT Research Institute with the aim of instilling a proper awareness toward the LGBT community and other diverse sexualities. Over 3,400 Group employees participated in this program.

Human Resources Development (Hakuhodo DY Group)

Based on the Hakuhodo DY Group's belief that employees are the most valuable asset, we are providing opportunities for career and skill development that cater to the individuality and ambitions of each employee. These opportunities include the training programs of the in-house university Hakuhodo Univ., a multi-step career development system, the FA system, and internal recruitment system at Hakuhodo and Hakuhodo DY Media Partners, as well as the Daiko Soujuku (Daiko Learning Center) program, which is offered by Daiko Advertising, and the Yomiko Dojo, which is offered by YOMIKO ADVERTISING.

Health Management and Welfare Programs (Hakuhodo, Hakuhodo DY Media Partners)

For four consecutive years, all Hakuhodo employees have undertaken the annual health examination. Also, for employees over 29 years old, we offer opportunities once a year to be examined by a doctor at a cooperating medical institution. Starting with the Free Vacation System, Step Holidays, Nursing Care Holidays, and the Nursing Care Support System, we are promoting the establishment of systems that allow our employees to continue working in good health.

SDGs

Creative Volunteer Work for Popularizing the SDGs (Hakuhodo)

Hakuhodo is collaborating with the United Nations Information Centre, which bears responsibility for promoting and raising awareness toward the SDGs, and has created a formal Japanese icon and public advertising images for the SDGs in 2016. To ensure that every sector can use these materials with ease, Hakuhodo held numerous discussions with UN-affiliated organizations, NGOs for international cooperation, JICA, and the Ministry of Foreign Affairs. Through such discussions, Hakuhodo developed a universally applicable catch phrase that is easy to use in all sectors.

Business Seminars on the SDGs (Hakuhodo DY Group)

Head of United Nations Information Centre Kaoru Nemoto

In May 2017, the Hakuhodo DY Group held the Basic Knowledge Seminar for SDGs in Business, which targeted all Group employees. The main purpose of the seminar was to have employees better understand how they can contribute to realizing the targets adopted within the SDGs. Under this premise, approximately 150 Group employees participated in the seminar. The head of the United Nations Information Centre, Kaoru Nemoto, conducted a lecture as part of the seminar, which provided Group employees with an opportunity to deepen their understanding of the SDGs and incorporate the SDGs into their individual job duties.

Starting with the United Nations Information Centre, the Hakuhodo DY Group will collaborate with various institutions going forward, including relevant government agencies, municipalities, the Global Compact Network Japan, the Japan Committee for UNICEF, the United Nations Development Programme, NPOs, NGOs, and the CSR divisions of other companies. Through this collaboration, the Group will make proactive efforts toward realizing the SDGs.

Corporate Governance

With the aspiration of realizing sustainable growth and continuous improvement in corporate value, the Group aims to contribute to the creation of an affluent future for *sei-katsu-sha*, growth in the economy, and the development of society. To this end, the Group positions corporate governance as an important management issue. In December 2015, the listed company Hakuhodo DY Holdings posted its Corporate Governance Guidelines on its corporate website. In addition to explaining and outlining Hakuhodo DY Holdings' approach to corporate governance, these guidelines also provide details on the status of the Company's response to each principle in Japan's Corporate Governance Code. In doing so, these guidelines help the Company fulfill its accountability to its stakeholders, starting with its shareholders and other investors.

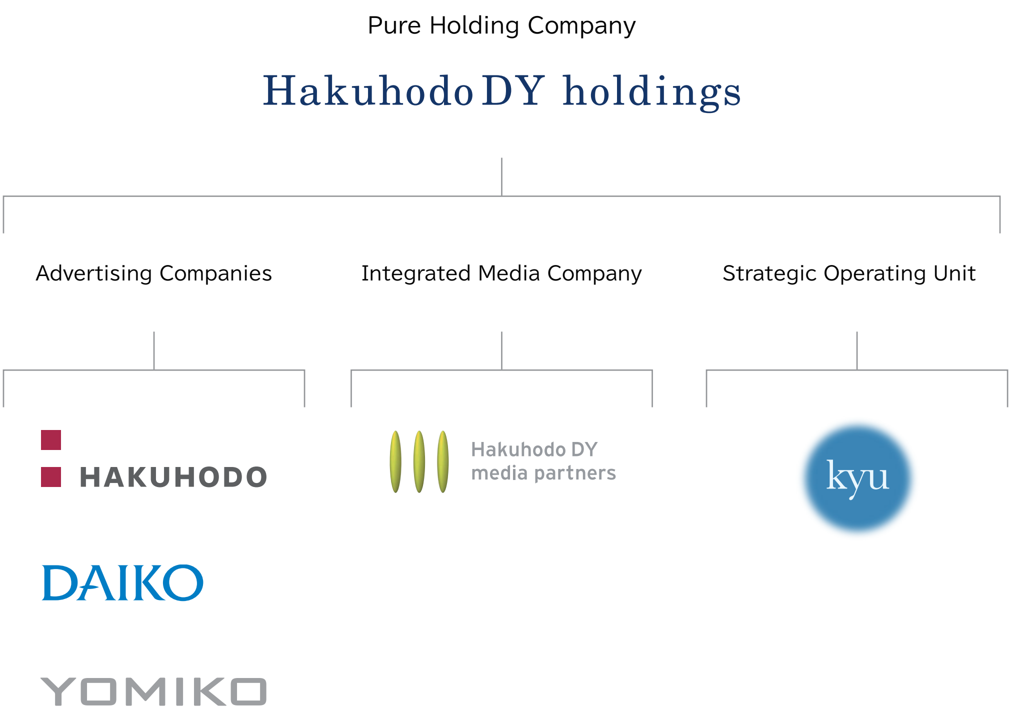
1: Basic Policy

(1) Purpose of these Guidelines

- The Hakuhodo DY Group (the "Group") strives to contribute to the creation of an abundant future for *sei-katsu-sha* (living consumers with individual lifestyles, aspirations, and dreams), the growth of the economy, and the development of society in order to achieve sustainable growth and the continual increase of our corporate value. The Group is continually strengthening and enhancing our corporate governance as one key management issue necessary in order to achieve these goals.
- These Guidelines set out the views of Hakuhodo DY Holdings Inc. (the "Company"), the holding company of the Group, regarding our corporate governance as well as an overview thereof.
- The contents of these Guidelines have been determined by a resolution of the Company's Board of Directors and will be examined and updated by the Board once each year.

(2) Group Overview

- The Group consists of the Company, which is a pure holding company, beneath which three advertising company groups, one integrated media company group, and one strategic operating unit serve as core operating company groups, with over 200 diverse operating companies belonging thereto. We are Japan's first integrated advertising holding company group.



(3) Basic Philosophies of the Group

- Under the following basic philosophies, the entire Group will conduct our business in order to achieve sustainable growth and the continual increase of our corporate value, and we will contribute to the creation of an abundant future for *sei-katsu-sha*, the growth of the economy, and the development of society, thereby fulfilling the trust placed in us by our shareholders and other diverse stakeholders.

◆ Group Corporate Philosophy

1. Strive continuously to provide our clients with the services they need to add value to their business.
2. Lead advances in media and be instrumental in building media value.
3. Build a dynamic global network to offer services wherever they are required.
4. Create abundance and further society, now and tomorrow, with our unique insight into *sei-katsu-sha*—people who have lives beyond what they consume.
5. Encourage individual personalities to flourish within a team work environment, leading to the creation of new values.
6. Become one of the world's top advertising and marketing services groups by constantly seeking out new challenges in the spirit of independence and solidarity.
7. Work relentlessly to increase corporate value and reward the trust that shareholders place in us.

◆ Group Policies

1. *Sei-katsu-sha* Insight

Sei-katsu-sha are the foundation of our thinking and planning.

2. Commitment to Partnership

The foundation of our business is providing optimal solutions as responsible partners of all our stakeholders.

◆ Group Code of Conduct

- In order to exert our creativity and remain trusted as partners of all our stakeholders, each of us working for the Group will conduct ourselves in a fair manner according to the highest ethical standards, strongly committed to compliance and conscious of our clear duty to abide by the following principles:

1. We will provide high-quality services.
2. We will constantly seek to maintain trust in us.
3. We will give full play to our own abilities and respect those of others.
4. We will be transparent and fair in all we do.

(4) Basic Views on Corporate Governance

- In order to achieve sustainable growth and the continual increase of our corporate value, the Group strives to contribute to the creation of an abundant future for *sei-katsu-sha*, the growth of the economy, and the development of society through providing world's top advertising and marketing services built on the power of creativity, thereby fulfilling the trust and expectations of our various stakeholders.
- For that purpose, the Company recognizes that one of our key management issues is enhancing the management and administration of the Group as a whole so that an environment that promotes independence and cooperation among the diverse operating companies under us as a holding company is developed and the cooperation of each company produces value greater than the sum of the parts. We will therefore endeavor to improve the Group's management and administration and to strengthen and enhance the corporate governance of the Group.
- The Company promotes cooperation as a Group while also respecting the independence of Group companies that are listed on stock exchanges.

(5) Medium-Term Business Plan

- The Group formulates and promotes medium-term business plans covering five-year periods based on our basic philosophies.
- Medium-term business plans are formulated after considering the insight on the future management environment obtained by sufficiently analyzing the achievement status of the goals of the previous plan and other such matters; after being resolved upon by the Board of Directors, the Company publishes these plans.
- The Board of Directors will exert its best efforts to achieve medium-term business targets in recognition that the plans are a commitment to shareholders.

* The current Medium-Term Business Plan began from the 2014 fiscal year and is currently being promoted. Please refer to Pages 8–11 for the plan's specific details.

2: Corporate Governance System

(1) Form of Organization

- The Company has chosen "Company with an Audit & Supervisory Board" as our form of organization under the Companies Act. The Board of Directors makes material management decisions and oversees business execution, and the Audit & Supervisory Board and its members audit the status of the directors' performance of their duties and other such matters.
- In addition, the Company has adopted the corporate officer system in order to promote further enhancement and expansion of business execution functions and to strengthen our management systems. Corporate officers are responsible for faithfully performing the duties delegated to them by the Board of Directors under the management policies and plans decided by the Board; in principle, their term of office lasts until the final day of the last business year to end within one year of assuming office.

(2) Internal Control Systems

- The Company has established the "Basic Policy on the Development of Internal Control Systems" pursuant to the Companies Act, and we promote PDCA improvements through reports on the implementation and operation of these systems to the Board of Directors and through annual Board resolutions on the necessity of revising the basic policy.
- The Company sets a foundation of compliance with law and ordinance as a necessary condition for our corporate activities pursuant to the "Group Code of Conduct and Compliance Items" shared among the Group, which is regularly revised in consideration of our corporate culture and climate and resolved upon by the Board of Directors.
- The Company has established the Group Compliance Committee, composed mainly of the presidents of the Company and the core operating companies and delegated by the Board of Directors, and has set up the Group Information Security Committee, the Information Security Committee, and the Group Risk Response Team as subordinate bodies thereof. We have created systems for compliance, including information security and risk management, and will ensure that the intent and the rules thereof are completely observed, thereby preventing any loss of the social trust or significant damage to the corporate value of the Group due to inappropriate responses to major risk events. Furthermore, we have established the "Crisis Management Regulations" and clarified the risk response system and the risk events addressed, thereby strengthening our ability to respond quickly and appropriately when risk events occur.
- In order for the Group ourselves to actively discover at an early stage and correct any misconduct, we have established Whistleblowing and Consultation Points of Contact within both the Company and the core operating companies as well as at an external advisory law office. The "Outline on the Use of the Whistleblowing and Consultation Points of Contact" prescribes the protection of any person providing information or seeking consultation and prohibits any disadvantageous treatment thereof.
- The Company has established reporting systems for internal controls in order to ensure the reliability of financial reports under the Financial Instruments and Exchange Act.
- In order to share Group management issues and conduct management that promotes the maximization of the corporate value of the Group, we have adopted a system in which some directors hold concurrent positions in both the Company and the core operating companies, and we will promote the collective development of the businesses of the Group through conducting management and administration pursuant to the "Operating Company Management Regulations."

(3) Board of Directors

(i) Roles and Responsibilities of the Board of Directors

- In consideration of their fiduciary responsibility and duty of accountability to our shareholders, the Board of Directors of the Company will set the broad direction of the management of the entire Group so as to contribute to the creation of an abundant future for *sei-katsu-sha*, the growth of the economy, and the development of society in accordance with the basic philosophies of the Group. In addition to that, the Board will appropriately evaluate company performance results, conduct decision-making for individual matters of material business execution, effectively oversee the directors and corporate officers, conduct accurate and appropriate information disclosure, and develop and oversee the operation of internal controls and risk management systems.
- Pursuant to law and ordinance, the Articles of Incorporation, the "Regulations of the Board of Directors," and the "Regulations regarding Limits of Authority," material matters of the Company relating to management, such as acquisitions of the Company's own shares, distributions of mid-term dividends, management strategies, management plans, organizations, systems, and performance results, are brought before the Board of Directors.

- The matters for which the Board of Directors may delegate decision-making to corporate officers are set out in the "Regulations regarding Limits of Authority."

(ii) Composition of the Board of Directors

- The Company specifies in its Articles of Incorporation there shall be 14 or fewer directors.
- By composing the Board of Directors of both multiple inside directors with a thorough knowledge of the Group and multiple outside directors with abundant experience and broad insight, the Company promotes enhanced management oversight and advice to increase the corporate value of the Group and ensures the efficiency of the Board of Directors.
- The Company implements a system in which some of the directors and Audit & Supervisory Board members of the Company serve concurrently as directors and Audit & Supervisory Board members of the core operating companies in order to ensure a shared awareness of the management issues of the Group and to conduct management for the maximization of the corporate value of the Group.
- Additionally, the composition of Board of Directors takes into consideration the balance of knowledge, experience, and skills of the Board as a whole from the perspective of Board diversity.

(iii) Chair of Board of Directors Meetings

- The chairman serves as chair for meetings of the Board of Directors. The chair endeavors to ensure the appropriate operation of the Board so that Board discussions are free, open, and constructive.

(iv) Operation of the Board of Directors

- The Board of Directors Secretariat has been established as a dedicated department to achieve the appropriate and smooth operation of the Board.
- The Board of Directors meets regularly (in principle, twice per month) and whenever else necessary. The Secretariat provides support including distributing materials in advance, providing explanations, responding to requests for information from each director, preparing plans for yearly schedules and agenda items, and setting an appropriate amount of deliberation time, thereby ensuring the efficiency of the Board.

(v) Analysis and Evaluation of the Board of Directors

- With the aim of promoting the maintenance and increasing the effectiveness of the Board of Directors, the Company will continue studying the development of systems, including outside directors, for analyzing and evaluating the Board; after conducting this analysis and evaluation, we will disclose a summary of the results.

(4) Audit & Supervisory Board

(i) Roles and Responsibilities of the Audit & Supervisory Board

- Through the Audit & Supervisory Board's auditing of the directors' performance of their duties as an independent body with the mandate of the shareholders, the directors and corporate officers of the Company will give proper care to the interests of all our stakeholders. Additionally, the Audit & Supervisory Board bears responsibility for providing support for endeavoring to cooperate with those stakeholders, achieving sound and sustainable growth and the creation of mid- to long-term corporate value, and establishing quality corporate governance that fulfills the trust that society places in us.

(ii) Chair of the Audit & Supervisory Board

- Pursuant to the "Regulations of the Audit & Supervisory Board," the Board determines a chair from among its members through resolution.

(iii) Operation of the Audit & Supervisory Board

- In accordance with the Articles of Incorporation, the Audit & Supervisory Board is composed of at most five members, including at least one member with appropriate knowledge in fields such as law, finance, or accounting, and at least half of the members are independent outside Audit & Supervisory Board members.
- The Audit & Supervisory Board meets once each month in principle and endeavors to maintain highly effective auditing systems in which outside Audit & Supervisory Board members and full-time members can actively exchange opinions.

(iv) Cooperation with Other Bodies

- The Audit & Supervisory Board endeavors to understand the actual condition of the directors' performance of their duties by conducting a questionnaire once each year regarding the status of the performance of each director's duties, holding individual meetings, and other such means.

- The Audit & Supervisory Board receives auditing reports from the independent auditing firm once every quarter, four times per year.
- Meetings are held twice each year among the independent auditing firm, the internal auditing division, and the Audit & Supervisory Board as three-way auditing liaison meetings, thereby allowing for appropriate cooperation.
- The Audit & Supervisory Board has formulated standards for evaluating the independent auditing firm in accordance with the guidelines of the Japan Audit & Supervisory Board Members Association and evaluates the firm's annual auditing status, in addition to which the Board verifies the independence and expertise of the firm.

(5) Compensation and Nomination Committee

(i) Roles and Responsibilities of the Compensation and Nomination Committee

- As an advisory body to the Board of Directors, the Compensation and Nomination Committee of the Company will deliberate the personnel affairs, compensation system, and individual compensation amounts of directors and corporate officers in order to ensure the transparency and reasonableness of resolutions by the Board of Directors.
- When the Board of Directors resolves upon the personnel affairs, compensation system, or individual compensation amounts of directors or corporate officers, the relevant matter must first be deliberated by the Compensation and Nomination Committee.

(ii) Composition of the Compensation and Nomination Committee

- In accordance with internal rules, the Compensation and Nomination Committee is composed of three or more directors (including independent outside directors) as members, more than half of whom must be independent outside directors.
- Members of the Compensation and Nomination Committee are appointed by resolution of the Board of Directors.

(iii) Chair of the Compensation and Nomination Committee

- The Compensation and Nomination Committee selects one independent outside director by resolution to serve as chair of the Committee.

(6) Directors and Audit & Supervisory Board Members

(i) Roles and Responsibilities

- In full awareness of their fiduciary responsibility to shareholders, the directors and Audit & Supervisory Board members of the Company will perform their duties in the interests of the Company and the common interests of the shareholders while ensuring appropriate cooperation with stakeholders.
- The directors and Audit & Supervisory Board members endeavor to acquire and deepen the knowledge necessary for appropriately fulfilling their roles and responsibilities.
- In consideration of maximizing the corporate value of the Group, the Company has adopted a system in which some of our directors and Audit & Supervisory Board members serve concurrently as directors and Audit & Supervisory Board members of the core operating companies.

(ii) Nomination Standards for Internal Director and Audit & Supervisory Board Member Candidates

- When nominating internal director candidates, such candidates must possess a thorough knowledge of the Group's business, the ability to appropriately conduct the management of the Group, outstanding character and insight, and the qualities necessary to contribute to the sustainable growth and increased corporate value of the Company.
- When nominating internal Audit & Supervisory Board member candidates, such candidates must possess either a thorough knowledge of such matters as the details of the business execution of the Group or expert knowledge in fields such as law, finance, or accounting, and they must have knowledge and experience that enables them to appropriately and fairly audit the directors' performance of their duties.

(iii) Nomination Procedures

- The Board of Directors will determine the nomination of director candidates after deliberation by the Compensation and Nomination Committee. Additionally, Audit & Supervisory Board member candidates will be determined with the approval of the Audit & Supervisory Board.
- When nominating director and Audit & Supervisory Board member candidates, brief personal profiles and reasons for nominating each candidate will be included in the convocation notices for the Meeting of Shareholders.

(iv) Term of Office

- Pursuant to the Articles of Incorporation, the term of office of directors will be until the closing of the Annual Meeting of Shareholders relating to the final business year to end within one year of the director's appointment.
- Pursuant to the Articles of Incorporation, the term of office of Audit & Supervisory Board members will be until the closing of the Annual Meeting of Shareholders relating to the final business year to end within four years of the member's appointment.

(v) Compensation

- The following matters form the basic policy for determining director compensation:
  - Compensation must be rooted in the Group Corporate Philosophy
  - Compensation must provide a shared sense of value with our shareholders, incentivizing increases in corporate value over the medium to long term
  - Compensation levels must be appropriate for the roles and responsibilities of the directors of the Company and must secure and maintain superior human resources
  - Transparency and reasonableness must be ensured in the compensation decision process
- Compensation for directors (excluding outside directors) is composed of annual compensation, annual bonuses (short-term incentives), and stock-type compensation (medium-to-long-term incentives).
- The total amount of annual compensation and annual bonuses combined and the total amount of stock-type compensation will both be within the respective limits resolved upon by the Meeting of Shareholders.
- The percentage of the annual bonus and stock-type compensation, for which the amounts and values change according to business performance, is set at 40% of the total compensation for each director in the case of standard business performance.
- Compensation amounts will be decided by resolution of the Board of Directors and, to ensure transparency and reasonableness, will first be deliberated by the Compensation and Nomination Committee.
- Compensation for outside directors is composed solely of annual compensation to secure both their roles and independence. Audit & Supervisory Board member compensation is composed solely of fixed compensation pursuant to the "Internal Rules on Audit & Supervisory Board Member Compensation" and is determined through consultation among the Audit & Supervisory Board members.

(vi) Roles and Responsibilities of Independent Outside Directors and Audit & Supervisory Board Members

- Independent outside directors will oversee management and provide advice to increase the corporate value of the Group based on their abundant experience and broad knowledge. Additionally, they will oversee conflict of interest transactions between the Company and its directors, corporate officers, major shareholders, and other such parties from an independent standpoint and appropriately reflect the views of our stakeholders to the Board of Directors.
- Independent outside Audit & Supervisory Board members will utilize their abundant experience and broad insight, cooperate with the independent auditing firm and internal auditing division, and perform their auditing duties from an independent and neutral standpoint.
- In order to promote information exchange and shared awareness based on the independent and objective standpoint of the independent outside directors and Audit & Supervisory Board members, regular meetings composed of independent outside directors and Audit & Supervisory Board members are held with the full-time Audit & Supervisory Board members as observers.
- The Company will disclose the status of concurrent positions in other companies held by independent outside directors and Audit & Supervisory Board members every year through convocation notices for the Meeting of Shareholders, securities reports, and other such means.

(vii) Nomination Standards for Independent Outside Director and Audit & Supervisory Board Member Candidates

- As standards for the nomination of independent outside director and Audit & Supervisory Board member candidates, candidates must possess abundant experience, broad insight, and expert knowledge in fields such as corporate management, law, accounting, government administration, consulting, or education. In addition, independent outside director candidates must have the ability to oversee management and provide advice to increase the corporate value of the Group, and independent outside Audit & Supervisory Board member candidates must have the ability to audit the legality of business execution by the directors and corporate officers.

(viii) Independence Standards for Independent Outside Directors and Audit & Supervisory Board Members

- In addition to the requirements under the Companies Act, the Company has formulated the "Outside Director and Audit & Supervisory Board Member Independence Standards" and will nominate independent outside director and independent outside Audit & Supervisory Board member candidates with those independence requirements as standards. (Please see Pages 38 and 39.)

(ix) Support Systems and Training Policy

<Support Systems>

- The Company has established both the Board of Directors Secretariat to assist the directors in performing their duties as well as a dedicated department to assist in the duties of the Audit & Supervisory Board members pursuant to the "Regulations on Systems to Assist Audit & Supervisory Board Members," and we thereby provide the necessary support to both Boards.
- Under these support systems, the Company appropriately provides the information, materials, and the like necessary for the directors and Audit & Supervisory Board members to effectively fulfill their roles and responsibilities.

<Training Policy>

- The Company provides directors and Audit & Supervisory Board members with opportunities as necessary to gain the knowledge required of them for appropriately fulfilling their roles and responsibilities and to receive advice from outside experts, in addition to which we provide support such as assistance for the costs of such opportunities.
- The Company has developed, introduced, and currently conducts the Emergent Management Program as an educational program for the management level, including directors, in order for the Group's course of action on the development and training of personnel to be shared among the management level of each operating company and for creating emergent management.

(7) Independent Auditing Firm

Roles and Responsibilities

- Recognizing that the independent auditing firm bears responsibility to our shareholders and investors for such matters as ensuring the reliability of our financial reports, the Company conducts measures to ensure appropriate audits in cooperation with the independent auditing firm. In order to promote the effectiveness of audits by the independent auditing firm, the Company holds question and answer sessions regarding management policies, priority issues, and corporate governance with the president, director in charge of corporate affairs, and independent auditing firm partner as "Manager Discussions" every year.

The following are the reference materials related to the Group's corporate governance.

Overview of Corporate Governance System

Format	Audit & Supervisory Board system
Number of directors	14
Of whom, outside directors	2
Number of Audit & Supervisory Board members	5
Of whom, outside Audit & Supervisory Board members	3
Number of independent auditors	5
Term of directors	1 year
Remuneration disclosure	Disclosure of total figure
Policy regarding amount of remuneration or the method for calculating that amount	Yes

Executive Compensation

1. Total amount of compensation by class of executives, total amount of compensation by type of compensation, and number of executives receiving executive compensation

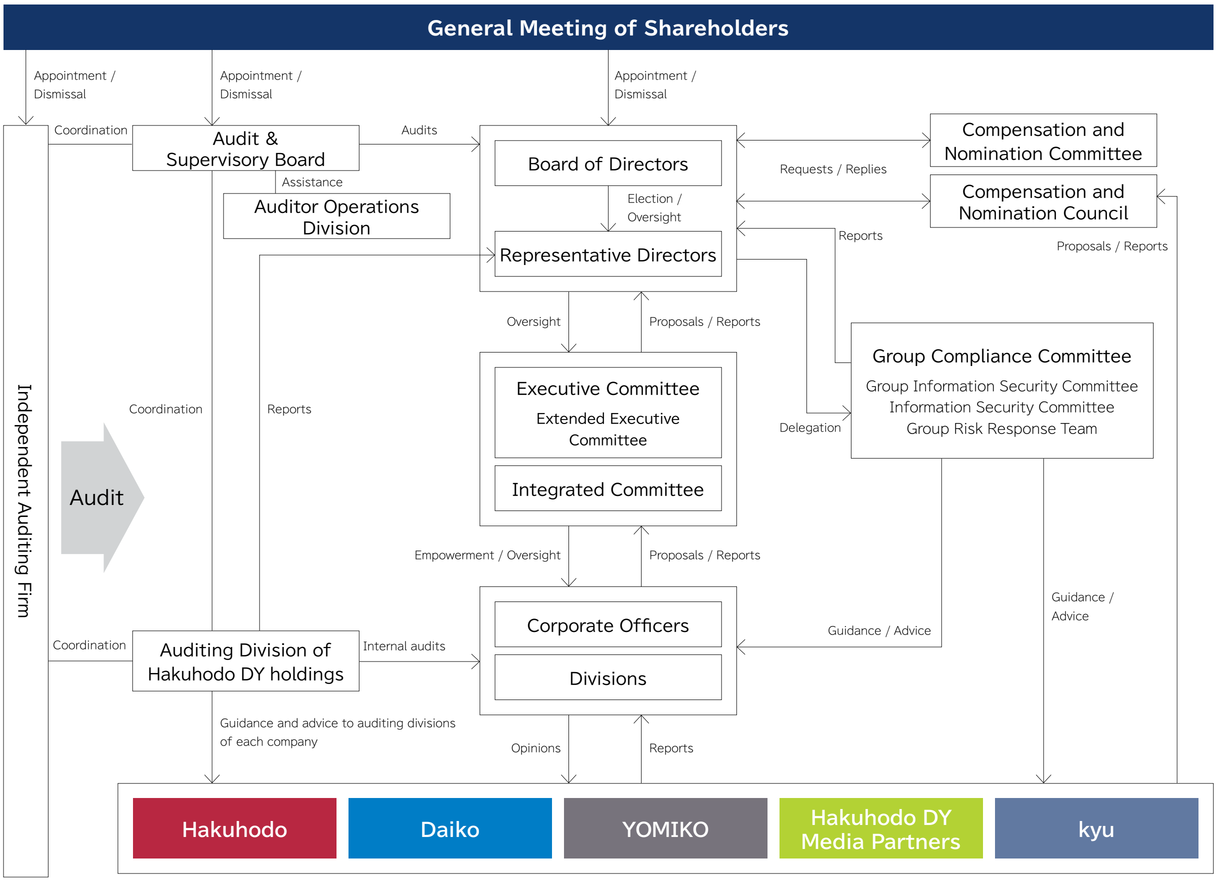
		Total compensation by type					
		Base		Bonuses		Provision for directors' retirement benefits	
Classification	Total value of remuneration (¥ Millions)	Number (People)	Total (¥ Millions)	Number (People)	Total (¥ Millions)	Number (People)	Total (¥ Millions)
Directors (excluding outside directors)	297	7	141	7	98	7	57
Outside directors	24	2	24	—	—	—	—
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	40	2	40	—	—	—	—
Outside Audit & Supervisory Board members	32	4	32	—	—	—	—
Total	394	15	239	7	98	7	57

2. Total amount of consolidated compensation for individual directors at companies submitting a *Yuho* Financial Report

				Total compensation by type (¥ Millions)		
Name	Total value of remuneration (¥ Millions)	Classification	Classification by company	Base	Bonuses	Provision for directors' retirement benefits
Hirokazu Toda	104	Director	Filing company	31	27	14
		Director	(Consolidated subsidiary) Hakuhodo Inc.	31	—	—

Only directors whose total consolidated remuneration is ¥100 million or more are listed.

Corporate Governance Framework of the Hakuhodo DY Group



3: Relationships with Shareholders and Other Stakeholders

(1) Relationships with Shareholders, etc.

(i) Meeting of Shareholders

- The Company recognizes that the Meeting of Shareholders, the supreme decision-making body of the Company made up of all shareholders with voting rights, is a key opportunity for constructive dialogue with our shareholders and will establish an environment in which shareholders can appropriately exercise their rights.
- In order to ensure sufficient time for shareholders to consider shareholder meeting proposals, the Company will endeavor to send convocation notices at an early stage and will post and publish the contents thereof on our homepage and other such places through electronic means.
- The Company endeavors to ensure convenience for all shareholders in exercising their voting rights through electronic voting and providing English translations of convocation notices.
- The Company determines the date of the Meeting of Shareholders in consideration of ensuring auditory procedures and formulation of necessary statutory documents in compliance with the Companies Act, securing an appropriate location, and other such matters.

(ii) Securing Shareholder Rights

- The Company will take appropriate measures to substantially ensure the rights of all shareholders, including minority shareholders and foreign shareholders.
- The Company will earnestly accept the results of votes exercised at the Meeting of Shareholders; if a considerable number of votes are cast against a proposal by the Company, we will analyze the reasons therefor, and the Board of Directors will consider measures in response thereto.
- When institutional investors that hold shares in the name of trust banks or other such custodians express in advance their wish to exercise voting rights and other such rights at the Meeting of Shareholders themselves, the Company will consult with the trust banks or other such custodians and consider responses to these requests.
- When the Company considers a capital increase, management buyout, or other such action, in order to ensure that the interests of existing shareholders are not unfairly harmed, the Board of Directors will consider the necessity and rationale of the action, and the Company will ensure appropriate procedures. When conducting the action, we will provide sufficient explanation to our shareholders.

(iii) Constructive Dialogue with Shareholders

- The Company endeavors to contribute to the sustainable growth and mid- to long-term increase of the corporate value of the Group by actively engaging in constructive dialogue with shareholders.
- The Company has prepared a basic policy on systems and measures to promote constructive dialogue with our shareholders, investors, and all other stakeholders. (Please refer to Page 38.)

(iv) Basic Views on Capital Policy

- The Company holds the sustainable increase of corporate value and the appropriate allocation of profits to shareholders as key purposes of our capital policy.
- Specifically, the Company has made return on equity one of our mid- to long-term management goals as a key index of the creation of corporate value and the efficiency of capital.
- The Company's basic policy on shareholder returns is to steadily and continually provide dividends to shareholders. We have also set a policy of examining and conducting acquisitions of our own shares, etc. as appropriate in consideration of our management conditions, the market environment, and other such matters.

(v) Policy on Cross-shareholdings

Cross-shareholding: There are cases where listed companies hold the shares of other listed companies for reasons other than pure investment purposes, for example, to strengthen business relationships. Cross-shareholdings here include not only mutual shareholdings but also unilateral ones.

- The Group holds shares in business partners for the purpose of maintaining and strengthening business relationships.
- When acquiring such shares, the Group comprehensively considers such matters as the profits to be gained by the Group through maintaining and strengthening the business relationship and the amount of the investment before judging whether or not to invest.
- In addition, for each individual issue of major shares that we hold, the Group will regularly consider the value of continuing to hold such shares; if that value is judged lacking, we will sell those issues of shares, taking into account any matters regarding transactions or business to be considered, the influence of such sale on the market, and other such factors. If the value is affirmed, however, we will continue holding such shares.
- The Company and the core operating companies will consider the value of holding the major shares that are held and report thereon to the Company's Board of Directors. The core operating companies make such reports to their boards of directors beforehand.
- Sufficiently respecting the management policies, strategies, and the like of the corporations in which we have invested, the Company will exercise voting rights accompanying cross-shareholdings after comprehensively judging whether the proposal details coincide with the value and goal of the Company's investment, whether the proposal details would damage corporate value, and other such factors.

(vi) Anti-takeover Measures

- The Company does not implement any anti-takeover measures.
- If the Company's shares are made subject to a tender offer, the Board of Directors will judge the circumstances related thereto and respond by clearly stating their view on the offer as appropriate.

(vii) Related Party Transactions

– When the Company conducts competitive transactions and conflict of interest transactions as defined in law and ordinance with directors and Audit & Supervisory Board members of the Company, the approval of the Board of Directors must be received after confirming that such transactions do not damage shareholder value.

– In addition, when the Company conducts transactions with major shareholders, we will confirm the rationale and suitability of the details of the transactions in advance and conduct them so that the common interests of the shareholders are not harmed.

(2) Relationships with Employees

- Recognizing that people are assets, the Group will train each of our employees to exercise their creativity and be trusted partners of all our stakeholders.
- When conducting such training, we will respect independent and autonomous individuals, value the unique personality with which each person shines, and focus on teamwork in which diverse professionals cooperate to push towards the goal.
- In addition, we will establish systems to support childbirth, childcare, and family caregiving and strive to develop a comfortable working environment for all of our diverse employees, including women, in which each person can fully exercise their abilities.

(3) Relationships with Clients

- The Group views our commitment to partnership as the foundation of our business; always from the perspective of *sei-katsu-sha*, we will share issues with clients, media companies, and content holders and provide optimal solutions as responsible partners. Furthermore, by providing consistent solutions built on long-term relationships with our partners, we will strive to further deepen these relationships.

(4) Relationships with Business Partners

- The Group recognizes the importance of transactions based on sound, fair, and equal partnerships in all of our relationships with our business partners and will ensure fair and free transactions and competition in compliance with law and ordinance.

(5) Relationship with Society

- Under the Group policies of *sei-katsu-sha* insight and commitment to partnership, the Group engages in CSR activities through the aspirations of each of our employees, and we have established our basic CSR philosophy and CSR promotion systems and conduct our activities thereby in order to fulfill our social responsibility.

4: Information Disclosure

(1) Disclosure Systems

- The Company has established the Investor Relations Division to handle the enhancement of communication with our shareholders and investors, with whom we will thereby build long-term relationships of trust.
- The Company has established disclosure systems within the Group as well as the Company, and we gather and endeavor to actively disclose IR information, including statutory and timely disclosure information.

(2) Full Disclosure

- In order to build long-term relationships of trust with our shareholders, investors, and all other stakeholders, the Company's basic policy on information disclosure is not only to conduct statutory disclosure but also to promptly, accurately, fairly, and impartially communicate management policies, financial information, operational endeavors, the causes and management environment behind each of those, and other such information necessary in making investment judgments.
- The Company endeavors to disclose information in English to the extent reasonable in order to contribute to an increase in corporate value in line with the global level through dialogue and fairness.

(Reference Materials)

[Basic Policy on Constructive Shareholder Dialogue]

- Hakuhodo DY Holdings Inc. (the "Company") believes that constructive dialogue with our shareholders and other investors contributes to our sustainable growth and mid- to long-term increase of corporate value and will therefore conduct proactive IR activities.
- The Company has established the Investor Relations Division coordinated by the president to respond to matters involving our shareholders and other investors. If our shareholders and other investors request an opportunity for dialogue (i.e., a meeting), the president, directors (including outside directors), and corporate officers will participate in the meeting as necessary after considering the main issues or topics of the meeting and other such matters.
- The individual responsible for handling information appointed from among the directors and equivalent positions will represent the Hakuhodo DY Group (the "Group") as a whole, determine the internal administration of matters to be disclosed and the necessity of updating and revising information, and be in charge of timely disclosure. In addition, this representative will counsel and advise the president as appropriate regarding the handling of undisclosed information.
- The Company has established the Investor Relations Committee, which works laterally across related internal departments, and will promote the sharing of the Company's IR information, including statutory and timely disclosure information.
- The Company will provide briefings to institutional investors on our mid- to long-term management vision, account settlements, individual businesses, and other such matters. Additionally, we will publish the explanatory materials and other such resources used at these briefings for institutional investors unable to attend and individual investors.
- The Company will endeavor to disclose information in English to the extent reasonable in order to contribute to an increase in corporate value in line with the global level through dialogue and fairness.
- The Investor Relations Division will regularly report the opinions and questions of our shareholders and other investors learned through dialogue to the president, the individual responsible for handling information, and other relevant directors and corporate officers; by reflecting the insight gained from such comments in our management, the Company will promote the mid- to long-term increase of our corporate value. In addition, the Company has established the Group's Investor Relations Committee, which works laterally across the Group, to serve as a venue for sharing information within the Group, determining the IR policies of the Group, and consulting on key matters related to such policies. At this committee, as well, the views and questions of shareholders and other investors will be reported and information sharing promoted.
- The Company will thoroughly ensure fair disclosure and will appropriately control insider information under the "Information Disclosure Regulations."
- Based on the shareholder register, the Company will regularly investigate our shareholder structure to gain a clear understanding thereof and will report the findings to the Board of Directors.

[Outside Director and Audit & Supervisory Board Member Independence Standards]

Hakuhodo DY Holdings Inc. (the "Company") will judge to be independent any outside directors and outside Audit & Supervisory Board members who:

1. Are not currently and have not been in the past ten years*[1] a director (excluding outside directors), corporate officer, or employee of the Company or any of its subsidiaries;

2. Do not currently fall under and have not fallen under in the past three years any of (i) to (iii) below:
   (i) A director, corporate officer, or employee of a major business partner(1) of the Company;
   (ii) An attorney, certified public accountant, consultant, or other such person*[2] who receives a large amount of money(2) or other such economic benefits other than director or Audit & Supervisory Board member compensation from the Company; or
   (iii) A major shareholder(3) of the Company or a director, corporate officer, or employee of such shareholder;

3. Are not directors, corporate officers, or employees of a corporation, partnership, or other such organization that exchanges dispatched directors, Audit and Supervisory Board members, or corporate officers with the Company;

4. Are not directors, corporate officers, or employees of a corporation, partnership, or other such organization that receives a large amount of contributions(4) from the Company; and

5. Are not spouses or relatives within the second degree of kinship of material personnel(5) who fall under items 1 or 2 above.

*1. However, if the outside director or outside Audit & Supervisory Board member has been a non-executive director or Audit & Supervisory Board member of the Company or any of its subsidiaries at any time within the past ten years, then ten years prior to assuming such position.
*2. However, if a corporation, partnership, or other such organization receives such benefits, then any person belonging thereto.

Notes:
(1) "Major business partner" means a corporation whose transactions with the Company amount to 2% or more of the annual consolidated sales of either the Company or the business partner.
(2) "Large amount of money" means ten million yen or more annually in the case of an individual or, in the case of an organization, 2% or more of the annual consolidated sales of the organization.
(3) "Major shareholder" means a shareholder who holds (including both directly and indirectly) 10% or more of total voting rights.
(4) "Large amount of contributions" means an amount exceeding the greater of (a) ten million yen annually or (b) 2% of the annual consolidated sales or total revenue of the recipient of the contributions.
(5) "Material personnel" means directors (excluding outside directors), corporate officers, department chiefs, and employees in managerial positions equivalent to department chiefs.

【Approach to the Directors' Compensation System】

1. Compensation System Basic Policy
- Rooted in the Group Corporate Philosophy
- Shared sense of value with our shareholders, incentivizing increases in corporate value over the medium to long term
- Compensation levels appropriate for the roles and responsibilities of the directors of the Company, and which secure and maintain superior human resources
- Transparency and reasonableness ensured in the compensation decision process

2. Specific Compensation Items and Overview
- Compensation is composed of three items: annual compensation, annual bonuses, and stock-type compensation. An overview of each compensation item is provided in i) to iii) below.
- The percentage of the annual bonus and stock-type compensation, for which the amounts and values change according to business performance, is set at 40% of the total compensation for each director in the case of standard business performance.
- To secure both their roles and independence, compensation for outside directors is limited to annual compensation only.

i) Annual Compensation
Annual compensation is decided based on the expected results, actual results, and other factors for the position and duties of each director.

ii) Annual Bonus (Short-term Incentive)
The annual bonus provides a strong incentive to achieve business results in the individual year and is decided comprehensively in consideration of the Group's profit level in each fiscal year, the achievement of management benchmarks, and the results of the individual directors in the individual year.

iii) Stock-type Compensation (Medium-to-long-term Incentive)
Restricted stock is allotted as stock-type compensation in order to incentivize the increase of corporate value over the medium to long term and to share a sense of value with our shareholders.

3. Compensation Decision Process
- The compensation system and individual compensation amounts are decided by resolution of the Board of Directors and, to ensure transparency and reasonableness, are first deliberated by the Compensation and Nomination Committee, which serves as an advisory body to the Board of Directors and is chaired by an outside director.

Note:
(6) Compensation System for Audit & Supervisory Board Members
Pursuant to the "Internal Rules on Audit & Supervisory Board Member Compensation," compensation for Audit & Supervisory Board members is limited to annual compensation and is determined through consultation among the Audit & Supervisory Board members.

Messages from Outside Directors

The Hakuhodo DY Group's criteria for nominating outside directors is to nominate persons with a wealth of experience, broad-ranging views, and specialist knowledge in fields including corporate management, legal affairs, accounting, public administration, consulting, and education, and the ability to offer advice to increase the Group's corporate value and supervise management.

In this section, Hakuhodo's two outside directors, who have been working for the Company for two years, provide messages explaining their involvement as outside directors in the various initiatives of the Medium-Term Business Plan. Outside director Noboru Matsuda has abundant experience and in-depth legal knowledge cultivated throughout his career as a public prosecutor and lawyer. Outside director Nobumichi Hattori possesses broad-ranging views on corporate strategy as a member of a major U.S. investment bank and as a graduate school professor.

Hakuhodo DY Holdings
Outside Director
Noboru Matsuda

Enhancing Governance by Striking a Balance between an Offensive and Defensive Approach

At the Board of Directors' meetings, the Company has held numerous discussions on the various initiatives for realizing the targets of the Medium-Term Business Plan. Such discussions require comprehensive and sophisticated management decisions, and I have leveraged my knowledge and expertise within these discussions to provide management advice and supervision from the perspective of both "offensive governance," which I believe is the most important, and "defensive governance," which is also essential. For example, I have made statements when necessary on the reasons behind the proposal of agenda items after thoroughly listening to and examining such items.

Going forward, I would like to help the Company realize sustainable growth and improve corporate value by enhancing governance while striking a balance between an offensive and defensive approach.

Hakuhodo DY Holdings
Outside Director
Nobumichi Hattori

Improving the Quality of Governance through Objective Advice

The Hakuhodo DY Group has adopted three growth drivers for realizing the targets of the Medium-Term Business Plan. Supported by these drivers, the Group is making ambitious efforts to increase overseas profits and achieve growth through M&A. Drawing on my many years of experience at an investment bank, I continued to actively provide advice and supervision regarding these initiatives during the period under review from the perspective of an outside director. Such advice related to not only the stage of considering an investment but also to resolving the various issues that occur after making an investment.

In order for the Group to realize growth and improve corporate value going forward, I will continue to provide objective advice that helps further improve the quality of the Group's governance.

Fact Sheets

Ten-Year Summary of Consolidated Financial Statements

Years ended March 31	2008	2009	2010	2011	2012
For the year					
Gross billings	¥1,118,749	¥1,033,396	¥ 917,065	¥ 936,476	¥ 978,321
Revenue	163,897	154,059	143,579	152,218	160,756
Selling, general and administrative expenses	138,889	139,042	137,443	137,951	140,940
Personnel costs	86,923	86,521	90,325	93,514	96,902
Rent	7,378	10,571	11,475	11,097	10,585
Depreciation and amortization	2,719	4,065	3,848	2,687	1,886
Amortization of goodwill and other intangible assets[1]	1,093	934	519	625	527
Others	40,774	36,949	31,274	30,027	31,038
Operating income	25,007	15,016	6,136	14,266	19,816
Income before income taxes	18,896	7,874	6,147	13,132	20,355
Profit attributable to owners of parent	10,021	(3,277)	1,277	4,550	8,604
Operating income before amortization of goodwill[2]	26,100	15,950	6,655	14,891	20,343
At year-end					
Total assets	¥ 552,697	¥ 480,768	¥ 456,313	¥ 474,126	¥ 518,805
Cash and time deposits + Marketable securities of current assets	72,479	58,663	77,890	92,498	101,854
Investment securities	58,468	46,330	49,981	45,938	53,900
Interest-bearing debt[3]	2,615	2,679	2,129	2,544	2,768
Net assets	214,074	206,048	208,802	206,455	219,280
Cash flows					
Net cash provided by (used in) operating activities	¥ 26,085	¥ (14,570)	¥ 25,300	¥ 22,616	¥ 20,047
Net cash provided by (used in) investing activities	(20,390)	6,783	(4,211)	(1,379)	(5,444)
Net cash used in financing activities	(6,431)	(4,613)	(3,421)	(5,792)	(5,017)
Per share data (yen)[4]					
Basic net income (loss)	¥ 25.87	¥ (8.49)	¥ 3.31	¥ 11.81	¥ 22.66
Diluted net income[5]	25.87	—	3.30	11.81	22.64
Cash dividends	8.00	7.00	7.00	7.00	7.00
Dividend payout ratio (%)	30.9	—	211.4	59.2	30.9
Net assets	¥ 547.28	¥ 514.25	¥ 520.90	¥ 518.11	¥ 542.89
Ratios (%)					
Revenue to gross billings margin	14.7	14.9	15.7	16.3	16.4
Operating margin before amortization of goodwill[6]	15.9	10.4	4.6	9.8	12.7
Operating margin[7]	15.3	9.7	4.3	9.4	12.3
Ratio of personnel costs to revenue[8]	53.0	56.2	62.9	61.4	60.3
Return on equity (ROE)	4.7	(1.6)	0.6	2.3	4.3
Shareholders' equity ratio	38.2	41.3	44.0	41.5	39.7
Number of employees (at year-end)	8,305	9,600	9,823	10,081	10,633

1. Amortization of goodwill and other intangible assets refers to the amortization of goodwill and other intangible assets arising from corporate acquisitions.
2. Operating income before amortization of goodwill refers to operating income that has been calculated excluding the amortization of goodwill and other intangible assets arising from corporate acquisitions.
3. The outstanding balance for interest-bearing debt represents the sum of short-term bank loans + long-term debt (including long-term debt due within one year).
4. On October 1, 2013, the Company's common stock was split 10-for-1. To enable evaluation of past trends and comparisons, figures in this annual report, including results in periods prior to the stock split, are based on the number of shares of common stock after the stock split. As a result, corresponding revisions have been made to dividends per share for the first half of the fiscal year ended March 31, 2014, and earlier periods, and to all other per share data for the fiscal year ended March 31, 2013, and earlier periods.

¥ Millions

	2013	2014	2015	2016	2017	2016 vs 2017	
	¥1,045,431	¥1,095,909	¥1,131,064	¥1,215,250	**¥1,255,474**	¥ 40,224	3.3%
	175,964	190,150	205,867	232,498	**248,640**	16,141	6.9%
	149,645	156,233	169,045	187,503	**201,379**	13,875	7.4%
	101,655	106,968	114,333	126,073	**135,426**	9,352	7.4%
	10,819	11,060	11,764	12,885	**13,629**	744	5.8%
	1,896	1,956	2,411	2,925	**3,199**	274	9.4%
	759	983	1,672	2,290	**3,120**	830	36.2%
	34,514	35,264	38,863	43,329	**46,003**	2,673	6.2%
	26,319	33,916	36,821	44,994	**47,261**	2,266	5.0%
	24,948	37,039	38,924	46,251	**44,959**	(1,292)	(2.8)%
	12,894	18,721	19,879	28,531	**25,880**	(2,651)	(9.3)%
	27,078	34,900	38,494	47,285	**50,381**	3,096	6.5%
	¥ 528,535	¥ 583,970	¥ 633,904	¥ 678,532	**¥ 722,051**	¥ 43,518	6.4%
	113,949	139,984	163,012	157,926	**152,245**	(5,681)	(3.6)%
	56,924	61,631	81,925	76,880	**96,554**	19,674	25.6%
	3,050	5,068	4,597	8,086	**11,829**	3,742	46.3%
	234,352	254,510	282,729	294,031	**325,818**	31,787	10.8%
	¥ 17,763	¥ 31,846	¥ 33,314	¥ 29,698	**¥ 16,288**	¥(13,410)	
	(5,642)	(7,605)	(7,563)	(20,686)	**(4,280)**	16,406	
	(3,617)	(1,362)	(12,484)	(5,290)	**(7,803)**	(2,513)	
	¥ 33.96	¥ 49.31	¥ 53.22	¥ 76.56	**¥ 69.45**	¥ (7.11)	
	33.95	49.27	53.16	76.44	**69.44**	(7.00)	
	8.00	12.00	15.00	18.00	**24.00**	6.00	
	23.6	24.3	28.1	23.5	**34.6**	11.1pts	
	¥ 583.73	¥ 629.66	¥ 707.30	¥ 733.01	**¥ 817.67**	¥ 84.66	
	16.8	17.4	18.2	19.1	**19.8**	0.7pts	
	15.4	18.4	18.7	20.3	**20.3**	(0.1)pts	
	15.0	17.8	17.9	19.4	**19.0**	(0.3)pts	
	57.8	56.3	55.5	54.2	**54.5**	0.3pts	
	6.0	8.1	7.9	10.6	**9.0**	(1.6)pts	
	41.9	40.9	41.6	40.3	**42.2**	1.9pts	
	11,385	11,894	13,021	14,187	**15,738**	1,551	

5. Dilutive shares existed, but diluted net income per share is not shown due to net loss for the fiscal year ended March 31, 2009.
6. Operating margin before amortization of goodwill = Operating income before amortization of goodwill ÷ Revenue
7. Operating margin = Operating income ÷ Revenue, or the ratio of operating income to revenue
8. Ratio of personnel costs to revenue = Revenue ÷ Personnel costs

Billings by Industry of Clients and by Type of Service

Billings by Industry of Clients

Years ended March 31	2008	2009	2010	2011
Energy / Material / Machinery	¥ 21,287	¥ 18,836	¥ 18,271	¥ 19,480
Foodstuffs	70,258	70,053	69,828	71,209
Beverages / Cigarettes / Luxury foods	116,703	115,089	108,105	110,635
Pharmaceuticals / Medical supplies	39,631	37,814	42,901	42,427
Cosmetics / Toiletries	65,396	62,546	64,290	64,882
Apparel / Accessories	21,248	15,234	10,966	11,625
Precision machinery / Office supplies	13,514	12,825	9,398	11,102
Home electric appliances / AV equipment	33,616	31,146	26,820	28,655
Automobiles / Related products	135,891	112,052	93,631	97,182
Household products	17,477	17,931	16,998	16,169
Hobby supplies / Sporting goods	26,301	22,671	18,929	16,686
Real estate / Housing facilities	42,760	38,718	31,413	36,054
Publications	27,078	22,381	22,381	22,051
Information / Communications	120,485	120,124	93,215	97,409
Distribution / Retailing	45,131	42,822	41,797	39,855
Finance / Insurance	71,076	62,916	52,515	51,133
Transportation / Leisure	53,727	46,136	42,464	36,702
Restaurant / Services	20,581	37,827	27,282	23,159
Government / Organizations	38,093	13,868	18,329	15,205
Education / Medical services / Religion	7,221	6,338	7,171	7,617
Classified advertising / Other	50,617	49,955	39,241	42,057
Subtotal	1,038,103	957,293	855,956	861,307
Subtotal for other than the above	80,646	76,103	61,108	75,169
Consolidated billings	¥1,118,749	¥1,033,396	¥917,065	¥936,476

* A key customer has established a company pursuant to certain business activities. Accordingly, certain billings by industry were compiled under new categories from the fiscal year ended March 31, 2009. However, due to the difficulty of compiling billings prior to the fiscal year ended March 31, 2008, under the new categories, figures for actual certain year-on-year comparisons were included under different industries. Specifically, from the fiscal year ended March 31, 2009, certain customers in the Government / Organizations sector were divided into the Restaurant / Services and Finance / Insurance sectors.

Billings by Type of Service

Years ended March 31	2008	2009	2010	2011
Mass media services				
Newspapers	¥ 130,631	¥ 100,727	¥ 81,404	¥ 67,992
Magazines	48,964	39,198	27,612	24,612
Radio	22,716	21,385	16,623	15,638
Television	445,169	412,997	380,843	386,414
Subtotal	647,482	574,308	506,483	494,658
Other advertising services				
Internet media	19,836	23,492	41,522	56,269
Outdoor media	42,825	41,236	34,337	36,791
Creative	100,337	93,299	85,831	93,020
Marketing / Promotion	206,135	206,880	172,296	164,886
Others	21,486	18,075	15,484	15,681
Subtotal	390,621	382,984	349,472	366,649
Subtotal	1,038,103	957,293	855,956	861,307
Subtotal for other than the above	80,646	76,103	61,108	75,169
Consolidated billings	¥1,118,749	¥1,033,396	¥917,065	¥936,476

¥ Millions

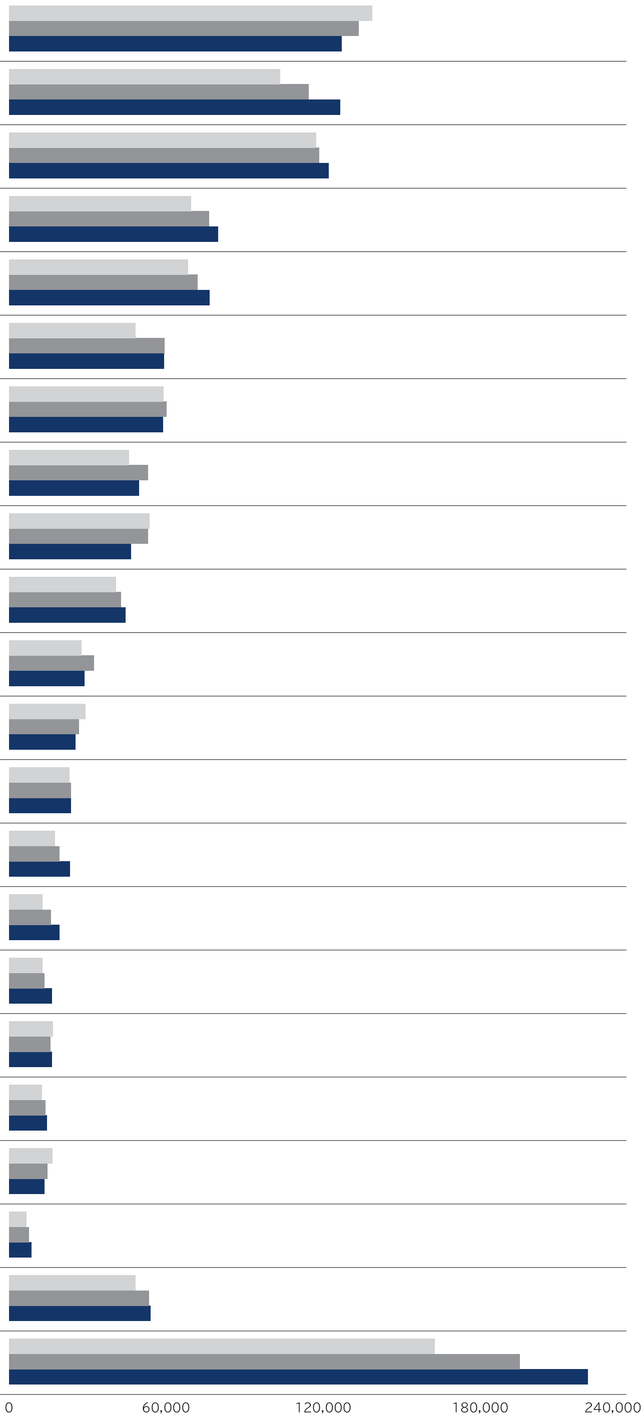
	2012	2013	2014	2015	2016	2017	Contribution
	¥ 14,563	¥ 12,732	¥ 10,747	¥ 12,458	¥ 13,945	¥ 14,373	1.4%
	71,990	72,936	71,125	69,496	76,404	79,835	7.7%
	115,521	115,612	122,319	117,387	118,562	122,138	11.8%
	46,385	49,579	49,473	53,673	53,123	46,655	4.5%
	65,181	64,215	66,386	68,413	71,920	76,595	7.4%
	12,830	13,775	14,378	12,648	13,485	16,448	1.6%
	10,837	10,504	8,675	6,641	7,616	8,427	0.8%
	32,384	28,725	25,811	29,071	26,696	25,363	2.5%
	107,518	121,744	140,320	138,721	133,559	127,021	12.3%
	16,772	17,733	16,805	17,409	19,140	23,179	2.2%
	15,491	14,892	14,051	12,737	15,930	19,209	1.9%
	40,525	43,159	45,212	40,827	42,686	44,374	4.3%
	20,659	22,862	25,023	23,112	23,688	23,686	2.3%
	94,919	102,251	100,491	103,595	114,444	126,532	12.2%
	41,760	46,755	49,857	48,236	59,427	59,281	5.7%
	47,539	46,867	53,288	58,995	60,148	58,725	5.7%
	36,413	43,934	41,429	45,780	53,159	49,670	4.8%
	25,296	23,542	23,434	27,676	32,463	28,786	2.8%
	12,727	15,184	14,577	16,687	15,790	16,349	1.6%
	7,622	11,610	13,989	16,512	14,543	13,564	1.3%
	43,927	45,005	45,879	48,368	53,442	54,107	5.2%
	880,859	923,616	953,268	968,442	1,020,167	1,034,317	100.0%
	97,462	121,815	142,641	162,623	195,083	221,158	
	¥978,321	¥1,045,431	¥1,095,909	¥1,131,064	¥1,215,250	¥1,255,474	

¥ Millions

	2012	2013	2014	2015	2016	2017	Contribution
	¥ 68,003	¥ 66,433	¥ 67,449	¥ 64,759	¥ 64,024	¥ 59,541	5.3%
	23,844	23,719	24,190	23,649	22,433	20,298	1.8%
	15,086	14,618	13,991	14,433	14,012	13,646	1.2%
	394,581	420,512	427,508	431,048	437,188	436,864	39.0%
	501,514	525,282	533,138	533,889	537,658	530,349	47.4%
	80,473	92,319	100,558	109,662	135,489	181,777	16.2%
	37,333	39,096	41,633	40,044	40,873	40,588	3.6%
	100,723	108,091	113,711	114,972	119,858	126,564	11.3%
	170,266	192,407	202,630	206,135	221,078	216,016	19.3%
	19,059	19,062	19,773	20,530	25,317	24,548	2.2%
	407,854	450,975	478,305	491,344	542,615	589,493	52.6%
	909,368	976,256	1,011,443	1,025,233	1,080,272	1,119,842	100.0%
	68,953	69,175	84,466	105,832	134,978	135,633	
	¥978,321	¥1,045,431	¥1,095,909	¥1,131,064	¥1,215,250	¥1,255,474	

Billings by Industry of Clients

¥ Millions / Years ended March 31	2015	2016	2017
Automobiles / Related products	138,721	133,559	127,021
Information / Communications	103,595	114,444	126,532
Beverages / Cigarettes / Luxury foods	117,387	118,562	122,138
Foodstuffs	69,496	76,404	79,835
Cosmetics / Toiletries	68,413	71,920	76,595
Distribution / Retailing	48,236	59,427	59,281
Finance / Insurance	58,995	60,148	58,725
Transportation / Leisure	45,780	53,159	49,670
Pharmaceuticals / Medical supplies	53,673	53,123	46,655
Real estate / Housing facilities	40,827	42,686	44,374
Restaurant / Services	27,676	32,463	28,786
Home electric appliances / AV equipment	29,071	26,696	25,363
Publications	23,112	23,688	23,686
Household products	17,409	19,140	23,179
Hobby supplies / Sporting goods	12,737	15,930	19,209
Apparel / Accessories	12,648	13,485	16,448
Government / Organizations	16,687	15,790	16,349
Energy / Material / Machinery	12,458	13,945	14,373
Education / Medical services / Religion	16,512	14,543	13,564
Precision machinery / Office supplies	6,641	7,616	8,427
Classified advertising / Other	48,368	53,442	54,107
Subtotal for other than the above	162,623	195,083	221,158



* Billings by industry of clients are shown in descending order based on the results of the fiscal year ended March 31, 2017

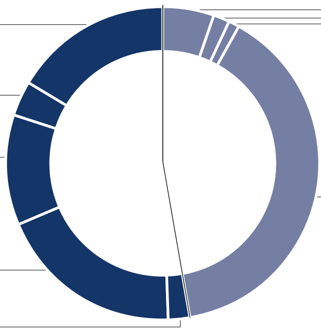
Contribution to Billings by Type of Service

¥ Millions / Year ended March 31

2017

Other Advertising**

Internet media	181,777	16.2%
Outdoor media	40,588	3.6%
Creative	126,564	11.3%
Marketing / Promotion	216,016	19.3%
Others	24,548	2.2%
Subtotal	589,493	52.6%



Four Mass Media*

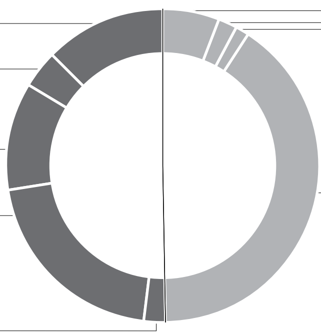
Newspapers	59,541	5.3%
Magazines	20,298	1.8%
Radio	13,646	1.2%
Television	436,864	39.0%
Subtotal	530,349	47.4%

¥ Millions / Year ended March 31

2016

Other Advertising**

Internet media	135,489	12.5%
Outdoor media	40,873	3.8%
Creative	119,858	11.1%
Marketing / Promotion	221,078	20.5%
Others	25,317	2.3%
Subtotal	542,615	50.2%



Four Mass Media*

Newspapers	64,024	5.9%
Magazines	22,433	2.1%
Radio	14,012	1.3%
Television	437,188	40.5%
Subtotal	537,658	49.8%

* Four Mass Media

Newspapers Magazines Radio	Total transactions within the framework of listed and broadcast advertisements and transactions within the framework of export advertisements in Japan and overseas.
Television	Total transactions within the framework of listed and broadcast advertisements and transactions within the framework of export advertisements in Japan and overseas. Television includes satellite television broadcasts.

** Other Advertising

Internet media	Internet media includes transactions and operations within the framework of Internet and mobile advertising and listing advertising. Transactions relating to the proposal of advertising expressions related to these categories and to advertisement production are classified under "Creative."
Outdoor media	Outdoor media is the total of fees from the posting of items such as outdoor advertisements, train and other transportation advertising, and insert advertisements as well as related production costs.
Creative	Creative includes items such as the proposal of advertising expressions, advertisement production, and contract fees for those appearing in advertisements in newspapers, magazines, on radio, on television, and on the Internet.
Marketing / Promotion	Marketing / Promotion includes transactions in areas such as marketing, communication, consulting in brand domains, planning, and survey services as well as transactions pertaining to consulting, planning and implementation concerning sales promotions, events, PR, and CRM (customer relationship management).
Others	Others includes transactions related to sports, entertainment, and other content.

Operating Results at Major (Consolidated) Subsidiaries

Financial Highlights

HAKUHODO

- Billings rose ¥5.0 billion, or 0.6% year on year. This rise was due to an increase in billings from Information / Communications and Cosmetics / Toiletries, which offset a decrease in billings from Automobiles / Related products and Pharmaceuticals / Medical supplies.
- Despite a strong performance by Hakuhodo Inc., the billings increase was minimal due to the fall in billings of subsidiaries, primarily overseas.
- Although ordinary income fell as non-operating income worsened, profit attributable to owners of parent rose due to an improvement in extraordinary income.

¥ Millions

Years ended March 31	2013	2014	2015	2016	2017
Billings	745,218	795,468	832,528	875,294	**880,295**
Ordinary income	18,486	24,437	27,083	30,429	**29,799**
Profit attributable to owners of parent	8,653	12,772	14,281	18,017	**18,598**

DAIKO

- Billings were up ¥5.8 billion, or 3.8%, year on year. This increase was attributable to a rise in billings from Other and Finance / Insurance, which offset a decrease in billings from Distribution / Retailing and Transportation / Leisure.
- Ordinary income rose significantly due to increased billings and improvement in gross margin. Profit attributable to owners of parent fell due in part to the rebound from the lower tax burden in the previous fiscal year brought about by temporary factors.

¥ Millions

Years ended March 31	2013	2014	2015	2016	2017
Billings	150,550	147,335	147,736	155,237	**161,094**
Ordinary income	1,480	1,335	1,873	2,817	**3,367**
Profit attributable to owners of parent	(312)	541	1,119	3,370	**2,138**

YOMIKO

- Billings declined ¥1.3 billion, or 1.9%, year on year. This decline resulted from a billings decrease in Automobiles / Related products and Transportation / Leisure, which outweighed an increase in billings from Information / Communications and Beverages / Cigarettes / Luxury foods.
- Ordinary income was down due to a decline in billings and an increase in SG&A expenses. Furthermore, profit attributable to owners of parent fell due in part to the rebound from the lower tax burden in the previous fiscal year brought about by temporary factors.

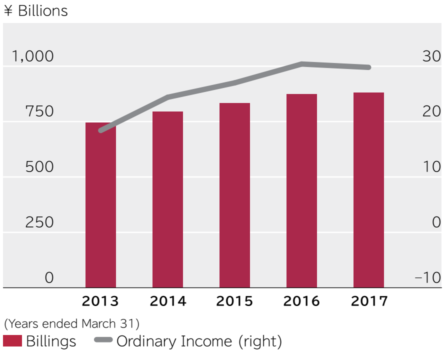
¥ Millions

Years ended March 31	2013	2014	2015	2016	2017
Billings	78,115	78,903	73,041	74,744	**73,346**
Ordinary income	983	1,128	668	1,324	**1,113**
Profit attributable to owners of parent	1,131	665	42	1,529	**631**

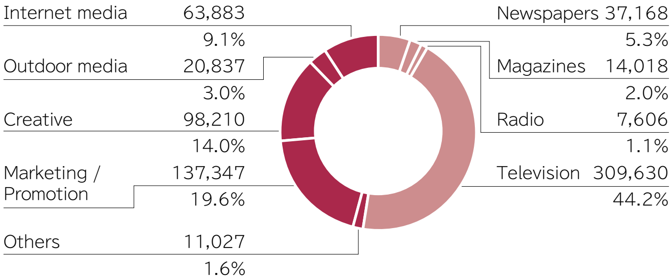
Business Results

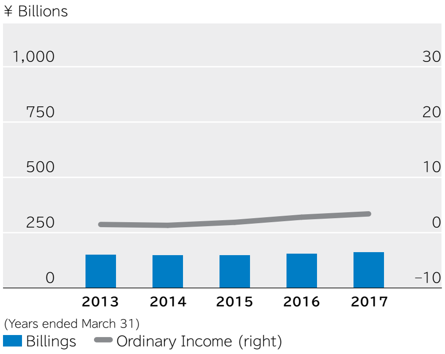
Company Billings by Type of Service and Contribution

(Non-Consolidated)

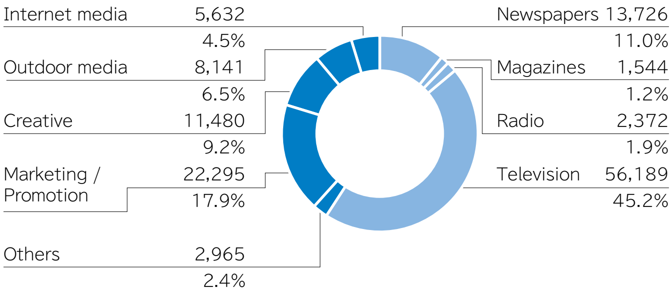


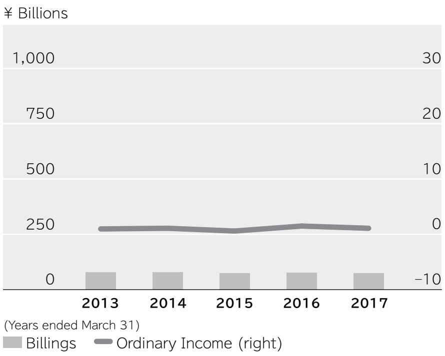
Year ended March 31, 2017 ¥ Millions



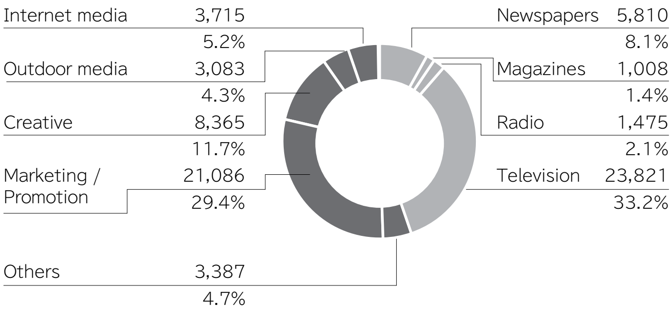


Year ended March 31, 2017 ¥ Millions





Year ended March 31, 2017 ¥ Millions



Stock Information

As of March 31, 2017

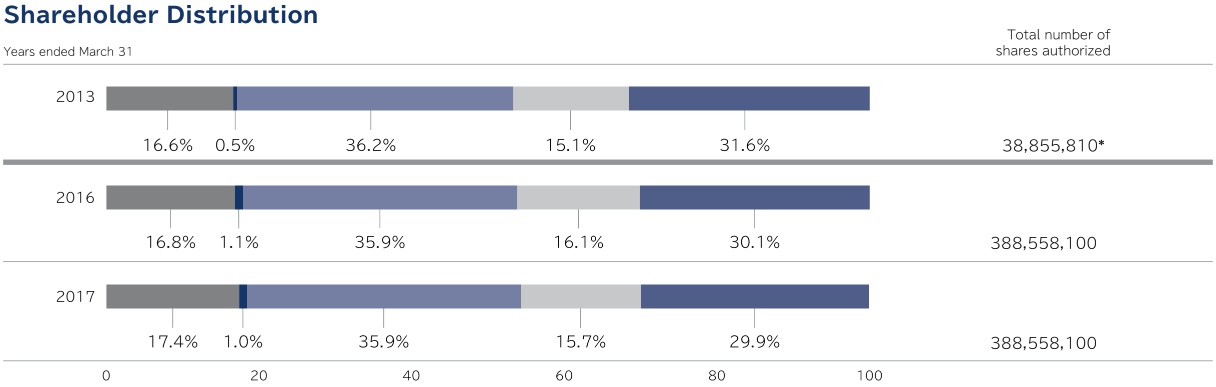
Major Shareholders

		Number of shares held	Percentage of shares held (%)
1	The Hakuho Foundation	70,605,350	18.17
2	General Incorporated Association Hakusei-kai	18,619,700	4.79
3	Hakuhodo DY Holdings Inc.	15,903,977	4.09
4	Motoko Nakamoto	11,550,000	2.97
5	The Asahi Shimbun Company	11,223,490	2.88
6	Hakuhodo DY Holdings Employees' Shareholdings Association	9,877,700	2.54
7	Japan Trustee Services Bank, Ltd. (Trust Account)	9,636,600	2.48
8	The Master Trust Bank of Japan, Ltd. (Trust Account)	9,363,500	2.40
9	Nippon Television Network Corporation	8,620,000	2.21
10	The Dai-ichi Life Insurance Company Limited	6,930,500	1.78

Total Number of Shares Authorized	1,500,000,000
Total Number of Shares Issued	388,558,100
Total Number of Shareholders	5,891

Shareholder Distribution

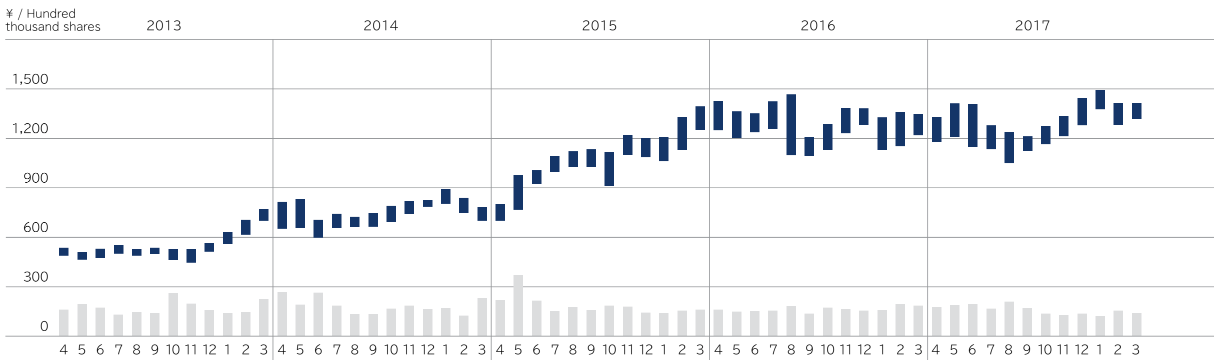
Years ended March 31



Financial Institutions · Securities Companies · Other Firms · Foreign Corporations · Individuals / Others (including treasury stock)

* Hakuhodo DY holdings carried out a 10-for-1 stock split effective October 1, 2013. Accordingly, the number of outstanding shares issued shown for the fiscal year ended March 31, 2013, is the number of shares following the stock split.

Share Price and Trading Volume



	2013	2014	2015	2016	2017
High	770	890	1,395	1,467	1,495
Low	447	599	701	1,095	1,049
At year-end	717	720	1,279	1,275	1,320

Share Price · Trading Volume

* Hakuhodo DY holdings carried out a 10-for-1 stock split effective October 1, 2013. To maintain continuity in the share price prior to and following the stock split, share prices prior to the stock split have been adjusted by the percentage of the stock split.

Financial Review

The preparation of the annual report and the positioning of the audit

The financial section of this annual report (Japanese version) was extracted from the financial conditions, including the consolidated financial statements, described in the 14th *Yuho** Financial Report, which was based on the audit carried out by KPMG AZSA LLC. While part of the layout has been changed, every effort was made in the preparation of this annual report to ensure there were no discrepancies between it and the content of the *Yuho* Financial Report.

From the perspectives of achieving fairness and completeness for all our stakeholders, we prepare and provide an English version of our Japanese annual report. The financial section of the English annual report is a translation of the financial section of the Japanese annual report that was extracted from the *Yuho* Financial Report. Again, great care was taken in the preparation of the annual report to ensure there are no major discrepancies between it and the content of the Japanese annual report.

However, neither the Japanese nor English annual reports were included in the scope of the audit carried out by KPMG AZSA LLC.

* A document Japanese companies must prepare each fiscal year to comply with the Financial Instruments and Exchange Act.

Consolidated Balance Sheets

Years ended March 31, 2017 and 2016

	Note	2016	Note	2017
				¥ Millions
Assets				
Current assets				
Cash and time deposits	1	150,115	1	148,223
Notes and accounts receivable–trade		294,055		307,654
Short-term investment securities		7,811		4,021
Beneficiary right of accounts receivable in trust		5,210		5,078
Inventories	2	14,041	2	18,832
Short-term loans receivable		1,823		1,839
Deferred tax assets		7,621		9,232
Other		18,184		21,968
Allowance for doubtful accounts		(555)		(668)
Total current assets		498,308		516,183
Noncurrent assets				
Property, plant and equipment				
Buildings and structures		27,988		29,107
Accumulated depreciation		(12,333)		(13,379)
Buildings and structures, net		15,655		15,727
Land		11,649		11,752
Other		9,432		9,687
Accumulated depreciation		(6,538)		(6,806)
Other, net		2,893		2,880
Total property, plant and equipment		30,199		30,361
Intangible assets				
Software		5,964		6,408
Goodwill		14,892		17,689
Other		6,275		4,906
Total intangible assets		27,132		29,004
Investments and other assets				
Investment securities	1, 3	76,880	1, 3	96,554
Long-term loans receivable		812		747
Net defined benefit asset		12,865		18,583
Deferred tax assets		6,960		4,915
Other	3	28,017	3	28,153
Allowance for doubtful accounts		(2,643)		(2,452)
Total investments and other assets		122,892		146,502
Total noncurrent assets		180,224		205,868
Total assets		678,532		722,051

Note: The accompanying notes to consolidated financial statements are an integral part of these statements.

¥ Millions

	Note	2016	Note	2017
Liabilities				
Current liabilities				
Notes and accounts payable–trade		283,546		281,335
Short-term loans payable		6,386		9,692
Current portion of long-term loans payable		311		559
Accrued expenses		9,802		10,323
Income taxes payable		8,733		10,473
Asset retirement obligations		22		—
Provision for bonuses		22,388		24,256
Provision for directors' bonuses		582		602
Provision for loss on guarantees		50		50
Other		21,138		22,208
Total current liabilities		352,961		359,503
Noncurrent liabilities				
Long-term loans payable		1,388		1,577
Deferred tax liability		5,591		10,094
Asset retirement obligations		9		9
Provision for directors' retirement benefits		1,800		1,869
Net defined benefit liability		19,722		19,731
Other		3,027		3,448
Total noncurrent liabilities		31,539		36,729
Total liabilities		384,501		396,233
Net assets				
Shareholders' equity				
Capital stock		10,000		10,000
Capital surplus		89,655		88,885
Retained earnings		157,352		175,407
Treasury stock		(11,370)		(11,370)
Total shareholders' equity		245,637		262,922
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		23,914		38,324
Foreign currency translation adjustments		186		(890)
Cumulative adjustments related to retirement benefits		3,420		4,350
Total accumulated other comprehensive income		27,520		41,784
Subscription rights to shares		223		283
Non-controlling interests		20,648		20,828
Total net assets		294,031		325,818
Total liabilities and net assets		678,532		722,051

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Years ended March 31, 2017 and 2016

Consolidated Statements of Income

¥ Millions

	Note	2016	Note	2017
Gross billings		1,215,250		1,255,474
Cost of sales	1	982,751	1	1,006,834
Revenue		232,498		248,640
Selling, general and administrative expenses				
Salaries and allowances		78,488		83,897
Retirement benefit expenses		1,430		2,362
Provision for bonuses		19,762		21,828
Provision for directors' retirement benefits		444		399
Provision for directors' bonuses		573		611
Amortization of goodwill		1,825		2,527
Provision of allowance for doubtful accounts		633		121
Other		84,345		89,631
Total selling, general and administrative expenses		187,503		201,379
Operating income		44,994		47,261
Nonoperating income				
Interest income		230		222
Dividend income		866		1,021
Equity in earnings of affiliates		727		—
Foreign exchange gain		255		—
Gain on investments in partnership		90		—
Insurance premiums refunded cancellation		42		37
Other		575		511
Total nonoperating income		2,789		1,793
Nonoperating expenses				
Interest expenses		153		159
Equity in loss of affiliates		—		2,606
Foreign exchange loss		—		499
Loss on investments in partnership		—		116
Other		134		181
Total nonoperating expenses		288		3,562
Ordinary income		47,495		45,491
Extraordinary income				
Gain on sales of noncurrent assets	2	37	2	3
Gain on sales of investment securities		300		328
Gain on sales of subsidiaries' and affiliates' stocks		531		—
Gain on change in equity		130		0
Gain on step acquisitions		—	3	1,061
Gain on negative goodwill		15		5
Compensation income		120		—
Other		8		12
Total extraordinary income		1,142		1,412

	Note	2016	Note	2017
				¥ Millions
Extraordinary loss				
Loss on sales of noncurrent assets	4	16	4	1
Loss on retirement of noncurrent assets	5	259	5	120
Impairment loss	6	115	6	793
Loss on sales of investment securities		1		55
Loss on sales of subsidiaries' and affiliates' stocks		—		58
Loss on valuation of investment securities		655		190
Loss on valuation of subsidiaries' and affiliates' stocks		9		—
Loss on change in equity		—		6
Office transfer expenses		245		107
Special retirement expenses		139		198
Loss on liquidation of subsidiaries and affiliates		293		—
Loss on liquidation of subsidiaries and associates		19		247
Amortization of goodwill		44		65
Other	7	586	7	99
Total extraordinary loss		2,386		1,944
Income before income taxes		46,251		44,959
Income taxes–current		14,949		17,859
Income taxes–deferred		148		(354)
Total income taxes		15,098		17,504
Profit		31,153		27,454
Profit attributable to non-controlling interests		2,621		1,574
Profit attributable to owners of the parent		28,531		25,880

Note: The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income

	Note	2016	Note	2017
				¥ Millions
Profit		31,153		27,454
Other comprehensive income				
Valuation difference on available-for-sale securities	1	(3,228)	1	13,956
Foreign currency translation adjustments	1	(2,277)	1	(931)
Remeasurements of defined benefit plans	1	(5,322)	1	930
Share of other comprehensive income of associates accounted for using the equity method	1	(99)	1	(134)
Total accumulated other comprehensive income	1	(10,927)	1	13,821
Comprehensive income		20,226		41,276
(Breakdown)				
Comprehensive income attributable to owners of parent		17,096		40,144
Comprehensive income attributable to non-controlling interests		3,130		1,131

Note: The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2017 and 2016

¥ Millions

	Note	2016	Note	2017
Shareholders' equity				
Capital stock				
Balance at the end of previous period		10,000		10,000
Restated balance		10,000		—
Total changes of items during the period		—		—
Balance at the end of current period		10,000		10,000
Capital surplus				
Balance at the end of previous period		88,894		89,655
Cumulative effect of changes in accounting policies		1,044		—
Restated balance Change of items during the period		89,939		—
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(283)		(770)
Total changes of items during the period		(283)		(770)
Balance at the end of current period		89,655		88,885
Retained earnings				
Balance at the end of previous period		137,025		157,352
Cumulative effect of changes in accounting policies		(2,037)		—
Restated balance		134,988		—
Changes of items during the period				
Dividends from surplus		(6,148)		(7,825)
Profit attributable to owners of parent		28,531		25,880
Change in scope of equity method		(19)		—
Total changes of items during the period		22,363		18,055
Balance at the end of current period		157,352		175,407
Treasury stock				
Balance at the end of previous period		(11,369)		(11,370)
Restated balance		(11,369)		—
Changes of items during the period				
Purchase of treasury stock		(0)		(0)
Total changes of items during the period		(0)		(0)
Balance at the end of current period		(11,370)		(11,370)
Total shareholders' equity				
Balance at the end of previous period		224,550		245,637
Cumulative effect of changes in accounting policies		(992)		—
Restated balance		223,557		—
Changes of items during the period				
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(283)		(770)
Dividends from surplus		(6,148)		(7,825)
Profit attributable to owners of parent		28,531		25,880
Change in scope of equity method		(19)		—
Purchase of treasury stock		(0)		(0)
Total changes of items during the period		22,079		17,284
Balance at the end of current period		245,637		262,922

¥ Millions

	Note	2016	Note	2017
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at the end of previous period		27,751		23,914
Restated balance		27,751		—
Changes of items during the period				
Net changes of items other than shareholders' equity		(3,837)		14,410
Total changes of items during the period		(3,837)		14,410
Balance at the end of current period		23,914		38,324
Foreign currency translation adjustments				
Balance at the end of previous period		2,532		186
Restated balance		2,532		—
Changes of items during the period				
Net changes of items other than shareholders' equity		(2,345)		(1,077)
Total changes of items during the period		(2,345)		(1,077)
Balance at the end of current period		186		(890)
Cumulative adjustments related to retirement benefits				
Balance at the end of previous period		8,742		3,420
Restated balance		8,742		—
Changes of items during the period				
Net changes of items other than shareholders' equity		(5,322)		930
Total changes of items during the period		(5,322)		930
Balance at the end of current period		3,420		4,350
Total accumulated other comprehensive income				
Balance at the end of previous period		39,026		27,520
Restated balance		39,026		—
Changes of items during the period				
Net changes of items other than shareholders' equity		(11,505)		14,263
Total changes of items during the period		(11,505)		14,263
Balance at the end of current period		27,520		41,784
Subscription rights to shares				
Balance at the end of previous period		197		223
Restated balance		197		—
Changes of items during the period				
Net changes of items other than shareholders' equity		25		59
Total changes of items during the period		25		59
Balance at the end of current period		223		283
Non-controlling interests				
Balance at the end of previous period		18,954		20,648
Restated balance		18,954		—
Changes of items during the period				
Net changes of items other than shareholders' equity		1,694		179
Total changes of items during the period		1,694		179
Balance at the end of current period		20,648		20,828
Total net assets				
Balance at the end of previous period		282,729		294,031
Cumulative effect of changes in accounting policies		(992)		—
Restated balance		281,736		—
Changes of items during the period				
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(283)		(770)
Dividends from surplus		(6,148)		(7,825)
Profit attributable to owners of parent		28,531		25,880
Change in scope of equity method		(19)		—
Purchase of treasury stock		(0)		(0)
Net changes of items other than shareholders' equity		(9,785)		14,502
Total changes of items during the period		12,294		31,787
Balance at the end of current period		294,031		325,818

Note: The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2017 and 2016

¥ Millions

	Note	2016	Note	2017
Cash flows from operating activities				
Income before income taxes		46,251		44,959
Depreciation and amortization		4,359		4,738
Impairment loss		115		793
Amortization of goodwill		1,870		2,592
Gain on negative goodwill		(15)		(5)
Increase (decrease) in provision for bonuses		6,307		1,867
Increase (decrease) in provision for directors' bonuses		236		20
Increase (decrease) in net defined benefit liability		(78)		12
Increase (decrease) in provision for directors' retirement benefits		50		68
Increase (decrease) in allowance for doubtful accounts		943		(156)
Interest and dividend income		(1,097)		(1,243)
Interest expenses		153		159
Compensation income		(120)		—
Foreign exchange gains (losses)		29		(33)
Equity in earnings of affiliates		(727)		2,606
Gain (loss) on change in equity		(130)		5
Gain (loss) on step acquisitions		—		(1,061)
Gain (loss) on sales of investment securities		(298)		(273)
Gain (loss) on sales of subsidiaries' and affiliates' stocks		(531)		58
Gain (loss) on valuation of investment securities		655		190
Gain (loss) on sales of noncurrent assets		(20)		(1)
Gain (loss) on retirement of noncurrent assets		259		120
Increase (decrease) in notes and accounts receivable–trade		(22,612)		(10,613)
Increase (decrease) in inventories		(2,439)		(4,649)
Increase (decrease) in notes and accounts payable–trade		22,387		(3,431)
Increase (decrease) in net defined benefit asset		(5,482)		(4,682)
Other, net		(7,862)		(238)
Subtotal		42,201		31,802
Interest and dividend income received		1,367		1,602
Interest expenses paid		(161)		(171)
Amount of income from compensation		120		—
Income taxes paid		(13,828)		(16,944)
Net cash provided by operating activities		29,698		16,288

	Note	2016	Note	2017
				¥ Millions
Cash flows from investing activities				
Payments into time deposits		(9,564)		(3,110)
Proceeds from withdrawal of time deposits		15,024		8,137
Proceeds from sales of securities		7,000		2,000
Purchase of property, plant and equipment		(5,390)		(2,926)
Proceeds from sales of property, plant and equipment		61		12
Purchase of intangible assets		(2,760)		(2,803)
Purchase of investment securities		(6,199)		(3,442)
Proceeds from sales of investment securities		2,675		1,799
Payments for investments in capital		(6,682)		(43)
Proceeds from investments in capital		4		2
Payments from sales of investments in subsidiaries resulting in change in scope of consolidation	2	(14,295)	2	(2,348)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	2	210	2	1,505
Payments from sales of investments in subsidiaries resulting in change in scope of consolidation	3	(49)	3	(22)
Purchase of subsidiary shares and capital		(1,196)		(2,524)
Payments for lease deposits		(1,209)		(1,045)
Collection of lease deposits		800		139
(Increase) decrease in short-term loans receivable		(53)		29
Payments of long-term loans receivable		(349)		(11)
Collection of long-term loans receivable		87		75
(Increase) decrease of trust beneficiary right		(2)		169
Payments for transfer of business		(180)		—
Other, net		1,384		126
Net cash used in investing activities		(20,686)		(4,280)
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable		2,205		2,247
Proceeds from long-term loans payable		1,059		1,094
Repayments of long-term loans payable		(331)		(748)
Redemption of bonds		(50)		—
Repayments of finance lease obligations		(219)		(218)
Purchase of treasury stock		(0)		(0)
Purchase of treasury stock of subsidiaries in consolidation		—		(6)
Payments for specified fund trust of treasury stock of subsidiaries		(1,503)		—
Proceeds from specified fund trust of treasury stock of subsidiaries		307		0
Payments from purchase of investments in subsidiaries not resulting in change in scope of consolidation		(184)		(1,979)
Cash dividends paid		(6,141)		(7,815)
Dividends paid to non-controlling interests		(734)		(624)
Proceeds from share issuance to non-controlling shareholders		268		223
Proceeds from exercise of stock options		31		22
Other, net		—		0
Net cash used in financing activities		(5,290)		(7,803)
Effect of exchange rate change on cash and cash equivalents		(533)		(815)
Net increase in cash and cash equivalents		3,188		3,389
Cash and cash equivalents at beginning of period		140,133		143,298
Decrease in cash and cash equivalents from removal from the scope of consolidation		(23)		—
Cash and cash equivalents at end of period	1	143,298	1	146,688

Note: The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Method of Preparation for Consolidated and Nonconsolidated Financial Statements

(1) The Company's consolidated financial statements were prepared in accordance with the "Regulations Concerning the Terminology, Forms and Preparation Method of Consolidated Financial Statements" (Finance Ministry Ordinance No. 28 of 1976).

(2) The Company's nonconsolidated financial statements were prepared in accordance with the "Regulations Concerning the Terminology, Forms and Preparation Method of Financial Statements" (Finance Ministry Ordinance No. 59 of 1963; the "Financial Statement Regulations").

The Company is deemed eligible to submit special financial statements, and has prepared these financial statements as per Article 127 of the "Ordinance on Terminology, Forms and Preparation Method of Financial Statements, etc."

Audit Verification

The Company's consolidated and financial statements for the fiscal year under review (April 1, 2016 to March 31, 2017) were audited by KPMG AZSA LLC, as per Article 193, Section 2.1 of the Financial Instruments and Exchange Act.

Special Measures to Ensure Appropriateness of Consolidated Financial Statements

Hakuhodo DY holdings carries out special measures to ensure the appropriateness of its consolidated financial statements. Specifically, we participate as a member of the Financial Accounting Standards Foundation to appropriately understand and respond to changes in accounting standards.

Basis of Preparation of Consolidated Financial Statements

1. Scope of consolidation

(1) Number of consolidated subsidiaries—248.
Names of primary consolidated subsidiaries—Please refer to pages 91–94.

D.A. Consortium Holdings Inc. and 14 other companies were newly established and added to the scope of consolidation. Integrated Communications Group Pte Ltd. and 33 other companies were added as a result of the acquisition of shares. Companies removed from the scope of consolidation included NESPA JAPAN and three other companies that were liquidated, Chubu Asahi Advertising Inc. and two other companies as a result of the sale of shares, and Instore Brand Consulting Inc. and one other company that were merged.

(2) Major nonconsolidated subsidiaries
IF Vietnam Co., Ltd
(Reason for exclusion from scope of consolidation)
Nonconsolidated subsidiaries are small in size, and neither their aggregate total assets, sales, net income, or retained earnings (amounts corresponding to ownership portion) have a significant impact on the Company's consolidated financial statements.

2. Items related to application of equity-method accounting

(1) Nonconsolidated subsidiaries for which the equity method is applied.
No items
Davc, Inc. was removed from the scope of equity-method accounting as it was liquated.

(2) Number of affiliates for which the equity method is applied—57.
(Names of major equity-method affiliates)
SUPER NETWORK, INC., ADSTAFF-HAKUHODO, INC., Advertisement EDI Center, Inc., mediba Inc., Percept/H Pvt. Ltd., Guangdong GDAD-Hakuhodo Advertising Co., Ltd., and TBWA\HAKUHODO China Co., Ltd.

IDEO U LLC was newly established and added to the scope of equity-method application. Environmental Planning Laboratory Inc. and one other company were added as a result of the acquisition of shares. ngi Venture Community Fund Number 2 (VCF-2), an investment limited liability partnership was removed from the scope of consolidation as they were liquidated.

(3) Major nonconsolidated subsidiaries and affiliates for which the equity method is not applied
Foresight Research Co., Ltd.
(Reason for exclusion from scope of equity-method application)
The effect of these nonequity-method companies individually on net income and retained earnings is negligible, and as a whole they are not significant, and are therefore excluded from the scope of equity-method application.

(4) Items deemed particularly necessary for inclusion regarding the method of equity-method application
For equity-method affiliates with fiscal years ending on dates other than March 31, the financial statements for the companies' respective fiscal years are used.

3. Items related to fiscal year-ends, etc., for consolidated subsidiaries
When the difference between a consolidated subsidiary's fiscal year-end and the Group's consolidated fiscal year-end is three months or less, the financial statements of the subsidiary for the relevant fiscal year are used. When the difference between a consolidated subsidiary's fiscal year-end and the Group's consolidated fiscal year-end is more than three months, provisional financial statements are used based on said company's financial results in the most recent quarter. For significant transactions that occur between the day following the subsidiary's fiscal year-end and the Company's fiscal year-end, adjustments are applied as necessary for consolidation.

In the past, provisional financial statements based on the financial results of the most recent quarter were used for IREP Co., Ltd., and three other companies as their fiscal years ended on September 30. However, in the consolidated fiscal year under review, these companies' fiscal year-ends were changed to March 31. As a result, the consolidated statement of income for the year under review has been adjusted to cover the 15-month period from January 1, 2016, to March 31, 2017.

Additionally, the fiscal year-end for K.M.J CO., LTD. which was made a consolidated subsidiary in the year under review through the acquisition of shares, had previously been January 31 and was changed to March 31. Accordingly, the accounting period for the company in the year under review spans eight months.

4. Items related to accounting policies
(1) Valuation standards and method for major assets
1) Valuation standards and methods for negotiable securities
i. Bonds to be held to maturity
Amortized cost method
ii. Other securities
a. For which a market value is available
Market value method, based on the market price, etc., as of the fiscal year-end (with the entire amount of valuation differences directly included under net assets, and the cost of sales calculated using the moving average method)
b. For which a market value is unavailable
Moving average cost method
For investments in limited liability investment partnerships and similar associations (considered negotiable securities as per Article 2, Section 2 of the Financial Instruments and Exchange Act), the net amount corresponding to the ownership portion based on the most recently available documents for the reporting date stipulated in the partnership contract is used.
2) Valuation standards for derivative transactions
Market value method
3) Valuation standards and method for inventories
Primarily, the individually identified cost method is used (with balance sheet values calculated by writing down book values based on decreased profitability).

(2) Depreciation methods for major depreciable assets
1) Property, plant and equipment (excluding lease assets)
The declining balance method is used at the Company and its domestic consolidated subsidiaries. (However, the straight-line method is applied for buildings (excluding ancillary equipment) acquired on or after April 1, 1998, as well as for ancillary equipment and structures acquired on or after April 1, 2016.)

The straight-line method is primarily applied at overseas consolidated subsidiaries.

The primary years of useful life are as follows:

Buildings and structures	3–50 years

2) Intangible assets (excluding lease assets)
Straight-line method

For software used internally, the straight-line method is applied based on the Company's internal period of useful life (five years).

3) Lease assets
Lease assets associated with finance lease transactions that do not transfer ownership rights

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

(3) Accounting standards for significant transactions
1) Allowance for doubtful accounts
In order to prepare for losses from the nonrepayment of claims, the estimated irrecoverable amount is recorded.

i. General claims
Actual default rates are used.

ii. Claims for which there is concern of nonrepayment or claims in bankruptcy
A financial evaluation is used.

2) Provision for bonuses
In order to provide for the payment of bonuses to employees, an amount corresponding to the estimated amount of bonus payments to be made for the fiscal year is recorded.

3) Provision for directors' bonuses
To provide for the payment of bonuses to directors, a provision based on the amount expected to be paid was recorded during the fiscal year under review.

4) Provision for directors' retirement benefits
In order to prepare for the payment of retirement benefits to directors and executive officers (excluding those who are deemed employees under the retirement benefit program), an amount to be paid at the fiscal year-end based on internal guidelines is recorded.

5) Provision for loss on guarantees
In order to prepare for losses associated with guarantee obligations, the estimated amount of losses at the fiscal year-end is recorded.

(4) Accounting treatment for retirement benefits
1) Method of period attribution for anticipated amounts of retirement benefits
In calculating retirement benefit obligations, the anticipated amount of retirement benefit obligations is attributed to the period ending in the fiscal year under review as per the benefit formula method.

2) Treatment of expenses for actuarial differences and past service costs
Actuarial differences are treated as expenses using the declining balance method over a fixed number of years (7–16 years) that does not exceed employees' average remaining period of service at the time they arise, from the following fiscal year.

Past service costs are treated as expenses using the straight-line method over a fixed number of years (5–7 years) that does not exceed employees' average remaining period of service at the time they arise. At certain consolidated subsidiaries, past service costs are treated collectively at the time they arise.

(5) Significant hedge accounting methods
1) Method of hedge accounting
In principle, deferred hedge accounting is applied. However, designation accounting is applied for forward foreign exchange transactions that meet the requirements for designation accounting.
2) Hedging methods and scope of hedging
Forward foreign exchange transactions are used to hedge foreign currency-denominated monetary claims and obligations and scheduled foreign currency transactions.
3) Hedging policy
To effectively manage risks, forward foreign exchange transactions are used to manage risks from exchange rate movements in foreign currency-denominated transactions, based on internal guidelines.
4) Method for evaluating effectiveness of hedging
For forward foreign exchange transactions, the major terms of the hedged transaction and the hedging transaction are the same and the transactions are deemed to have a high degree of correlation, and the effectiveness is not determined.

(6) Amortization method and period for goodwill
Goodwill is amortized in equal amounts over a rational number of years not exceeding 20, by determining the period for which an investment effect will occur on an individual item basis.

(7) Scope of cash included in the consolidated statements of cash flows
Cash on hand, deposits available on demand, and short-term investments with maturities of up to three months that are highly liquid, easy to convert, and have little risk of price fluctuation

(8) Other significant items in the preparation of the consolidated financial statements
Accounting treatment for consumption taxes, etc.
Consumption tax and regional consumption taxes are excluded.

Changes in Accounting Policies

Following the revisions to the Corporation Tax Act, the Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016 (PITF No.32, June 17, 2016) has been adopted in the fiscal year under review. Accordingly, the depreciation method for ancillary equipment and structures acquired on or after April 1, 2016 has been changed from the declining balance method to the straight-line method.

The effect of this change on operating income, ordinary income, and income before income taxes is minimal.

Change in Presentation

(Consolidated statements of income)

In light of the lack of significance of provision of allowance for doubtful accounts included under extraordinary loss for the fiscal year ended March 31, 2016, this item is now included under other from the fiscal year under review. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been similarly reclassified.

As a result, the ¥494 million of provision of allowance for doubtful accounts and ¥92 million of other shown under extraordinary loss in the consolidated statements of income for the fiscal year ended March 31, 2016, have been reclassified as ¥586 million of other.

Notes

(Consolidated balance sheets)

Note 1. Pledged assets and secured liabilities

Fiscal year ended March 31, 2017

Cash and time deposits totaling ¥1,297 million and investment securities totaling ¥10 million have been provided as trade guarantees, etc.

Fiscal year ended March 31, 2016

Cash and time deposits totaling ¥1,205 million have been provided in place of guarantee monies. In addition, investment securities totaling ¥10 million have been provided as trade guarantees, etc.

Note 2. Inventories

Fiscal year ended March 31, 2017

The Group's inventories comprise a broad range of various copyrights related to advertising operations and expenses related to operations in progress, and appropriate classifications are not possible. They are therefore shown as a lump sum.

Fiscal year ended March 31, 2016

Same as the fiscal year under review

Note 3. Amounts corresponding to nonconsolidated subsidiaries and affiliates are as follows:

Fiscal year ended March 31, 2017

Investment securities (stocks)	¥9,540 million
Other assets (capital)	¥6,908 million

Fiscal year ended March 31, 2016

Investment securities (stocks)	¥10,930 million
Other assets (capital)	¥7,784 million

Note 4. Incidental obligations

Fiscal year ended March 31, 2017

The Company has ¥103 million in guarantee obligations for bank borrowings under the home financing plan for employees.

Fiscal year ended March 31, 2016

The Company has ¥236 million in guarantee obligations for bank borrowings under the home financing plan for employees.

(Consolidated statements of income)

Note 1. Write-downs of inventories held for sale in the ordinary course of business due to decreased profitability

Fiscal year ended March 31, 2017

Cost of sales	¥879 million

Fiscal year ended March 31, 2016

Cost of sales	¥248 million

Note 2. Gain on sales of noncurrent assets

Fiscal year ended March 31, 2017

Property, plant and equipment	
Buildings and structures	—
Others (vehicles and transport equipment)	¥2 million
Others (tools and equipment)	¥0 million
Intangible assets	
Software	—
Total	¥3 million

Fiscal year ended March 31, 2016

Property, plant and equipment	
Buildings and structures	¥12 million
Others (vehicles and transport equipment)	¥23 million
Others (tools and equipment)	¥0 million
Intangible assets	
Software	¥0 million
Total	¥37 million

Note 3. A gain on step acquisitions was recorded following the step acquisition of Media Intelligence Co., Ltd.

Note 4. Loss on sales of noncurrent assets

Fiscal year ended March 31, 2017

Intangible assets	
Buildings and structures	—
Others (vehicles and transport equipment)	¥0 million
Others (tools and equipment)	¥0 million
Intangible assets	
Software	—
Total	¥1 million

Fiscal year ended March 31, 2016

Intangible assets	
Buildings and structures	¥7 million
Others (vehicles and transport equipment)	—
Others (tools and equipment)	¥1 million
Intangible assets	
Software	¥8 million
Total	¥16 million

Note 5. Loss on retirement of noncurrent assets

Fiscal year ended March 31, 2017

Property, plant and equipment	
Buildings and structures	¥21 million
Others (machinery)	—
Others (vehicles and transport equipment)	—
Others (tools and equipment)	¥9 million
Others (lease assets)	¥14 million
Intangible assets	
Software	¥75 million
Total	¥120 million

Fiscal year ended March 31, 2016

Property, plant and equipment	
Buildings and structures	¥49 million
Others (machinery)	¥0 million
Others (vehicles and transport equipment)	¥0 million
Others (tools and equipment)	¥21 million
Others (lease assets)	—
Intangible assets	
Software	¥188 million
Total	¥259 million

Note 6. Impairment loss

Fiscal year ended March 31, 2017

The Hakuhodo Group recorded impairment losses regarding the following asset groups.

Shares

Place	Purpose	Type	Amount
Japan	Business assets, etc.	Property, plant and equipment and other assets	¥0 million
		Software	¥134 million
		Goodwill	¥102 million
		Intangible assets and other assets	¥112 million
United States	Business assets	Intangible assets and other assets	¥321 million
Other	Business assets, etc.	Software	¥20 million
		Goodwill	¥68 million
		Intangible assets and other assets	¥32 million

The Group conducts grouping for business assets based on a single unit company, which is regarded as the minimum unit that generates cash flows that are mostly independent from cash flows of other assets and asset groups.

In addition, idle assets and rental property assets are grouped by individual property.

As the profits that were expected from business assets could no longer be forecast during the year under review, asset book value declined to the recoverable amount, and that decrease was recorded as an impairment loss of ¥793 million.

Also, the recoverable amount for each asset group is calculated by estimating the value in use and applying a discount rate of 11.8%–18.5% to future cash flows. However, the recoverable amount for asset groups with no foreseeable cash flows is estimated at zero.

Fiscal year ended March 31, 2016

The importance is insignificant, and this section is therefore eliminated.

Note 7. Breakdown of “other” under extraordinary loss

Fiscal year ended March 31, 2017

Loss on devaluation of golf memberships	¥68 million
Loss on sales of golf memberships	—
Exit penalty	¥0 million
Litigation settlement	¥2 million
Provision of allowance for doubtful account	¥0 million
Other	¥27 million
Total	¥99 million

Fiscal year ended March 31, 2016

Loss on devaluation of golf memberships	¥27 million
Loss on sales of golf memberships	¥0 million
Exit penalty	¥1 million
Litigation settlement	¥3 million
Provision of allowance for doubtful account	¥494 million
Other	¥59 million
Total	¥586 million

(Consolidated statements of comprehensive income)

Note 1. Reclassification adjustments and tax effect relating to other comprehensive income

Fiscal year ended March 31, 2017

Valuation difference on available-for-sale securities	
Amount arising during fiscal year	¥20,608 million
Reclassification adjustments	¥(1,205 million)
Prior to tax effect	¥19,402 million
Tax effect	¥(5,446 million)
Valuation difference on available-for-sale securities	¥13,956 million
Foreign currency translation adjustments	
Amount arising during fiscal year	¥(973 million)
Reclassification adjustments	—
Prior to tax effect	¥(973 million)
Tax effect	¥42 million
Foreign currency translation adjustments	¥(931 million)
Remeasurements of defined benefit plans	
Amount arising during fiscal year	¥1,931 million
Reclassification adjustments	¥(802 million)
Prior to tax effect	¥1,129 million
Tax effect	¥(198 million)
Remeasurements of defined benefit plans	¥930 million
Share of other comprehensive income of associates accounted for using the equity method	
Amount arising during fiscal year	¥(134 million)
Reclassification adjustment	—
Share of other comprehensive income of associates accounted for using the equity method	¥(134 million)
Total accumulated other comprehensive income	¥13,821 million

Fiscal year ended March 31, 2016

Valuation difference on available-for-sale securities	
Amount arising during fiscal year	¥(5,788 million)
Reclassification adjustments	¥356 million
Prior to tax effect	¥(5,432 million)
Tax effect	¥2,203 million
Valuation difference on available-for-sale securities	¥(3,228 million)
Foreign currency translation adjustments	
Amount arising during fiscal year	¥(2,185 million)
Reclassification adjustments	¥(171 million)
Prior to tax effect	¥(2,356 million)
Tax effect	¥79 million
Foreign currency translation adjustments	¥(2,277 million)
Remeasurements of defined benefit plants	
Amount arising during fiscal year	¥(6,150 million)
Reclassification adjustments	¥(1,729 million)
Prior to tax effect	¥(7,880 million)
Tax effect	¥2,558 million
Remeasurements of defined benefit plants	¥(5,322 million)
Share of other comprehensive income of associates accounted for using the equity method	
Amount arising during fiscal year	¥(99 million)
Reclassification adjustment	—
Share of other comprehensive income of associates accounted for using the equity method	¥(99 million)
Total accumulated other comprehensive income	¥(10,927 million)

(Consolidated statements of changes in net assets)

Note 1. Items related to types and total number of shares issued, and types and number of treasury stock shares

Fiscal year ended March 31, 2017

Shares

	No. of shares at start of fiscal year	Increase in number of shares during fiscal year	Decrease in number of shares during fiscal year	No. of shares as of fiscal year-end
No. of shares issued				
Common stock	388,558,100	—	—	388,558,100
Treasury stock, at cost				
Common stock	15,903,767	210	—	15,903,977

Note: The 210 share increase in the number of shares of treasury stock was the result of the purchase of odd-lot shares.

Fiscal year ended March 31, 2016

Shares

	No. of shares at start of fiscal year	Increase in number of shares during fiscal year	Decrease in number of shares during fiscal year	No. of shares as of fiscal year-end
No. of shares issued				
Common stock	388,558,100	—	—	388,558,100
Treasury stock, at cost				
Common stock	15,903,370	397	—	15,903,767

Note: The 397 share increase in the number of shares of treasury stock was the result of the purchase of odd-lot shares.

Note 2. Items related to subscription rights to shares

Fiscal year ended March 31, 2017

Outstanding at consolidated subsidiaries as of fiscal year-end ¥283 million

Fiscal year ended March 31, 2016

Outstanding at consolidated subsidiaries as of fiscal year-end ¥223 million

Note 3. Items related to dividends

Fiscal year ended March 31, 2017

(1) Cash dividends paid

A resolution to the following effect was approved at the General Meeting of Shareholders held on June 29, 2016.

• Items related to common stock dividends

1) Dividends paid	¥3,353 million
2) Cash dividends per share	¥9.0
3) Reference date	March 31, 2016
4) Effective date	June 30, 2016

A resolution to the following effect was approved at the meeting of the Board of Directors held on November 8, 2016.

• Items related to common stock dividends

1) Dividends paid	¥4,471 million
2) Cash dividends per share	¥12.00
3) Reference date	September 30, 2016
4) Effective date	December 2, 2016

(2) Dividends with a reference date in the fiscal year under review and an effective date after the fiscal year-end

A resolution to the following effect was approved at the General Meeting of Shareholders held on June 29, 2017.

• Items related to common stock dividends

1) Dividends paid	¥4,471 million
2) Source of dividends	Retained earnings
3) Cash dividends per share	¥12.00
4) Reference date	March 31, 2017
5) Effective date	June 30, 2017

Fiscal year ended March 31, 2016

(1) Cash dividends paid

A resolution to the following effect was approved at the General Meeting of Shareholders held on June 26, 2015.

• Items related to common stock dividends

1) Dividends paid	¥2,794 million
2) Cash dividends per share	¥7.5
3) Reference date	March 31, 2015
4) Effective date	June 29, 2015

A resolution to the following effect was approved at the meeting of the Board of Directors held on November 6, 2015.

• Items related to common stock dividends

1) Dividends paid	¥3,353 million
2) Cash dividends per share	¥9.0
3) Reference date	September 30, 2015
4) Effective date	December 4, 2015

(2) Dividends with a reference date in the previous fiscal year and an effective date in the fiscal year under review

A resolution to the following effect was approved at the General Meeting of Shareholders held on June 29, 2016.

• Items related to common stock dividends

1) Dividends paid	¥3,353 million
2) Source of dividends	Retained earnings
3) Cash dividends per share	¥9.0
4) Reference date	March 31, 2016
5) Effective date	June 30, 2016

(Consolidated statements of cash flows)

Note 1. Relationship between cash and cash equivalents at fiscal year-end and amounts shown on consolidated balance sheets

Fiscal year ended March 31, 2017

Cash and time deposits	¥148,223 million
Marketable securities	¥4,021 million
Total	¥152,245 million
Time deposits with tenors exceeding 3 months	¥(1,535 million)
Securities other than MMF, FFF, and bond investment trusts	¥(4,021 million)
Cash and cash equivalents	¥146,688 million

Fiscal year ended March 31, 2016

Cash and time deposits	¥150,115 million
Marketable securities	¥7,811 million
Total	¥157,926 million
Time deposits with tenors exceeding 3 months	¥(6,863 million)
Securities other than MMF, FFF, and bond investment trusts	¥(7,765 million)
Cash and cash equivalents	¥143,298 million

Note 2. Major breakdown of assets and liabilities at subsidiaries added to scope of consolidation via acquisition of shares

Fiscal year ended March 31, 2017

(RED OSCAR CAPITAL CORPORATION)

Current assets	¥1,345 million
Noncurrent assets	¥651 million
Total assets	¥1,997 million
Current liabilities	¥620 million
Noncurrent liabilities	¥491 million
Total liabilities	¥1,112 million

(REQUEST Inc.)

Current assets	¥56 million
Noncurrent assets	¥2 million
Total assets	¥59 million
Current liabilities	¥49 million
Noncurrent liabilities	¥20 million
Total liabilities	¥70 million

(K.M.J CO., LTD.)

Current assets	¥508 million
Noncurrent assets	¥5 million
Total assets	¥514 million
Current liabilities	¥703 million
Noncurrent liabilities	¥104 million
Total liabilities	¥807 million

(LuckyPictures Co., Ltd.)

Current assets	¥59 million
Noncurrent assets	¥9 million
Total assets	¥68 million
Current liabilities	¥33 million
Noncurrent liabilities	¥11 million
Total liabilities	¥44 million

(Integrated Communications Group Pte Ltd)

Current assets	¥2,638 million
Noncurrent assets	¥116 million
Total assets	¥2,755 million
Current liabilities	¥1,907 million
Noncurrent liabilities	¥14 million
Total liabilities	¥1,921 million

(Media Intelligence Co., Ltd.)

Current assets	¥2,294 million
Noncurrent assets	¥80 million
Total assets	¥2,374 million
Current liabilities	¥880 million
Noncurrent liabilities	¥79 million
Total liabilities	¥959 million

(BEworks Inc.)

Current assets	¥90 million
Noncurrent assets	¥3 million
Total assets	¥94 million
Current liabilities	¥57 million
Noncurrent liabilities	—
Total liabilities	¥57 million

(Goroo Inc.)

Current assets	¥111 million
Noncurrent assets	—
Total assets	¥111 million
Current liabilities	¥38 million
Noncurrent liabilities	—
Total liabilities	¥38 million

(DAC Tech Vietnam JOINT STOCK COMPANY)

Current assets	¥21 million
Noncurrent assets	¥2 million
Total assets	¥24 million
Current liabilities	¥2 million
Noncurrent liabilities	—
Total liabilities	¥2 million

Fiscal year ended March 31, 2016

(Edge International, Inc.)

Current assets	¥302 million
Noncurrent assets	¥116 million
Total assets	¥418 million
Current liabilities	¥114 million
Noncurrent liabilities	¥82 million
Total liabilities	¥196 million

(DKM Holdings Inc.)

Current assets	¥923 million
Noncurrent assets	¥328 million
Total assets	¥1,251 million
Current liabilities	¥944 million
Noncurrent liabilities	¥108 million
Total liabilities	¥1,052 million

(Sid Lee Canada Holdings Inc.)

Current assets	¥4,244 million
Noncurrent assets	¥1,041 million
Total assets	¥5,286 million
Current liabilities	¥4,338 million
Noncurrent liabilities	¥414 million
Total liabilities	¥4,753 million

(IBSystem Co., Ltd.)

Current assets	¥787 million
Noncurrent assets	¥159 million
Total assets	¥947 million
Current liabilities	¥425 million
Noncurrent liabilities	¥360 million
Total liabilities	¥785 million

Note 3. Major breakdown of assets and liabilities at subsidiaries excluded from scope of consolidation via sale of shares

Fiscal year ended March 31, 2017

(Chubu Asahi Advertising Inc.)

Current assets	¥181 million
Noncurrent assets	¥5 million
Total assets	¥187 million
Current liabilities	¥72 million
Noncurrent liabilities	¥9 million
Total liabilities	¥82 million

(Opencoat Co., Ltd.)

Current assets	¥69 million
Noncurrent assets	¥2 million
Total assets	¥71 million
Current liabilities	¥32 million
Noncurrent liabilities	¥4 million
Total liabilities	¥37 million

Fiscal year ended March 31, 2016

(Cimigo Holdings Ltd.)	
Current assets	¥737 million
Noncurrent assets	¥132 million
Total assets	¥870 million
Current liabilities	¥947 million
Noncurrent liabilities	—
Total liabilities	¥947 million

(Lease transactions)
Operating lease transactions
Fiscal year ended March 31, 2017

(As lessee)	
Prepaid lease fees (noncancellable)	
Within one year	¥508 million
Beyond one year	¥638 million
Total	¥1,147 million

Fiscal year ended March 31, 2016

(As lessee)	
Prepaid lease fees (noncancellable)	
Within one year	¥509 million
Beyond one year	¥498 million
Total	¥1,008 million

(Financial instruments)
1. Items related to financial instruments
Fiscal year ended March 31, 2017

(1) Policy for dealing in financial instruments
The Group purchases financial assets as investments with an emphasis on security and liquidity, and procures funds using methods that take into account stability, economy, and flexibility, in light of the Group's funds and financial market conditions. Derivative transactions are used to avoid the risks mentioned below, and are not used for speculative purposes.

(2) Details and risks of financial instruments
Notes and accounts receivable–trade—the Group's operating claims—expose the Group to the credit risk of the customer. Foreign currency-denominated operating claims also expose the Group to exchange rate risk, but this risk is in principle diminished by the profit or loss arising from the hedged foreign currency-denominated operating obligation. Securities and investment securities are primarily bonds to be held to maturity or shares of companies that have a business relationship with the Group, and expose the Group to risk from market price fluctuations.

Notes and accounts payable–trade—the Group's operating obligations—are mostly payable within one year. Foreign currency-denominated operating obligations expose the Group to exchange rate risk as noted above. Borrowings are primarily short-term borrowings for working capital. A portion of long-term borrowings has floating interest rates, and therefore expose the Group to risk from interest rate fluctuations.

The Group's derivative transactions are forward foreign exchange transactions used to reduce the risk from exchange rate movements in foreign currency-denominated transactions. Hedging methods and the scope of hedging, hedging policy, and the method for evaluating the effectiveness of hedging with regard to hedge accounting are included in the preceding "Method of Preparation for Consolidated and Nonconsolidated Financial Statements; 4. Items related to accounting policies (5) Significant hedge accounting methods."

(3) Risk management structure for financial instruments
1) Credit risk (risk associated with breach of contract by counterparty) management
The Group's risk management for operating claims is carried out by the department responsible for accounting based on internal accounting regulations. The department prevents the emergence of nonrecoverable claims by setting a credit limit for each obligor, thoroughly managing outstanding payment dates for claims, and regularly monitoring the financial condition of obligors. Bonds to be held to maturity are limited to highly rated bonds based on internal fund management

regulations, and credit risk is therefore negligible. Derivative transactions are only entered into with highly rated financial institutions in order to reduce counterparty risk.
2) Market risk (risk associated with foreign exchange and other rate fluctuations) management
The Group's foreign currency-denominated operating claims and obligations create exposure to risk from foreign exchange rate fluctuations, but this risk is in principle diminished by the profit or loss arising from the hedged asset or liability. Forward foreign exchange transactions are used to hedge certain risks, and the execution and management of these derivative transactions is carried out by the department responsible for financing based on internal financing regulations. For stocks, the market value of the shares and financial position of the issuer (counterparty company) are regularly monitored, and the continued holding of the shares is reevaluated in light of the relationship with the counterparty company.
3) Management of liquidity risk (risk of not being able to make payment on payment date) associated with fund procurement
The Group manages liquidity risk by having the department responsible for financing at each company raise short-term funds, and prepares a medium- to- long-term funding plan. The Group also uses a liquidity support system in which the Company receives funds from consolidated subsidiaries that have surplus funds and lends funds to consolidated subsidiaries with fund shortfalls.

(4) Supplementary information related to market value, etc., of financial instruments
The market value of financial instruments is based on the market price, with a rational estimate being used when a market price is not available. The estimation of this amount includes factors that are subject to change, and therefore the use of differing underlying assumptions may result in a different amount.

Fiscal year ended March 31, 2016

(1) Policy for dealing in financial instruments
Same as the fiscal year under review

(2) Details and risks of financial instruments
Same as the fiscal year under review

(3) Risk management structure for financial instruments
1) Credit risk (risk associated with breach of contract by counterparty) management
Same as the fiscal year under review
2) Market risk (risk associated with foreign exchange and other rate fluctuations) management
Same as the fiscal year under review
3) Management of liquidity risk (risk of not being able to make payment on payment date) associated with fund procurement
Same as the fiscal year under review

(4) Supplementary information related to market value, etc., of financial instruments
Same as the fiscal year under review

2. Items related to market value, etc., of financial instruments

Fiscal year ended March 31, 2017

The amounts recorded on the balance sheet, market value, and resulting differences as of March 31, 2017 are as follows:

¥ Millions

Classification	Amount recorded on consolidated balance sheet	Market value	Difference
(1) Cash and time deposits	148,223	148,223	—
(2) Notes and accounts receivable–trade	307,654	307,654	—
(3) Securities			
Other securities	2,058	2,058	—
(4) Investment securities			
Bonds to be held to maturity	1,000	1,000	—
Shares of affiliated companies	594	1,959	1,365
Other investment securities	79,619	79,619	—
Total assets	539,150	540,515	1,365
(1) Notes and accounts payable–trade	281,335	281,335	—
Total liabilities	281,335	281,335	—

Note 1: Items related to securities and calculation methods for market value of financial instruments

Assets

(1) Cash and time deposits and (2) Notes and accounts receivable–trade

For time deposits with tenors exceeding one year, in principle the price indicated by the financial institution is used. Other items have a short period to settlement, meaning the market value is roughly equivalent to the book value, and therefore the book value is used.

(3) Securities and (4) Investment securities

In principle, the market value used is the price quoted by a securities exchange for stocks, the price indicated by a financial institution for bonds, and the publicly posted price for investment trusts.

Liabilities

(1) Notes and accounts payable–trade

These items have a short period to settlement, meaning the market value is roughly equivalent to the book value, and therefore the book value is used.

Note 2: Financial instruments for which it is deemed generally difficult to obtain market value

¥ Millions

Classification	Amount recorded on consolidated balance sheet
Unlisted stocks	8,358
Shares of affiliated companies	8,946
Capital investment in affiliated companies	6,908

Unlisted stocks, shares of affiliated companies, capital investment in affiliated companies do not have market value and it is not possible to estimate their future cash flow, making it extremely difficult to obtain market value. These instruments are therefore not included in (3) Securities and (4) Investment securities.

Note 3: Scheduled redemption amounts in subsequent fiscal years of monetary claims and securities with maturity dates

¥ Millions

Classification	Within 1 year	Greater than 1 year but within 5 years	Greater than 5 years but within 10 years	Greater than 10 years
Cash and time deposits	148,223	—	—	—
Notes and accounts receivable–trade	307,654	—	—	—
Investment securities				
Bonds to be held to maturity (other)	—	1,000	—	—
Total	455,878	1,000	—	—

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

¥ Millions

Classification	Up to 1 year	More than 1 year and up to 2 years	More than 2 years and up to 3 years	More than 3 years and up to 4 years	More than 4 years and up to 5 years	More than 5 years
Short-term loans payable	9,692	—	—	—	—	—
Long-term loans payable	559	467	647	434	8	19
Lease obligations	162	109	57	28	8	1

Fiscal year ended March 31, 2016

The amounts recorded on the balance sheet, market value, and resulting differences as of March 31, 2016 are as follows:

¥ Millions

Classification	Amount recorded on consolidated balance sheet	Market value	Difference
(1) Cash and time deposits	150,115	150,112	(2)
(2) Notes and accounts receivable–trade	294,055	294,055	—
(3) Securities			
Bonds to be held to maturity	2,000	1,994	(5)
Other securities	3,544	3,544	—
(4) Investment securities			
Shares of affiliated companies	594	1,295	700
Other investment securities	59,372	59,372	—
Total assets	509,682	510,375	693
(1) Notes and accounts payable–trade	283,546	283,546	—
Total liabilities	283,546	283,546	—

Note 1: Items related to securities and calculation methods for market value of financial instruments

Assets

(1) Cash and time deposits and (2) Notes and accounts receivable–trade

For time deposits with tenors exceeding one year, in principle the price indicated by the financial institution is used. Other items have a short period to settlement, meaning the market value is roughly equivalent to the book value, and therefore the book value is used.

(3) Securities and (4) Investment securities
In principle, the market value used is the price quoted by a securities exchange for stocks, the price indicated by a financial institution for bonds, and the publicly posted price for investment trusts.

Liabilities
(1) Notes and accounts payable–trade
These items have a short period to settlement, meaning the market value is roughly equivalent to the book value, and therefore the book value is used.

Note 2: Financial instruments for which it is deemed generally difficult to obtain market value

¥ Millions

Classification	Amount recorded on consolidated balance sheet
Unlisted stocks	8,844
Shares of affiliated companies	10,336
Capital investment in affiliated companies	7,784

Unlisted stocks, shares of affiliated companies, capital investment in affiliated companies do not have market value and it is not possible to estimate their future cash flow, making it extremely difficult to obtain market value. These instruments are therefore not included in the above table.

Note 3: Scheduled redemption amounts in subsequent fiscal years of monetary claims and securities with maturity dates

¥ Millions

Classification	Within 1 year	Greater than 1 year but within 5 years	Greater than 5 years but within 10 years	Greater than 10 years
Cash and time deposits	150,115	—	—	—
Notes and accounts receivable–trade	294,055	—	—	—
Bonds				
Bonds to be held to maturity (other)	2,000	—	—	—
Total	446,170	—	—	—

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

¥ Millions

Classification	Up to 1 year	More than 1 year and up to 2 years	More than 2 years and up to 3 years	More than 3 years and up to 4 years	More than 4 years and up to 5 years	More than 5 years
Short-term loans payable	6,386	—	—	—	—	—
Long-term loans payable	311	643	279	252	213	—
Lease obligations	198	162	101	49	19	1

(Securities)
1. Bonds to be held to maturity

Fiscal year ended March 31, 2017

¥ Millions

Classification	Amount recorded on consolidated balance sheet as of fiscal year-end	Market value as of fiscal year-end	Difference
For which market value exceeds amount recorded on consolidated balance sheet	—	—	—
For which market value does not exceed amount recorded on consolidated balance sheet	1,000	1,000	—
Total	1,000	1,000	—

Fiscal year ended March 31, 2016

¥ Millions

Classification	Amount recorded on consolidated balance sheet as of fiscal year-end	Market value as of fiscal year-end	Difference
For which market value exceeds amount recorded on consolidated balance sheet	—	—	—
For which market value does not exceed amount recorded on consolidated balance sheet	2,000	1,994	(5)
Total	2,000	1,994	(5)

2. Other securities

Fiscal year ended March 31, 2017

¥ Millions

Classification	Amount recorded on consolidated balance sheet as of fiscal year-end	Cost	Difference
For which acquisition cost exceeds amount recorded on consolidated balance sheet			
1) Stocks	80,791	26,419	54,371
2) Bonds	10	9	0
3) Others	—	—	—
Subtotal	80,801	26,429	54,371
For which acquisition cost does not exceed amount recorded on consolidated balance sheet			
1) Stocks	873	1,083	(209)
2) Bonds	—	—	—
3) Others	1	4	(2)
Subtotal	857	1,087	(212)
Total	81,677	27,517	54,159

Fiscal year ended March 31, 2016

¥ Millions

Classification	Amount recorded on consolidated balance sheet as of fiscal year-end	Cost	Difference
For which acquisition cost exceeds amount recorded on consolidated balance sheet			
1) Stocks	58,908	23,131	35,776
2) Bonds	10	9	0
3) Others	—	—	—
Subtotal	58,918	23,141	35,776
For which acquisition cost does not exceed amount recorded on consolidated balance sheet			
1) Stocks	3,996	4,647	(651)
2) Bonds	—	—	—
3) Others	1	4	(2)
Subtotal	3,998	4,652	(653)
Total	62,917	27,793	35,123

3. Other securities sold during the fiscal year under review

Fiscal year ended March 31, 2017

¥ Millions

Classification	Amount of sale	Total gain on sale	Total loss on sale
Stocks	592	328	55

Fiscal year ended March 31, 2016

¥ Millions

Classification	Amount of sale	Total gain on sale	Total loss on sale
Stocks	1,012	300	1

4. Securities on which impairment losses were recorded

Fiscal year ended March 31, 2017

Impairment losses of ¥190 million were recorded on securities (¥190 million on stocks classified under other securities).

Fiscal year ended March 31, 2016

Impairment losses of ¥664 million were recorded on securities (¥655 million on stocks classified under other securities and ¥9 million on stocks of subsidiaries and affiliates).

(Retirement benefits)

Fiscal year ended March 31, 2017

1. Overview of retirement benefit plans

To fund pension benefits for employees, the Company' s consolidated subsidiaries use funded and unfunded defined benefit plans and defined contribution plans.

Defined benefit corporate pension plans (all of which are funded) pay either a lump sum or an annuity based on the employee' s salary and length of service.

Certain defined benefit corporate pension plans have established a retirement benefit trust. Lump-sum retirement benefit plans (unfunded, except for plans funded as a result of having established a retirement benefit pension benefit trust) pay a lump-sum benefit based on the employee' s salary and length of service.

The defined benefit corporate pension plans and lump-sum retirement benefit plans at certain consolidated subsidiaries use a simplified method to calculate liabilities related to retirement benefit plans and retirement benefit expenses.

2. Defined benefit plan (excluding plans using the simplified method)

(1) Adjustments to retirement benefit obligations from beginning to end of the fiscal year

Retirement benefit obligation at beginning of the fiscal year	¥123,590 million
Service cost–benefits earned during the year	¥4,989 million
Interest cost on projected benefit obligation	¥1,250 million
Actuarial differences	¥1,525 million
Retirement benefits paid	¥(7,804 million)
Retirement benefits obligation at end of the fiscal year	¥123,550 million

(2) Adjustments to pension fund assets from beginning to end of the fiscal year

Pension fund assets at beginning of the fiscal year	¥118,032 million
Investment income during the period	¥2,886 million
Actuarial differences	¥3,456 million
Employer contributions	¥5,063 million
Retirement benefits paid	¥(5,532 million)
Pension fund assets at end of the fiscal year	¥123,906 million

(3) Adjustments to retirement benefit obligations and pension fund assets at the fiscal year-end and net defined benefit liability and net defined benefit asset recorded on consolidated balance sheet

Retirement benefit obligations under funded plans	¥121,439 million
Pension fund assets	¥(123,906 million)
	¥(2,466 million)
Retirement benefit obligations under unfunded plans	¥2,111 million
Net amount of liabilities and assets recorded on consolidated balance sheet	¥(355 million)
Net defined benefit liability	¥18,277 million
Net defined benefit asset	¥(18,583 million)
Net amount of liabilities and assets recorded on consolidated balance sheet	¥(355 million)

(4) Breakdown of retirement benefit expenses

Service cost–benefits earned during the year	¥4,989 million
Interest cost on projected benefit obligation	¥1,250 million
Investment income during the period	¥(2,886 million)
Actuarial differences treated as expenses	¥(802 million)
Retirement benefit expenses related to defined benefit plan	¥2,550 million

Note: In the year under review, retirement benefit expenses related to defined benefit plans listed above and special retirement expenses totaling ¥198 million were recorded as an extraordinary loss.

(5) Remeasurements of defined benefit plans

The breakdown of the amount recorded (prior to tax effect) for remeasurements of defined benefit plans is as follows:

Actuarial differences	¥1,129 million
Total	¥1,129 million

(6) Adjustments related to retirement benefits

The breakdown of adjustments recorded with relation to retirement benefits (prior to deduction of tax effect) is as follows:

Unrecognized actuarial differences	¥6,301 million
Total	¥6,301 million

(7) Items related to pension fund assets

1) Breakdown of major pension fund assets

The breakdown of major types of pension fund assets by percentage of total pension fund assets is as follows:

Bonds	45%
Equities	40%
Cash and time deposits	5%
General account	7%
Others	3%
Total	100%

Note: Of total pension fund assets, 52% are in retirement benefit trusts established for the corporate pension plan.

2) Method for determining long-term investment return

To determine the long-term investment return on pension fund assets, the current and future anticipated allocation of pension fund assets and the current and anticipated future long-term profitability of the various assets included as pension fund assets are taken into account.

(8) Basis for calculation of actuarial differences

The primary bases for the calculation of actuarial differences as of March 31, 2017 are as follows:

Discount rate	0.8%–1.3%
Long-term investment return	1.0%–2.5%
Projected rate of salary increases	1.9%–7.2%

3. Defined benefit plans using the simplified method

(1) Adjustments to the net defined benefit liability from beginning to end of the fiscal year for plans using the simplified method

Net defined benefit liability at beginning of the fiscal year	¥1,298 million
Retirement benefit expenses	¥307 million
Retirement benefits paid	¥(156 million)
Contributions to plan	¥(38 million)
Others	¥92 million
Net defined benefit liability at end of the fiscal year	¥1,503 million

(2) Adjustments to retirement benefit obligations and pension fund assets at the end of the fiscal year and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

Retirement benefit obligations under funded plans	¥361 million
Pension fund assets	¥(278 million)
	¥83 million
Retirement benefit obligations under unfunded plans	¥1,420 million
Net amount of liabilities and assets recorded on consolidated balance sheet	¥1,503 million

Net defined benefit liability	¥1,503 million
Net amount of liabilities and assets recorded on consolidated balance sheet	¥1,503 million

(3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method	¥307 million

4. Defined contribution plans

Contributions made to the Company's consolidated subsidiaries' defined contribution plans were ¥142 million.

Fiscal year ended March 31, 2016

1. Overview of retirement benefit plans

To fund pension benefits for employees, the Company and its consolidated subsidiaries use funded and unfunded defined benefit plans and defined contribution plans.

Defined benefit corporate pension plans (all of which are funded) pay either a lump sum or an annuity based on the employee's salary and length of service.

Certain defined benefit corporate pension plans have established a retirement benefit trust. Lump-sum retirement benefit plans (unfunded, except for plans funded as a result of having established a retirement benefit pension benefit trust) pay a lump-sum benefit based on the employee's salary and length of service.

The defined benefit corporate pension plans and lump-sum retirement benefit plans at certain consolidated subsidiaries use a simplified method to calculate liabilities related to retirement benefit plans and retirement benefit expenses.

2. Defined benefit plan (excluding plans using the simplified method)

(1) Adjustments to retirement benefit obligations from beginning to end of the fiscal year

Retirement benefit obligation at beginning of the fiscal year	¥119,597 million
Service cost–benefits earned during the year	¥4,782 million
Interest cost on projected benefit obligation	¥1,299 million
Actuarial differences	¥2,950 million
Retirement benefits paid	¥(5,059 million)
Other	¥21 million
Retirement benefits obligation at end of the fiscal year	¥123,590 million

(2) Adjustments to pension fund assets from beginning to end of the fiscal year

Pension fund assets at beginning of the fiscal year	¥116,254 million
Investment income during the period	¥2,842 million
Actuarial differences	¥(3,200 million)
Employer contributions	¥5,122 million
Retirement benefits paid	¥(2,987 million)
Pension fund assets at end of the fiscal year	¥118,032 million

(3) Adjustments to retirement benefit obligations and pension fund assets at the fiscal year-end and net defined benefit liability and net defined benefit asset recorded on consolidated balance sheet

Retirement benefit obligations under funded plans	¥121,724 million
Pension fund assets	¥(118,032 million)
	¥3,692 million
Retirement benefit obligations under unfunded plans	¥1,866 million
Net amount of liabilities and assets recorded on consolidated balance sheet	¥5,558 million

Net defined benefit liability	¥18,424 million
Net defined benefit asset	¥(12,865 million)
Net amount of liabilities and assets recorded on consolidated balance sheet	¥5,558 million

(4) Breakdown of retirement benefit expenses

Service cost–benefits earned during the year	¥4,782 million
Interest cost on projected benefit obligation	¥1,299 million
Investment income during the period	¥(2,842 million)
Actuarial differences treated as expenses	¥(1,729 million)
Retirement benefit expenses related to defined benefit plan	¥1,509 million

(5) Remeasurements of defined benefit plans

The breakdown of the amount recorded (prior to tax effect) for remeasurements of defined benefit plans is as follows:

Actuarial differences	¥(7,880 million)
Total	¥(7,880 million)

(6) Adjustments related to retirement benefits

The breakdown of adjustments recorded with relation to retirement benefits (prior to deduction of tax effect) is as follows:

Unrecognized actuarial differences	¥5,172 million
Total	¥5,172 million

(7) Items related to pension fund assets

1) Breakdown of major pension fund assets

The breakdown of major types of pension fund assets by percentage of total pension fund assets is as follows:

Bonds	47%
Equities	37%
Cash and time deposits	5%
General account	8%
Others	3%
Total	100%

Note: Of total pension fund assets, 53% are in retirement benefit trusts established for the corporate pension plan.

2) Method for determining long-term investment return

To determine the long-term investment return on pension fund assets, the current and future anticipated allocation of pension fund assets and the current and anticipated future long-term profitability of the various assets included as pension fund assets are taken into account.

(8) Basis for calculation of actuarial differences

The primary bases for the calculation of actuarial differences as of March 31, 2016 are as follows (shown as a weighted average):

Discount rate	0.4%–1.1%
Long-term investment return	1.0%–2.5%
Projected rate of salary increases	1.9%–7.2%

3. Defined benefit plans using the simplified method

(1) Adjustments to the net defined benefit liability from beginning to end of the fiscal year for plans using the simplified method

Net defined benefit liability at beginning of the fiscal year	¥1,188 million
Retirement benefit expenses	¥230 million
Retirement benefits paid	¥(68 million)
Contributions to plan	¥(56 million)
Others	¥5 million
Net defined benefit liability at end of the fiscal year	¥1,298 million

(2) Adjustments to retirement benefit obligations and pension fund assets at the end of the fiscal year and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

Retirement benefit obligations under funded plans	¥352 million
Pension fund assets	¥(255 million)
	¥97 million
Retirement benefit obligations under unfunded plans	¥1,201 million
Net amount of liabilities and assets recorded on consolidated balance sheet	¥1,298 million
Net defined benefit liability	¥1,298 million
Net amount of liabilities and assets recorded on consolidated balance sheet	¥1,298 million

(3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method ¥230 million

4. Defined contribution plans

Contributions made to the Company's and consolidated subsidiaries' defined contribution plans were ¥55 million.

(Tax effect accounting)

1. Significant components of the Company's deferred tax assets and liabilities

Fiscal year ended March 31, 2017	
(Deferred tax assets)	
Net defined benefit liability	¥10,397 million
Provision for bonuses	¥7,721 million
Loss on devaluation of investment securities	¥3,290 million
Tax loss carryforwards	¥1,451 million
Allowance for doubtful accounts	¥913 million
Depreciation and amortization	¥320 million
Provision for directors' retirement benefits	¥614 million
Other	¥3,558 million
(Subtotal)	¥28,268 million
Less valuation allowance	¥(6,489 million)
(Total)	¥21,778 million
(Deferred tax liabilities)	
Unrealized gain on other available-for-sale securities	¥(15,705 million)
Retained earnings at overseas subsidiaries	¥(738 million)
Other	¥(1,337 million)
(Total)	¥(17,781 million)
Net deferred tax assets	¥3,997 million

Fiscal year ended March 31, 2016

(Deferred tax assets)	
Net defined benefit liability	¥11,816 million
Provision for bonuses	¥7,070 million
Loss on devaluation of investment securities	¥3,877 million
Tax loss carryforwards	¥936 million
Allowance for doubtful accounts	¥965 million
Depreciation and amortization	¥263 million
Provision for directors' retirement benefits	¥573 million
Other	¥2,902 million
(Subtotal)	¥28,405 million
Less valuation allowance	¥(6,287 million)
(Total)	¥22,117 million
(Deferred tax liabilities)	
Unrealized gain on other available-for-sale securities	¥(10,965 million)
Retained earnings at overseas subsidiaries	¥(693 million)
Other	¥(1,522 million)
(Total)	¥(13,181 million)
Net deferred tax assets	¥8,936 million

2. A reconciliation of the differences between the normal effective statutory tax rate and the effective tax rate reflected in the accompanying consolidated statements of income

Fiscal year ended March 31, 2017

Normal effective statutory tax rate	30.86%
(Adjustments)	
Nondeductible expenses and nontaxable income	3.33%
Amortization of goodwill	1.78%
Equity-method profit	1.79%
Effect of valuation allowance in valuation of deferred tax assets	0.45%
Other	0.73%
Effective tax rate	38.93%

Fiscal year ended March 31, 2016

(Note) The difference between the normal effective statutory tax rate and the effective tax rate reflected in the accompanying consolidated statements of income is less than 5%, and therefore omitted.

(Business combinations, etc.)

1.Transactions under common control

Fiscal year ended March 31, 2017

(1) Overview of transactions
1) Name of combined company and content of its business
Wholly owned subsidiary through share transfer
D.A. Consortium Inc. (Internet-related business)
IREP Co., Ltd. (digital marketing business)
2) Date of business combination
October 3, 2016
3) Legal form of business combination
Holding company established through a joint share transfer
4) Name of company after combination
D.A. Consortium Holdings Inc., a wholly-owned subsidiary of the holding company established through a share transfer
5) Other matters related to the transaction
D.A. Consortium Holdings Inc. was established as a joint holding company of D.A.Consortium Inc. and IREP Co., Ltd., two Group subsidiaries, with the aim of realizing sustainable growth and responding appropriately to changes in the Internet advertising market, which is growing alongside the significant changes in the business environment.

(2) Overview of accounting treatment
The business combination was treated as a transaction under common control based on the Revised Accounting Standard for Business Combinations (ASBJ Statement No.21, September 13, 2013) and the Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013).

(3) Items related to additional acquisition of subsidiary shares
1) Breakdown by acquisition cost and consideration type

Fair value of common stock after business combination delivered on the day of the business combination:	¥22,385 million
Acquisition cost:	¥22,385 million

2) Transfer ratio by type of share
For each share of common stock of D.A. Consortium Inc., one share of common stock after business combination was allocated for delivery. For each share of common stock of IREP Co., Ltd., 0.83 of a share of common stock after business combination was allocated for delivery.
3) Method of calculation for transfer ratio
Multiple financial advisors were asked to calculate the transfer ratio, and the method of calculation was determined based on the calculations submitted by these financial advisors and after discussion between related parties.
4) Number of shares delivered
28,773,582 shares

(4) Change in treasury shares arising from transactions with non-controlling shareholders
1) Major reasons for change in capital surplus
Additional acquisition of subsidiary shares
2) Amount decrease in capital surplus arising from transactions with non-controlling shareholders
¥138 million

Fiscal year ended March 31, 2016

The importance is insignificant, and this section is therefore eliminated.

(Asset retirement obligations)

Fiscal year ended March 31, 2017

1. Asset retirement obligations recorded on the consolidated balance sheet

(1) Summary of relevant asset retirement obligations
Obligations to restore property to original condition under real estate lease contracts for offices
(2) Amount of asset retirement obligations and calculation method
The amount of asset retirement obligations was calculated using individual estimates of the anticipated period of use for each respective contract period as well as the yield rate of national government bonds.
(3) Increase (decrease) in total relevant asset retirement obligations during the fiscal year

Outstanding amount at beginning of period	¥31 million
Adjustments with passage of time	¥0 million
Increase from changes in estimates	—
Decrease for execution of asset retirement obligations	¥(22 million)
Outstanding amount at end of period	¥9 million

2. Asset retirement obligations not recorded on the consolidated balance sheet

The Group has obligations to restore offices used based on lease contracts to their original condition when vacating those offices. In cases where relocations are not anticipated, however, the end of the period of use for leased assets related to these obligations is not specified, and rational estimates of these asset retirement obligations cannot be made. Therefore, obligations corresponding to these asset retirement obligations are not recorded.

Fiscal year ended March 31, 2016

1. Asset retirement obligations recorded on the consolidated balance sheet

(1) Summary of relevant asset retirement obligations

Same as the fiscal year under review

(2) Amount of asset retirement obligations and calculation method

The amount of asset retirement obligations was calculated using individual estimates of the anticipated period of use for each respective contract period, and a discount rate of 1.45%.

(3) Increase (decrease) in total relevant asset retirement obligations during the fiscal year

Outstanding amount at beginning of period	¥39 million
Adjustments with passage of time	¥0 million
Increase from changes in estimates	¥59 million
Decrease for execution of asset retirement obligations	¥(67 million)
Outstanding amount at end of period	¥31 million

2. Asset retirement obligations not recorded on the consolidated balance sheet

Same as the fiscal year under review

(Leased, etc., real estate)

Fiscal year ended March 31, 2017

Certain of the Company's subsidiaries own office buildings (including land) for leasing, etc., in Tokyo and other areas. Lease profit associated with the leased, etc., real estate for the fiscal year was ¥1,015 million (with lease income recorded as gross billings and primary leasing expenses recorded as cost of sales).

The amount recorded on the consolidated balance sheet, the amount of decrease during the fiscal year, and the market value are as follows.

¥ Millions

Amount recorded on consolidated balance sheet			
Outstanding amount as of previous fiscal year-end	Decrease during fiscal year	Outstanding amount as of fiscal year-end	Market value as of fiscal year-end
21,025	(749)	20,275	41,110

Notes: 1. The amount recorded on the consolidated balance sheet is acquisition cost–accumulated depreciation and impairment loss.

2. The main increase during the fiscal year was from the acquisition of buildings, etc. (¥221 million), and the main decrease was from depreciation and amortization (¥560 million).

3. The market value as of the fiscal year-end is based primarily on a Real Estate Survey Report prepared by a certified real estate appraiser based on the Real Estate Appraisal Standards.

Fiscal year ended March 31, 2016

Certain of the Company's subsidiaries own office buildings (including land) for leasing, etc., in Tokyo and other areas. Lease profit associated with the leased, etc., real estate for the fiscal year was ¥470 million (with lease income recorded as gross billings and primary leasing expenses recorded as cost of sales).

The amount recorded on the consolidated balance sheet, the amount of increase during the fiscal year, and the market value are as follows.

¥ Millions

Amount recorded on consolidated balance sheet			
Outstanding amount as of previous fiscal year-end	Increase during fiscal year	Outstanding amount as of fiscal year-end	Market value as of fiscal year-end
17,562	3,463	21,025	37,925

Notes: 1. The amount recorded on the consolidated balance sheet is acquisition cost–accumulated depreciation and impairment loss.

2. The main increase during the fiscal year was from the acquisition of buildings, etc. (¥4,038 million), and the main decrease was from depreciation and amortization (¥566 million).

3. The market value as of the fiscal year-end is based primarily on a Real Estate Survey Report prepared by a certified real estate appraiser based on the Real Estate Appraisal Standards.

Segment Information, etc.

(Segment information)

Fiscal year ended March 31, 2017

1. Overview of reporting segments

The Company's business segments are regularly reviewed in light of the separate financial information available from the units that make up the Company, in order for the Board of Directors to allocate management resources and evaluate operating performance.

The Group carries out advertising operations in various media, primarily newspapers, magazines, radio, television, and digital media, and provides planning, production, marketing, PR, and other services related to the presentation of advertising. The Company is a holding company, with Hakuhodo Inc., Daiko Advertising Inc., YOMIKO ADVERTISING INC., Hakuhodo DY Media Partners Inc., and *kyu* as the core operating companies. Each of these core companies has various affiliates, and formulates comprehensive strategies and operates its business to develop and provide services on behalf of the Group. Therefore, the Group is made up of segments constituting the groups organized around the core operating companies.

Nevertheless, the advertising-related services noted above constitute the main business of each of these segments, and the economic characteristics, methods of providing and selling services, target markets and customers, and regulatory environment unique to the industry are generally similar. In addition, consolidating these segments can be deemed to facilitate an understanding of the Group's past performance, and provide appropriate information regarding business activities and the operating environment to appropriately evaluate future cash flow projections. Therefore, the entire Group operates as one consolidated reporting segment.

2. Amounts and calculation methods for gross billings, profit and loss, assets, liabilities, and other items by reporting segment

The Group operates as a single segment that consolidates all of its businesses, and this information is therefore omitted.

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

The Group operates as a single segment that consolidates all of its businesses, and this information is therefore omitted.

4. Amount and breakdown of differences between aggregate amounts of reporting segments and amounts recorded in the consolidated financial statements (items related to adjustments of differences)

The Group operates as a single segment that consolidates all of its businesses, and this information is therefore omitted.

Fiscal year ended March 31, 2016

Same as the fiscal year under review

(Related information)

Fiscal year ended March 31, 2017

1. Information by product and service

¥ Millions

	Advertising	Other	Total
Gross billings to external customers	1,252,596	2,878	1,255,474

2. Geographic segment information

(1) Gross billings

¥ Millions

Japan	Overseas	Total
1,179,778	75,695	1,255,474

Note: Gross billings are classified by country or region based on the customer's location.

(2) Property, plant and equipment

The amount of property, plant and equipment located in Japan is more than 90% of the amount of property, plant and equipment recorded on the consolidated balance sheet, and this information is therefore omitted.

3. Information by primary customer
There are no external customers to which gross billings account for more than 10% of the gross billings recorded on the consolidated statement of income, and this information is therefore omitted.

Fiscal year ended March 31, 2016

1. Information by product and service

¥ Millions

	Advertising	Other	Total
Gross billings to external customers	1,213,606	1,643	1,215,250

2. Geographic segment information
(1) Gross billings

¥ Millions

Japan	Overseas	Total
1,136,247	79,003	1,215,250

Note: Gross billings are classified by country or region based on the customer's location.

(2) Property, plant and equipment
The amount of property, plant and equipment located in Japan is more than 90% of the amount of property, plant and equipment recorded on the consolidated balance sheet, and this information is therefore omitted.

3. Information by primary customer
There are no external customers to which gross billings account for more than 10% of the gross billings recorded on the consolidated statement of income, and this information is therefore omitted.

(Information related to impairment losses on noncurrent assets by reporting segment)
Fiscal year ended March 31, 2017

The Group operates as a single segment that consolidates all of its businesses, and this information is therefore omitted.

Fiscal year ended March 31, 2016

The Group operates as a single segment that consolidates all of its businesses, and this information is therefore omitted.

(Information related to amounts of goodwill amortized and unamortized goodwill outstanding by reporting segment)
Fiscal year ended March 31, 2017

The Group operates as a single segment that consolidates all of its businesses, and this information is therefore omitted.

Fiscal year ended March 31, 2016

The Group operates as a single segment that consolidates all of its businesses, and this information is therefore omitted.

(Information related to gain on negative goodwill by reporting segment)
Fiscal year ended March 31, 2017

The Group operates as a single segment that consolidates all of its businesses, and this information is therefore omitted.

Fiscal year ended March 31, 2016

The Group operates as a single segment that consolidates all of its businesses, and this information is therefore omitted.

(Related party information)

Fiscal year ended March 31, 2017

No items

Fiscal year ended March 31, 2016

No items

(Per share of common stock)

The following is the basis for the calculation of net assets per share, net income, and diluted net income per common share:

Fiscal year ended March 31, 2017

Item	(March 31, 2017)
(1) Net assets per share (yen)	817.67
(Basis for calculation)	
Total net assets on consolidated balance sheet (¥ millions)	325,818
Net assets related to common shares (¥ millions)	304,706
Major causes of difference (¥ millions)	
Subscription rights to shares	283
Non-controlling interests	20,828
Common shares issued (1,000 shares)	388,558
Treasury stock shares (1,000 shares)	15,903
Common shares as of fiscal year-end used to calculate net assets per share (1,000 shares)	372,654

Item	(April 1, 2016–March 31, 2017)
(2) Basic net income per common share (yen)	69.45
(Basis for calculation)	
Profit attributable to owners of parent on consolidated statement of income (¥ millions)	25,880
Profit attributable to owners of parent related to common shares (¥ millions)	25,880
Average number of common shares during term (1,000 shares)	372,654
(3) Diluted net income per common share (yen)	69.44
(Basis for calculation)	
Adjustment to profit attributable to owners of parent (¥ millions)	(2)
Major adjustments (¥ millions)	
Residual shares issued by affiliates (stock options)	(2)

Fiscal year ended March 31, 2016

Item	(March 31, 2016)
(1) Net assets per share (yen)	733.01
(Basis for calculation)	
Total net assets on consolidated balance sheet (¥ millions)	294,031
Net assets related to common shares (¥ millions)	273,158
Major causes of difference (¥ millions)	
Subscription rights to shares	223
Non-controlling interests	20,648
Common shares issued (1,000 shares)	388,558
Treasury stock shares (1,000 shares)	15,903
Common shares as of fiscal year-end used to calculate net assets per share (1,000 shares)	372,654

Item	(April 1, 2015–March 31, 2016)
(2) Basic net income per common share (yen)	76.56
(Basis for calculation)	
Profit attributable to owners of parent on consolidated statement of income (¥ millions)	28,531
Profit attributable to owners of parent related to common shares (¥ millions)	28,531
Average number of common shares during term (1,000 shares)	372,654
(3) Diluted net income per common share (yen)	76.44
(Basis for calculation)	
Adjustment to profit attributable to owners of parent (¥ millions)	(47)
Major adjustments (¥ millions)	
Residual shares issued by affiliates (stock options)	(47)

(Significant subsequent events)

No items

Consolidated Supplementary Statements

(Corporate bond statement)

No items

(Statement of loans payable)

Classification	¥ Millions Outstanding as of fiscal year-beginning	¥ Millions Outstanding as of fiscal year-end	% Average interest rate	Repayment deadline
Short-term loans payable	6,386	9,692	1.50	—
Current portion of long-term loans payable	311	559	0.50	—
Current portion of lease obligations	198	162	2.51	—
Long-term loans payable (excluding current portion)	1,388	1,577	1.49	2018–2022
Lease obligations (excluding current portion)	334	206	1.76	2018–2022
Total	8,619	12,197	—	—

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

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

Classification	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
Long-term loans payable (¥ millions)	467	647	434	8
Lease obligations (¥ millions)	109	57	28	8

(Statement of asset retirement obligations)

The amount of asset retirement obligations as of the fiscal year-end is less than 1% of total liabilities and net assets, and this statement is therefore omitted.

Others

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

	Aggregate through the 1st Quarter (Apr. 1, 2016–June 30, 2016)	Aggregate through the 2nd Quarter (Apr. 1, 2016–Sep. 30, 2016)	Aggregate through the 3rd Quarter (Apr. 1, 2016– Dec. 31, 2016)	Aggregate through the 14th fiscal year (Apr. 1, 2016–Mar. 31, 2017)
Billings (¥ millions)	279,107	573,548	897,737	1,255,474
Quarterly income before income taxes (¥ millions)	6,357	19,075	32,517	44,959
Quarterly profit attributable to owners of parent (¥ millions)	3,030	10,744	18,510	25,880
Quarterly net income per common share (yen)	8.13	28.83	49.67	69.45

	1st Quarter (Apr. 1, 2016–June 30, 2016)	2nd Quarter (July 1, 2016–Sep. 30, 2016)	3rd Quarter (Oct. 1, 2016–Dec. 31, 2016)	4th Quarter (Jan. 1, 2017–Mar. 31, 2017)
Quarterly net income per common share (yen)	8.13	20.70	20.84	19.78

The preparation of the annual report and the positioning of the audit

The financial section of this annual report (Japanese version) was extracted from the financial conditions, including the consolidated financial statements, described in the 14th *Yuho** Financial Report, which was based on the audit carried out by KPMG AZSA LLC. While part of the layout has been changed, every effort was made in the preparation of this annual report to ensure there were no discrepancies between it and the content of the *Yuho* Financial Report.

From the perspectives of achieving fairness and completeness for all our stakeholders, we prepare and provide an English version of our Japanese annual report. The financial section of the English annual report is a translation of the financial section of the Japanese annual report that was extracted from the *Yuho* Financial Report. Again, great care was taken in the preparation of the annual report to ensure there are no major discrepancies between it and the content of the Japanese annual report.

However, neither the Japanese nor English annual reports were included in the scope of the audit carried out by KPMG AZSA LLC.

* A document Japanese companies must prepare each fiscal year to comply with the Financial Instruments and Exchange Act.

Group Companies

As of March 31, 2017

Hakuhodo Group

Domestic

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
Hakuhodo Inc. [2, 5]	Tokyo, Japan	100.00
TBWA\HAKUHODO Inc.	Tokyo, Japan	60.00 (60.00)
TBWA\HAKUHODO INTERNATIONAL, INC. [1]	Tokyo, Japan	50.00 (50.00)
Hokkaido Hakuhodo Inc.	Sapporo, Japan	100.00 (100.00)
Tohoku Hakuhodo Inc.	Sendai, Japan	100.00 (100.00)
Niigata Hakuhodo Inc.	Niigata, Japan	100.00 (100.00)
Hokuriku Hakuhodo Inc.	Kanazawa, Japan	100.00 (100.00)
Shizuoka Hakuhodo Inc.	Shizuoka, Japan	100.00 (100.00)
ChugokuShikoku Hakuhodo Inc.	Hiroshima, Japan	100.00 (100.00)
chuo-ad shinsha, Inc.	Tokyo, Japan	85.10 (85.10)
HAKUHODO PRODUCT'S INC.	Tokyo, Japan	100.00 (100.00)
Hakuhodo Creative Vox, Inc.	Tokyo, Japan	100.00 (100.00)
HAKUHODO CONSULTING INC.	Tokyo, Japan	100.00 (100.00)
HAKUHODO DESIGN Inc.	Tokyo, Japan	100.00 (100.00)
HAKUHODO Kettle Inc.	Tokyo, Japan	100.00 (100.00)
Hakuhodo Direct Inc.	Tokyo, Japan	100.00 (100.00)
Hakuhodo Casting & Entertainment Inc.	Tokyo, Japan	100.00 (100.00)
HAKUHODO magnet Inc.	Tokyo, Japan	100.00 (100.00)
Tokyo Survey Research & Co., Ltd.	Tokyo, Japan	100.00 (100.00)

Company name	Location	Percentage of voting shares (%)
spicebox, inc.	Tokyo, Japan	94.12 (94.12)
HAPPY HOURS HAKUHODO INC.	Tokyo, Japan	100.00 (100.00)
HAKUHODO PLANNING HOUSE Inc.	Tokyo, Japan	100.00 (100.00)
D. BRAIN CO., LTD.	Tokyo, Japan	99.00 (99.00)
CRAFTAR INC.	Tokyo, Japan	91.60 (91.60)
OZMA Inc.	Tokyo, Japan	100.00 (100.00)
HAKUHODO MEDICAL INC.	Tokyo, Japan	100.00 (100.00)
Backs Group Inc.	Tokyo, Japan	100.00 (100.00)
SIX INC.	Tokyo, Japan	100.00 (100.00)
Spontena LLC	Tokyo, Japan	100.00 (100.00)
Cosmo Communications Inc.	Tokyo, Japan	100.00 (100.00)
KIDS DENTAL PARK INC.	Tokyo, Japan	100.00 (100.00)
HAKUHODO THE DAY INC.	Tokyo, Japan	100.00 (100.00)
VoiceVision, Inc.	Tokyo, Japan	90.00 (90.00)
Edge International, Inc.	Tokyo, Japan	80.15 (80.15)
Mahalo Networks, inc.	Tokyo, Japan	100.00 (100.00)
BASKET INC.	Tokyo, Japan	100.00 (100.00)
(Equity-method affiliates)		
ADSTAFF-HAKUHODO, INC.	Okinawa, Japan	35.77 (35.77)
Pinkoi Japan K.K.	Kanagawa, Japan	28.30 (28.30)

Hakuhodo Group

Overseas

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
Hakuhodo Deutschland GmbH	Frankfurt, Germany	100.00 (100.00)
Hakuhodo Hong Kong Ltd.	Hong Kong, China	100.00 (100.00)
SHANGHAI HAKUHODO ADVERTISING CO. LTD	Shanghai, China	100.00 (100.00)
Hakuhodo Communication Partners Advertising (Shanghai) Co., Ltd.	Shanghai, China	100.00 (100.00)
Hakuhodo Institute of Life and Living Shanghai Co., Ltd.	Shanghai, China	100.00 (100.00)
Consumer Insight Research Inc.	Shanghai, China	51.00 (51.00)
Hakuhodo Cheil Inc.	Seoul, South Korea	51.00 (51.00)
Hakuhodo Asia Pacific Co., Ltd.	Bangkok, Thailand	100.00 (100.00)
Hakuhodo France S.A.S.	Paris, France	100.00 (100.00)
Southpaw Communications Ltd.	Tunbridge Wells, U.K.	100.00 (100.00)
HAKUHODO ACTIVE Inc.	Taipei, Taiwan	100.00 (100.00)
TAIWAN HAKUHODO Inc.	Taipei, Taiwan	100.00 (100.00)
MJW Hakuhodo Pty. Ltd.	Sydney, Australia	100.00 (100.00)
Hakuhodo Rus LLC	Moscow, Russia	100.00 (100.00)
Hakuhodo Malaysia Sdn. Bhd.	Shah Alam, Malaysia	100.00 (100.00)
Hakuhodo (Singapore) Pte. Ltd.	Singapore	100.00 (100.00)
Hakuhodo & Saigon Advertising Co., Ltd.	Ho Chi Minh City, Vietnam	65.00 (65.00)
Hakuhodo Percept Pvt. Ltd.[1]	New Delhi, India	50.00 (50.00)
Ray Spring Co., Ltd.	Shanghai, China	51.00 (51.00)
Grebstad Hicks Communications Ltd.	Hong Kong, China	100.00 (100.00)
Ashton Consulting Ltd.	Surrey, U.K.	100.00 (100.00)
HAKUHODO USA Inc.	Chicago, U.S.A.	100.00 (100.00)
Hakuhodo Investment Singapore Pte. Ltd.	Singapore	100.00 (100.00)
Media Intelligence Co., Ltd[1]	Bangkok, Thailand	40.00 (40.00)
HILL ASIA CO., LTD	Bangkok, Thailand	100.00 (100.00)
Hakuhodo Korea Inc.	Seoul, South Korea	100.00 (100.00)
(Equity-method affiliates)		
Percept/H Pvt. Ltd.	Mumbai, India	50.00 (50.00)
TBWA\G1 S.A.S.	Paris, France	20.00 (20.00)
Delphys Hakuhodo (Thailand) Co., Ltd.	Bangkok, Thailand	24.50 (24.50)
People'n Rich-H Sdn. Bhd.	Kuala Lumpur, Malaysia	25.00 (25.00)
Inpress Advertising FZ-LLC	Dubai, U.A.E.	25.01 (25.01)
Beijing Delphys Hakuhodo Advertising Co., Ltd.	Beijing, China	45.00 (45.00)
Guangdong GDAD-Hakuhodo Advertising Co., Ltd.	Guangzhou, China	50.00 (50.00)
GUANGDONG GIMC DELPHYS HAKUHODO ADVERTISING CO., LTD.	Guangzhou, China	25.00 (25.00)

Daiko Group

Domestic

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
Daiko Advertising Inc.[2]	Osaka, Japan	100.00
DAIKO KANSAI INC.	Osaka, Japan	100.00 (100.00)
Ad Daiko Nagoya Inc.	Nagoya, Japan	100.00 (100.00)
Daiko Kyusyu Advertising Inc.	Fukuoka, Japan	100.00 (100.00)
Daiko Hokuriku Advertising Inc.	Toyama, Japan	100.00 (100.00)
Daiko West Inc.	Hiroshima, Japan	100.00 (100.00)
Asahi Area Advertising Inc.	Osaka, Japan	55.96 (55.96)
Daiko MEDIAX Inc.	Osaka, Japan	75.00 (75.00)
DAIKO ONES INC.	Osaka, Japan	100.00 (100.00)
D-Create Inc.	Tokyo, Japan	100.00 (100.00)
D & I Partners Inc.	Tokyo, Japan	100.00 (100.00)
IBSystem Co., Ltd.	Nagano, Japan	51.06 (51.06)

Overseas

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
Daiko (China) Advertising Co., Ltd.	Shanghai, China	100.00 (100.00)
Daiko Vietnam Co., LTD.	Ho Chi Minh City, Vietnam	100.00 (100.00)
DAIKO COMMUNICATIONS TAIWAN CO., LTD.	Taipei, Taiwan	100.00 (100.00)
DAIKO ADVERTISING INDIA PRIVATE LIMITED	Chennai, India	100.00 (100.00)
AD PLANET DAIKO PTE. LTD.	Singapore	87.23 (87.23)
PT.AD PLANET DAIKO INDONESIA	Jakarta, Indonesia	51.00 (51.00)
Daiko (Beijing) Advertising Co., Ltd.	Beijing, China	100.00 (100.00)
Daiko (Guangzhou) Advertising Co., Ltd.	Guangzhou, China	100.00 (100.00)

Yomiko Group

Domestic

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
YOMIKO ADVERTISING INC.[2]	Tokyo, Japan	100.00
YOMIKO CROSS COM INC.	Tokyo, Japan	100.00 (100.00)
YOMIURI KANAGAWA ADVERTISING INC.	Kanagawa, Japan	100.00 (100.00)
YOMIKO AD LINE Inc.	Tokyo, Japan	100.00 (100.00)
YOMIKO Entertainment Inc.	Tokyo, Japan	100.00 (100.00)
SHOPPER INSIGHT INC.	Tokyo, Japan	95.00 (95.00)
(Equity-method affiliates)		
Environmental Planning Laboratory Inc.	Tokyo, Japan	35.00 (35.00)

Overseas

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
YOMIKO (Shanghai) Advertising Co., Ltd.	Shanghai, China	100.00 (100.00)
TAIWAN YOMIKO INC.	Taipei, Taiwan	70.00 (70.00)

Hakuhodo DY Media Partners Group

Domestic

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
Hakuhodo DY Media Partners Inc.[2]	Tokyo, Japan	100.00
Hakuhodo DY digital Inc.	Tokyo, Japan	100.00 (100.00)
HAKUHODO DY Sports Marketing Inc.	Tokyo, Japan	100.00 (100.00)
Hakuhodo DY Ad Station Inc.	Tokyo, Japan	100.00 (100.00)
Hakuhodo DY music & pictures Inc.	Tokyo, Japan	100.00 (100.00)
T-Memo Inc.	Tokyo, Japan	90.00 (90.00)
Data Stadium Inc.[2]	Tokyo, Japan	68.65 (68.65)
STORIES LLC	Tokyo, Japan	77.20 (77.20)
ALL BLUE Inc.	Tokyo, Japan	93.40 (93.40)
D.A. Consortium Holdings Inc.[2, 4]	Tokyo, Japan	50.64 (50.64)

Hakuhodo DY Media Partners Group

Company name	Location	Percentage of voting shares (%)
D.A. Consortium Inc.[2]	Tokyo, Japan	50.64 (50.64)
ADPRO inc.	Tokyo, Japan	100.00 (100.00)
HAKUHODO i-studio Inc.	Tokyo, Japan	100.00 (100.00)
IREP Co., Ltd.	Tokyo, Japan	50.64 (50.64)
Platform One Inc	Tokyo, Japan	100.00 (100.00)
Torchlight Inc.	Tokyo, Japan	69.98 (69.98)
UNITED, Inc.[1, 2, 4]	Tokyo, Japan	44.43 (44.43)
(Equity-method affiliates)		
SUPER NETWORK, INC.	Tokyo, Japan	50.00 (50.00)
mediba Inc.	Tokyo, Japan	35.81 (35.81)
Advertisement EDI Center, Inc.	Tokyo, Japan	29.85 (29.85)
Asahi Advertising Inc.	Tokyo, Japan	20.00 (20.00)
Babycome, inc.	Tokyo, Japan	38.19 (38.19)
Members Co., Ltd.[4, 6]	Tokyo, Japan	18.20 (18.20)
Adinnovation Inc.[6]	Tokyo, Japan	18.03 (18.03)
livepass Inc.	Tokyo, Japan	22.41 (22.41)
GLIDER associates, INC.	Tokyo, Japan	23.62 (23.62)

Overseas

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
STORIES INTERNATIONAL, INC.	California, U.S.A.	100.00 (100.00)
D.A. CONSORTIUM BEIJING CO., LTD.	Beijing, China	98.88 (98.88)
DAC ASIA PTE. LTD.	Singapore	100.00 (100.00)
(Equity-method affiliate)		
Innity Corporation Berhad	Petaling Jaya, Malaysia	25.10 (25.10)

kyu

Overseas

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
kyu Investment Inc.	Delaware, U.S.A.	100.00
Red Peak Group LLC	Delaware, U.S.A.	100.00 (100.00)
SYPartners LLC	California, U.S.A.	100.00 (100.00)
Digital Kitchen, LCC	Washington, U.S.A.	100.00 (100.00)
Sid Lee Inc.	Quebec, Canada	100.00 (100.00)
BEworks Inc.	Toronto, Canada	58.80 (58.80)
(Equity-method affiliates)		
IDEO LP	Delaware, U.S.A.	30.00 (30.00)
C2 International Inc.[6]	Quebec, Canada	16.01 (16.01)

Others

Domestic

Company name	Location	Percentage of voting shares (%)
(Consolidated subsidiaries)		
Hakuhodo DY Total Support Inc.	Tokyo, Japan	100.00
Hakuhodo DY Capco Inc.	Tokyo, Japan	100.00
Hakuhodo DY I.O Inc.	Tokyo, Japan	100.00
AD plus VENTURE Inc.	Tokyo, Japan	100.00
(Equity-method affiliates)		
M-CUBE INC.[6]	Tokyo, Japan	15.00
Switch Media Lab, Inc.	Tokyo, Japan	20.10

1. This company is consolidated because the Company, directly or indirectly, is able to control its operations although the equity interest is less than a majority.
2. A significant subsidiary
3. Figures in parentheses in "Percentage of voting shares" are the portion indirectly owned via subsidiaries.
4. A company submitting a *Yuho* Financial Report
5. The percentage of sales (excluding internal sales between consolidated subsidiaries) at Hakuhodo Inc. each exceeded 10% of consolidated net sales. Main profit and loss information is as follows:

¥ Millions	Hakuhodo Inc.
1) Gross billings	700,943
2) Ordinary income	21,252
3) Net income	15,005
4) Net assets	146,236
5) Total assets	367,941

6. Ownership is less than 20%, but because of effective influence held, the company is considered an affiliate.

Corporate Information

As of June 29, 2017

Hakuhodo DY Holdings Inc.

Date of Establishment: October 1, 2003
Capital: ¥10,000 million
Head Office: 5-3-1 Akasaka, Minato-ku, Tokyo 107-6320
URL: http://www.hakuhododу-holdings.co.jp/english

Contact

Hakuhodo DY Holdings Inc.
Investor Relations Division
Phone: +81-(0)3-6441-9033
Fax: +81-(0)3-6441-9065
E-mail: HC.IR@hakuhodody-holdings.co.jp

Hakuhodo Group

Company Name	Hakuhodo Inc.
Head Office	5-3-1 Akasaka, Minato-ku, Tokyo 107-6322
Phone	+81-(0)3-6441-8111
Founded	October 1895
Incorporated	February 1924
President & CEO	Masayuki Mizushima
Employees (consolidated)	8,385
URL	http://www.hakuhodo.jp

Hakuhodo DY Media Partners Group

Company Name	Hakuhodo DY Media Partners Inc.
Head Office	5-3-1 Akasaka, Minato-ku, Tokyo 107-6321
Phone	+81-(0)3-6441-9321
Incorporated	December 2003
President & CEO	Hirotake Yajima
Employees (consolidated)	3,602
URL	http://www.hakuhodody-media.co.jp/english

Daiko Group

Company Name	Daiko Advertising Inc.
Tokyo Head Office	5-2-20 Akasaka, Minato-ku, Tokyo 107-6107
Phone	+81-(0)3-6364-8111
Osaka Head Office	2-2-7 Nakanoshima, Kita-ku, Osaka 530-8263
Phone	+81-(0)6-7174-8111
Founded	1893
Incorporated	February 1944
President & CEO	Hiroshi Ochiai
Employees (consolidated)	1,569
URL	http://www.daiko.co.jp/en

kyu

Company Name	kyu
Head Office	395 Hudson Street, 8th Floor New York, NY 10014
Phone	+1-646-926-5163
Founded	May 2014
CEO	Michael Birkin
Employees (consolidated)	869
URL	https://kyu.com/

Note: Number of employees as of March 31, 2017.

Yomiko Group

Company Name	YOMIKO ADVERTISING INC.
Head Office	5-2-20 Akasaka, Minato-ku, Tokyo 107-6105
Phone	+81-(0)3-3589-8111
Founded	June 1929
Incorporated	July 1946
President & CEO	Daisuke Fujinuma
Employees (consolidated)	763
URL	http://www.yomiko.co.jp/en/ad_profile.html

Hakuhodo DY Holdings Inc.

Annual Report 2017

[Annual Report + Information on ESG Initiatives]

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