Hakuhodo DY holdings

Integrated Report 2018

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.

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.

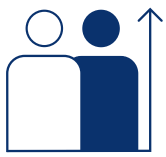
Sei-katsu-sha Insight

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 heart-beats. 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.

Sei-katsu-sha Insight

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.



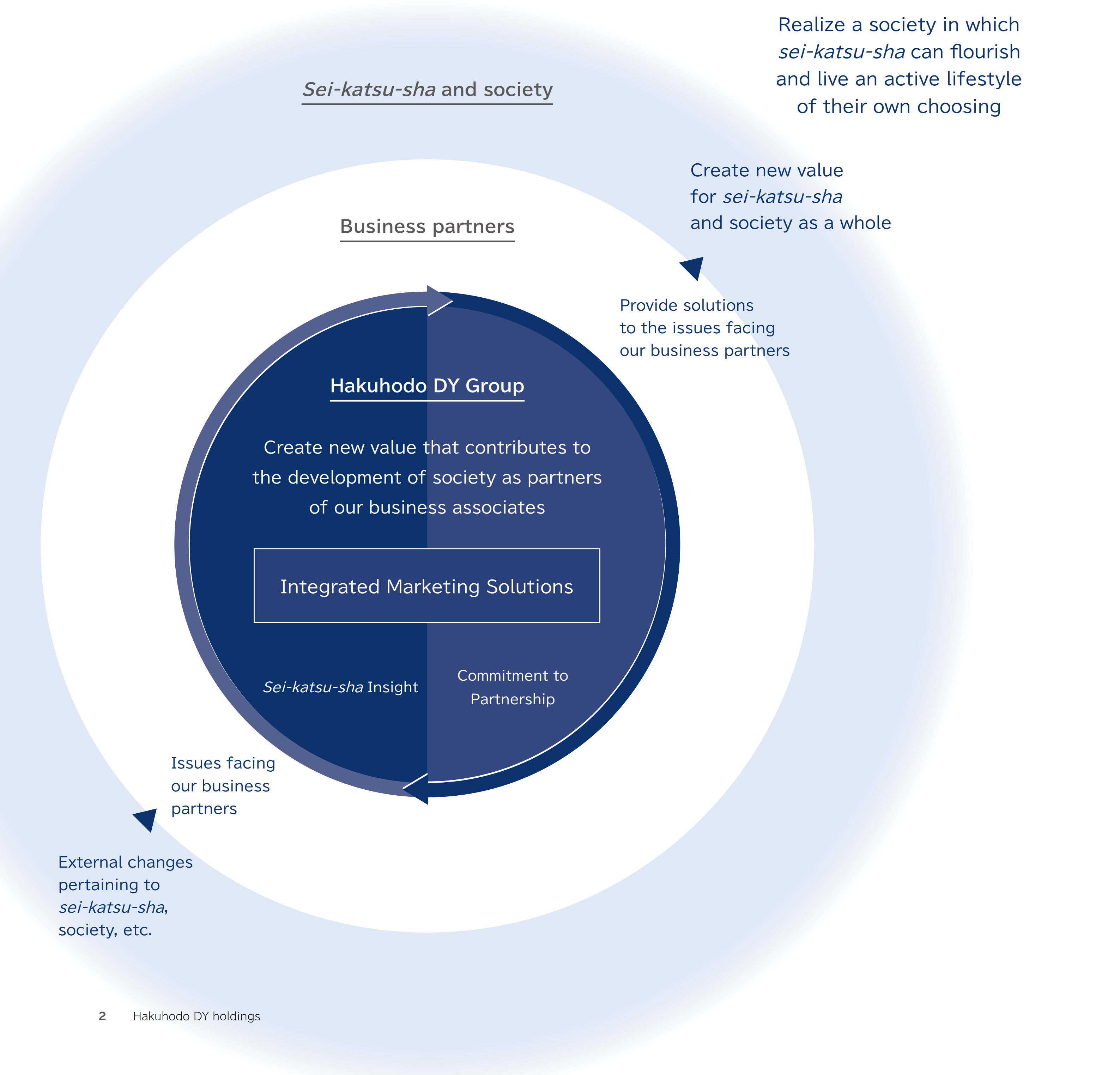
Partnership

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.

Creating New Value for *Sei-katsu-sha* and Society as a Whole

The Hakuhodo DY Group adheres to *Sei-katsu-sha* Insight and Commitment to Partnership as its policies and places these two policies at the center of its business development. By promptly assessing the changing times and social trends, the Group has significantly transformed its business without being constrained to the conventional framework of the advertising business, thereby realizing robust growth.

The way *sei-katsu-sha* come into contact with information and related consumption behavior has changed along with society as a whole due to the progression of digital technology and the acceleration of globalization. These changes have given rise to a need for corporations to transform their marketing activities. Within this environment of rapid change and fierce competition, we believe our role is to continue to create new value that contributes to the development of society as a partner to our business associates and *sei-katsu-sha*. To this end, we give thorough consideration to what is beneficial for *sei-katsu-sha* and society at large and work to ascertain the true essence of the changes that are occurring.



Human Resources—Our Greatest Asset and Source of Competitiveness

Creativity moves the hearts of *sei-katsu-sha* and stimulates their actions. It also represents the key for solving the issues that *sei-katsu-sha* face. The driving force that gives rise to creativity is the thinking power of each and every employee, each with diverse and distinct personalities, and their ability to work as a team by mutually encouraging each other to realize a shared goal. Our human resources display high levels of creativity from a wide range of perspectives, including devising marketing strategies and creating social movements. As such, they represent the Group's greatest asset and the source of our competitiveness.

The growth of our employees will ultimately lead to the growth of the teams they work in and, consequently, the growth of the Group as a whole. We are therefore pursuing efforts to enhance programs that allow our employees to continue to grow on a daily basis. These programs include introducing a personnel system that evaluates both the accomplishments and the growth of our employees, conducting training aimed at increasing employee expertise and sharpening their creativity levels, and sharing cutting-edge knowledge. In addition, we offer employees opportunities to grow in areas outside of their respective duties through such means as the AD+VENTURE program, which is a Groupwide program for attracting, examining, and cultivating business ideas. Also, with the aim of becoming a company where employees can maintain their health and play an active role, we are promoting workstyle reforms and contributing to employee health improvement.

The Core Engine of Value Creation

Over the years, we have amassed an abundance of unique *sei-katsu-sha* data. By combining this data with media data, client data, and data on *sei-katsu-sha* perceptions and consumption behavior—which is now obtainable through digitalization—and conducting analysis using advanced technologies, we discover *sei-katsu-sha* insights and implement high-quality integrated marketing solutions.

Additionally, we will use our unique creativity to promote a shift toward a more positive direction and improve the world of *sei-katsu-sha* and society as a whole. In doing so, we will create new value and provide solutions to the issues facing our business partners.

Realize a Society in Which *Sei-katsu-sha* Can Be Themselves and Enjoy an Invigorating Lifestyle

With the aim of realizing sustainable growth and continuous corporate value improvement, we are working together with our business partners to resolve the various social issues highlighted by the Sustainable Development Goals (SDGs), which were adopted by the United Nations, through our day-to-day business activities. In addition, we actively encourage our employees, as *sei-katsu-sha* themselves, to make voluntary efforts to resolve social issues.

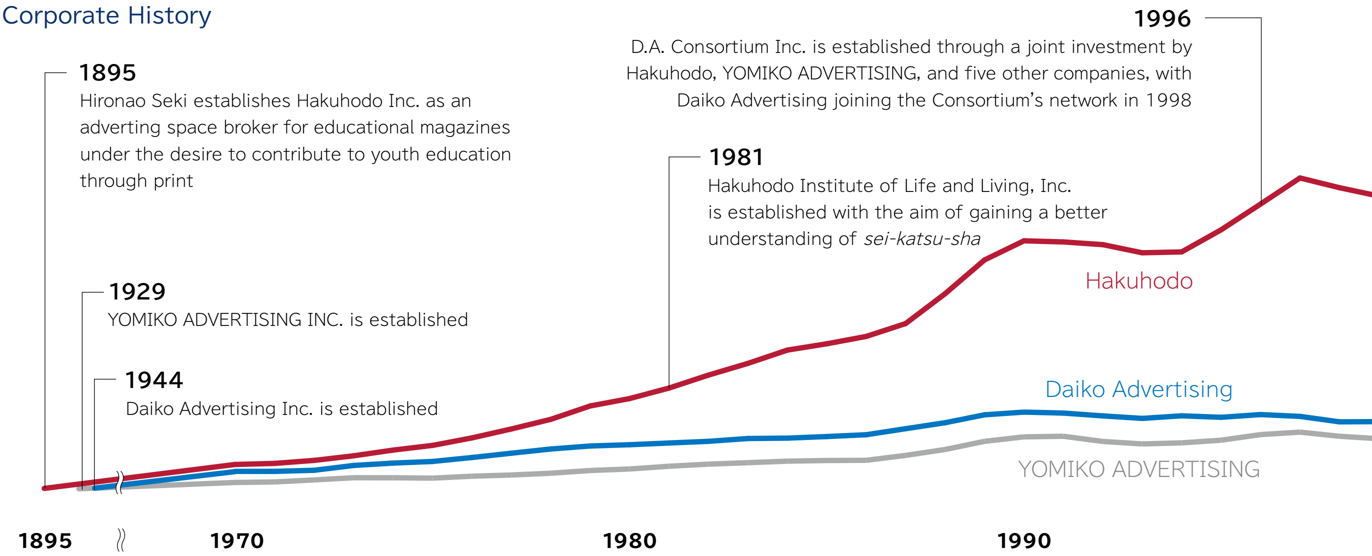
The ultimate goal of our *sei-katsu-sha* Insight and Commitment to Partnership policies is to realize a society where employees can be themselves and enjoy an invigorating lifestyle. By refining our creativity and making full use of data and advanced technologies, we will advance *sei-katsu-sha* insight and work together with our business partners to create new value as a partner to *sei-katsu-sha*. Through this, we will realize an enriched future for *sei-katsu-sha* and contribute to economic growth and social progress.

Expanding the Business Scale and Domains of the Hakuhodo DY Group

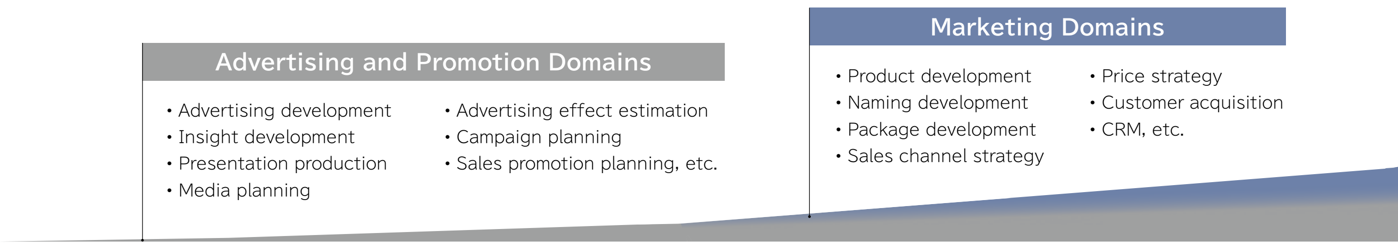
After the Meiji Restoration, the role of an advertising company was to act as a “media partner” by collecting advertisements for newspapers and magazines, which began to be published one after the other. In the 1950s, advertising companies evolved rapidly in response to the growing media platforms that resulted from the advent of radio and television broadcasts. During this time, the Group’s core operating company Hakuhodo Inc. underwent a significant transformation to become a “client partner” that supports the marketing activities of its clients, thereby actively expanding its business domains.

From the 1990s on, the rapid expansion of the Internet and other factors ushered in a new era of marketing communication in which *sei-katsu-sha* play the leading role. In 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. Guided by our Medium-Term Business Plan, which runs through the fiscal year ending March 31, 2019, we aspire to enhance our ability to provide integrated marketing solutions and realize sustainable growth as the best marketing partner for our clients.

■ Corporate History



Expanding Domains Supported by Our Integrated Marketing Solutions



High Evaluations of Our Creatives

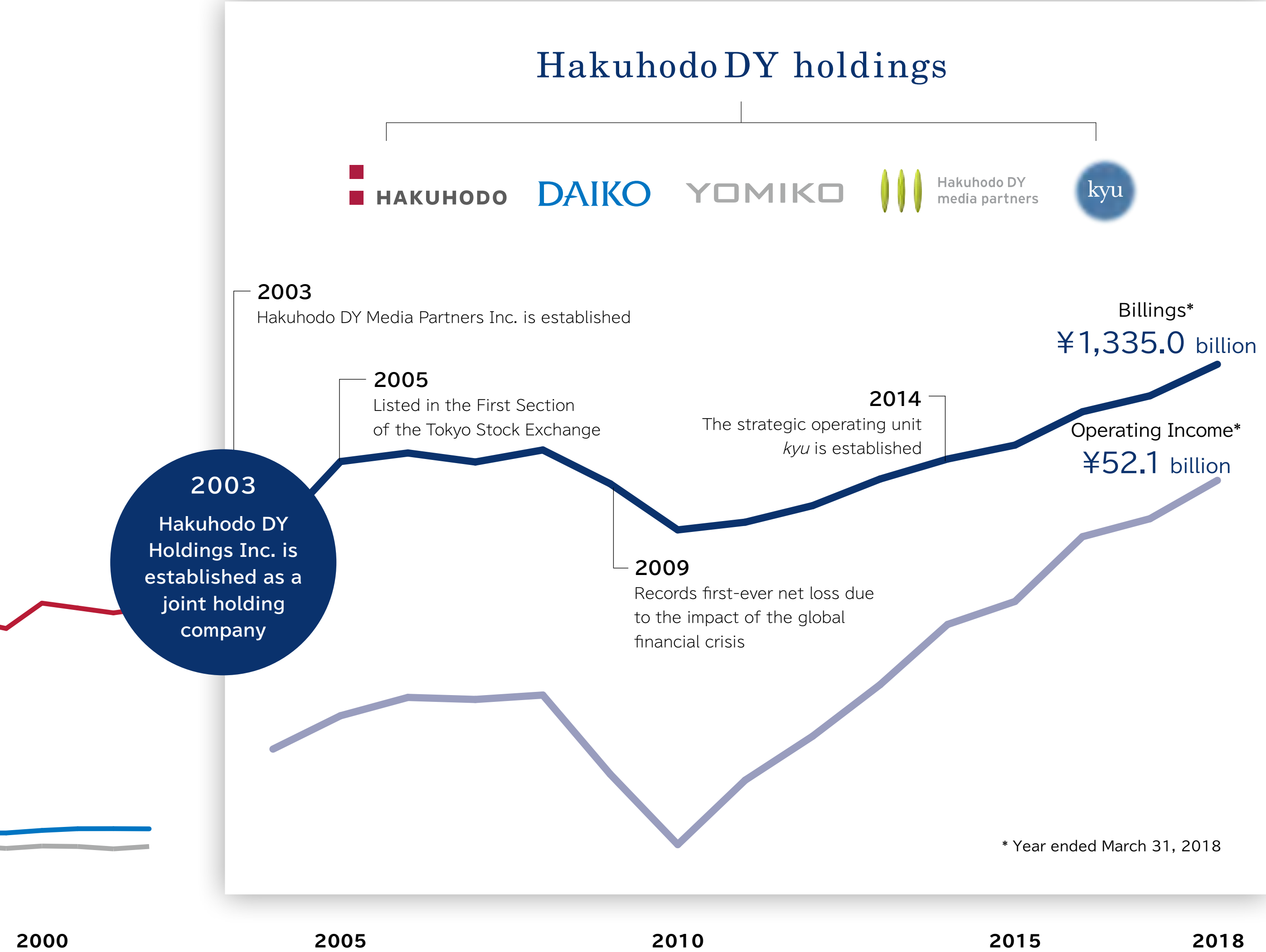
The ability to develop advertising creatives that gain the attention of a large number of people and leave an impressionable message is essential. Hakuhodo has won the grand prize twice at the Cannes Lions International Festival of Creativity held in Cannes, France, which is the world’s largest advertising festival. Hakuhodo has also won numerous prizes at various advertising events held around the world.

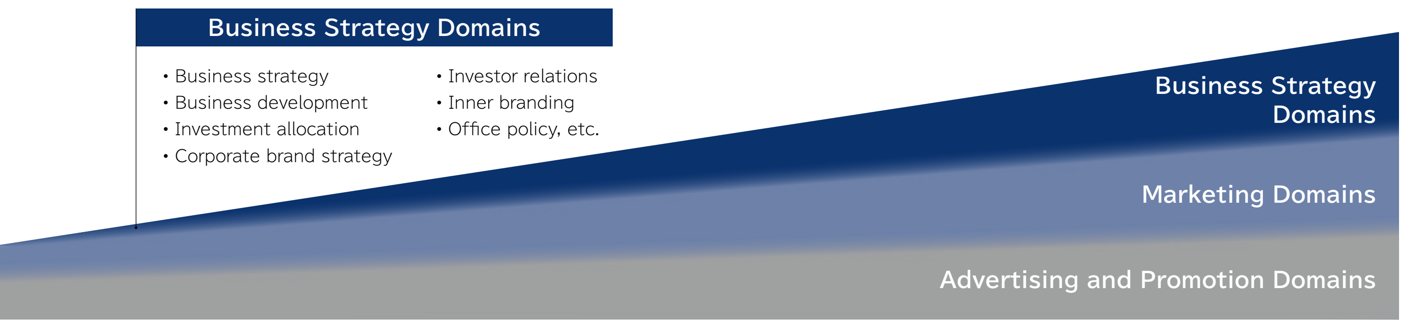
Sei-katsu-sha Insight = Establishment of Hakuhodo Institute of Life and Living

To be acknowledged as a partner to our clients, we have to know *sei-katsu-sha*, who are the target of our clients, better than anyone else. With the aim of gaining even deeper insight on *sei-katsu-sha*, we established Hakuhodo Institute of Life and Living, Inc. in 1981 and have since expanded the institute on a global scale.

Management Integration with the Founding of Hakuhodo DY Holdings

In October 2003, Hakuhodo Inc., the second largest advertising company in Japan; Daiko Advertising Inc., the fifth largest; and YOMIKO ADVERTISING INC., the sixth largest, integrated their management through the establishment of the joint holding company Hakuhodo DY Holdings Inc. Also, in December of the same year, Hakuhodo DY Media Partners Inc. was founded as Japan’s first integrated media company.





Integrated Marketing Solutions

Under the previous Medium-Term Business Plan, which was announced in fall 2009, we began to promote integrated marketing solutions. Under the current Medium-Term Business Plan, we are working to further enhance the specialization and creativity of these solutions. Furthermore, in response to digitalization, the current plan focuses on strengthening our *sei-katsu-sha* data-driven marketing response capabilities by collecting, analyzing, and leverage a massive amount of data.

Continuous Enhancement of Specialization and Innovation: Strategic Business Unit *kyu*

In 2014, we established the strategic business unit *kyu* with the aim of forming a collection of creative companies through the M&A of unique and advanced North American and European companies that specialize in various fields. The unit now comprises a collection of distinctive and diverse companies that specialize in such areas as innovation consulting, behavioral economic-oriented consulting, and consulting based on people-centered design.

Key Figures

(Year ended March 31, 2018)

Financial Indicators

Billings

¥1,335.0 billion

Revenue

¥272.3 billion

Operating Income before Amortization of Goodwill*1

¥55.8 billion

ROE before Amortization of Goodwill*3

10.5%

Overseas Revenue Ratio

12.5%

CAGR of Revenue*4

+9.4%

Human Resources

Group Employees

18,837

Amount of Investment in Education to Cultivate Human Resources*7

Approx. ¥800 million

(approx. ¥192,000 per employee)

Percentage of Employees Who Felt They Have Grown from the Previous Year*7

Hakuhodo Inc.

71.5%

Hakuhodo DY Media Partners Inc.

71.1%

(Answers received from employee survey regarding perceptions of work, etc.)

Average Annual Hours of Training per Employee*7

Approx. 22.9 hours

Total "Hours of Interview" for Managing Employee Targets and Developing Capabilities*7

Approx. 6,300 hours

Creativity

Receiving High Acclaim at Advertising Awards in Japan and Overseas

Received

33 awards

at the 57th ACC Tokyo Creativity Awards,*8 including three Grand Prizes

Received

16 awards

at the 64th Cannes Lions International Festival of Creativity*9 held in 2017

Received

29 awards

at Spikes Asia 2017,*10 including a Grand Prix

Named Winner of the Young Spikes Competition

Operating Margin before Amortization of Goodwill*2

20.5%

*1. 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.
*2. Operating margin before amortization of goodwill = Operating income before amortization of goodwill / Revenue
*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)
*4. Four-year period starting from the fiscal year ended March 31, 2014

Size of the Group

No. 2 advertising group in Japan and No.12*5 in the world

Area of Operations

Over 21 countries and regions around the world

Subsidiaries and Affiliates

345

Share in Domestic Advertising Market*6

21.0%

*5. Advertising Age, May 2018
*6. Figures for the domestic advertising market calculated based on the Survey of Selected Service Industries (Ministry of Economy, Trade and Industry)

AD+VENTURE—Groupwide Program for Attracting, Examining, and Cultivating Business Ideas

Total of 737 business ideas submitted over eight years

Total of 16 business ideas turned into actual businesses

(Open to 55 companies of the Hakuhodo DY Group)

Employee Cooperation in Lectures at External Organizations*7

A total of 648 lectures given by 96 employees at 143 educational institutions, with total student participation in these lectures reaching 11,982

Number of Social Action Activities

89

Total participation of 539

Promotion of Health and Productivity Management*7

Percentage of Employees Receiving Health Examinations

100% for the fifth consecutive year

Percentage of Applicable Employees (Age 29 and Over) Receiving Comprehensive Medical Examinations

Hakuhodo Inc. 81.9%
Hakuhodo DY Media Partners Inc. 85.1%

Percentage of Employees with Disabilities

2.26% (As of June 1, 2018)

*7. Applies only to Hakuhodo Inc. and Hakuhodo DY Media Partners Inc.

Received

43 awards

at the 21st ADFEST,*11 held in 2018, including five Grande Lotuses

TBWA\HAKUHODO named Agency of the Year

*8. Largest advertising festival in Japan
*9. World's largest advertising festival in the field of advertising and communication
*10. Started as a regional Cannes Lions Festival in 2009, Spikes Asia is one of the largest advertising festivals in the Asian region.
*11. One of the most influential advertising festivals in the Asia-Pacific region

External Evaluation

Response to the CDP*12 2017 Climate Change Questionnaire

B score

*12. 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

Group Overview

Hakuhodo DY holdings

Pure Holding Company

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

Advertising Companies

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

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 deliver more effective, more powerful communications.

Daiko has amassed an abundance of Active Design™ know-how as a professional group that establishes elite clients and connects them with *sei-katsu-sha*. Leveraging this know-how as a marketing solutions partner to our clients, Daiko has a role to play in everything from brand development and 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 puts 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.

Financial Highlights

¥ Millions

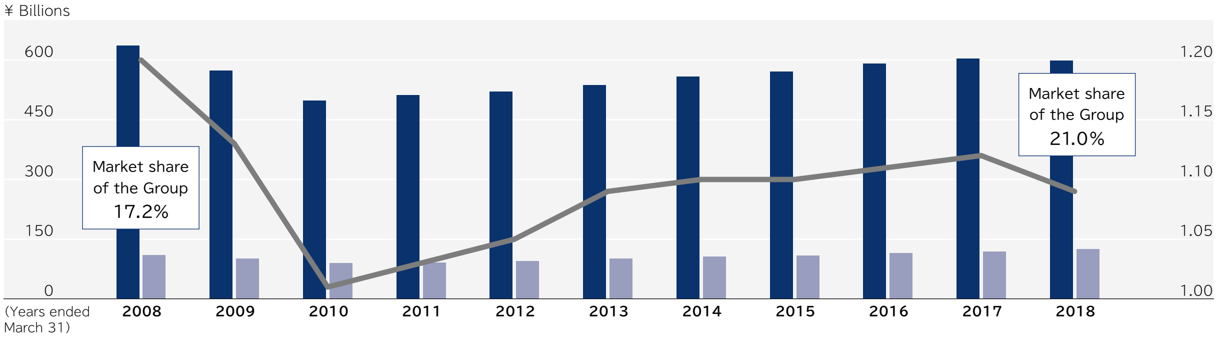
Years ended March 31	2014	2015	2016	2017	2018
For the year					
Gross billings	¥1,095,909	¥1,131,064	¥1,215,250	¥1,255,474	**¥1,335,030**
Revenue	190,150	205,867	232,498	248,640	**272,335**
Selling, general and administrative expenses	156,233	169,045	187,503	201,379	**220,147**
Operating income	33,916	36,821	44,994	47,261	**52,187**
Profit attributable to owners of parent	18,721	19,879	28,531	25,880	**29,834**
Amortization of goodwill and other intangible assets[1]	983	1,672	2,290	3,120	**3,615**
Operating income before amortization of goodwill[2]	34,900	38,494	47,285	50,381	**55,803**
At year-end					
Total assets	¥ 583,970	¥ 633,904	¥ 678,532	¥ 722,051	**¥ 799,901**
Interest-bearing debt[3]	5,068	4,597	8,086	11,829	**9,956**
Net assets	254,510	282,729	294,031	325,818	**367,367**
Per share data (yen)[4]					
Basic net income	¥ 49.31	¥ 53.22	¥ 76.56	¥ 69.45	**¥ 80.03**
Diluted net income	49.27	53.16	76.44	69.44	**79.85**
Cash dividends	12.00	15.00	18.00	24.00	**26.00**
Ratios (%)					
Revenue to gross billings margin	17.4	18.2	19.1	19.8	**20.4**
Operating margin before amortization of goodwill[5]	18.4	18.7	20.3	20.3	**20.5**
Operating margin[6]	17.8	17.9	19.4	19.0	**19.2**
Ratio of personnel costs to revenue[7]	56.3	55.5	54.2	54.5	**53.9**
Return on equity (ROE)	8.1	7.9	10.6	9.0	**9.2**
Shareholders' equity ratio	40.9	41.6	40.3	42.2	**42.9**

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 integrated 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.
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

Domestic Advertising Market and Our Fundamental Policy with Regard to Returns to Shareholders

Domestic Advertising Market and Hakuhodo DY Group'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. In fiscal 2017, the market declined slightly compared with the previous fiscal year, yet it still recovered to 94% of its fiscal 2007 size. At the Hakuhodo DY Group, we have steadily realized growth in billings through the successful implementation of our Medium-Term Business Plan. In fiscal 2017, as a result of further billings growth, we greatly surpassed our fiscal 2007 performance with a recovery of approximately 115% over the same period. On this basis, our market share rose to 21.0% in fiscal 2017, from 17.2% in fiscal 2007.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic Advertising Market	100	90	78	80	82	84	88	90	93	95	94
HDY: Gross Billings (Domestic)	100	92	82	83	87	93	97	99	105	109	115

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

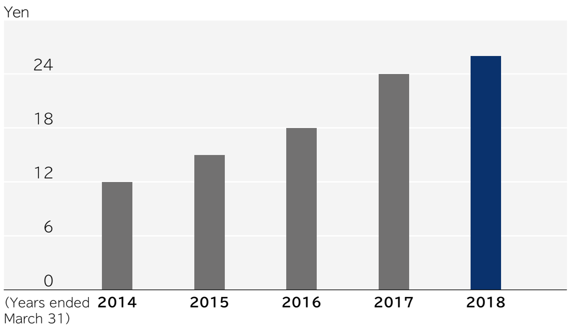
Notes: 1. Data for the domestic advertising market is taken from the Survey of Selected Service Industries (Ministry of Economy, Trade and Industry). For certain discontinuities in the numerical results published in the survey arising from changes in the survey pool, adjusted numerical results using 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*



	2014	2015	2016	2017	2018
Full-year	12.0	15.0	18.0	24.0	26.0

Repurchases of treasury stock

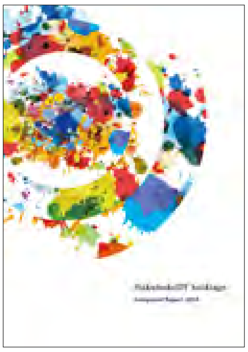
Purchase period	Number of shares*	Purchase price (¥ Millions)	% of total issued shares
May 15–May 22, 2007	1,160,000	939	0.3%
Feb. 12–Feb. 20, 2008	1,695,100	999	0.4%
Feb. 8–Mar. 7, 2011	6,000,000	3,105	1.6%
May 12–May 28, 2014	7,000,000	6,289	1.8%

* The Company carried out a 10-for-1 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.

Contents

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 our management strategies, business activities, and financial information. However, believing in the importance of introducing in detail our efforts toward society and the environment that help us fulfill our social value as a corporation, we have now created an integrated report that comprehensively covers the Group's activities related to sustainability and ESG.

Forward-Looking Statements

This integrated 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.

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.

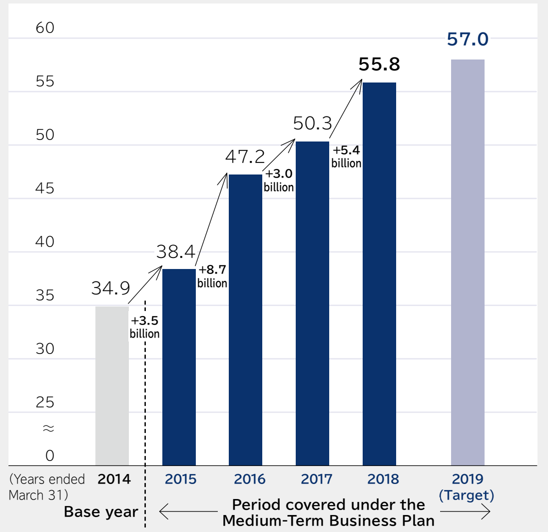
Medium-Term Business Target

Operating income before amortization of goodwill

¥**57.0** billion

Operating income before amortization of goodwill

¥ Billions



Important indicator

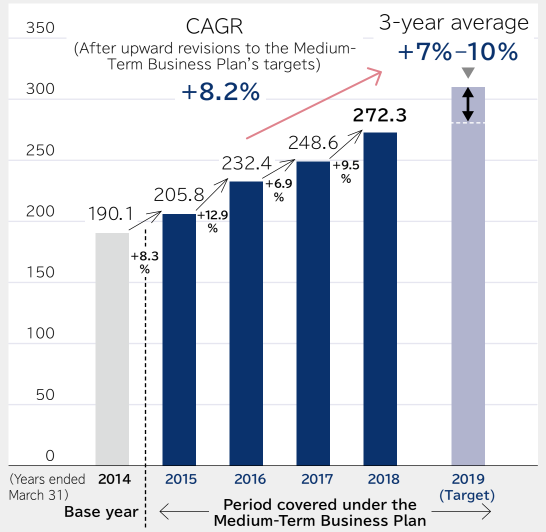
CAGR of revenue (Compound annual growth rate for the plan period)

3-year average*1

+7%–10%

Revenue

¥ Billions

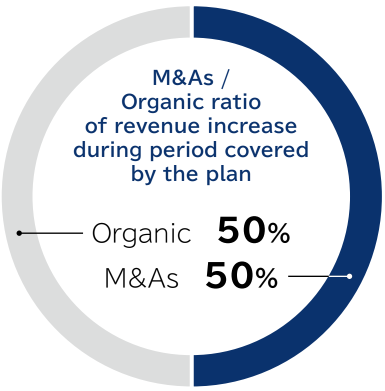


*1. CAGR from fiscal 2015 through fiscal 2018

Growth image

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

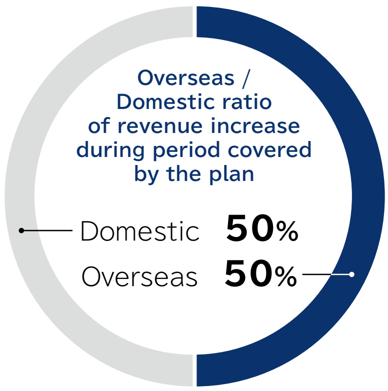
Financial resources equivalent to the greater part of the cash generated during the plan period will be invested in the three growth drivers.



Overseas ratio of revenue

20%

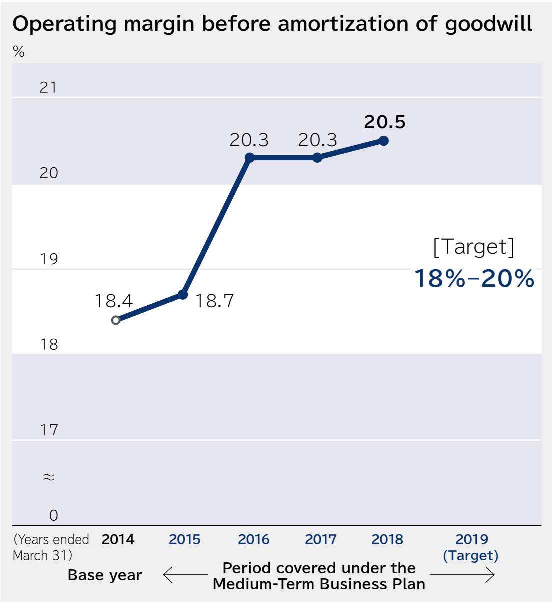
in FY2018



Important indicator

Operating margin before amortization of goodwill

18%–20%

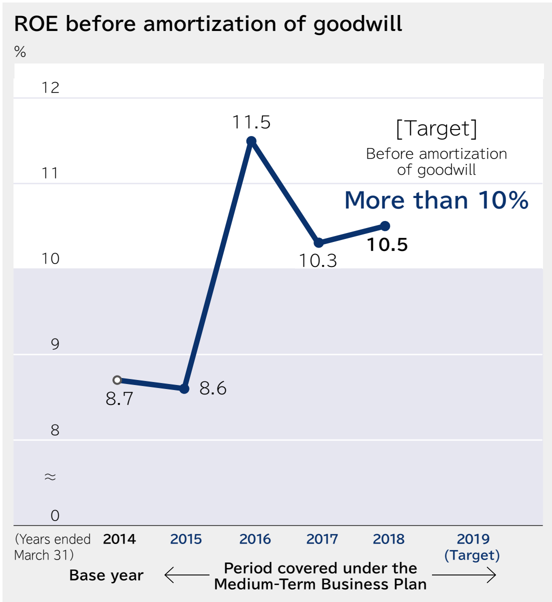


Important indicator

Return on equity (ROE)

Before amortization of goodwill*2

More than **10** %



*2. 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 organizational structure in Asia

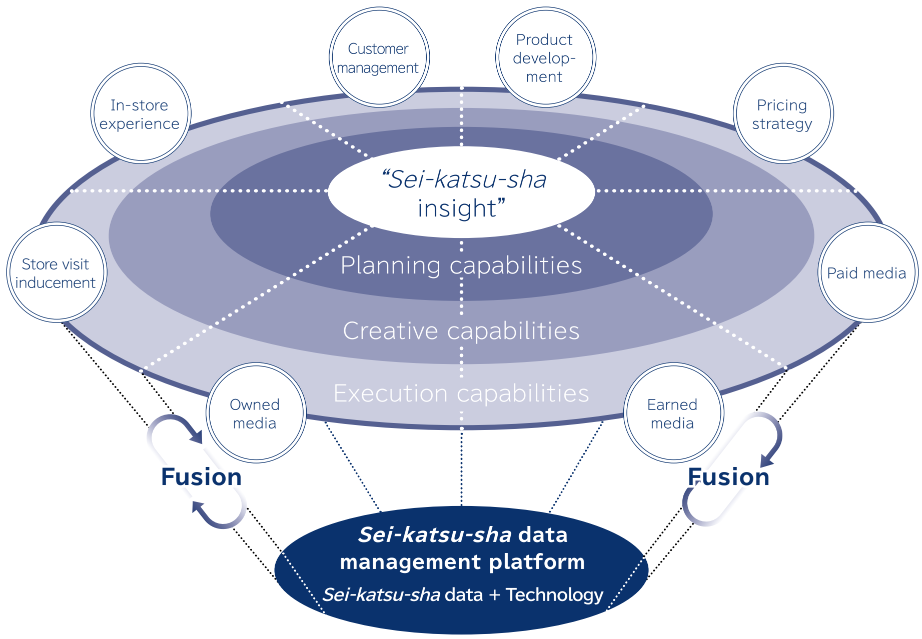
3 Growth Driver

Acquisition of equity in innovative and unique specialized marketing service companies

Proactive investment strategy

to support swift and sure growth

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

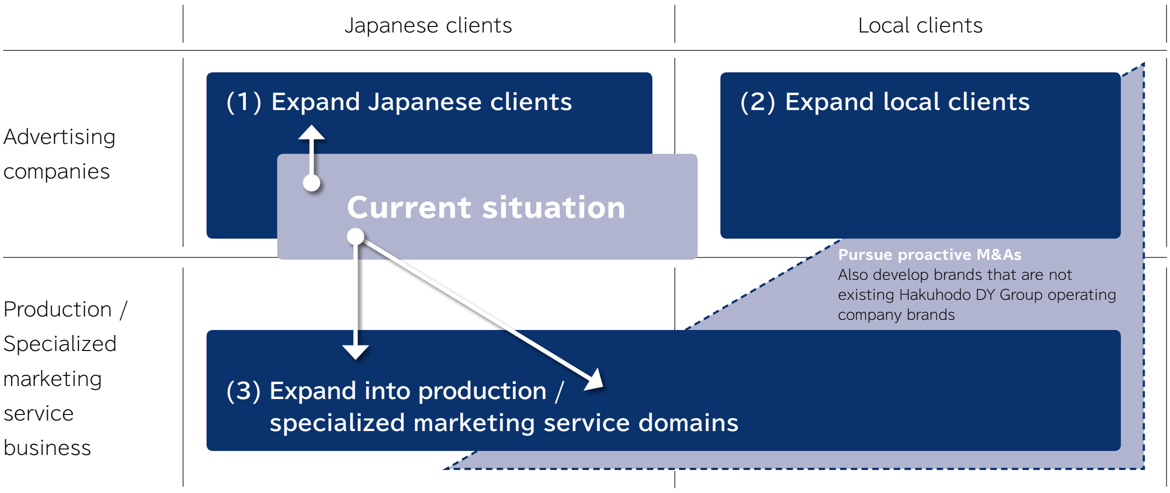


- Build a *sei-katsu-sha* data management platform and further enhance the *sei-katsu-sha* insight concept
- Provide *sei-katsu-sha* data-driven integrated marketing solutions

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 organizational structure 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 Acquisition of equity in innovative and unique specialized marketing service companies

- 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 9 for details of the strategic operating unit.)

To Our Stakeholders

During fiscal 2017, the Japanese economy continued on a trend of gradual recovery as exports grew amid further improvement in overseas economies. In addition, capital investments increased and consumer spending was steady on the back of a high level of corporate earnings. Meanwhile, in contrast with the solid conditions in the domestic economy, the domestic advertising market faced slightly sluggish conditions, performing at a level over the course of the fiscal year that was below that of the previous year.

Amid this environment, 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 18 out of 21 client industries, including Automobiles / Related products, Transportation / Leisure, and Information / Communications. In terms of costs, while we carried out strategic investments such as overseas M&A to promote the strategies of the Plan, we were able to realize record operating income for the sixth consecutive year.

Under the Plan, the Group positions “Strengthening of *sei-katsu-sha* data-driven marketing response capabilities,” “Strengthening of organizational structure in Asia,” and “Acquisition of equity in innovative and unique specialized marketing service companies” as three important growth drivers. During the fiscal year under review, we increased our solutions lineup and bolstered our collaboration with external parties. We also reinforced and expanded our structure for providing integrated marketing solutions in Asia. Furthermore, we moved forward with efforts to acquire expertise and innovation and generate synergies through *kyu*. In these ways, we steadily promoted the strategies we adopted under the Plan. In fiscal 2018, the final year of the Plan, we will continue to work toward achieving the Plan’s goals 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 2017, we paid a full-year dividend of ¥26.0 per share. Moreover, 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 ¥28.0 per share, for fiscal 2018.

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 *Integrated Report 2018*, our first-ever integrated report, in addition to financial information, we introduce in detail environmental, social and governance (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.

Hirokazu Toda
Representative Director & President
Chief Executive Officer

Hirokazu Toda

1 Review of Fiscal 2017 Results

The domestic advertising market during fiscal 2017 faced slightly sluggish conditions. Given this environment, the Hakuhodo DY Group continued to pursue proactive business development under its Medium-Term Business Plan (the "Plan"), and as a result, billings rose 6.3% year on year, to ¥1,335.0 billion. By type of service, billings for the four mass media were up as the strong performance of Television outweighed a decline in Newspaper and Radio. Meanwhile, billings were solid in all areas of other advertising services centered on Internet media and Marketing / Promotion.

Revenue grew 9.5%, to ¥272.3 billion, thanks to the steady expansion of existing businesses and the incorporation of profits from newly consolidated subsidiaries. Although SG&A expenses, primarily amortization and goodwill due to M&A and strategic investment costs, rose as a result of efforts to strengthen our organization, operating income increased 10.4%, to ¥52.1 billion. This represented the sixth consecutive year of record high operating income. Moreover, ordinary income grew 19.5%, to ¥54.3 billion. Also, despite the recording of an extraordinary loss that resulted from the adoption of a life plan support system, which followed reforms to the corporate pension scheme, profit attributable to owners of parent was up 15.3%, to ¥29.8 billion.

Operating income before amortization of goodwill rose ¥5.4 billion, or 10.8%, to ¥55.8 billion, with operating margin before amortization of goodwill coming to 20.5%, a high level that is above the important indicator of 18%–20% in the Plan.

2 Progress under the Medium-Term Business Plan

The Group is pursuing proactive business development in accordance with the Plan, which runs through the fiscal year ending March 31, 2019. The following is a summary of the various initiatives we carried out in fiscal 2017 aimed at realizing the Plan's targets, which we revised upward in November 2016.

Revenue

Revenue saw a significant increase of 9.5% due to the growth of existing companies and the positive impact of M&A. In addition, over the four-year period from the base year of fiscal 2013, revenue has been growing steadily with a CAGR of 9.4%.

Operating margin before amortization of goodwill

The operating margin before amortization of goodwill was 20.5%, remaining at a high level and above the 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 20.5%, operating income before amortization of goodwill increased ¥5.4 billion, to ¥55.8 billion.

ROE before amortization of goodwill

ROE before amortization of goodwill was 10.5%, a high level that is above the important indicator of 10% in the Plan.

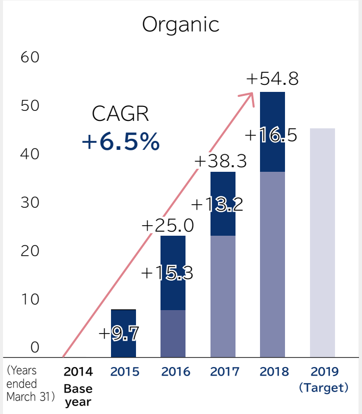
The following is an analysis of factors underpinning revenue growth, from the perspectives of “organic / M&As” and “domestic / overseas.”

Organic / M&As

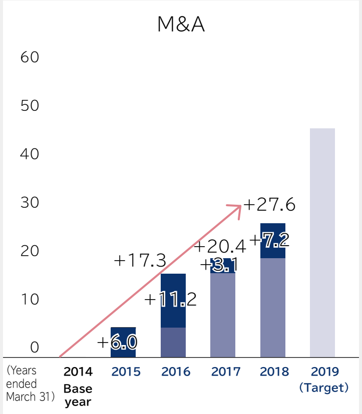
In terms of organic growth, revenue at existing companies grew ¥54.8 billion, making for a CAGR of revenue of 6.5%. Particularly in Japan, the main location of the Group’s operations, efforts to increase market share and boost the gross margin have been successful, allowing us to realize growth at a rate that outpaces the market as a whole.

Meanwhile, for M&A, companies newly contributing earnings as a result of M&A carried out under the Plan added total revenue of ¥27.6 billion, showing steady progress led by the strategic operating unit *kyu*.

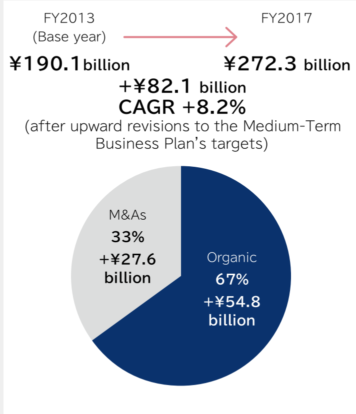
Revenue growth
¥ Billions



Revenue growth
¥ Billions



Breakdown of incremental revenue growth (from base year)

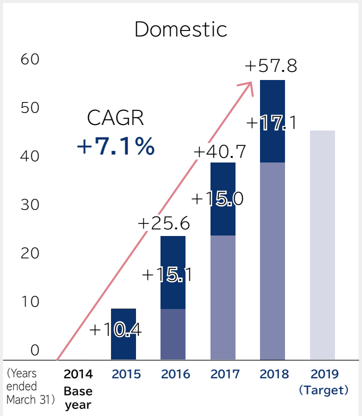


Domestic / Overseas

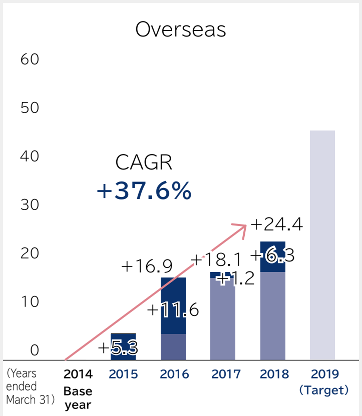
Over the four-year period from fiscal 2013, the domestic business recorded CAGR of revenue of 7.1%, surpassing the growth of the advertising market.

Overseas, CAGR of revenue came to 37.6% due to not only a recovery in the Greater China Region and organic growth in the ASEAN region but also the positive impact from M&A conducted in the ASEAN region and North America (*kyu*). As a result, the portion of revenue generated overseas increased to 12.5%.

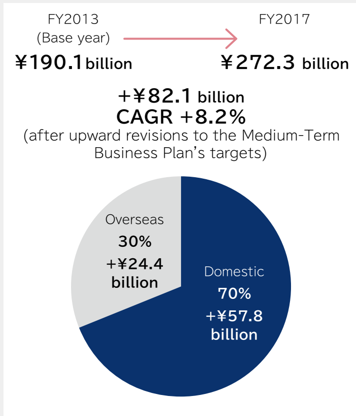
Revenue growth
¥ Billions



Revenue growth
¥ Billions



Breakdown of incremental revenue growth (from base year)



The following points outline our measures to strengthen our organization and response capabilities, centered on the three growth drivers adopted under the Plan.

Progress of Three Growth Drivers

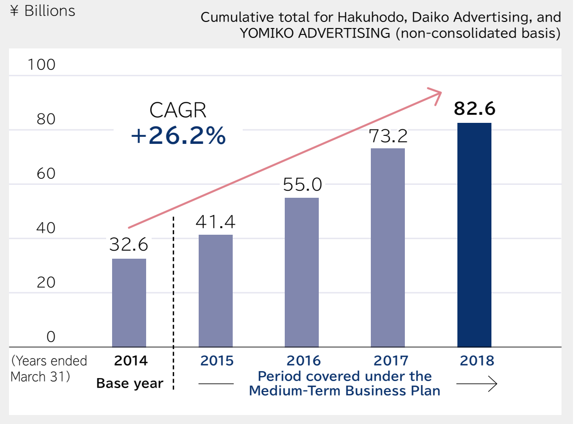
1. Strengthening of *sei-katsu-sha* data-driven marketing response capabilities

Over the four years we have been promoting this measure, we have enhanced our *sei-katsu-sha* data, including data on *sei-katsu-sha* awareness and *sei-katsu-sha* behavior in terms of viewing information and making purchases. At the same time, we have made solid progress in developing diverse solutions that leverage our *sei-katsu-sha* Data Management Platform and introducing these solutions to our clients.

As a result, *sei-katsu-sha* data-driven marketing has become a key pillar that supports the competitive edge of the Group.

In the Internet media domain, which is closely related to this measure, the combined CAGR of billings for Hakuhodo, Daiko Advertising, and YOMIKO ADVERTISING, which are promoting an integration between Internet and mass media advertising, is 26.2% (non-consolidated basis). This is one of many factors that exemplify the domain's steady contribution in terms of numerical figures.

Billings from Internet Media



Specific details on initiatives carried out in fiscal 2017 to strengthen *sei-katsu-sha* data-driven marketing response capabilities are as follows.

i) Expansion of solution lineup

We developed and began the provision of a TV planning solution that utilizes the data possessed by Yahoo! JAPAN, in addition to a highly sophisticated solution that uses offline behavioral data to transmit advertisements and analyze store visits. In these ways, we have continued to take steps to expand our solutions lineup.

ii) Support for the digital transformation of corporations

We have been working to strengthen our structure for supporting digital transformations. As part of these efforts, we established Hakuhodo Marketing Systems Inc., which provides support for the digital transformation of corporations' marketing processes through system development, analysis, and modification.

iii) Strengthening of collaboration with external partners

We have been taking steps to collaborate with external partners and have commenced collaborative development programs that promote technological development through open innovation.

In addition, we have recently formed a business and capital alliance with Preferred Networks Inc., a leading global company for AI technology. Under this alliance, we are accelerating initiatives in the AI domain, which is rapidly garnering attention for such technologies as deep learning.

Going forward, we will achieve further results by pursuing a broad range of initiatives aimed at solidifying a competitive edge in the AI domain.

2. Strengthening of organizational structure in Asia

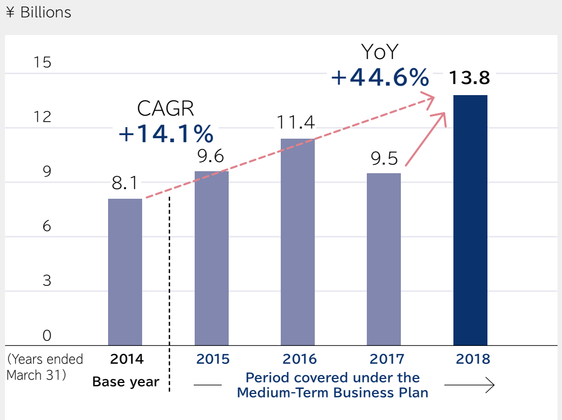
In terms of revenue growth in Asia, revenue growth in the Greater China Region, which was stagnant in the previous fiscal year, saw a recovery. In addition, revenue in the ASEAN region nearly doubled thanks to the positive impact of M&A. As a result, overall revenue in Asia grew significantly, rising 44.6% year on year.

Owing to the recovery from negative growth that revenue experienced in the previous fiscal year and its return to a growth trajectory, the CAGR for revenue over the four-year period of the Plan comes to 14.1%.

i) Strengthening of structure in the Greater China Region

We established Hakuhodo Zeta Inc. and Hakuhodo Seesaw Inc. to serve as new offices in Taiwan, where the number of Japanese companies is increasing.

Revenue in Asia



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

ii) Strengthening of structure and presence in the ASEAN Region

In the ASEAN Region, the Philippines is undergoing remarkable economic growth. In this country, we acquired shares of IdeasXMachina Advertising, a brand agency that boasts creative strengths. In Vietnam, we made Square Communications JSC a subsidiary. Square Communications JSC is an integrated marketing communication agency group that offers seven highly specialized marketing services.

In addition, we bolstered our network through M&A in such ways as turning our partner company in the Thai business, Future Marketing Communications Group Company Limited, into a subsidiary. In doing so, we established a structure that can respond to the needs of not only Japanese clients but also local ones.

Also, we made efforts to improve our presence in the region, as reflected by PT Hakuhodo Indonesia being selected as Advertising Agency of the Year for the second consecutive year.

3. Acquisition of equity in innovative and unique specialized marketing service companies

Since its launch in May 2014, *kyu* has steadily increased its innovative and unique members from a variety of fields and expanded revenue to the ¥18.3 billion range.

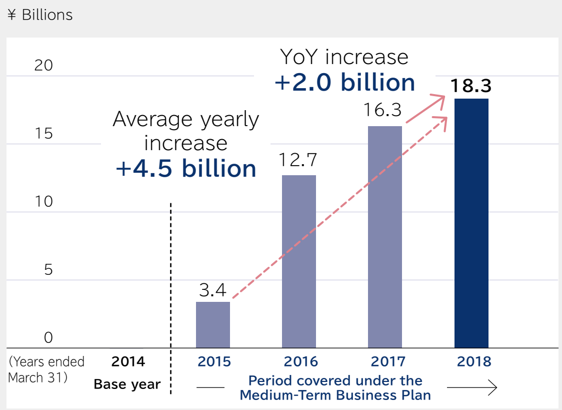
For year-on-year comparisons, revenue rose ¥2.0 billion due in part to the business expansion of existing companies, and also the incorporation of profits from the newly acquired BEworks Inc. and Hornall Anderson Design Works LLC.

From the perspective of profit contributions, while we are achieving operating income before amortization of goodwill, the operating margin before amortization of goodwill is currently performing at a low level. Accordingly, we will continue to promote a broad range of initiatives aimed at improving the operating margin.

As a major event during fiscal 2017, the US-based digital marketing agency Kepler Group LLC became a new member of *kyu*. Kepler Group utilizes unique digital platforms to offer one-stop solutions, from strategic proposals to media buying. Together with Kepler Group, we are moving forward with initiatives to generate synergies between *kyu* member companies.

At the *kyu* headquarters in New York City, we established *kyu* Studios as a space that specializes in widespread collaboration between *kyu* member companies, clients, stakeholders, and ordinary citizens. Furthermore, we have been implementing the *kyu* Maru Program, which promotes the exchange of personnel between *kyu* member companies and existing operating companies. In these ways, we are carrying out specific measures aimed toward expanding synergies.

***kyu's* revenue**



Please visit the following website for further details on *kyu*'s network.
The *kyu* Collective ▶ https://kyu.com/

BEworks

C2 International

Digital Kitchen

Hornall Anderson

IDEO

Kepler Group

Red Peak

Sid Lee

SYPartners

3 Initiatives for the Final Year of the Plan

Against the backdrop of robust organic growth centered on Japan and the steady execution of M&A, fiscal 2017 was a year in which we made significant progress toward achieving the targets of the Plan. This progress included the over ¥5.0 billion year-on-year increase in operating income before amortization of goodwill.

During fiscal 2018, the final year of the Plan, we have adopted targets to improve profits even further.

In terms of economic trends in Japan and overseas, while there are various kinds of downward risks, we expect stable economic conditions overall. In the domestic adverting market, our main area of operation, we anticipate a gradual recovery.

Going forward, we will complete the wide variety of strategic measures we have been implementing to date. In addition, while closely observing market trends, we will make Groupwide efforts to not only achieve the Plan’s established targets but also aim for even higher targets.

Sustainability / Management

In this section, we introduce our approach and policies toward the cultivation of human resources. Our employees are the source of our competitiveness and represent the most valuable asset in creating sustainable value for the Group. This section also introduces our efforts and management structures for promoting sustainability, including our social and environmental initiatives.

Our Sustainability Approach and Materiality

With the aspiration of realizing sustainable growth and continuous improvement in corporate value, the Group is working to create new value so that it can contribute to the creation of rich futures for *sei-katsu-sha*, growth in the economy, and the development of society. The following is an introduction of the Group's unique efforts toward sustainability, including our approach and key issues for realizing our aspirations.

Approach to Sustainability

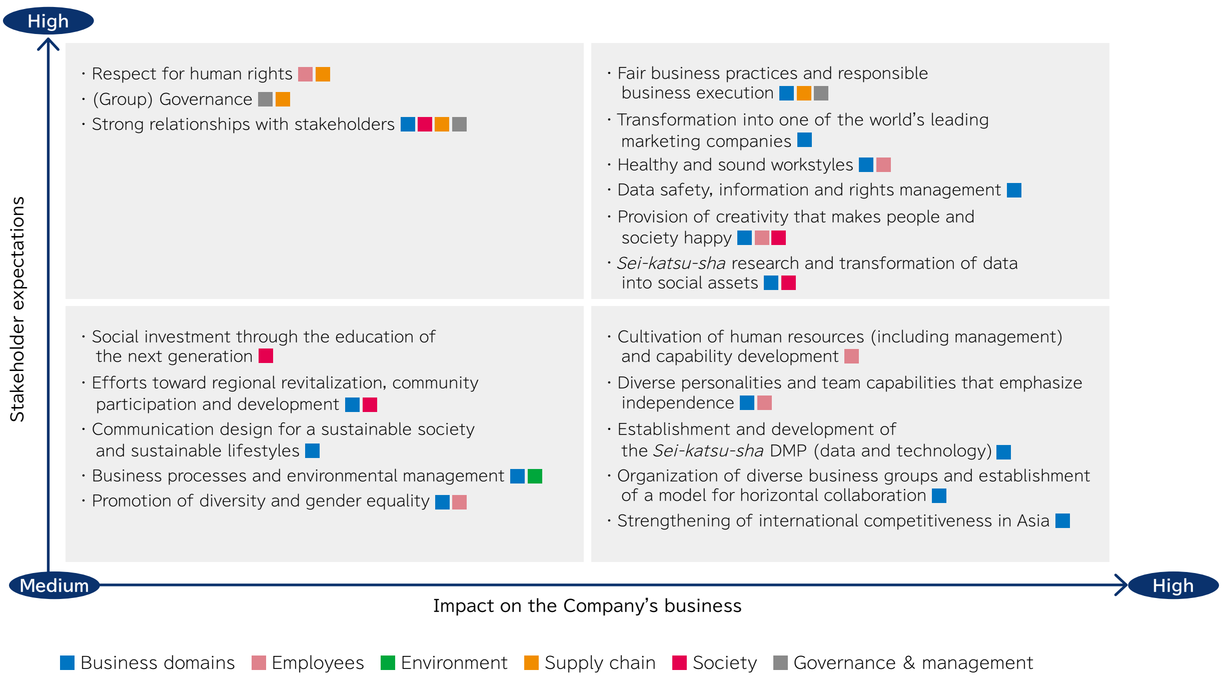
Solving *sei-katsu-sha* and society's constantly changing challenges and providing new value to create and spread happiness among *sei-katsu-sha* and society

Human Resources—Our Most Valuable Asset

The value creation that the Group envisions involves leveraging its strengths and assets to make contributions through its business activities so that it can 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 new value creation for *sei-katsu-sha* and society—its human resources—is its most valuable asset. In addition to contributing to the resolution of the various social issues highlighted by the Sustainable Development Goals (SDGs) and working to achieve the SDGs through our core business, our employees participate voluntarily in social action as *sei-katsu-sha* themselves. The experience and knowledge that employees gain through taking on the challenge of solving social issues, as well as the networks they establish in doing so, help support their personal growth. This in turn leads to growth for the Company as a whole. Each employee ascertains social issues and works together with our stakeholders to move *sei-katsu-sha* and society toward a new, more positive direction. In doing so, our employees aim to bring happiness to *sei-katsu-sha* and society at large.

Initiatives Addressing Our Key Issues (Materiality)

The Group is currently working to identify materiality that could impact both its corporate value and society in general. During fiscal 2017, at Hakuhodo Inc., responsible personnel in each business domain hosted workshops and board members held discussions based on the materiality that was identified by each core operating company in fiscal 2016 from the perspective of CSR. Through these workshops and discussions, Hakuhodo revised the materiality to also include the perspectives of our management and business activities.



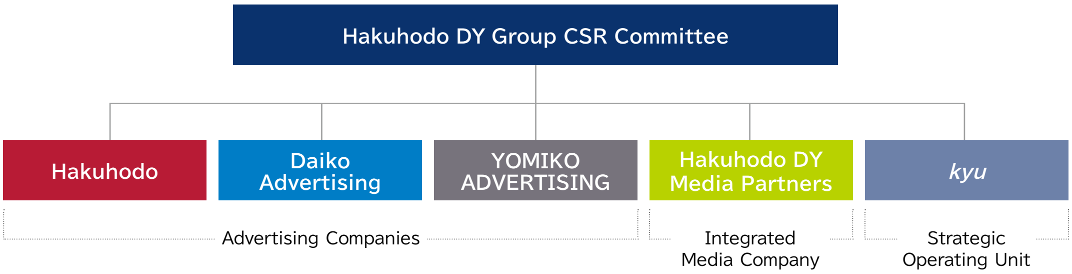
Sustainability Promotion Structure

CSR Committee

We have established the Hakuhodo DY Group CSR Committee within Hakuhodo DY Holdings. The Committee is made up of Hakuhodo DY Holdings directors and is chaired by the Company's representative director. The Committee studies and sets down basic policies, themes, and specific measures related to CSR that best fit the Group.

CSR Office

The Corporate Social Responsibility Department of Hakuhodo DY Holdings' Group PR & IR Division functions as the CSR Office and is responsible for management of CSR themes and draft policies and monitoring and managing KPIs, in addition to PR and liaison functions connected to these themes and policies.



Key Initiatives

We believe that human resources are our most important asset and provide the source for our competitiveness. The growth of our employees will ultimately lead to the growth of the teams they work in and, as a result, the growth of the Group as a whole. Accordingly, we are working to formulate policies and systems that allow our employees to grow to their maximum potential and also make efforts to establish an environment that ensures employee health and safety. At the same time, we are formulating important indicators to help us ascertain numerical data related to these endeavors and make improvements accordingly.

■ **Examples of Important Indicators**

Employee growth

Average Annual Hours of Training per Employee

Approx. 22.9 hours

(Hakuhodo, Hakuhodo DY Media Partners)

Percentage of Employees Who Felt They Have Grown from the Previous Year

71.5%

(Hakuhodo)

71.1%

(Hakuhodo DY Media Partners)

(Answers received from employee survey regarding perceptions of work, etc.)

Amount of Investment in Education

Approx.¥800 million

(Approx. ¥192,000 per employee)

(Hakuhodo, Hakuhodo DY Media Partners)

AD+VENTURE—Groupwide Program for Attracting, Examining, and Cultivating Business Ideas

Total of 737 business ideas submitted over eight years

Total of 16 business ideas turned into actual businesses

(Open to 55 companies of the Hakuhodo DY Group)

New workstyles

Average Number of Paid Vacation* Days Taken

12.7 days

(Hakuhodo, Hakuhodo DY Media Partners)

* Beginning with the Free Vacation System (offered twice a year), which allows employees to take five weekdays off in a row, 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.

Percentage of Employees Receiving Health Examinations

100%

for the fifth consecutive year

(Hakuhodo, Hakuhodo DY Media Partners)

The Growth of Each Employee Leads to Corporate Growth

Offering Various Opportunities for Employees to Grow from a Medium- to Long-Term Perspective

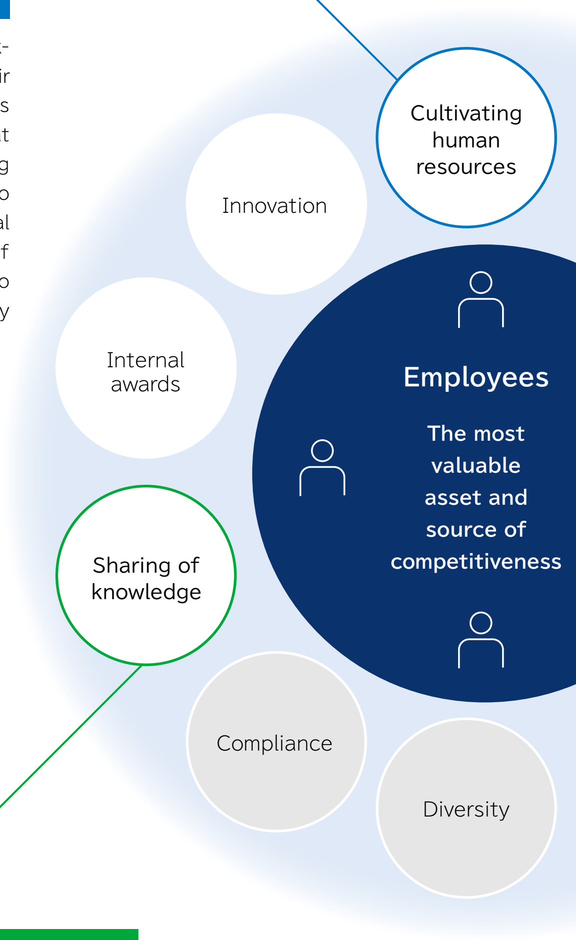
The Group has adopted “Honor independence and autonomy while leveraging diverse personalities and the power of teams to create new value” as its management philosophy. With the aim of gaining the ability to promptly recognize social changes and becoming someone who can create and spur change independently with a high level of creativity, each of our employees has taken on challenges in new domains, guided by a strong desire for realizing personal growth. To ensure that employee growth is sustainable and long-lasting rather than temporary, a framework needs to be established that allows for the sharing of individual growth plans between employees and the Company in an effort to support medium- to long-term career planning. By offering various opportunities to enable our employees to grow to their full potential and by providing continuous support to make their growth more sophisticated, we will realize Companywide improvements to the value we offer.

Cultivating Human Resources (Skills, Careers, and Leadership)

We place value on the individuality and independence of all our employees and are working to provide them with opportunities to establish their careers and enhance their abilities from a medium- to long-term perspective. We do this through such means as training programs at the in-house university, Hakuhodo Univ., personnel systems that evaluate employee performance and growth, and programs that support career planning over the medium to long term at Hakuhodo and Hakuhodo DY Media Partners; the Daiko Soujuku (Daiko Learning Center) program, which helps employees realize their individual career visions and the Growth Activity Fund, which supports the independent growth of employees at Daiko Advertising; and Yomiko Dojo, which provides continuous support to employees that enables them to enhance their knowledge and abilities in a wide variety of fields and domains at YOMIKO ADVERTISING.

Number of employees involved in training human resources: **102**	Percentage of training programs that were developed independently by the Company and have employees serving as lecturers: **86%**
Total number of employees to have served as lecturers: **758**	Total hours of interviews held for managing employee targets and developing employee capabilities: **Approx. 6,300**

Applies to Hakuhodo and Hakuhodo DY Media Partners (fiscal 2017)



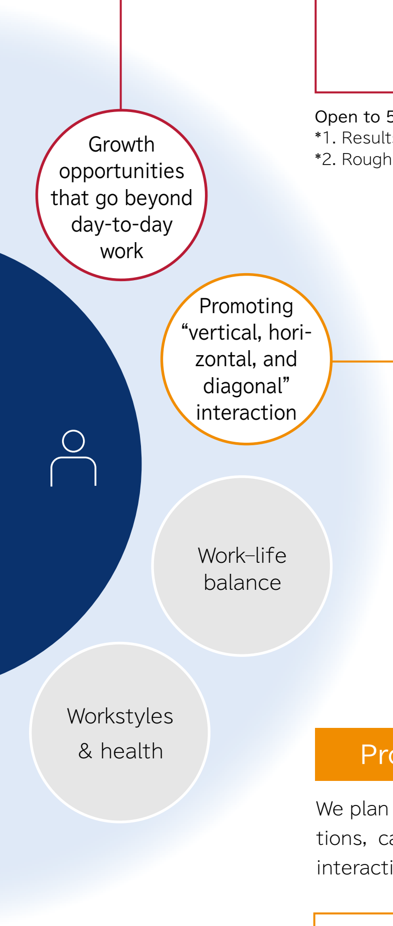
Holding Seminars to Share Advanced Technologies and Knowledge

The domains in which we make proposals to our business partners are expanding to include business reforms and innovation. Viewing this period of change in which technologies are advancing on a daily basis as a business opportunity, we are expanding training programs and seminars that encourage our employees to take on challenges in new domains.

Seminars held for sharing advanced technologies and knowledge:

Held 23 times with a total participation of 2,327

Applies to Group employees who attended seminars held by Hakuhodo and Hakuhodo DY Media Partners in fiscal 2017



Providing Growth Opportunities that Go Beyond Day-to-Day Work

AD+VENTURE: A Groupwide Program for Attracting and Cultivating Business Ideas

The AD+VENTURE program's goals are Groupwide invigoration and the fostering of a corporate culture through new ideas not constrained by our existing business domains. The program calls for, examines, and cultivates a wide range of new business ideas from each Group company and develops these ideas into actual businesses.

Total number of applicants: **1,182**	Total business ideas submitted: **737**	Percentage of participants*1 who feel they contributed to fostering a culture of innovation: **79.7%**
Total business ideas turned into actual businesses: **16**	Current number of businesses: **8**	Investment amount per project: **Approx. ¥50 million*2**

Open to 55 companies of the Hakuhodo DY Group (commenced in 2010)

*1. Results from an Internet survey of Group employees (890 employees submitted answers)

*2. Roughly ¥50 million is invested in each project, used to pursue test marketing

Employee Efforts in Social Action that Leverage Their Individual Capabilities

To bring happiness to *sei-katsu-sha* and society as a whole, each of our employees is making efforts in a broad range of social action activities while proactively making use of their creativity, communication capabilities, and unique personalities. The themes and areas in which employees are involved grow annually, with new activities created each year.

Number of social action activities in fiscal 2017: **89**	Total participation in social action activities: **539**

Applies to Hakuhodo DY Group

Promoting "Vertical, Horizontal, and Diagonal" Interaction

We plan and implement various activities with the aim of bringing together employees of different companies, organizations, career lengths, and job titles to promote "vertical, horizontal, and diagonal" interaction, or in other words, interaction that connects people of diverse backgrounds from a wide variety of perspectives.

Open Sunday!, an open-office event geared toward the families of our employees: **700 participants (including 291 children) from 208 families**	Fall Sports Meet held by the employee union: **Total participation of over 5,000** (held once a year since 2013)	Farm work experience training: **Held 5 times a year with total participation of over 900** (held every year since 2013)

Applies to Hakuhodo, Hakuhodo DY Media Partners

Please see pages 35–37 for specific initiatives aimed at establishing a foundation to support the growth of our employees, including initiatives related to work-life balance, workstyles, health, diversity, and compliance.

Asking Our Employees about How They Have Grown

Our diverse group of human resources creates value by demonstrating their creativity in a free and proactive manner. This kind of value creation acts as our starting point. The following are a few messages from employees who have been involved in efforts to create new workstyles and cultivate human resources and from employees who have achieved significant growth through their work experience over the past year.

Enjoying
Continuous Change

Peihwa Lan

kyu Division, Hakuhodo DY Holdings

I underwent training at SYPartners from June to August 2017 through the personnel exchange program of *kyu*, the Group's strategic operating unit.

Envisioning a New Future
together with *Sei-katsu-sha*

Masahiro Mitsuya

Hakuhodo Institute of Life and Living, Hakuhodo

Through the research activities I was involved in for Mirai Expo, I helped come up with concepts for the "money of the future" by combining technological changes related to money with *sei-katsu-sha* insight. I then actively communicated these concepts to society.

Realizing Future Inventions
with Strong Conviction

Yumiko Yoshimoto

Account Service Division 21, Hakuhodo

I began a new initiative thanks to "On the job invention," an activity that encourages challenges toward our vision of "Inventing the future." Through this, I will help to form ideas aimed at realizing that vision.

Creating New Value with Diversity Awareness
in Our Third Year of Business

Takahiko Morinaga

CEO, Japan LGBT Research Institute, Inc.

With the help of the AD+VENTURE program, we established the Japan LGBT Research Institute, Inc. I am involved in efforts to spur innovation by creating new value through the perspectives of the LGBT community.

Being Motivated by an Environment
Where We Can Grow while Having Fun

Kohei Futakuchi

Customer Experience Division, Hakuhodo i-studio

I am engaged in various activities as a member of TAP PROJECT JAPAN, 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.

Working to Realize
More Exciting Workstyles

Naoko Miyagawa

Work Style Design Divison, Hakuhodo &
Hakuhodo DY Media Partners

For employees to provide new value to society, they need to gain excitement and a strong sense of growth from their work. I am helping to realize such a workplace and workstyle.

Promoting the Growth Activity Fund to Support
the Growth of Employees and their Teams

Etsuko Fukuda

Activation Design Promotion Division, Daiko Advertising

Under the concept that the growth of people is an asset, we created the Growth Activity Fund. Through my involvement in this fund, I am helping to create opportunities for employees to grow and providing support for them so that they can enhance their capabilities on their own initiative in a highly motivated manner.

Realizing an Uplifting Workplace
Where People Understand Each Other

Yuriko Katamoto

Human Resources Management Division,
YOMIKO ADVERTISING

Through my involvement in efforts to understand the individual concerns and visions our employees have and provide them with support, I am working to create a workplace where employees can flourish.

Supporting the Technical and Emotional Growth
of Our Employees

Jun Chuma

Human Resource Development Division, Hakuhodo &
Hakuhodo DY Media Partners

It is important that employees grow in way that allows them to do things they were not able to do before. But, at the same time, I am committed to ensuring that our employees also realize emotional growth that lets them live the way they want and place importance on the things that matter most to them.

Evolving *Sei-katsu-sha* Insight

Sei-katsu-sha **insight 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. Over the years, we have used** ***sei-katsu-sha*** **insight as the foundation for our thinking and planning. These days, technology is rapidly changing and the structure of society itself is undergoing a dramatic transformation. As a result, corporate management is becoming more challenging and, at the same time, the need for innovation is rising. How we approach these changing times is now a crucial issue for us to address. We believe that the answer to this issue is the evolution of** ***sei-katsu-sha*** **insight, which we have adhered to for many years as a Group policy.**

Realizing *Sei-katsu-sha* Insight with the Establishment of Hakuhodo Institute of Life and Living in 1981

The Hakuhodo Institute of Life and Living is a one-of-a-kind think tank that has pursued research on *sei-katsu-sha* for more than 30 years. The Institute looks at people in their entirety to implement and advance *sei-katsu-sha* insight while contemplating future lifestyles. The Institute tracks changes to the value systems of *sei-katsu-sha* by way of time-series surveys, identifies portents of the future using experimental methods, and immerses itself in a wide range of lifestyle settings to consider various aspects together with *sei-katsu-sha*. It undertakes this work using unique and multivariate perspectives on *sei-katsu-sha*, taking a bird's-eye view that transcends the bounds of markets and industries.

Creating and Proposing the Future

We discern and uncover social and *sei-katsu-sha* dynamics that will shape next-generation lifestyles from various trends and data. Through the Mirai Expo report, we present these dynamics and make proposals for the future each year.

Spreading Knowledge

Through the Hakuhodo Institute of Life and Living's website and various social media services, we provide and communicate the latest knowledge pertaining to *sei-katsu-sha*, including reports titled Consumption Next Month and Future Timeline. In addition, every other year we carry out the Seikatsu Teiten, a survey of various changes in *sei-katsu-sha* perceptions with comprehensive questions that cover approximately 1,500 items. The data that we have amassed through Seikatsu Teiten over 20-plus years is available free of charge on our designated website.

TOPICS

Public Release of Survey Data from the Hakuhodo Institute of Life and Living's "Children: 20 Years of Change" report

Following on from "The Silver Generation: 30 Years of Change," which was unveiled in 2016, the Hakuhodo Institute of Life and Living carried out a large-scale survey on kids in their fourth year of elementary school to second year of junior high school between February and March 2017. This survey is conducted every 10 years. Based on time-series analysis of the data, we present changes in children's perceptions and behavior on our designated website. We have also publicly released all data obtained over the 20 years of conducting this survey—three surveys undertaken in 1997, 2007, and 2017—and this data is being utilized by a large number of people.

Designated website: http://seikatsusoken.jp/kodomo20/ (in Japanese only)

Entering the Era of *Sei-katsu-sha* Data-Driven Marketing

With the progression of digitalization, we now have access to a broad and diverse range of *sei-katsu-sha* data that we were not previously able to ascertain. Accordingly, we are starting to see a genuine need for new marketing activities that leverage this data.

Sei-katsu-sha data-driven marketing is a new marketing concept that entails gathering, organizing, integrating, and analyzing various *sei-katsu-sha* data in order to plan and carry out solutions to marketing-related issues. The Group has developed a proprietary *Sei-katsu-sha* Data Management Platform (*Sei-katsu-sha* DMP), which combines advanced technologies with data on *sei-katsu-sha* perceptions and information and purchasing behavior. Using the *Sei-katsu-sha* DMP as a foundation, we are fully leveraging our planning, creative, and execution strengths to provide high-quality marketing solutions, and we have amassed a solid track record in doing so.

Going forward, together with our business partners and as a partner to *sei-katsu-sha*, we will strengthen our *sei-katsu-sha* data-driven marketing response capabilities and provide advanced and creative integrated marketing solutions. In addition, we will meet the expectations of our stakeholders as we help realize a society in which *sei-katsu-sha* can flourish and live an active lifestyle of their own choosing.

Initiatives of the Hakuhodo DY Group

The Hakuhodo DY Group is working to address the various social issues and goals highlighted by the SDGs through its core business. At the same time, the Group encourages its employees, who have grown through the various training programs and personnel systems that the Group has provided, to leverage their knowledge, skills, and problem-solving capabilities to take action on their own initiative. For details on the Group's broad range of social action activities and CSR information that have not been included here, please see the CSR section of Hakuhodo DY Holdings' corporate website.

The SDGs

Using Our Creativity to Enrich and Bring Happiness to People and the Earth

Efforts to Promote and Raise Awareness of the SDGs (Hakuhodo DY Group)

Starting with the United Nations Information Centre (UNIC), we are collaborating with various institutions, 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, we are making proactive efforts toward realizing the SDGs.

As creative volunteers for UNIC, we created the official Japanese language icons for the SDGs in 2016. On this basis, we invited United Nations Assistant Secretary-General Thomas Gass, the U.N. official in charge of the SDGs, and Kaoru Nemoto, the Director of UNIC, to our head office in October 2017. Mr. Gass and Ms. Nemoto exchanged opinions with Company President Hirokazu Toda regarding the vision for achieving the SDGs and the initiatives of corporations aimed at promoting an understanding of the SDGs.

TOPICS

Holding Seminars on the SDGs

Total participation: **540** employees

In May 2017, we held the Basic Knowledge Seminar for SDGs in Business. In February 2018, we held an in-house seminar under the theme, "What our Group can do to help realize the SDGs." At these seminars, UNIC Director Kaoru Nemoto and television anchorwoman Hiroko Kuniya provided lectures that helped illustrate connections between the daily work of each Group employee and the SDGs. These seminars provided our employees with an opportunity to consider how the Group should approach the SDGs.

Supporting the Management and Future Business of Corporations that Adopt the SDGs

The SDGs Corporate Program (Hakuhodo)

We started the SDGs Corporate Program in October 2017 to support the management and future business of corporations that adopt the SDGs. Through this program, we are engaging in such activities as creating integrated reports, providing investor relations and CSR support, conducting internal education programs and establishing internal projects, and undertaking communication development. Utilizing the knowledge we have cultivated Groupwide, we will promote the OPEN 2030 PROJECT,* in which Hakuhodo is a participating member. We will collaborate with educational institutions, NGOs, and government agencies promoting the SDGs to provide support for the efforts of corporations toward realizing the SDGs.

* OPEN 2030 PROJECT is a business development project that provides insight into future society and encourages corporate transformation and innovation. The Project was created by Norichika Kanie, a professor of the Graduate School of Media and Governance at Keio University.

Society

The Hakuhodo DY Group's Think Tanks

Since establishing the Hakuhodo Institute of Life and Living in 1981, the Hakuhodo DY Group has launched a large number of think tanks, specialized organizations, and projects. Through a variety of R&D activities, we constantly consider the current state and future of *sei-katsu-sha*.

Efforts to Realize an Office and Community Where Employees Can Work Comfortably

Hanasakasu Nursery School (Hakuhodo, Hakuhodo DY Media Partners)

In April 2018, Tokyo Broadcasting System Television, Inc., Hakuhodo, and Hakuhodo DY Media Partners jointly established Hanasakasu Nursery School near these companies' head offices in the Akasaka area of Tokyo. Together with the Machi-No Research Institute, which has been entrusted with the operation of the school, these three companies examined the establishment of this in-office nursery school from 2015. The name "Hanasakasu Nursery School" derives from a desire to "nurture lots of flowers of happiness in the Akasaka area by bringing smiles to everyone involved, particularly children." With places for 19 children, Hanasakasu Nursery School is not only open to children of parents from these three companies, it also welcomes children from the surrounding community. The school responds to various working styles in such ways as offering extended care service until 10 p.m. and being open on weekends and holidays. In this way, the school helps working parents continue their jobs with peace of mind while raising their children.

Interactive Hands-On Programs that Let Children and Employees Learn while Having Fun

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

Total student participation:
5,051

H-CAMP is an educational program started by Hakuhodo in 2013 that aims to have people experience the excitement of creativity, which the Group values most of all, through hands-on experiences. H-CAMP consists of three initiatives: OPEN-CAMP, a one-on-one hands-on workshop for junior and senior high school students; CORPORATE VISIT-CAMP, a program that caters to the individual needs of schools; and External Relations Program, which involves collaborative lectures with various stakeholders, including NPOs and local governments. Thus far, 5,051 students and 224 Group employees have participated in H-CAMP workshops. In this way, the program has been creating a place where children, who will carry on the next generation, can make new discoveries and be intellectually stimulated as they learn together.

In terms of providing lecturers to external organizations in fiscal 2017,* 96 Group employees conducted a total of 648 lectures at 143 educational institutions, with total student participation in these lectures reaching 11,982.

* Fiscal 2017 results for employees of Hakuhodo and Hakuhodo DY Media Partners

Delivering Exciting Japanese-style Learning Experiences to Children Overseas

Mikke (Hakuhodo)

In an effort to promote Japanese-style learning methods, which are garnering significant attention in emerging countries, Hakuhodo and Asahi Shimbun Company collaboratively developed an educational magazine issued every other month overseas. Titled *Mikke* (Japanese for "eureka") in hopes that it will provide children with a chance to make new discoveries and offer them joy and excitement, the first issue of the magazine was published in Thailand in September 2016. Since then, we have delivered nearly 150,000 copies of each issue to approximately 350 elementary schools, primarily in Bangkok, and have conducted various events, including guest lectures provided by our employees at these schools. In December 2017, *Mikke* was adopted as part of the Japan International Cooperation Agency (JICA)'s Feasibility Survey for SDGs Business. Leveraging *Mikke* as an educational platform, we will conduct a survey in India with the goal of raising awareness about hygiene and the environment, as we work to turn SDG-related themes into businesses.

Creating New Maternal and Child Health Handbooks in Response to the Changing Times

Amid various social changes occurring that affect pregnancy and the period of raising small children, we developed the Parent & Child Health Handbook and the Maternal and Child Health Handbook App, in response to the voices of mothers and fathers.

Parent & Child Health Handbook
(Maternal and Child Health Handbook Issued by Local Governments) (Hakuhodo)

The Parent & Child Health Handbook is a new kind of maternity health record book developed using the latest research on such books in Japan. The handbook addresses and works to resolve issues related to raising children. The handbook is different in that it has functions for encouraging men to participate in child-rearing, tracking the health of a child from the very first years up until becoming an adult, and providing comfort and encouragement to mothers and fathers to help reduce uneasiness regarding raising a child. Parents who use the handbook have given such positive feedback as, "I am impressed with how much information there is geared toward fathers," and "the handbook itself is sturdy and easy to open." As of May 2018, the handbook has been adopted by 196 local governments across Japan.

Maternal and Child Health Handbook App
(Hakuhodo DY Media Partners)

Received the 2017 Kids Design Award and the Minister's Award for Measures to Address the Declining Birth Rate

Received the 2017 Good Design Award

The Maternal and Child Health Handbook App offers the best possible information to each user by digitalizing entries in maternity health record books, which are issued by local governments. The app delivers information on pregnancy and child-rearing that has been reviewed by doctors and medical experts to users at the time they need it in an effort to make mothers feel more at ease. The app has been available via smartphone and computer since 2016, and has over 120,000 downloads. As of July 2018, the app has been adopted by 54 local governments across Japan and is being utilized at 248 cooperating hospitals. In April 2017, the local government in Ashiya City, Hyogo Prefecture adopted the app in conjunction with the Parent & Child Health Handbook.

Resolving Global Water Issues through the Power of Design

TAP PROJECT JAPAN

(Hakuhodo DY Group)

Established **45** wells and other water supply facilities and **142** toilets for **47** elementary schools in Madagascar

Improved sanitary conditions for **24,782** people.

TAP PROJECT JAPAN is a joint volunteer-based 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, safe water. The project was initially started in New York in 2007. In Japan, the project entails annual fundraising activities at restaurants and cafés as well as the implementation of measures to provide people with new opportunities to learn about water. Employee participation in the program has reached 318.

The Road to Water event was held in August 2017 with the aim of drawing the attention of people living in Japan to various water-related issues by letting them experience just how hard it is for Madagascan children to carry water through a virtual experience that used bucket-shaped devices fitted with sensors. The event also featured a panel exhibit under the theme “water and our everyday lives” that provided participants with a chance to think about water from various perspectives. In addition, specially produced magazines with information on water-related issues were designed and distributed to participants.

* All donations go toward the activities of UNICEF in Madagascar to support water access and sanitation (As of March 2018, including spinoff initiatives and activities funded by private, direct donations)

Encouraging Physical Activity to Extend the Healthy Life Expectancies of Japanese People

The Locomotive Challenge!

(Hakuhodo)

Received Silver Award at the PR Award Grand Prix*1 2017

Level of awareness*2: **17.3**% (2012) → **48.1**% (2018)

Locomotive syndrome is a condition of reduced mobility due to impairment of locomotive organs. As the syndrome progresses in an individual, there is an increasing risk that they will require nursing care. Accordingly, the syndrome is regarded as an issue that society as a whole needs to address. In light of this, we created the Locomotive Challenge! in 2010 together with the Japanese Orthopaedic Association, which serves as a council for raising awareness on how to prevent the onset of locomotive syndrome. To make locomotive syndrome better known as an issue that affects not just the elderly and middle aged people but society as a whole, we conduct awareness-raising activities, such as holding lectures, across Japan and communicate information through various media platforms.

*1 Hosted by the Public Relations Society of Japan
*2 According to the 2018 Survey of Locomotive Syndrome Awareness conducted by the Bone and Joint Decade Japan in March 2018

Employment and Compliance

Work–Life Balance

We are promoting the establishment of a workplace environment that aims to realize a work–life balance for our employees. We believe that such an environment will allow all our employees to select flexible workstyles that best fit their life circumstances, including during pregnancy, child-rearing, and caregiving.

- Hakuhodo and Hakuhodo DY Media Partners 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.

Number of women taking maternity leave and ratio of women returning to work after maternity leave in fiscal 2017
(Hakuhodo, Hakuhodo DY Media Partners)
Number taking maternity leave: **74** (Percentage of which returned to work after maternity leave in the year to March 2018: **39**%)

- To become a company where women can design a workstyle that works best for themselves, in January 2017 Daiko Advertising established the COCO project. Led by the Company’s president, the Project aims to create a workplace in which women can play an open and active role. Serving as a forum for making proposals to the Company, such as for training programs and personnel systems, as well as their operation, the COCO project will strive to promote the active role of women in the workplace going forward.

Efforts toward Health and Productivity Management

Each employee of the Hakuhodo Group is taking on the challenge of "continuously creating new value for *sei-katsu-sha* and society." However, this aspiration cannot be realized without the health and growth of our employees. Based on this recognition, we strive to create an environment where our employees can flourish and play an active role.

On April 1, 2017, Hakuhodo and Hakuhodo DY Media Partners established the Workstyle Design Division in an effort to promote activities to realize new workstyles that respond to the changing times and work content. Meanwhile, in fall 2016, Daiko Advertising established the Committee for Measures for Long Working Hours, which strives to reduce working hours for employees. At the same time, the company holds a "no overtime day" twice a month. Additionally, with the aim of valuing individuality and realizing growth, YOMIKO ADVERTISING in June 2017 established the Workstyle Reform Committee, chaired by the company's president. As an organization that serves under this Committee, the Workstyle Reform Promotion Division was established in April 2018 to promote workstyle reforms that reduce overtime and place the utmost importance on employee health.

TOPICS

Initiatives for New Workstyles (Hakuhodo, Hakuhodo DY Media Partners)

The Workstyle Design Division possesses functions to promote workstyle reform, to ensure "time design," and health-first initiatives. Not stopping at simply reducing working hours, the division collaborates with other divisions and departments to plan and execute initiatives aimed at realizing workstyle reforms that support the growth and health of employees and create the kind of value society needs.

1. Reforms for a more employee-friendly work environment

To ensure that our employees can flourish and enjoy their work, we need to reduce the hours spent working on simple business tasks and waiting to the greatest extent possible, and reserve ample time for creative thinking so that we can make new proposals and tackle new challenges. To this end, we are enhancing operational efficiency through the establishment of robotic process automation systems, which use robot programs to perform simple tasks via PCs, and the introduction of business intelligence tools. We are also realizing more flexible workstyles through efforts to enhance teleworking, including the expansion of satellite offices and shared offices and the distribution of laptop computers and smartphones. In addition, we introduced an attendance system that aims to manage working hours on a daily basis and raise awareness of time management. We also are providing business proposal support tools and other tools that simplify the process of creating business proposals.

2. Efforts that place health first

We are ramping up efforts to promote health, as health provides the foundation for realizing a fulfilling work life.

Percentage of employees receiving health examinations: **100%** for the fifth consecutive year

Percentage of applicable employees (age 29 and over) receiving comprehensive medical examinations (performed by Hakuhodo Kenpo): Hakuhodo: **81.9%**, Hakuhodo DY Media Partners: **85.1%**

- At our head office, we have a medical clinic (general physician and dentist) and a Health Support Center, which provides health-related consultations. Through this, we are responding to health examination needs and health-related concerns, among other issues. For employees who have been identified as having a high risk for health problems via the health examination, we have in place a system for providing follow-up care in such ways as setting up interviews with industrial physicians.
- Hakuhodo Kenpo offers online services and health guidance for the prevention of lifestyle diseases, among other forms of support.

3. Advertising business guidelines created through new workstyles*

In March 2018, the four major advertising associations in Japan announced new guidelines for placing and accepting advertising creative orders, which lay out new rules for companies to abide by when placing and accepting orders for advertising work with the aim of realizing new ways of working. Hakuhodo values the spirit of these new rules and strictly adheres to them. Accordingly, Hakuhodo has formulated its own guidelines for not only advertising creative but all advertising business processes, which were put into effect in May 2018.

* Applicable to Hakuhodo only

As a result of implementing these initiatives, we realized a reduction in working hours in fiscal 2017.

Reducing Work Hours (YoY)

	Employees with discretionary working hours	Employees with fixed working hours
Hakuhodo	97.2%	98.7%

	Employees with discretionary working hours	Employees with fixed working hours
Hakuhodo DY Media Partners	99.9%	97.6%

Diversity

Hakuhodo DY I.O Inc. is a special-purpose subsidiary of the Group that was established in December 1989 with 14 employees. As of May 2018, the company had grown into a shared services company for the entire Group with 162 employees (86 persons with disabilities and 76 able-bodied persons*). The company's main operations include handling data entry, printing, and account book management, and these operations are carried out through collaboration between persons with disabilities and able-bodied persons.

障害者活躍企業
厚生労働省 2017

In December 2017, Hakuhodo DY I.O was recognized as a "company that supports the active role of persons with disabilities" by the Japan Association of Employers of Persons with Severe Disabilities, which is a commissioned project of the Ministry of Health, Labour and Welfare.

The employment rate of persons with disabilities at the Group was 2.26% as of June 1, 2018 (Groupwide), and we aim to further increase the employment of persons with disabilities going forward.

* Includes seconded employees

Compliance

In accordance with the Hakuhodo DY Group Code of Conduct and Matters for Compliance, all Group companies and employees will steadily fulfill the basic responsibilities required of them going forward.

100% attendance for training on the Hakuhodo DY Group Code of Conduct, training on compliance, and training on legal matters

Environment

National Movement to Prevent Global Warming

COOL CHOICE (Hakuhodo)

To realize Japan's goal of achieving a 26% reduction in greenhouse gas emissions by 2030 compared with 2013 levels, the Japanese government is spearheading a national movement to encourage people to be smart about selecting low-carbon products and services and practicing low-carbon lifestyles. Starting with the creation of a logo, Hakuhodo has been calling for numerous efforts for this national movement, including the promotion of Cool Biz and Warm Biz, together with various industries, local governments, NPOs, and other organizations. In fiscal 2017, we were involved in the creation of the COOL CHOICE LEADERS AWARD, a program that recognizes and introduces the proactive efforts of individuals, groups, companies, and other organizations that are leading the way in the COOL CHOICE campaign.

External Evaluations

We responded to the 2017 CDP climate change questionnaire, offered by the CDP*, for the first time in June 2017 and received a B score. Going forward, we will continue to disclose relevant information in an appropriate manner.

* 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

Promotion of Environmental Management

Hakuhodo 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. Hakuhodo has also acquired certification under the ISO 14001 standard for environmental management systems. In addition to Hakuhodo, this certification has been acquired by Group companies OZMA Inc. and Hakuhodo i-studio Inc.

Targets and Achievements in Fiscal 2017

Item	Target	Result
Reduction of CO_2 emissions through energy conservation	Reduction of 5% compared with fiscal 2009 and fiscal 2010 averages	Reduction of 2,399 kl (crude oil equivalent of energy consumed), or 6.1%, compared with the base fiscal years
Waste reduction	Reduction of 5% compared with fiscal 2010	Reduction of 576 tons, or 3.5%, compared with the base fiscal year
Recycling promotion	Recycling ratio of over 83%	Recycling ratio of 83.7%

Applies to Hakuhodo head office in Tokyo

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.

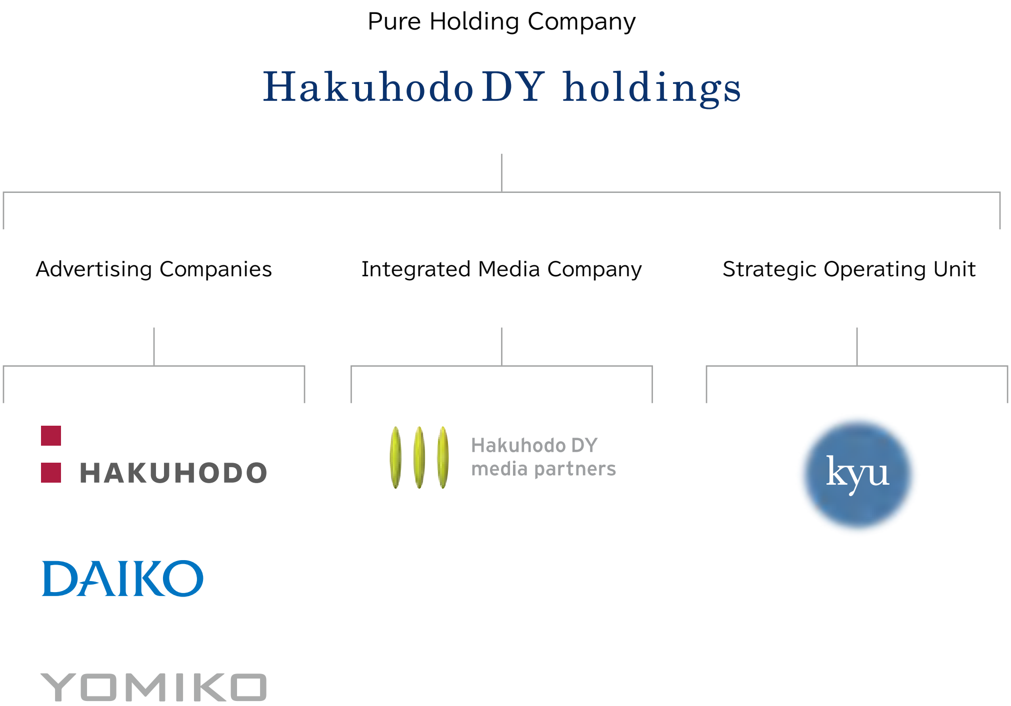
1: Basic Policy

(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.

Note: The current Medium-Term Business Plan began from the 2014 fiscal year and is currently being promoted. Please refer to Pages 14–17 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 medium- 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 49 and 50.)

(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	13
Of whom, outside directors	3
Number of Audit & Supervisory Board members	5
Of whom, outside Audit & Supervisory Board members	3
Number of independent auditors	6
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

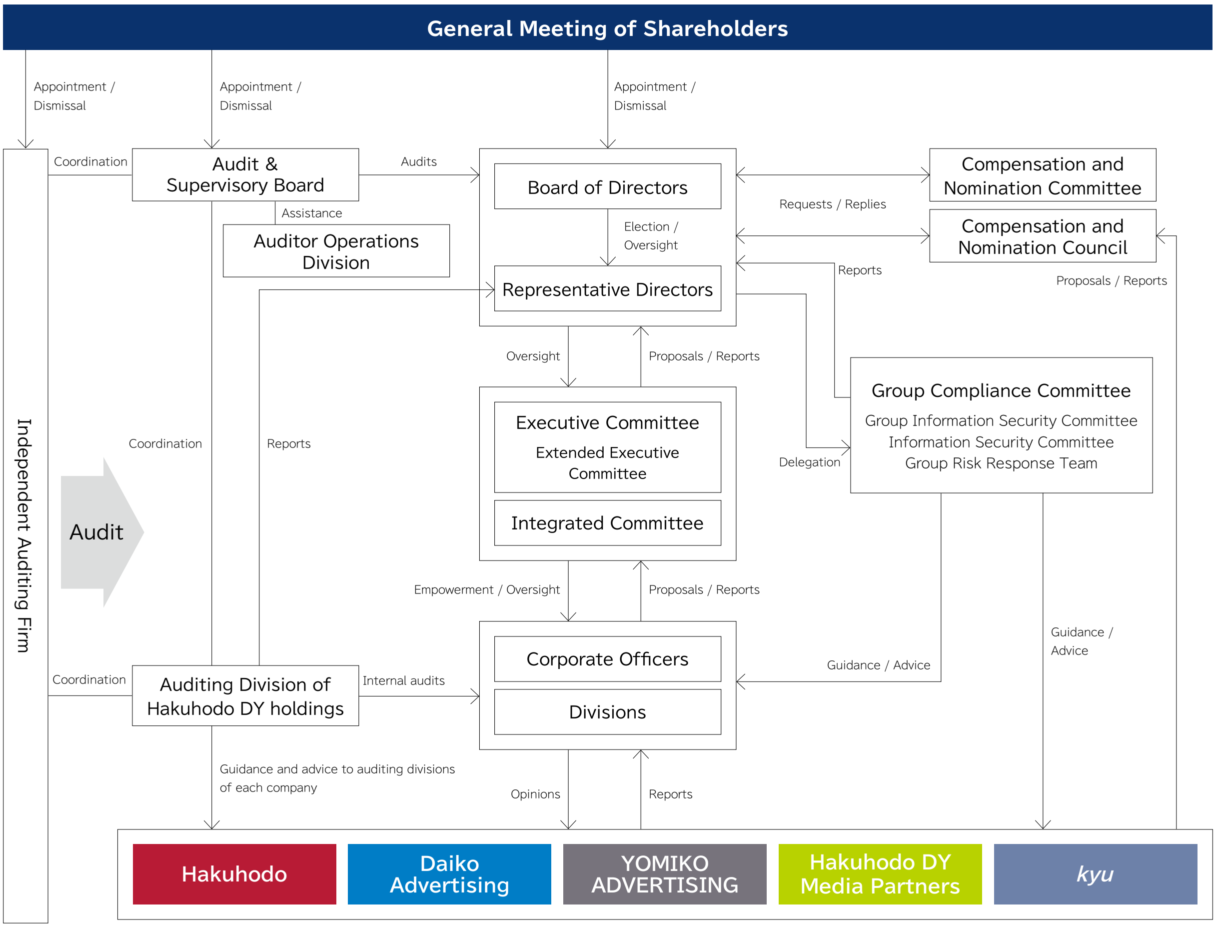
		Total compensation by type							
		Annual compensation		Annual bonuses		Stock-type compensation		Provision for directors' retirement benefits	
Classification	Total value of remuneration (¥ Millions)	Number (People)	Total (¥ Millions)	Number (People)	Total (¥ Millions)	Number (People)	Total (¥ Millions)	Number (People)	Total (¥ Millions)
Directors (excluding outside directors)	322	7	143	7	118	7	46	7	14
Outside directors	26	2	26	—	—	—	—	—	—
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	40	2	40	—	—	—	—	—	—
Outside Audit & Supervisory Board members	32	3	32	—	—	—	—	—	—
Total	422	14	243	7	118	7	46	7	14

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	Annual compensation	Annual bonuses	Stock-type compensation	Provision for directors' retirement benefits
Hirokazu Toda	110	Director	Filing company	33	29	10	3
		Director	(Consolidated subsidiary) Hakuhodo Inc.	33	—	—	—

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 medium- 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 49.)

(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 medium- 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. With that said, even in cases where the value of holding shares is affirmed, we still give comprehensive consideration to the market environment as well as our business and financial conditions and respond accordingly.
- 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 medium- 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 medium- 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 medium- 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 Holdings' 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.

Hakuhodo DY Holdings
Outside Director
Noboru Matsuda

Contributing to Corporate Value Improvement from an Offensive and Defensive Approach

Based on changes in the business environment, the Company continues to actively undertake initiatives with the aim of achieving the targets of the Medium-Term Business Plan.

As an outside director, I have fulfilled such roles as giving advice to the Company's management and overseeing business execution from an independent and objective standpoint based on my experience working as a lawyer and my involvement in financial revitalization. These roles have also included providing appropriate comments at Board of Director's meetings and other avenues that give consideration to promoting not only "offensive governance" but also "defensive governance."

Going forward, while maintaining this kind of approach to my position, I will focus my efforts on strengthening governance (by participating in meetings of the Compensation and Nomination committees, etc.) with the aim of helping the Company achieve sustainable growth and increase its corporate value.

Hakuhodo DY Holdings
Outside Director
Nobumichi Hattori

Offering Advice and Oversight as a Financial Expert

The Group is proactively implementing a wide variety of measures to achieve the tasks laid out in the Medium-Term Business Plan. As a financial expert, I have been drawing on my many years of experience working at a major U.S. investment bank and other institutions to offer the Company suggestions on expanding and growing its business through investment and M&A. At the same time, through Board of Directors' meetings and other avenues, I have offered advice and oversight on addressing the various governance-related and other issues that occur as the Group expands in size.

Going forward, I will continue to provide advice from an objective standpoint to ensure that the Group can realize growth and improve corporate value. I will also offer various kinds of support to help the Group improve its governance structure.

Hakuhodo DY Holdings
Outside Director
Toru Yamashita

Improving Governance by Leveraging My Know-How in the IT Industry and Management Expertise

With such events as the digital revolution, the AI revolution, and the emergence of the sharing economy, we are currently seeing significant and rapid changes that rival those of the industrial revolution during the 18th century. Amid this environment, the Hakuhodo DY Group has a social role and responsibility to act as a leader of social change, and the global expectations of the Group are therefore becoming even greater. I believe that clients and society as whole now have a strong need for the Group to propose new value based on its policies of "*sei-katsu-sha* insight" and "commitment to partnership."

To help the Group respond to this age of change, I will leverage my know-how in the IT industry and many years of management experience to actively contribute to the Group's efforts to create new value, promote globalization, and enhance governance.

Management Structure

(As of June 28, 2018)

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

6 Director

Yoshitaka Nakatani

Director & Senior Corporate Officer, Hakuhodo Inc.

7 Director

Masayuki Mizushima

Representative Director & President, Hakuhodo Inc.

8 Director

Hiroshi Ochiai

Representative Director & President, Daiko Advertising Inc.

9 Director

Daisuke Fujinuma

Representative Director & President,
YOMIKO ADVERTISING INC.

10 Director

Hirotake Yajima

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

11 Outside Director

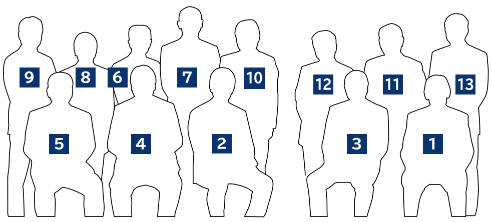
Noboru Matsuda

12 Outside Director

Nobumichi Hattori

13 Outside Director

Toru Yamashita



Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Member
Teruo Adachi

Full-time Audit & Supervisory Board Member
Kazunori Kageyama

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*

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

Senior Corporate Officer

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

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

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

* Serves concurrently as a director

Fact Sheets

Ten-Year Summary of Consolidated Financial Statements

Years ended March 31	2009	2010	2011	2012	2013
For the year					
Gross billings	¥1,033,396	¥ 917,065	¥ 936,476	¥ 978,321	¥1,045,431
Revenue	154,059	143,579	152,218	160,756	175,964
Selling, general and administrative expenses	139,042	137,443	137,951	140,940	149,645
Personnel costs	86,521	90,325	93,514	96,902	101,655
Rent	10,571	11,475	11,097	10,585	10,819
Depreciation and amortization	4,065	3,848	2,687	1,886	1,896
Amortization of goodwill and other intangible assets[1]	934	519	625	527	759
Others	36,949	31,274	30,027	31,038	34,514
Operating income	15,016	6,136	14,266	19,816	26,319
Income before income taxes	7,874	6,147	13,132	20,355	24,948
Profit attributable to owners of parent	(3,277)	1,277	4,550	8,604	12,894
Operating income before amortization of goodwill[2]	15,950	6,655	14,891	20,343	27,078
At year-end					
Total assets	¥ 480,768	¥ 456,313	¥ 474,126	¥ 518,805	¥ 528,535
Cash and time deposits + Marketable securities of current assets	58,663	77,890	92,498	101,854	113,949
Investment securities	46,330	49,981	45,938	53,900	56,924
Interest-bearing debt[3]	2,679	2,129	2,544	2,768	3,050
Net assets	206,048	208,802	206,455	219,280	234,352
Cash flows					
Net cash provided by (used in) operating activities	¥ (14,570)	¥ 25,300	¥ 22,616	¥ 20,047	¥ 17,763
Net cash provided by (used in) investing activities	6,783	(4,211)	(1,379)	(5,444)	(5,642)
Net cash used in financing activities	(4,613)	(3,421)	(5,792)	(5,017)	(3,617)
Per share data (yen)[4]					
Basic net income (loss)	¥ (8.49)	¥ 3.31	¥ 11.81	¥ 22.66	¥ 33.96
Diluted net income[5]	—	3.30	11.81	22.64	33.95
Cash dividends	7.00	7.00	7.00	7.00	8.00
Dividend payout ratio (%)	—	211.4	59.2	30.9	23.6
Net assets	¥ 514.25	¥ 520.90	¥ 518.11	¥ 542.89	¥ 583.73
Ratios (%)					
Revenue to gross billings margin	14.9	15.7	16.3	16.4	16.8
Operating margin before amortization of goodwill[6]	10.4	4.6	9.8	12.7	15.4
Operating margin[7]	9.7	4.3	9.4	12.3	15.0
Ratio of personnel costs to revenue[8]	56.2	62.9	61.4	60.3	57.8
Return on equity (ROE)	(1.6)	0.6	2.3	4.3	6.0
Shareholders' equity ratio	41.3	44.0	41.5	39.7	41.9
Number of employees (at year-end)	9,600	9,823	10,081	10,633	11,385

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 integrated 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

2014	2015	2016	2017	2018	2017 vs 2018	
¥1,095,909	¥1,131,064	¥1,215,250	¥1,255,474	**¥1,335,030**	¥ 79,555	6.3%
190,150	205,867	232,498	248,640	**272,335**	23,694	9.5%
156,233	169,045	187,503	201,379	**220,147**	18,768	9.3%
106,968	114,333	126,073	135,426	**146,832**	11,406	8.4%
11,060	11,764	12,885	13,629	**14,406**	776	5.7%
1,956	2,411	2,925	3,199	**3,588**	388	12.2%
983	1,672	2,290	3,120	**3,615**	495	15.9%
35,264	38,863	43,329	46,003	**51,703**	5,700	12.4%
33,916	36,821	44,994	47,261	**52,187**	4,926	10.4%
37,039	38,924	46,251	44,959	**50,628**	5,669	12.6%
18,721	19,879	28,531	25,880	**29,834**	3,954	15.3%
34,900	38,494	47,285	50,381	**55,803**	5,422	10.8%
¥ 583,970	¥ 633,904	¥ 678,532	¥ 722,051	**¥ 799,901**	¥ 77,849	10.8%
139,984	163,012	157,926	152,245	**150,780**	(1,464)	(1.0)%
61,631	81,925	76,880	96,554	**119,813**	23,258	24.1%
5,068	4,597	8,086	11,829	**9,956**	(1,873)	(15.8)%
254,510	282,729	294,031	325,818	**367,367**	41,548	12.8%
¥ 31,846	¥ 33,314	¥ 29,698	¥ 16,288	**¥ 32,372**	¥ 16,083	
(7,605)	(7,563)	(20,686)	(4,280)	**(20,499)**	(16,219)	
(1,362)	(12,484)	(5,290)	(7,803)	**(14,401)**	(6,598)	
¥ 49.31	¥ 53.22	¥ 76.56	¥ 69.45	**¥ 80.03**	¥ 10.58	
49.27	53.16	76.44	69.44	**79.85**	10.41	
12.00	15.00	18.00	24.00	**26.00**	2.00	
24.3	28.1	23.5	34.6	**32.5**	(2.1)pts	
¥ 629.66	¥ 707.30	¥ 733.01	¥ 817.67	**¥ 920.26**	¥ 102.59	
17.4	18.2	19.1	19.8	**20.4**	0.6pts	
18.4	18.7	20.3	20.3	**20.5**	0.2pts	
17.8	17.9	19.4	19.0	**19.2**	0.2pts	
56.3	55.5	54.2	54.5	**53.9**	(0.6)pts	
8.1	7.9	10.6	9.0	**9.2**	0.3pts	
40.9	41.6	40.3	42.2	**42.9**	0.7pts	
11,894	13,021	14,187	15,738	**18,837**	3,099	

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	2009	2010	2011	2012
Energy / Material / Machinery	¥ 18,836	¥ 18,271	¥ 19,480	¥ 14,563
Foodstuffs	70,053	69,828	71,209	71,990
Beverages / Cigarettes / Luxury foods	115,089	108,105	110,635	115,521
Pharmaceuticals / Medical supplies	37,814	42,901	42,427	46,385
Cosmetics / Toiletries	62,546	64,290	64,882	65,181
Apparel / Accessories	15,234	10,966	11,625	12,830
Precision machinery / Office supplies	12,825	9,398	11,102	10,837
Home electric appliances / AV equipment	31,146	26,820	28,655	32,384
Automobiles / Related products	112,052	93,631	97,182	107,518
Household products	17,931	16,998	16,169	16,772
Hobby supplies / Sporting goods	22,671	18,929	16,686	15,491
Real estate / Housing facilities	38,718	31,413	36,054	40,525
Publishing	22,381	22,381	22,051	20,659
Information / Communications	120,124	93,215	97,409	94,919
Distribution / Retailing	42,822	41,797	39,855	41,760
Finance / Insurance	62,916	52,515	51,133	47,539
Transportation / Leisure	46,136	42,464	36,702	36,413
Restaurant / Services	37,827	27,282	23,159	25,296
Government / Organizations	13,868	18,329	15,205	12,727
Education / Medical services / Religion	6,338	7,171	7,617	7,622
Classified advertising / Other	49,955	39,241	42,057	43,927
Subtotal	957,293	855,956	861,307	880,859
Subtotal for other than the above	76,103	61,108	75,169	97,462
Consolidated billings	¥1,033,396	¥917,065	¥936,476	¥978,321

Billings by Type of Service

Years ended March 31	2009	2010	2011	2012
Mass media services				
Newspapers	¥ 100,727	¥ 81,404	¥ 67,992	¥ 68,003
Magazines	39,198	27,612	24,612	23,844
Radio	21,385	16,623	15,638	15,086
Television	412,997	380,843	386,414	394,581
Subtotal	574,308	506,483	494,658	501,514
Other advertising services				
Internet media	23,492	41,522	56,269	80,473
Outdoor media	41,236	34,337	36,791	37,333
Creative	93,299	85,831	93,020	100,723
Marketing / Promotion	206,880	172,296	164,886	170,266
Others	18,075	15,484	15,681	19,059
Subtotal	382,984	349,472	366,649	407,854
Subtotal	957,293	855,956	861,307	909,368
Subtotal for other than the above	76,103	61,108	75,169	68,953
Consolidated billings	¥1,033,396	¥917,065	¥936,476	¥978,321

¥ Millions

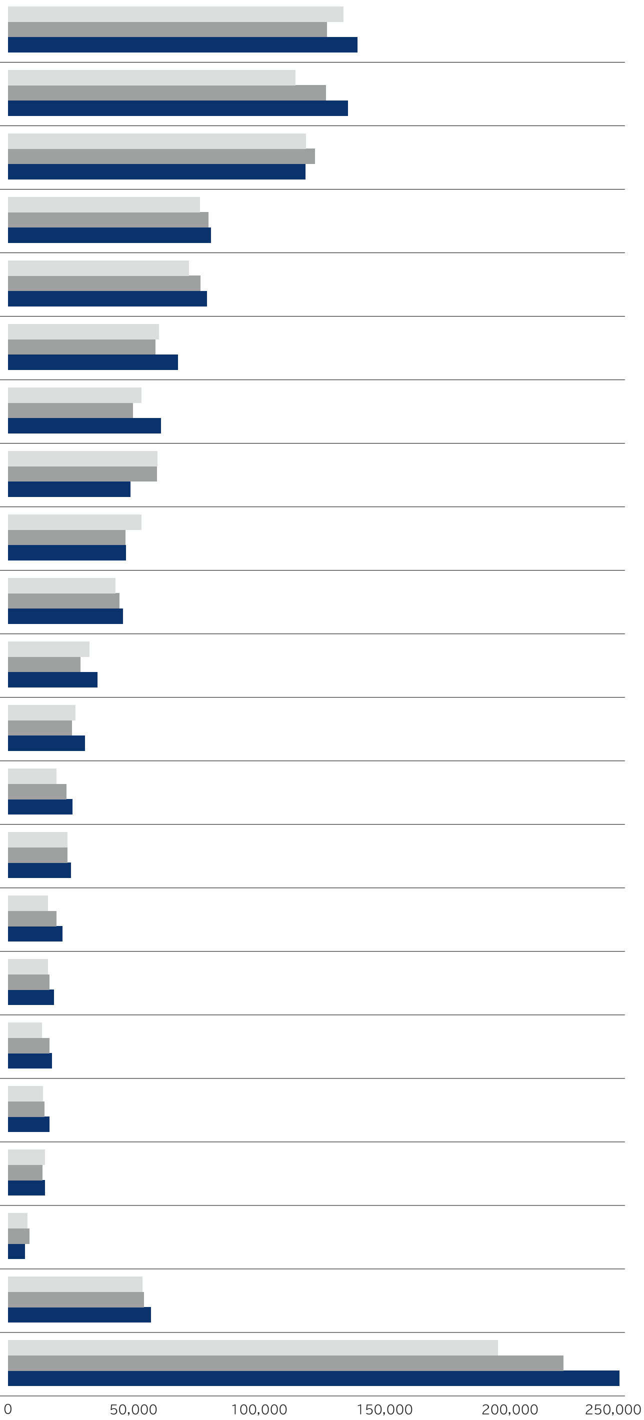
2013	2014	2015	2016	2017	2018	Contribution
¥ 12,732	¥ 10,747	¥ 12,458	¥ 13,945	¥ 14,373	**¥ 16,451**	1.5%
72,936	71,125	69,496	76,404	79,835	**80,823**	7.4%
115,612	122,319	117,387	118,562	122,138	**118,410**	10.8%
49,579	49,473	53,673	53,123	46,655	**46,821**	4.3%
64,215	66,386	68,413	71,920	76,595	**79,167**	7.3%
13,775	14,378	12,648	13,485	16,448	**17,406**	1.6%
10,504	8,675	6,641	7,616	8,427	**6,695**	0.6%
28,725	25,811	29,071	26,696	25,363	**30,648**	2.8%
121,744	140,320	138,721	133,559	127,021	**139,097**	12.7%
17,733	16,805	17,409	19,140	23,179	**25,508**	2.3%
14,892	14,051	12,737	15,930	19,209	**21,540**	2.0%
43,159	45,212	40,827	42,686	44,374	**45,756**	4.2%
22,862	25,023	23,112	23,688	23,686	**25,093**	2.3%
102,251	100,491	103,595	114,444	126,532	**135,465**	12.4%
46,755	49,857	48,236	59,427	59,281	**48,654**	4.5%
46,867	53,288	58,995	60,148	58,725	**67,645**	6.2%
43,934	41,429	45,780	53,159	49,670	**60,855**	5.6%
23,542	23,434	27,676	32,463	28,786	**35,560**	3.3%
15,184	14,577	16,687	15,790	16,349	**18,302**	1.7%
11,610	13,989	16,512	14,543	13,564	**14,729**	1.3%
45,005	45,879	48,368	53,442	54,107	**56,839**	5.2%
923,616	953,268	968,442	1,020,167	1,034,317	**1,091,466**	100.0%
121,815	142,641	162,623	195,083	221,158	**243,565**	
¥1,045,431	¥1,095,909	¥1,131,064	¥1,215,250	¥1,255,474	**¥1,335,030**	

¥ Millions

2013	2014	2015	2016	2017	2018	Contribution
¥ 66,433	¥ 67,449	¥ 64,759	¥ 64,024	¥ 59,541	**¥ 55,664**	4.7%
23,719	24,190	23,649	22,433	20,298	**20,753**	1.8%
14,618	13,991	14,433	14,012	13,646	**13,209**	1.1%
420,512	427,508	431,048	437,188	436,864	**442,514**	37.7%
525,282	533,138	533,889	537,658	530,349	**532,140**	45.3%
92,319	100,558	109,662	135,489	181,777	**200,842**	17.1%
39,096	41,633	40,044	40,873	40,588	**42,722**	3.6%
108,091	113,711	114,972	119,858	126,564	**134,888**	11.5%
192,407	202,630	206,135	221,078	216,016	**235,460**	20.1%
19,062	19,773	20,530	25,317	24,548	**27,816**	2.4%
450,975	478,305	491,344	542,615	589,493	**641,728**	54.7%
976,256	1,011,443	1,025,233	1,080,272	1,119,842	**1,173,868**	100.0%
69,175	84,466	105,832	134,978	135,633	**161,163**	
¥1,045,431	¥1,095,909	¥1,131,064	¥1,215,250	¥1,255,474	**¥1,335,030**	

Billings by Industry of Clients

¥ Millions / Years ended March 31	2016	2017	2018
Automobiles / Related products	133,559	127,021	139,097
Information / Communications	114,444	126,532	135,465
Beverages / Cigarettes / Luxury foods	118,562	122,138	118,410
Foodstuffs	76,404	79,835	80,823
Cosmetics / Toiletries	71,920	76,595	79,167
Finance / Insurance	60,148	58,725	67,645
Transportation / Leisure	53,159	49,670	60,855
Distribution / Retailing	59,427	59,281	48,654
Pharmaceuticals / Medical supplies	53,123	46,655	46,821
Real estate / Housing facilities	42,686	44,374	45,756
Restaurant / Services	32,463	28,786	35,560
Home electric appliances / AV equipment	26,696	25,363	30,648
Household products	19,140	23,179	25,508
Publishing	23,688	23,686	25,093
Hobby supplies / Sporting goods	15,930	19,209	21,540
Government / Organizations	15,790	16,349	18,302
Apparel / Accessories	13,485	16,448	17,406
Energy / Material / Machinery	13,945	14,373	16,451
Education / Medical services / Religion	14,543	13,564	14,729
Precision machinery / Office supplies	7,616	8,427	6,695
Classified advertising / Other	53,442	54,107	56,839
Subtotal for other than the above	195,083	221,158	243,565



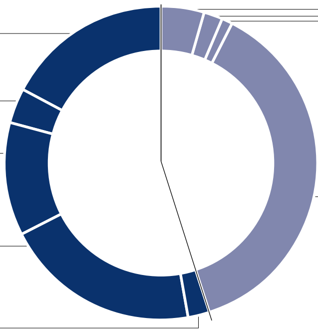
Note: Billings by industry of clients are shown in descending order based on the results of the fiscal year ended March 31, 2018

Contribution to Billings by Type of Service

¥ Millions / Year ended March 31

2018

Other Advertising**		
Internet media	200,842	17.1%
Outdoor media	42,722	3.6%
Creative	134,888	11.5%
Marketing / Promotion	235,460	20.1%
Others	27,816	2.4%
Subtotal	641,728	54.7%

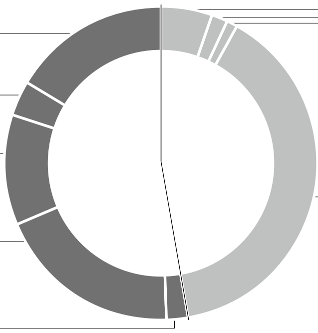


Four Mass Media*		
Newspapers	55,664	4.7%
Magazines	20,753	1.8%
Radio	13,209	1.1%
Television	442,514	37.7%
Subtotal	532,140	45.3%

¥ 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%

* 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 were up ¥66.7 billion, or 7.6%, year on year. Client industries with billings increases were Automobiles / Related products and Transportation / Leisure. Client industries with billings decreases were Distribution / Retailing and Beverages / Cigarettes / Luxury foods.
- In addition to a strong non-consolidated performance and the solid performance of domestic subsidiaries, billings rose due to the contributions of new M&A in the ASEAN region.
- Also, ordinary income and profit attributable to owners of parent rose significantly as the gross margin improved and revenue growth surpassed increases in SG&A expenses.

¥ Millions

Years ended March 31	2014	2015	2016	2017	2018
Billings	795,468	832,528	875,294	880,295	**947,054**
Ordinary income	24,437	27,083	30,429	29,799	**34,220**
Profit attributable to owners of parent	12,772	14,281	18,017	18,598	**20,424**

DAIKO

- Billings rose ¥6.5 billion, or 4.1%, year on year. Client industries with billings increases were Finance / Insurance and Restaurant / Services. Client industries with billings decreases were Precision machinery / Office supplies and Pharmaceuticals / Medical supplies.
- Billings rose thanks in part to the expanded services of client companies.
- Also, ordinary income and profit attributable to owners of parent rose significantly as growth in revenue surpassed growth in SG&A expenses.

¥ Millions

Years ended March 31	2014	2015	2016	2017	2018
Billings	147,335	147,736	155,237	161,094	**167,636**
Ordinary income	1,335	1,873	2,817	3,367	**3,866**
Profit attributable to owners of parent	541	1,119	3,370	2,138	**2,451**

YOMIKO

- Billings were down ¥0.3 billion, or 0.4%, year on year. Client industries with billings increases were Transportation / Leisure and Information / Communications. Client industries with billings decreases were Automobiles / Related products and Beverages / Cigarettes / Luxury foods.
- Although billings declined, revenue increased due to improvement in gross margin. As a result, ordinary income and profit attributable to owners of parent both increased significantly.

¥ Millions

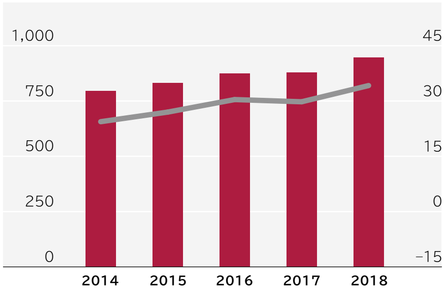
Years ended March 31	2014	2015	2016	2017	2018
Billings	78,903	73,041	74,744	73,346	**73,025**
Ordinary income	1,128	668	1,324	1,113	**1,591**
Profit attributable to owners of parent	665	42	1,529	631	**1,003**

Business Results

Company Billings by Type of Service and Contribution

(Non-Consolidated)

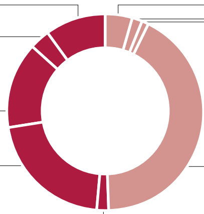
¥ Billions



(Years ended March 31)

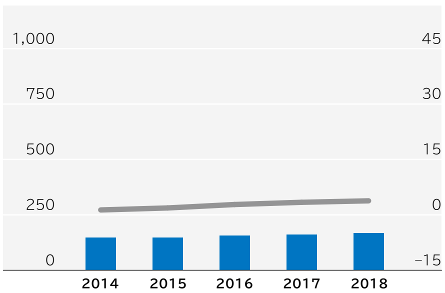
Billings — Ordinary Income (right)

Year ended March 31, 2018 ¥ Millions



Internet media	72,186	9.9%
Outdoor media	23,324	3.2%
Creative	104,377	14.3%
Marketing / Promotion	153,360	21.0%
Others	13,627	1.9%
Newspapers	33,731	4.6%
Magazines	12,580	1.7%
Radio	7,044	1.0%
Television	308,939	42.4%

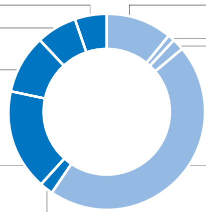
¥ Billions



(Years ended March 31)

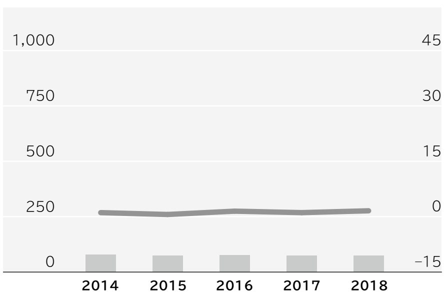
Billings — Ordinary Income (right)

Year ended March 31, 2018 ¥ Millions



Internet media	6,614	5.1%
Outdoor media	8,759	6.8%
Creative	12,318	9.5%
Marketing / Promotion	21,729	16.8%
Others	2,792	2.2%
Newspapers	14,177	10.9%
Magazines	1,591	1.2%
Radio	2,303	1.8%
Television	59,267	45.7%

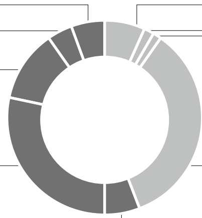
¥ Billions



(Years ended March 31)

Billings — Ordinary Income (right)

Year ended March 31, 2018 ¥ Millions



Internet media	3,886	5.5%
Outdoor media	2,958	4.2%
Creative	8,277	11.7%
Marketing / Promotion	20,133	28.4%
Others	4,138	5.8%
Newspapers	4,859	6.9%
Magazines	1,033	1.5%
Radio	1,070	1.5%
Television	24,537	34.6%

Stock Information

As of March 31, 2018

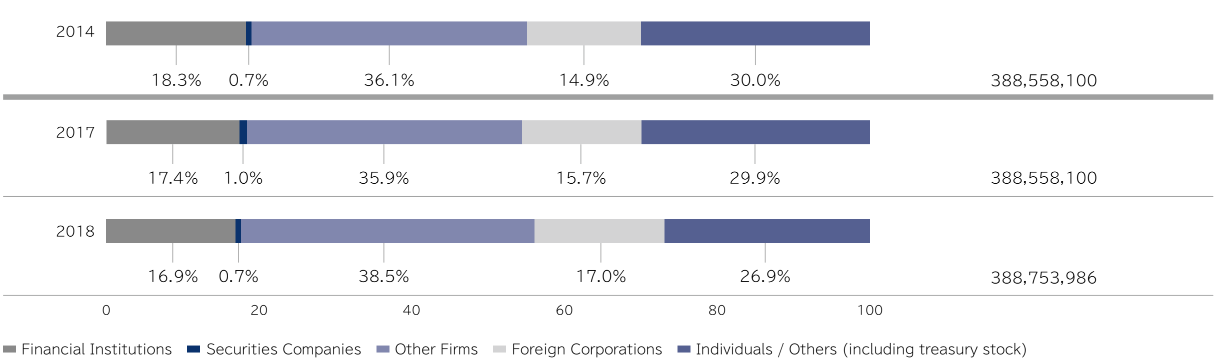
Major Shareholders

		Number of shares held	Percentage of shares held (%)
1	The Hakuho Foundation	70,605,350	18.16
2	General Incorporated Association Hakusei-kai	18,619,700	4.78
3	Hakuhodo DY Holdings Inc.	15,904,441	4.09
4	The Asahi Shimbun Company	11,223,490	2.88
5	General Incorporated Association Furatanite	11,000,000	2.82
6	The Master Trust Bank of Japan, Ltd. (Trust Account)	10,086,500	2.59
7	Japan Trustee Services Bank, Ltd. (Trust Account)	9,584,600	2.46
8	Hakuhodo DY Holdings Employees' Shareholdings Association	9,389,717	2.41
9	Nippon Television Network Corporation	8,620,000	2.21
10	The Dai-ichi Life Insurance Company Limited	6,930,500	1.78

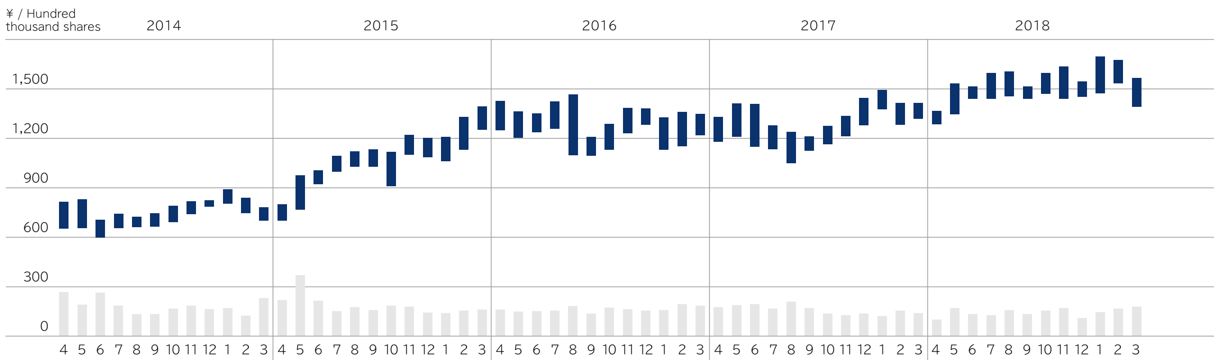
Total Number of Shares Authorized	1,500,000,000
Total Number of Shares Issued	388,753,986
Total Number of Shareholders	5,807

Shareholder Distribution

Years ended March 31



Share Price and Trading Volume



	2014	2015	2016	2017	2018
High	890	1,395	1,467	1,495	1,697
Low	599	701	1,095	1,049	1,287
At year-end	720	1,279	1,275	1,320	1,463

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 integrated report and the positioning of the audit

The financial section of this integrated report (Japanese version) was extracted from the financial conditions, including the consolidated financial statements, described in the 15th *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 integrated 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 integrated report. The financial section of the English integrated report is a translation of the financial section of the Japanese integrated report that was extracted from the *Yuho* Financial Report. Again, great care was taken in the preparation of the integrated report to ensure there are no major discrepancies between it and the content of the Japanese integrated report.

However, neither the Japanese nor English integrated 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, 2018 and 2017

	Note	2017	Note	2018
				¥ Millions
Assets				
Current assets				
Cash and time deposits	1	148,223	1	146,171
Notes and accounts receivable–trade		307,654	5	338,073
Short-term investment securities		4,021		4,609
Beneficiary right of accounts receivable in trust		5,078		4,725
Inventories	2	18,832	2	20,566
Short-term loans receivable		1,839		1,756
Deferred tax assets		9,232		11,951
Other		21,968		23,805
Allowance for doubtful accounts		(668)		(803)
Total current assets		516,183		550,856
Noncurrent assets				
Property, plant and equipment				
Buildings and structures		29,107		31,796
Accumulated depreciation		(13,379)		(15,152)
Buildings and structures, net		15,727		16,644
Land		11,752		11,747
Other		9,687		14,305
Accumulated depreciation		(6,806)		(9,245)
Other, net		2,880		5,059
Total property, plant and equipment		30,361		33,452
Intangible assets				
Software		6,408		7,702
Goodwill		17,689		31,173
Other		4,906		4,502
Total intangible assets		29,004		43,378
Investments and other assets				
Investment securities	1, 3	96,554	1, 3	119,813
Long-term loans receivable		747		948
Net defined benefit asset		18,583		28,616
Deferred tax assets		4,915		1,563
Other	3	28,153	3	23,517
Allowance for doubtful accounts		(2,452)		(2,246)
Total investments and other assets		146,502		172,213
Total noncurrent assets		205,868		249,044
Total assets		722,051		799,901

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

	Note	2017	Note	2018
				¥ Millions
Liabilities				
Current liabilities				
Notes and accounts payable–trade		281,335	5	297,706
Short-term loans payable		9,692		8,062
Current portion of long-term loans payable		559		597
Accrued expenses		10,323		13,807
Income taxes payable		10,473		10,554
Asset retirement obligations		—		14
Provision for bonuses		24,256		28,350
Provision for directors' bonuses		602		857
Provision for loss on guarantees		50		50
Other		22,208		30,851
Total current liabilities		359,503		390,851
Noncurrent liabilities				
Long-term loans payable		1,577		1,296
Deferred tax liability		10,094		15,845
Asset retirement obligations		9		—
Provision for directors' retirement benefits		1,869		357
Net defined benefit liability		19,731		18,624
Other		3,448		5,557
Total noncurrent liabilities		36,729		41,682
Total liabilities		396,233		432,534
Net assets				
Shareholders' equity				
Capital stock		10,000		10,154
Capital surplus		88,885		87,742
Retained earnings		175,407		195,914
Treasury stock		(11,370)		(11,371)
Total shareholders' equity		262,922		282,439
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		38,324		53,848
Deferred gains or losses on hedges		—		(6)
Foreign currency translation adjustments		(890)		(612)
Cumulative adjustments related to retirement benefits		4,350		7,450
Total accumulated other comprehensive income		41,784		60,679
Subscription rights to shares		283		454
Non-controlling interests		20,828		23,793
Total net assets		325,818		367,367
Total liabilities and net assets		722,051		799,901

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Years ended March 31, 2018 and 2017

Consolidated Statements of Income

¥ Millions

	Note	2017	Note	2018
Gross billings		1,255,474		1,335,030
Cost of sales	1	1,006,834	1	1,062,695
Revenue		248,640		272,335
Selling, general and administrative expenses				
Salaries and allowances		83,897		90,014
Retirement benefit expenses		2,362		2,539
Provision for bonuses		21,828		25,017
Provision for directors' retirement benefits		399		201
Provision for directors' bonuses		611		777
Amortization of goodwill		2,527		2,985
Provision of allowance for doubtful accounts		121		69
Other		89,631		98,542
Total selling, general and administrative expenses		201,379		220,147
Operating income		47,261		52,187
Nonoperating income				
Interest income		222		269
Dividend income		1,021		1,508
Equity in earnings of affiliates		—		258
Gain on investments in partnership		—		195
Insurance premiums refunded cancellation		37		89
Other		511		486
Total nonoperating income		1,793		2,807
Nonoperating expenses				
Interest expenses		159		183
Equity in loss of affiliates		2,606		—
Foreign exchange loss		499		290
Loss on investments in partnership		116		—
Other		181		157
Total nonoperating expenses		3,562		631
Ordinary income		45,491		54,364
Extraordinary income				
Gain on sales of noncurrent assets	2	3	2	15
Gain on sales of investment securities		328		14
Gain on sales of subsidiaries' and affiliates' stocks		—		380
Gain on change in equity		0		6
Gain on step acquisitions	3	1,061	3	1,037
Gain on negative goodwill		5		149
Other		12		104
Total extraordinary income		1,412		1,709

¥ Millions

	Note	2017	Note	2018
Extraordinary loss				
Loss on sales of noncurrent assets	4	1	4	4
Loss on retirement of noncurrent assets	5	120	5	268
Impairment loss	6	793	6	269
Loss on sales of investment securities		55		4
Loss on sales of subsidiaries' and affiliates' stocks		58		71
Loss on valuation of investment securities		190		206
Loss on change in equity		6		8
Office transfer expenses		107		724
Special retirement expenses		198	7	3,583
Loss on liquidation of subsidiaries and affiliates		—		49
Loss on liquidation of subsidiaries and associates		247		24
Amortization of goodwill		65		—
Other	8	99	8	229
Total extraordinary loss		1,944		5,445
Income before income taxes		44,959		50,628
Income taxes–current		17,859		18,441
Income taxes–deferred		(354)		(1,004)
Total income taxes		17,504		17,437
Profit		27,454		33,191
Profit attributable to non-controlling interests		1,574		3,356
Profit attributable to owners of parent		25,880		29,834

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

Consolidated Statements of Comprehensive Income

¥ Millions

	Note	2017	Note	2018
Profit		27,454		33,191
Other comprehensive income				
Valuation difference on available-for-sale securities	1	13,956	1	15,450
Deferred gains or losses on hedges		—	1	(6)
Foreign currency translation adjustments	1	(931)	1	413
Remeasurements of defined benefit plans	1	930	1	3,099
Share of other comprehensive income of associates accounted for using the equity method	1	(134)	1	32
Total accumulated other comprehensive income	1	13,821	1	18,988
Comprehensive income		41,276		52,180
(Breakdown)				
Comprehensive income attributable to owners of the parent		40,144		48,729
Comprehensive income attributable to non-controlling interests		1,131		3,450

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, 2018 and 2017

	Note	2017	Note	¥ Millions 2018
Shareholders' equity				
Capital stock				
Balance at the end of previous period		10,000		10,000
Changes of items during the period				
Issuance of new shares		—		154
Total changes of items during the period		—		154
Balance at the end of current period		10,000		10,154
Capital surplus				
Balance at the end of previous period		89,655		88,885
Change of items during the period				
Issuance of new shares		—		154
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(770)		(1,297)
Total changes of items during the period		(770)		(1,143)
Balance at the end of current period		88,885		87,742
Retained earnings				
Balance at the end of previous period		157,352		175,407
Changes of items during the period				
Dividends from surplus		(7,825)		(9,318)
Profit attributable to owners of parent		25,880		29,834
Decrease in retained earnings from exclusion of equity method affiliate company		—		(9)
Total changes of items during the period		18,055		20,506
Balance at the end of current period		175,407		195,914
Treasury stock				
Balance at the end of previous period		(11,370)		(11,370)
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)		(11,371)
Total shareholders' equity				
Balance at the end of previous period		245,637		262,922
Changes of items during the period				
Issuance of new shares		—		309
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(770)		(1,297)
Dividends from surplus		(7,825)		(9,318)
Profit attributable to owners of parent		25,880		29,834
Decrease in retained earnings from exclusion of equity method affiliate company		—		(9)
Purchase of treasury stock		(0)		(0)
Total changes of items during the period		17,284		19,517
Balance at the end of current period		262,922		282,439

¥ Millions

	Note	2017	Note	2018
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at the end of previous period		23,914		38,324
Changes of items during the period				
Net changes of items other than shareholders' equity		14,410		15,523
Total changes of items during the period		14,410		15,523
Balance at the end of current period		38,324		53,848
Deferred gains or losses on hedges				
Balance at the end of previous period		—		—
Changes of items during the period				
Net changes of items other than shareholders' equity		—		(6)
Total changes of items during the period		—		(6)
Balance at the end of current period		—		(6)
Foreign currency translation adjustments				
Balance at the end of previous period		186		(890)
Changes of items during the period				
Net changes of items other than shareholders' equity		(1,077)		277
Total changes of items during the period		(1,077)		277
Balance at the end of current period		(890)		(612)
Cumulative adjustments related to retirement benefits				
Balance at the end of previous period		3,420		4,350
Changes of items during the period				
Net changes of items other than shareholders' equity		930		3,099
Total changes of items during the period		930		3,099
Balance at the end of current period		4,350		7,450
Total accumulated other comprehensive income				
Balance at the end of previous period		27,520		41,784
Changes of items during the period				
Net changes of items other than shareholders' equity		14,263		18,894
Total changes of items during the period		14,263		18,894
Balance at the end of current period		41,784		60,679
Subscription rights to shares				
Balance at the end of previous period		223		283
Changes of items during the period				
Net changes of items other than shareholders' equity		59		171
Total changes of items during the period		59		171
Balance at the end of current period		283		454
Non-controlling interests				
Balance at the end of previous period		20,648		20,828
Changes of items during the period				
Net changes of items other than shareholders' equity		179		2,965
Total changes of items during the period		179		2,965
Balance at the end of current period		20,828		23,793
Total net assets				
Balance at the end of previous period		294,031		325,818
Changes of items during the period				
Issuance of new shares		—		309
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(770)		(1,297)
Dividends from surplus		(7,825)		(9,318)
Profit attributable to owners of parent		25,880		29,834
Decrease in retained earnings from exclusion of equity method affiliate company		—		(9)
Purchase of treasury stock		(0)		(0)
Net changes of items other than shareholders' equity		14,502		22,031
Total changes of items during the period		31,787		41,548
Balance at the end of current period		325,818		367,367

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

Consolidated Statements of Cash Flows

Years ended March 31, 2018 and 2017

¥ Millions

	Note	2017	Note	2018
Cash flows from operating activities				
Income before income taxes		44,959		50,628
Depreciation and amortization		4,738		5,174
Impairment loss		793		269
Amortization of goodwill		2,592		2,985
Gain on negative goodwill		(5)		(149)
Increase (decrease) in provision for bonuses		1,867		3,983
Increase (decrease) in provision for directors' bonuses		20		254
Increase (decrease) in net defined benefit liability		12		(1,757)
Increase (decrease) in provision for directors' retirement benefits		68		(1,511)
Increase (decrease) in allowance for doubtful accounts		(156)		(208)
Interest and dividend income		(1,243)		(1,777)
Interest expenses		159		183
Foreign exchange losses (gains)		(33)		191
Equity in earnings of affiliates		2,606		(258)
Gain (loss) on change in equity		5		1
Gain (loss) on step acquisitions		(1,061)		(1,037)
Gain (loss) on sales of investment securities		(273)		(9)
Gain (loss) on sales of subsidiaries' and affiliates' stocks		58		(309)
Gain (loss) on valuation of investment securities		190		206
Gain (loss) on sales of noncurrent assets		(1)		(11)
Gain (loss) on retirement of noncurrent assets		120		268
Increase (decrease) in notes and accounts receivable-trade		(10,613)		(22,632)
Increase (decrease) in inventories		(4,649)		(1,438)
Increase (decrease) in notes and accounts payable-trade		(3,431)		13,723
Increase (decrease) in net defined benefit asset		(4,682)		(5,225)
Other, net		(238)		7,641
Subtotal		31,802		49,185
Interest and dividend income received		1,602		2,154
Interest expenses paid		(171)		(234)
Income taxes paid		(16,944)		(18,733)
Net cash provided by operating activities		16,288		32,372

	Note	2017	Note	2018
				¥ Millions
Cash flows from investing activities				
Payments into time deposits		(3,110)		(2,645)
Proceeds from withdrawal of time deposits		8,137		2,559
Purchase of securities		—		(35)
Proceeds from sales of securities		2,000		1,000
Purchase of property, plant and equipment		(2,926)		(2,938)
Proceeds from sales of property, plant and equipment		12		33
Purchase of intangible assets		(2,803)		(3,474)
Purchase of investment securities		(3,442)		(3,001)
Proceeds from sales of investment securities		1,799		528
Payments for investments in capital		(43)		(123)
Proceeds from investments in capital		2		0
Payments from purchase of investments in subsidiaries resulting in change in scope of consolidation	2	(2,348)	2	(9,902)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	2	1,505		—
Payments from sales of investments in subsidiaries resulting in change in scope of consolidation	3	(22)	3	(4)
Purchase of subsidiary shares and capital		(2,524)		(1,339)
Payments for lease deposits		(1,045)		(1,349)
Collection of lease deposits		139		165
(Increase) decrease in short-term loans receivable		29		109
Payments of long-term loans receivable		(11)		(511)
Collection of long-term loans receivable		75		74
(Increase) decrease of trust beneficiary right		169		387
Other, net		126		(33)
Net cash used in investing activities		(4,280)		(20,499)
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable		2,247		(1,911)
Proceeds from long-term loans payable		1,094		106
Repayments of long-term loans payable		(748)		(778)
Repayments of finance lease obligations		(218)		(214)
Purchase of treasury stock		(0)		(0)
Purchase of treasury stock of subsidiaries in consolidation		(6)		(4)
Proceeds from specified fund trust of treasury stock of subsidiaries		0		—
Payments from purchase of investments in subsidiaries not resulting in change in scope of consolidation		(1,979)		(1,507)
Cash dividends paid		(7,815)		(9,309)
Dividends paid to non-controlling interests		(624)		(1,037)
Proceeds from share issuance to non-controlling shareholders		223		273
Proceeds from exercise of stock options		22		31
Other, net		0		(50)
Net cash used in financing activities		(7,803)		(14,401)
Effect of exchange rate change on cash and cash equivalents		(815)		(308)
Net increase in cash and cash equivalents		3,389		(2,837)
Cash and cash equivalents at beginning of period		143,298		146,688
Cash and cash equivalents at end of period	1	146,688	1	143,850

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, 2017 to March 31, 2018) 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—277.

Names of primary consolidated subsidiaries—Please refer to pages 109–112.

QUANTUM\GLOBAL Inc. and 17 other companies were newly established and added to the scope of consolidation. Hornall Anderson Design Works LLC and 17 other companies were added as result of acquisition of shares. Companies removed from the scope of consolidation included Acquisio Japan CO., LTD and six other companies that were liquidated, Consumer Insight Research Inc. and two other companies as the result of sales of shares, and YOMIKO AD LINE Inc. due to merger.

(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

(2) Number of affiliates for which the equity method is applied—61.

(Names of major equity-method affiliates)

SUPER NETWORK, INC., ADSTAFF-HAKUHODO, INC., Advertisement EDI Center, Inc., mediba Inc., and TBWA\HAKUHODO China Co., Ltd.

C2 Melbourne Pty Limited and four other companies were newly established and added to the scope of equity-method application. GLOBALPOWER Inc. and four other companies were added as a result of the acquisition of shares. Percept/H Pvt. Ltd. was removed from the scope of equity-method application as a result of sale of shares and OI Engine LP was removed due to merger.

(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.

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, 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.

After adjusting for tax effects, unrecognized actuarial differences are recorded under adjustments related to retirement benefits, which are included in accumulated other comprehensive income under net assets.

(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.

Inapplicable Accounting Standards, Etc.

1. Standards for revenue recognition, etc.

• Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
• Implementation Guidance on Accounting Stand for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview
Comprehensive accounting standards for revenue recognition. Revenue is recognized via application of the following five steps.

Steps
1) Identify the contracts with the customers.
2) Identify the performance obligations as stated in contract.
3) Calculate the transaction price.
4) Allocate the transaction price to each performance obligation stated in contract.
5) Recognize revenue when (or as) the performance obligation is satisfied.

(2) Scheduled date of application
Scheduled to be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of application of above accounting standards
Impact is currently under evaluation during the preparation of these consolidated financial statements.

2. Implementation Guidance on Tax Effect Accounting

• Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018)
• Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, February 16, 2018)

(1) Overview
The treatment of future temporary differences related to subsidiary shares, etc. in individual financial statements has been revised. In addition, treatment regarding the recoverability of deferred tax assets for businesses falling under Category 1 has been clarified.

(2) Scheduled date of application
Scheduled to be applied from the beginning of the fiscal year ending March 31, 2019

(3) Impact of application of above accounting standards
Impact is currently under evaluation as of the preparation of these consolidated financial statements.

3. Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions

• Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (PITF No. 36, January 12, 2018)

(1) Overview
The Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights was announced with the aim of clarifying accounting and disclosure methods deemed to be necessary when employees pay a certain amount of money to a company after said company grants employees new stock acquisition rights with vested conditions.

(2) Scheduled date of application
Scheduled to be applied from the beginning of the fiscal year ending March 31, 2019

(3) Impact of application of above accounting standards
Impact is currently under evaluation as of the preparation of these consolidated financial statements.

Notes

(Consolidated balance sheets)

Note 1. Pledged assets and secured liabilities

Fiscal year ended March 31, 2018

Cash and time deposits totaling ¥518 million and investment securities totaling ¥9 million have been provided as trade guarantees, etc.

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.

Note 2. Inventories

Fiscal year ended March 31, 2018

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, 2017

Same as the fiscal year under review

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

Fiscal year ended March 31, 2018

Investment securities (stocks)	¥9,244 million
Other assets (capital)	¥1,177 million

Fiscal year ended March 31, 2017

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

Note 4. Incidental obligations

Fiscal year ended March 31, 2018

The Company has ¥91 million in guarantee obligations for bank borrowings under the home financing plan for employees.

Fiscal year ended March 31, 2017

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

Note 5. Notes matured at the end of the consolidated fiscal year

Notes matured at the end of the fiscal year are settled as of their clearance date.

Also, as the final day of the fiscal year under review was a holiday for financial institutions, the following notes matured at the end of the fiscal year were included in the fiscal year-end balance.

Fiscal year ended March 31, 2018

The Company has ¥91 million in guarantee obligations for bank borrowings under the home financing plan for employees.

Notes receivable	¥233 million
Notes payable	¥1,334 million

Fiscal year ended March 31, 2017

Notes receivable	—
Notes payable	—

(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, 2018

Cost of sales	¥1,222 million

Fiscal year ended March 31, 2017

Cost of sales	¥879 million

Note 2. Gain on sales of noncurrent assets

Fiscal year ended March 31, 2018

Property, plant and equipment	
Buildings and structures	¥4 million
Land	¥4 million
Others (vehicles and transport equipment)	¥3 million
Others (tools and equipment)	¥3 million
Total	¥15 million

Fiscal year ended March 31, 2017

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

Note 3. Gain on step acquisitions

Fiscal year ended March 31, 2018

A gain on step acquisitions was recorded following the step acquisition of shares and investment in IDEO LP and three other companies.

Fiscal year ended March 31, 2017

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, 2018

Intangible assets	
Buildings and structures	¥0 million
Others (vehicles and transport equipment)	¥0 million
Others (tools and equipment)	¥4 million
Total	¥4 million

Fiscal year ended March 31, 2017

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

Note 5. Loss on retirement of noncurrent assets

Fiscal year ended March 31, 2018

Property, plant and equipment	
Buildings and structures	¥169 million
Others (machinery)	¥0 million
Others (vehicles and transport equipment)	¥0 million
Others (tools and equipment)	¥70 million
Others (lease assets)	¥2 million
Intangible assets	
Software	¥26 million
Total	¥268 million

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

Note 6. Impairment loss

Fiscal year ended March 31, 2018

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

Fiscal year ended March 31, 2017

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

Place	Purpose	Type	Shares 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 ended March 31, 2017, 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.

Note 7. Special retirement expenses included extra retirement expenses for retirees that were recorded following the adoption of a life plan support system

Note 8. Breakdown of "other" under extraordinary loss

Fiscal year ended March 31, 2018

Loss on devaluation of golf memberships	¥26 million
Exit penalty	¥35 million
Litigation settlement	¥5 million
Provision of allowance for doubtful account	¥84 million
Other	¥77 million
Total	¥229 million

Fiscal year ended March 31, 2017

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

(Consolidated statements of comprehensive income)

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

Fiscal year ended March 31, 2018

Valuation difference on available-for-sale securities	
Amount arising during fiscal year	¥22,860 million
Reclassification adjustments	¥(1,052 million)
Prior to tax effect	¥21,807 million
Tax effect	¥(6,357 million)
Valuation difference on available-for-sale securities	¥15,450 million
Deferred gains or losses on hedges	
Amount arising during fiscal year	¥(9 million)
Reclassification adjustments	—
Prior to tax effect	¥(9 million)
Tax effect	¥3 million
Deferred gains or losses on hedges	¥(6 million)
Foreign currency translation adjustments	
Amount arising during fiscal year	¥613 million
Reclassification adjustments	¥(202 million)
Prior to tax effect	¥411 million
Tax effect	¥1 million
Foreign currency translation adjustments	¥413 million
Remeasurements of defined benefit plans	
Amount arising during fiscal year	¥5,256 million
Reclassification adjustments	¥(822 million)
Prior to tax effect	¥4,433 million
Tax effect	¥(1,334 million)
Remeasurements of defined benefit plans	¥3,099 million
Share of other comprehensive income of associates accounted for using the equity method	
Amount arising during fiscal year	¥(41 million)
Reclassification adjustment	¥73 million
Share of other comprehensive income of associates accounted for using the equity method	¥32 million
Total accumulated other comprehensive income	¥18,988 million

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
Deferred gains or losses on hedges	
Amount arising during fiscal year	—
Reclassification adjustments	—
Prior to tax effect	—
Tax effect	—
Deferred gains or losses on hedges	—

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

(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, 2018

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 (Note 1)	388,558,100	195,886	—	388,753,986
Treasury stock, at cost				
Common stock (Note 2)	15,903,977	464	—	15,904,441

Notes: 1. The 195,886 share increase in the number of common stock was the result of the issuance of new shares as restricted stock compensation.
2. The 464 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, 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.

Note 2. Items related to subscription rights to shares

Fiscal year ended March 31, 2018

Outstanding at consolidated subsidiaries as of fiscal year-end	¥454 million

Fiscal year ended March 31, 2017

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

Note 3. Items related to dividends

Fiscal year ended March 31, 2018

(1) Cash dividends paid

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) Cash dividends per share	¥12.00
3) Reference date	March 31, 2017
4) Effective date	June 30, 2017

A resolution to the following effect was approved at the meeting of the Board of Directors held on November 8, 2017.

• Items related to common stock dividends

1) Dividends paid	¥4,847 million
2) Cash dividends per share	¥13.00
3) Reference date	September 30, 2017
4) Effective date	December 4, 2017

(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 28, 2018.

• Items related to common stock dividends

1) Dividends paid	¥4,847 million
2) Source of dividends	Retained earnings
3) Cash dividends per share	¥13.00
4) Reference date	March 31, 2018
5) Effective date	June 29, 2018

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 ended March 31, 2017 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

(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, 2018

Cash and time deposits	¥146,171 million
Marketable securities	¥4,609 million
Total	¥150,780 million
Time deposits with tenors exceeding 3 months	¥(2,320 million)
Securities other than MMF, FFF, and bond investment trusts	¥(4,609 million)
Cash and cash equivalents	¥143,850 million

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

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

Fiscal year ended March 31, 2018

(Future Marketing Communications Group Co., Ltd)

Current assets	¥70 million
Noncurrent assets	¥649 million
Total assets	¥720 million
Current liabilities	¥56 million
Noncurrent liabilities	¥105 million
Total liabilities	¥162 million

(IdeasXMachina Advertising Inc.)

Current assets	¥99 million
Noncurrent assets	¥9 million
Total assets	¥109 million
Current liabilities	¥58 million
Noncurrent liabilities	—
Total liabilities	¥58 million

(Square Communications Joint Stock Company)

Current assets	¥1,171 million
Noncurrent assets	¥199 million
Total assets	¥1,370 million
Current liabilities	¥796 million
Noncurrent liabilities	¥98 million
Total liabilities	¥895 million

(IDEO LP)

Current assets	¥4,299 million
Noncurrent assets	¥3,094 million
Total assets	¥7,394 million
Current liabilities	¥4,262 million
Noncurrent liabilities	¥827 million
Total liabilities	¥5,089 million

(HA 3.0 LLC)

Current assets	¥522 million
Noncurrent assets	¥13 million
Total assets	¥566 million
Current liabilities	¥312 million
Noncurrent liabilities	¥9 million
Total liabilities	¥322 million

(One Yard SAS)

Current assets	¥54 million
Noncurrent assets	¥0 million
Total assets	¥55 million
Current liabilities	¥165 million
Noncurrent liabilities	—
Total liabilities	¥165 million

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

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

Fiscal year ended March 31, 2018

(Consumer Insight Research Inc.)

Current assets	¥206 million
Noncurrent assets	¥20 million
Total assets	¥226 million
Current liabilities	¥164 million
Noncurrent liabilities	¥214 million
Total liabilities	¥379 million

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

(Lease transactions)

Operating lease transactions

Fiscal year ended March 31, 2018

(As lessee)

Prepaid lease fees (noncancellable)

Within one year	¥536 million
Beyond one year	¥666 million
Total	¥1,203 million

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

(Financial instruments)

1. Items related to financial instruments

Fiscal year ended March 31, 2018

(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, 2017

(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, 2018

The amounts recorded on the balance sheet, market value, and resulting differences as of March 31, 2018 are as follows:

¥ Millions

Classification	Amount recorded on consolidated balance sheet	Market value	Difference
(1) Cash and time deposits	146,171	146,171	—
(2) Notes and accounts receivable–trade	338,073	338,073	—
(3) Securities			
Bonds to be held to maturity	35	35	—
Other securities	1,834	1,834	—
(4) Investment securities			
Shares of affiliated companies	594	2,839	2,245
Other investment securities	103,122	103,122	—
Total assets	589,830	592,076	2,245
(1) Notes and accounts payable–trade	297,706	297,706	—
Total liabilities	297,706	297,706	—

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	10,187
Shares of affiliated companies	8,650
Capital investment in affiliated companies	1,177

Unlisted stocks, shares of affiliated companies, and 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	146,171	—	—	—
Notes and accounts receivable–trade	338,073	—	—	—
Securities				
Bonds to be held to maturity (corporate bonds)	35	—	—	—
Investment securities				
Other securities, with maturity dates (national government bonds)	—	10	—	—
Total	484,279	10	—	—

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	8,062	—	—	—	—	—
Long-term loans payable	597	804	473	—	15	2
Lease obligations	230	242	145	98	42	16

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, and 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

(Securities)

1. Bonds to be held to maturity

Fiscal year ended March 31, 2018

¥ 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	35	35	—
Total	35	35	—

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	—

2. Other securities

Fiscal year ended March 31, 2018

¥ 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	103,985	27,490	76,495
2) Bonds	10	9	0
3) Others	—	—	—
Subtotal	103,995	27,500	76,495
For which acquisition cost does not exceed amount recorded on consolidated balance sheet			
1) Stocks	958	1,090	(132)
2) Bonds	—	—	—
3) Others	2	5	(3)
Subtotal	960	1,096	(135)
Total	104,956	28,596	76,360

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	875	1,087	(212)
Total	81,677	27,517	54,159

3. Bonds to be held to maturity that were sold during the fiscal year under review

Fiscal year ended March 31, 2018

¥ Millions

Classification	Cost of sales	Amount of sale	Gain on sale
Others	1,000	1,000	—

(Reasons for sale)
Bond redeemed in accordance with the early redemption clause

Fiscal year ended March 31, 2017

—

4. Other securities sold during the fiscal year under review

Fiscal year ended March 31, 2018

¥ Millions

Classification	Amount of sale	Total gain on sale	Total loss on sale
Stocks	528	14	4

Fiscal year ended March 31, 2017

¥ Millions

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

5. Securities on which impairment losses were recorded

Fiscal year ended March 31, 2018

Impairment losses of ¥206 million were recorded on securities (¥206 million on stocks classified under other securities).

Fiscal year ended March 31, 2017

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

(Retirement benefits)

Fiscal year ended March 31, 2018

1. Overview of retirement benefit plans

To fund pension benefits for employees, the Company's consolidated subsidiaries use funded and unfunded defined benefit plans, defined contribution plans, and multiemployer 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	¥123,550 million
Service cost–benefits earned during the year	¥5,024 million
Interest cost on projected benefit obligation	¥1,248 million
Actuarial differences	¥(251 million)
Retirement benefits paid	¥(6,705 million)
Retirement benefits obligation at end of the fiscal year	¥122,867 million

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

Pension fund assets at beginning of the fiscal year	¥123,906 million
Investment income during the period	¥3,032 million
Actuarial differences	¥5,005 million
Employer contributions	¥5,797 million
Retirement benefits paid	¥(2,976 million)
Pension fund assets at end of the fiscal year	¥134,764 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	¥120,577 million
Pension fund assets	¥(134,764 million)
	¥(14,187 million)
Retirement benefit obligations under unfunded plans	¥2,290 million
Net amount of liabilities and assets recorded on consolidated balance sheet	¥(11,896 million)
Net defined benefit liability	¥16,720 million
Net defined benefit asset	¥(28,616 million)
Net amount of liabilities and assets recorded on consolidated balance sheet	¥(11,896 million)

(4) Breakdown of retirement benefit expenses

Service cost–benefits earned during the year	¥5,024 million
Interest cost on projected benefit obligation	¥1,248 million
Investment income during the period	¥(3,032 million)
Actuarial differences treated as expenses	¥(822 million)
Retirement benefit expenses related to defined benefit plan	¥2,418 million

Note: For the fiscal year under review, in addition to retirement benefit expenses related to the defined benefit plans above, the Company recorded special retirement expenses totaling ¥3,583 million 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	¥4,433 million
Total	¥4,433 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	¥10,734 million
Total	¥10,734 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	32%
Equities	34%
Cash and time deposits	25%
General account	7%
Others	2%
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 basis for the calculation of actuarial differences as of March 31, 2018 are as follows:

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	¥1,503 million
Retirement benefit expenses	¥487 million
Retirement benefits paid	¥(304 million)
Contributions to plan	¥(56 million)
Others	¥274 million
Net defined benefit liability at end of the fiscal year	¥1,904 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	¥404 million
Pension fund assets	¥(320 million)
	¥83 million
Retirement benefit obligations under unfunded plans	¥1,821 million
Net amount of liabilities and assets recorded on consolidated balance sheet	¥1,904 million
Net defined benefit liability	¥1,904 million
Net amount of liabilities and assets recorded on consolidated balance sheet	¥1,904 million

(3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method	¥487 million

4. Defined contribution plans

Contributions made to the Company's consolidated subsidiaries' defined contribution plans were ¥336 million.

5. Multiemployer plans

In the same manner as defined contribution plans, contributions made to the Company's multiemployer plans were ¥132 million.

(1) Status of direct funding for multiemployer plans (as of June 30, 2017)

Pension fund assets	¥11,706 million
Actuarial obligations for pension plan finance calculation	¥11,271 million
Difference	¥434 million

(2) Percentage of Company contributions in the multiemployer plan

0.62% (from April 1, 2017, to March 31, 2018)

(3) Supplementary information

The primary factor behind the difference in (1) was general reserves totaling ¥329 million (fiscal 2017).

From the fiscal year under review, the Company became a member of the Benefit One Corporate Pension Fund and has been contributing to the fund.

Also, the percentage in (2) does not match the actual percentage shouldered by the Company.

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 ended March 31, 2017, 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 basis 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.

(Tax effect accounting)

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

Fiscal year ended March 31, 2018

(Deferred tax assets)	
Net defined benefit liability	¥7,160 million
Provision for bonuses	¥8,775 million
Loss on devaluation of investment securities	¥2,078 million
Tax loss carryforwards	¥1,437 million
Allowance for doubtful accounts	¥893 million
Depreciation and amortization	¥472 million
Provision for directors' retirement benefits	¥112 million
Other	¥6,742 million
(Subtotal)	¥27,672 million
Less valuation allowance	¥(5,281 million)
(Total)	¥22,390 million
(Deferred tax liabilities)	
Unrealized gain on other available-for-sale securities	¥(22,342 million)
Retained earnings at overseas subsidiaries	¥(912 million)
Other	¥(1,458 million)
(Total)	¥(24,714 million)
Net deferred tax assets	¥(2,323 million)

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

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, 2018

Normal effective statutory tax rate	30.86%
(Adjustments)	
Nondeductible expenses and nontaxable income	2.43%
Amortization of goodwill	1.82%
Equity-method profit	(0.16)%
Effect of valuation allowance in valuation of deferred tax assets	0.14%
Other	(0.65)%
Effective tax rate	34.44%

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%

(Business combinations, etc.)

1.Transactions under common control

Fiscal year ended March 31, 2018

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

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

(Asset retirement obligations)

Fiscal year ended March 31, 2018

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	¥9 million
Adjustments with passage of time	—
Increase from changes in estimates	¥14 million
Decrease for execution of asset retirement obligations	¥(9 million)
Outstanding amount at end of period	¥14 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.

3. Changes to estimates for asset retirement obligations

It is now possible to make rational estimates for retirement obligations pertaining to office restoration expenses due to the fact that relocations were decided on and vacating dates were made clear.

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

Same as the fiscal year under review

(Leased, etc., real estate)

Fiscal year ended March 31, 2018

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 under review was ¥1,124 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
20,275	(508)	19,767	44,844

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. (¥9 million), and the main decrease was from depreciation and amortization (¥519 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, 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.

Segment Information, etc.

(Segment information)

Fiscal year ended March 31, 2018

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, 2017

Same as the fiscal year under review

(Related information)

Fiscal year ended March 31, 2018

1. Information by product and service

¥ Millions

	Advertising	Other	Total
Gross billings to external customers	1,332,010	3,019	1,335,030

2. Geographic segment information

(1) Gross billings

¥ Millions

Japan	Overseas	Total
1,244,823	90,206	1,335,030

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

(2) Property, plant and equipment

¥ Millions

Japan	The United States	Other	Total
28,600	3,361	1,490	33,452

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, 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.

(Information related to impairment losses on noncurrent assets by reporting segment)

Fiscal year ended March 31, 2018

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

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.

(Information related to amounts of goodwill amortized and unamortized goodwill outstanding by reporting segment)

Fiscal year ended March 31, 2018

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

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.

(Information related to gain on negative goodwill by reporting segment)

Fiscal year ended March 31, 2018

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

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.

(Related party information)

Fiscal year ended March 31, 2018

No items

Fiscal year ended March 31, 2017

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, 2018

Item	(March 31, 2018)
(1) Net assets per share (yen)	920.26
(Basis for calculation)	
Total net assets on consolidated balance sheet (¥ millions)	367,367
Net assets related to common shares (¥ millions)	343,118
Major causes of difference (¥ millions)	
Subscription rights to shares	454
Non-controlling interests	23,793
Common shares issued (1,000 shares)	388,753
Treasury stock shares (1,000 shares)	15,904
Common shares as of fiscal year-end used to calculate net assets per share (1,000 shares)	372,849

Item	(April 1, 2017–March 31, 2018)
(2) Basic net income per common share (yen)	80.03
(Basis for calculation)	
Profit attributable to owners of parent on consolidated statement of income (¥ millions)	29,834
Profit attributable to owners of parent related to common shares (¥ millions)	29,834
Average number of common shares during term (1,000 shares)	372,776
(3) Diluted net income per common share (yen)	79.85
(Basis for calculation)	
Adjustment to profit attributable to owners of parent (¥ millions)	(69)
Major adjustments (¥ millions)	
Residual shares issued by affiliates (stock options)	(69)

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)

(Significant subsequent events)

1. Partial transition in retirement benefit plans

On April 1, 2018, certain consolidated subsidiaries transitioned their corporate pension scheme from a defined benefit plan to a defined contribution plan. The Company now applies the Accounting for Transfer between Retirement Benefit Plans (ASBJ Guidance No. 1, December 16, 2016).

As a result of this transition, the Company expects to record extraordinary income of ¥3,564 million in the following fiscal year.

2. Sale of securities following listing of investee

On June 19, 2018, Mercari Inc., an investee of the consolidated subsidiary UNITED, Inc., was listed on the Tokyo Stock Exchange. With the aim of enhancing flexibility in the allocation of management resources through the realization of capital gain, UNITED participated as a selling company following the listing of Mercari Inc. and sold a certain amount of shares it held in the company.

(1) Overview of sale

1) Type of shares sold	Common shares of Mercari Inc.
2) Number of shares sold	4,500,000
3) Selling price	¥12,892 million
4) Date of sale	June 19, 2018

(2) Status of Mercari Inc. common shares held by UNITED, Inc. before and after sale

1) Number of shares before sale: 15,000,000 (percentage of voting rights: 12.8%)
2) Number of shares after sale: 10,500,000 (percentage of voting rights: 7.7%)

Note: Percentage of voting rights before the sale of shares does not reflect the increase in total number of shares issued through public offering while the percentage of voting rights after the sale of shares does.

(3) Impact of sale

The following amounts are expected to be recorded in the first quarter of the fiscal year ending March 31, 2019.

1) Net sales	¥12,892 million
2) Cost of sales	¥90 million
3) Gross profit	¥12,802 million

Consolidated Supplementary Statements

(Corporate bond statement)

No items

(Statement of loans payable)

Classification	¥ Millions Outstanding as of fiscal year-start	¥ Millions Outstanding as of fiscal year-end	% Average interest rate	Repayment deadline
Short-term loans payable	9,692	8,062	1.45	—
Current portion of long-term loans payable	559	597	1.96	—
Current portion of lease obligations	162	230	3.15	—
Long-term loans payable (excluding current portion)	1,577	1,296	1.81	2019–2024
Lease obligations (excluding current portion)	206	546	2.66	2019–2024
Total	12,197	10,733	—	—

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)	804	473	—	15
Lease obligations (¥ millions)	242	145	98	42

(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 under review are as follows:

	Aggregate through the 1st Quarter (Apr. 1, 2017–June 30, 2017)	Aggregate through the 2nd Quarter (Apr. 1, 2017–Sep. 30, 2017)	Aggregate through the 3rd Quarter (Apr. 1, 2017– Dec. 31, 2017)	Aggregate through the 15th fiscal year (Apr. 1, 2017–Mar. 31, 2018)
Billings (¥ millions)	301,164	610,945	958,518	1,335,030
Quarterly income before income taxes (¥ millions)	8,814	21,086	37,790	50,628
Quarterly profit attributable to owners of parent (¥ millions)	4,418	11,948	22,129	29,834
Quarterly net income per common share (yen)	11.86	32.06	59.37	80.03

	1st Quarter (Apr. 1, 2017–June 30, 2017)	2nd Quarter (July 1, 2017–Sep. 30, 2017)	3rd Quarter (Oct. 1, 2017–Dec. 31, 2017)	4th Quarter (Jan. 1, 2018–Mar. 31, 2018)
Quarterly net income per common share (yen)	11.86	20.20	27.31	20.67

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

The financial section of this integrated report (Japanese version) was extracted from the financial conditions, including the consolidated financial statements, described in the 15th *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 integrated 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 integrated report. The financial section of the English integrated report is a translation of the financial section of the Japanese integrated report that was extracted from the *Yuho* Financial Report. Again, great care was taken in the preparation of the integrated report to ensure there are no major discrepancies between it and the content of the Japanese integrated report.

However, neither the Japanese nor English integrated 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, 2018

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)
\QUANTUM. Inc	Tokyo, Japan	100.00 (100.00)
OMD HAKUHODO Inc.	Tokyo, Japan	100.00 (100.00)
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	91.63 (91.63)
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	61.09 (61.09)
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)
Hakuhodo Marketing Systems Inc.	Tokyo, Japan	100.00 (100.00)
(Equity-method affiliates)		
ADSTAFF-HAKUHODO, INC.	Okinawa, Japan	35.77 (35.77)
Pinkoi Japan K.K.	Tokyo, Japan	28.33 (28.33)

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)
Hakuhodo Cheil Inc.	Seoul, South Korea	51.00 (51.00)
Hakuhodo Asia Pacific Co., Ltd.[2]	Bangkok, Thailand	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)
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.	New Delhi, India	100.00 (100.00)
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.[2]	Singapore	100.00 (100.00)
Media Intelligence Co., Ltd	Bangkok, Thailand	70.00 (70.00)
HILL ASIA CO., LTD	Bangkok, Thailand	100.00 (100.00)
Future Marketing Communication Group Co., Ltd	Bangkok, Thailand	100.00 (100.00)
SPA-Hakuhodo Advertising Co., LTD	Bangkok, Thailand	100.00 (100.00)
SPICY H Co., LTD	Bangkok, Thailand	100.00 (100.00)
Hakuhodo Korea Inc.	Seoul, South Korea	100.00 (100.00)
Delphys Hakuhodo（Thailand）Co., Ltd.	Bangkok, Thailand	65.50 (65.50)
(Equity-method affiliates)		
TBWA\G1 S.A.S.	Paris, France	20.00 (20.00)
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)
GIMC-HAKUHODO 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)
The Japan LGBT Research Institute, Inc.	Tokyo, Japan	100.00 (100.00)
Engaging Firm Inc.	Tokyo, Japan	100.00 (100.00)

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 MEKONG COMMUNICATIONS COMPANY LTD.	Ho Chi Minh City, Vietnam	90.00 (90.00)

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)
YOMIKO AREA AD INC.	Kanagawa, Japan	100.00 (100.00)
YOMIKO Casting & Entertainment Inc.	Tokyo, Japan	100.00 (100.00)
SHOPPER INSIGHT INC.	Tokyo, Japan	95.00 (95.00)
YOMIKO Creative Studio Inc.	Tokyo, Japan	100.00 (100.00)
(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 Outdoor Inc.	Tokyo, Japan	100.00 (100.00)
Hakuhodo DY music & pictures Inc.	Tokyo, Japan	100.00 (100.00)
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	50.56 (50.56)
D.A. Consortium Inc.[2]	Tokyo, Japan	100.00 (100.00)

Hakuhodo DY Media Partners Group

Company name	Location	Percentage of voting shares (%)
ADPRO inc.	Tokyo, Japan	100.00 (100.00)
HAKUHODO i-studio Inc.	Tokyo, Japan	100.00 (100.00)
IREP Co., Ltd.	Tokyo, Japan	100.00 (100.00)
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	17.93 (17.93)
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.[2]	Beijing, China	99.51 (99.51)
DAC ASIA PTE. LTD.[2]	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.	Ontario, Canada	58.80 (58.80)
IDEO LP	Delaware, U.S.A.	70.00 (70.00)
Hornall Anderson Design Works LLC	Washington, U.S.A.	100.00 (100.00)
(Equity-method affiliates)		
C2 International Inc.	Quebec, Canada	24.50 (24.50)

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	730,446
2) Ordinary income	22,536
3) Net income	14,556
4) Net assets	149,808
5) Total assets	379,968

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

Corporate Information

As of June 28, 2018

Hakuhodo DY Holdings Inc.

Date of Establishment: October 1, 2003
Capital: ¥10,154 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)	10,007
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)	4,166
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)	1,653
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)	1,690
URL	https://kyu.com/

Note: Number of employees as of March 31, 2018.

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)	770
URL	http://www.yomiko.co.jp/en/ad_profile.html

Hakuhodo DY Holdings Inc.
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