

The background is a solid yellow color with a network of thin, intersecting yellow lines. Scattered throughout are various circles: some are white, some are light purple, and some are a darker purple. The text is centered in the upper-middle part of the page.

Dentsu Integrated Report 2018

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Editorial Policy

- This integrated report explains the Dentsu Group's operating performance for the reporting period and introduces the Group's strategies and initiatives to create value over the medium to long term. Information related to efforts to enhance sustainability is also arranged within an ESG framework, taking increased disclosure requirements into account.
- Target audience
All stakeholders including shareholders and investors

Reference guidelines

IIRC (International Integrated Reporting Council)
The International Integrated Reporting Framework

GRI (Global Reporting Initiative)
Sustainability Reporting Guidelines, Version 4 (G4)

Period covered by the report

Centered on activities during FY2017 (January 1, 2017 through December 31, 2017), but also describes some activities from preceding or more recent periods.

Organizations covered

Dentsu Inc. and Dentsu Group companies

Publication date

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Forward-looking Statements

This integrated report contains statements that constitute "forward-looking statements" regarding the intent, belief or current expectations of Dentsu Inc. or its management with respect to the results of operations and financial condition of Dentsu or the Dentsu Group. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. The information contained in this integrated report identifies important factors that could cause such differences. These forward-looking statements speak only as of the date hereof. Dentsu disclaims any obligation to update or publicly announce any revisions to these forward-looking statements to reflect future events, conditions or circumstances.

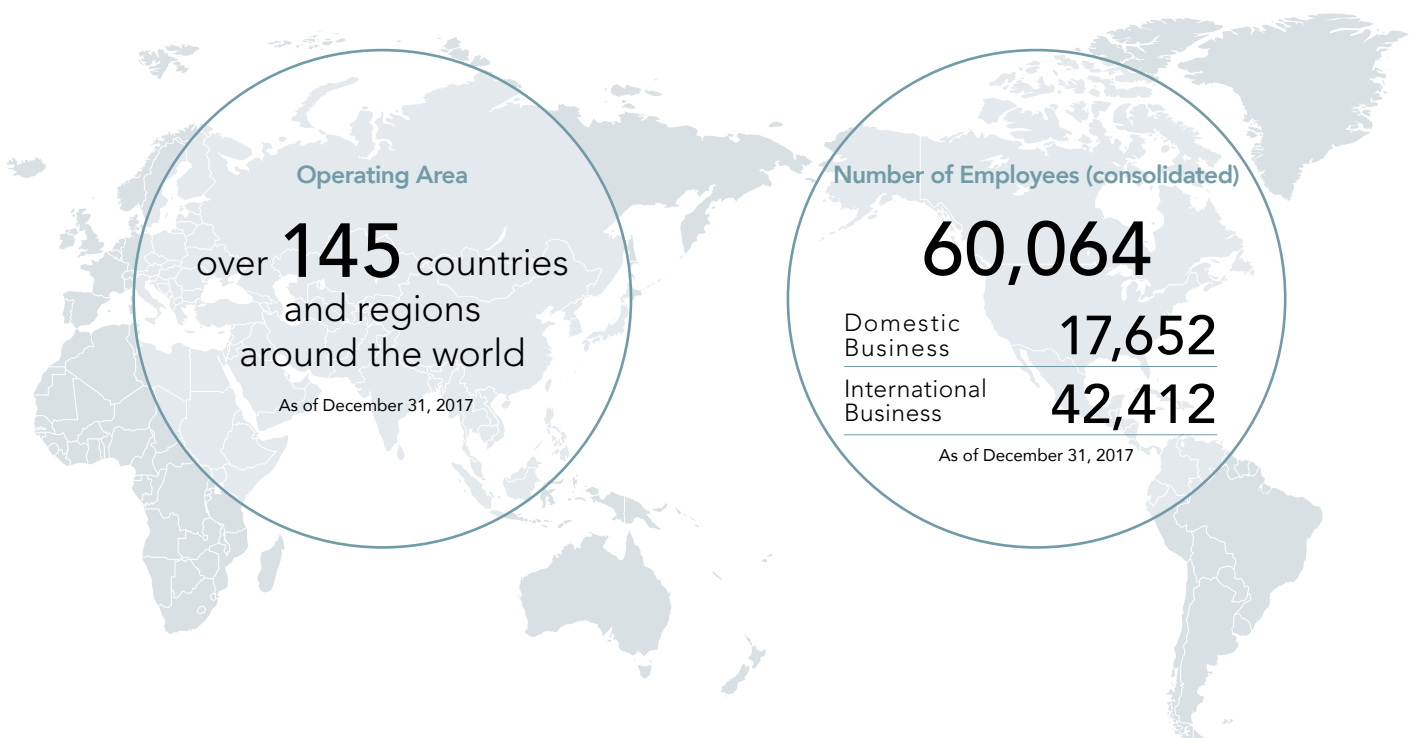
Quick Reference (Navigation)

The Dentsu Integrated Report 2018 has been designed to enable readers to easily navigate the site, to find the information in which they are most interested. Please use the following for reference while reading the *Integrated Report*.

				
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	● Message from International Business Director Tim Andree		p.017	
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FY2017 Performance	● Financial and Non-financial Highlights	<ul style="list-style-type: none"> Performance highlights from the period FY2015–FY2017 Underlying factors and explanations of FY2017 performance 	p.005	
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How will Dentsu achieve medium- to long-term growth in its Japan business?	● Perspectives of the Key People	Shuji Yamaguchi	p.024	
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How will Dentsu achieve medium- to long-term growth in its international business?	● Message from International Business Director Tim Andree	<ul style="list-style-type: none"> Development of data strategies including the M1™ global platform Investment strategy The common platform as one of the targets for investment The strengths of Dentsu Aegis Network in the digital economy 	p.017	
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How is the Working Environment Reform Plan in Japan progressing?	● Perspectives of the Key People	<ul style="list-style-type: none"> The significance of working environment reforms Specific working environment reform initiatives and status of progress 	p.026	
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How is Dentsu engaged in achieving the Sustainable Development Goals (SDGs)?	● Dentsu Group CSR	<ul style="list-style-type: none"> The Dentsu Group approach to the SDGs and major initiatives Goal 3: Dentsu Group health initiatives 	p.038	
	○ Common Ground		Website	
	○ Dentsu SDGs Project		Website	

Overview of the Dentsu Group

As the driving force in Japan's advertising industry, the Dentsu Group maintains long-term business relationships with a variety of customers that include leading corporations in Japan and overseas. We have also established distinctive services in overseas markets and built a solid network covering Japan, Americas, EMEA and APAC. Our operations are led by Dentsu in Japan and Dentsu Aegis Network internationally.



Gross Profit

¥877.6 billion
January to December 2017

Underlying Operating Margin

18.7 %
January to December 2017

International Business Ratio*

58.8 %
*gross basis.
January to December 2017

Digital Domain Ratio

22.2 % (in Japan) (2.5pt↑)
57.9 % (international) (5.6pt↑)
January to December 2017

Ranking of Advertising Holding Company Groups

Top 5 Worldwide
Source: Advertising Age, May 2018
(Advertising Age estimates)

Share of the Japanese Advertising Market

24.4 %
Note: Under JGAAP, net sales are calculated in calendar 2017.
Sources: Advertising and Economy; Current Situation of Japanese Advertising Agencies; and 2017 Advertising Expenditures in Japan (Dentsu)

Reduction Rate of CO₂ Emission

9.3 %
year-to-year comparison basis, scope 1+2+3

A Strong Global Network

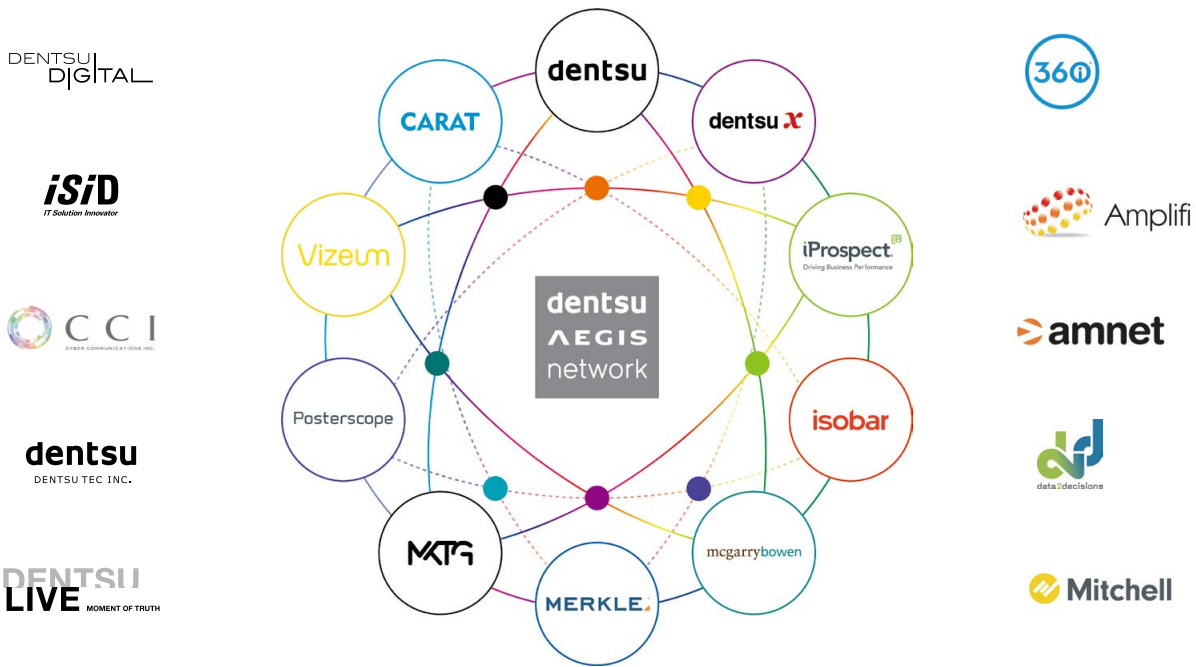
We provide integrated services with high added value to customers in countries using global resources and infrastructure provided by 10 global network brands and five global specialist/multimarket brands in addition to domestic Group companies.

To realize the Dentsu Group integrated and specialist approach, common business goals are established by each Group company to achieve seamless coordination. We are also able to provide integrated services by collaborating with top class professionals, in a variety of fields and located around the world.

Group Companies in Japan

Global Network Brands

Specialists / Multi-market Brands



Assessment from Outside Institutions

Dentsu Group disclosure of activities and information related to environmental preservation and other sustainability efforts, as well as the achievements of our initiatives to the environment, social and governance (ESG), have been favorably assessed by institutions responsible for ratings and awards.



Financial/Non-financial Highlights

(Consolidated, IFRS)

(Millions of Yen)

Dentsu Inc. and Consolidated Subsidiaries	Calendar year basis ⁽¹⁾		
	2015	2016	2017
Turnover	4,990,854	4,924,933	5,187,300
Revenue	818,566	838,359	928,841
Gross profit	761,996	789,043	877,622
Organic gross profit growth rate ⁽²⁾ (Consolidated)	7.0%	5.1%	0.1%
Organic gross profit growth rate (Japan)	3.9%	4.5%	(0.3%)
Organic gross profit growth rate (International)	9.4%	5.7%	0.4%
Operating profit	128,212	137,681	137,392
Underlying operating profit ⁽³⁾	160,438	166,565	163,946
Operating margin ⁽⁴⁾ (Consolidated)	21.1%	21.1%	18.7%
Operating margin (Japan)	26.0%	26.8%	24.5%
Operating margin (International)	16.9%	16.2%	14.6%
Profit for the year attributable to owners of the parent	83,090	83,501	105,478
Underlying net profit ⁽⁵⁾	113,388	112,972	107,874
Basic earnings per share	¥289.95	¥292.85	¥373.11
Basic underlying net profit per share	¥395.67	¥396.20	¥381.58
Return on equity (ROE) ⁽⁶⁾	7.7%	8.3%	10.4%
Underlying ROE	10.6%	11.3%	10.6%
ROA ⁽⁷⁾	—	4.4%	4.5%
Ratio of equity attributable to owners of the parent ⁽⁸⁾	34.8%	29.6%	30.7%
Cash dividend per share	¥75	¥85	¥90
Dividend payout ratio ⁽⁹⁾	25.9%	29.0%	24.1%
Underlying dividend payout ratio	19.0%	21.5%	23.6%

(1) 2015 are reported on a pro forma basis, and 2016 and 2017 are reported on a financial reporting basis.

(2) Organic gross profit growth rate represents the constant currency year-on-year growth after adjusting for the effect of business acquired or disposed of since the beginning of the previous year

(3) Underlying operating profit: KPI to measure recurring business performance which is calculated as operating profit added with amortization of M&A related intangible assets, acquisition costs, share-based compensation expenses related to acquired companies and one-off items such as impairment loss and gain/loss on sales of non-current assets

(4) Operating margin = Underlying operating profit ÷ Gross profit × 100

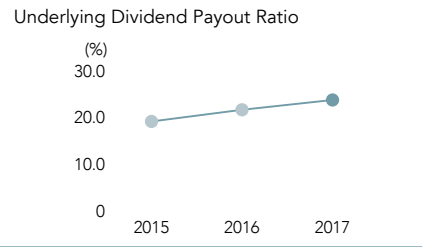
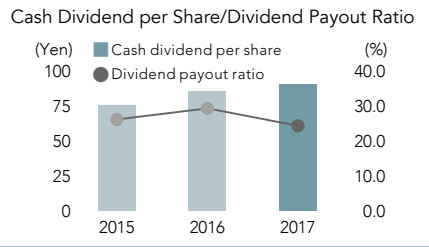
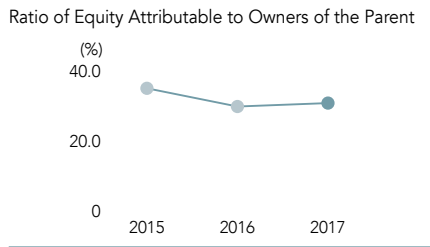
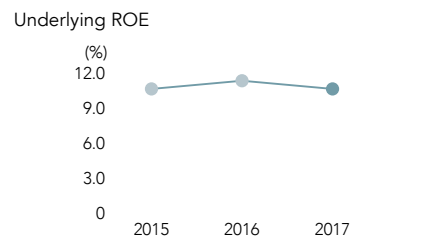
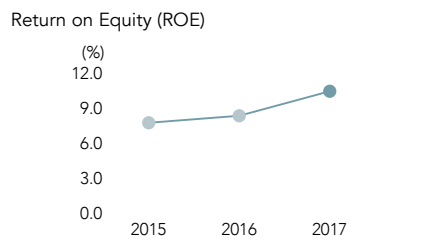
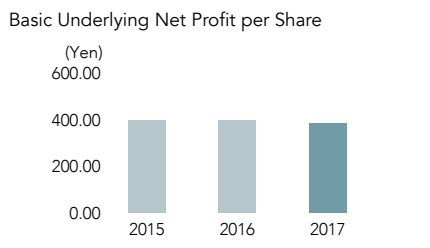
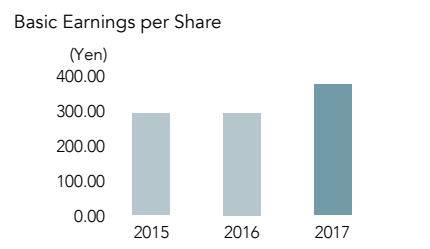
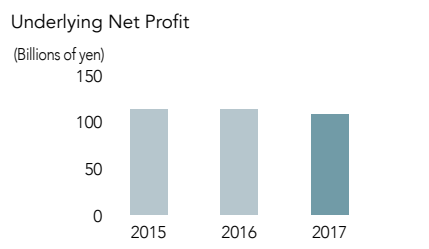
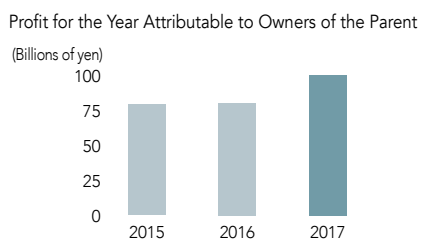
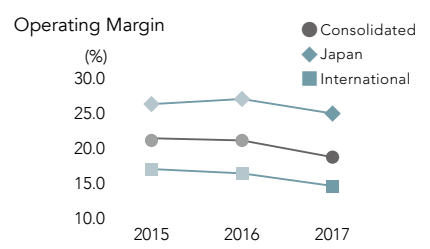
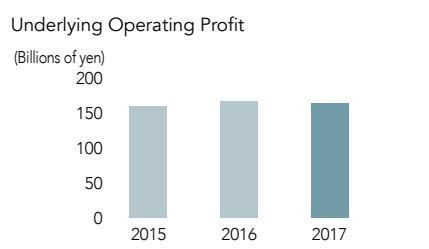
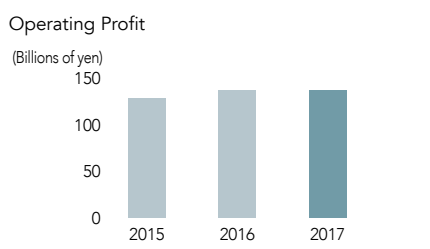
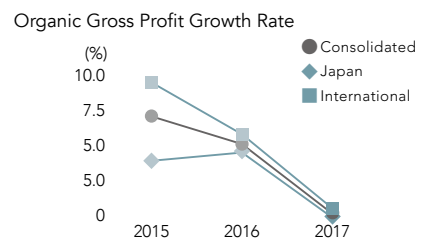
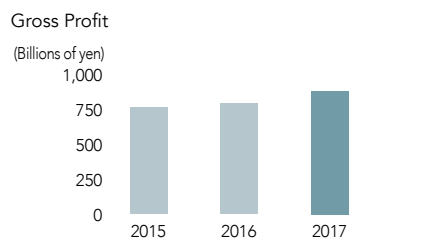
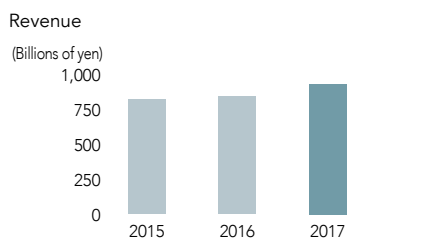
(5) Underlying net profit (attributable to owners of the parent): KPI to measure recurring net profit attributable to owners of the parent which is calculated as net profit (attributable to owners of the parent) added with adjustment items related to operating profit, revaluation of earnout liabilities/M&A related put-option liabilities, tax-related and NCI profit-related and other one-off items

(6) ROE (IFRS) = Profit for the year attributable to owners of the parent ÷ Average equity attributable to owners of the parent based on equity at the beginning and end of the fiscal year × 100

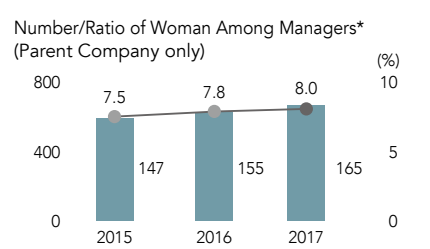
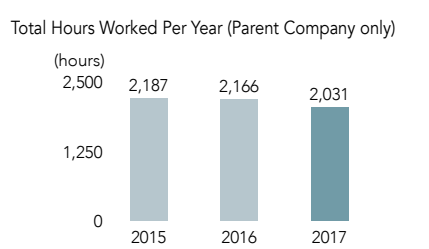
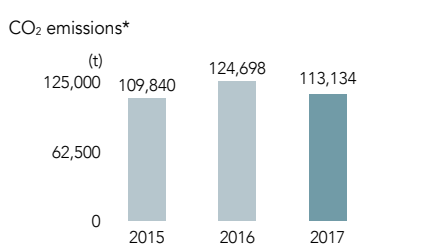
(7) ROA (IFRS) = Profit before tax ÷ Average total assets based on total assets at the beginning and end of the fiscal year × 100

(8) Ratio of equity attributable to owners of the parent = Equity attributable to owners of the parent ÷ Total assets

(9) Dividend payout ratio = Cash dividend per share ÷ Basic earnings per share × 100



Notes: 2015 are reported on a pro forma basis, and 2016 and 2017 are reported on a financial reporting basis.



*Excluding some of Dentsu Group companies

* Including personnel seconded to the Company and excluding personnel seconded from the Company

How We Create and Share Value

The Value Creation Process

Based on our corporate philosophy of “Good Innovation,” the Dentsu Group is contributing to achieving a sustainable society by working together with clients to provide suitable solutions to social issues worldwide.

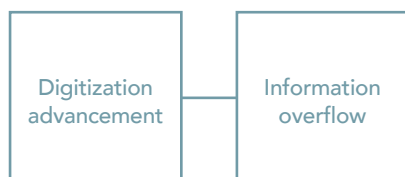
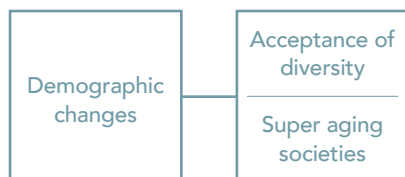
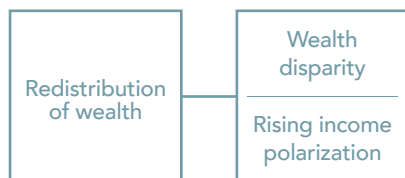
Corporate Philosophy

Good Innovation.

“Good Innovation.” the Dentsu Group’s corporate philosophy, encapsulates the Groupwide drive to create new value and lead the way toward transformation while emphasizing its commitment to supporting innovation within organizations and society.

Megatrend

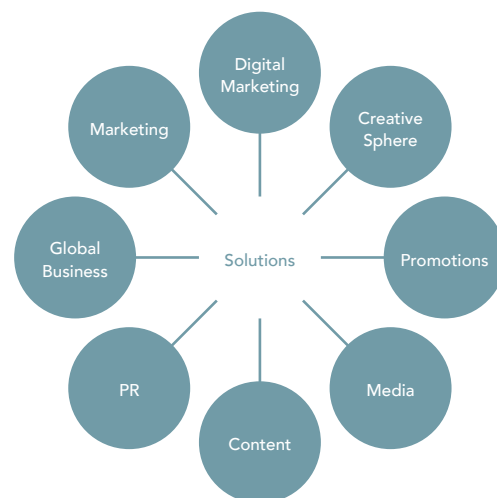
Global Issue



Business Domain

Integrated Communication Design

Demonstrate integrated capabilities by combining services in various business domains



Strategy

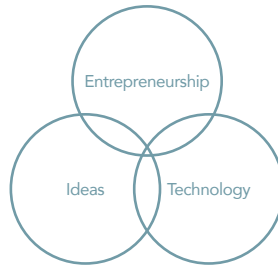
Working Environment Reform Plan ▶ P. 033

Perspectives of the Key People ▶ P. 023

Medium-term management plan
(Dentsu 2017 and Beyond)

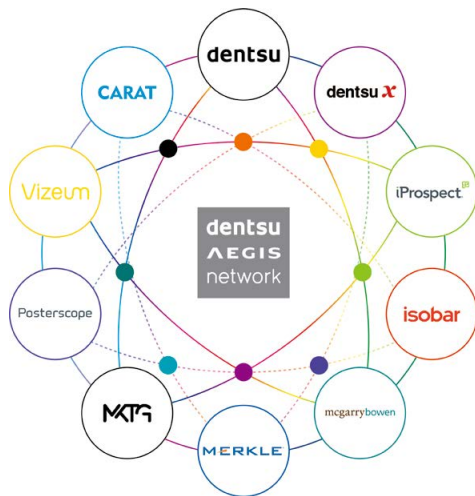
The Three Elements of Innovation

Entrepreneurship
+ Ideas
+ Technology



One P&L

Establish a global operating model and provide integrated services, leveraging Group synergies.



Value Creation

The success of our clients' businesses



Contributing to an affluent life through communication

Realization of a sustainable society

International Business Strategy ▶ P. 019

M&A Strategy ▶ P. 021



Reforms Targeted by the Dentsu Group

Expanding the depth of our marketing communications business

Medium-term CSR Strategy 2020 ▶ P. 038

Top Message

CREATING A NEW DENTSU GROUP

Toshihiro Yamamoto

Representative Director
President & CEO



The last year has been one of continued transformation and investment for the Dentsu Group. We established a Group-wide business transformation program and made significant investments in corporate infrastructure in both Japan and our international business. These are important programs within the context of our strategic objective to deliver sustainable growth and enhanced corporate value for society and all our stakeholders, including our people, our clients, media companies, content owners, platform developers and public institutions.

Over the last two years, the Group has implemented important working environment reforms in the Japanese business to support and promote the mental and physical health of our employees (FY2017 - FY2018). These reforms have included investment in business processes and HR systems, physical work environments and personal development programs for our people. More investment in the working environment reforms will be completed in the current financial year. These ongoing investments in our people and our business strengthen the Group and are vital for the long-term sustainable growth of our business.

In tandem with our domestic initiatives, since FY2017 we have been carrying out corporate infrastructure improvements in our businesses overseas. We are developing a common platform to provide high-quality services efficiently around the world, and promoting the introduction of business tools and a Company intranet to standardize business processes and share knowledge among networks quickly and effectively. We expect that, by FY2019 or FY2020, we will again be on a growth trajectory, as a result of the overall improvement of business following our corporate infrastructure improvements.

Further, given the environmental changes resulting from the advance of technological innovations, the Dentsu Group recognizes the need to transform its Japan and international businesses, in order to continue providing the value demanded by society and customers. To this end, we have devised three policies.

First, we shall expand our marketing communications business. We will promote more precise and sophisticated integrated planning methods, accelerate research and development, and develop external alliances to capture increasingly diverse consumer contact points. The coming full digitization of media will bring the challenge of how all players might best use the digital media environment, while still making good use of traditional media. We will drive the associated innovations by applying our distinctive strength, thereby enhancing our competitiveness.

Second, we will broaden our business domain. We will combine Dentsu Group capabilities, acquired in the advertising business, with the expertise of companies outside the Group to expand our service lines and respond to increasingly complex and advanced customer business issues. In light of the rapid changes afoot in the business environment, the Group views investment as indispensable for quickly expanding its business domain. Up to now, Dentsu Aegis Network (DAN), in charge of our international business, has aggressively engaged in M&As and made other investments. We will expand on these efforts and invest in areas of business promoted by both our domestic business and that of the Group.

Third, we will become a business partner for our customers. By expanding the Group's business domain and enhancing our service lines, we aim to evolve from being a partner in the marketing communications domain to being one able to contribute to the diverse value chains of our customers.

Based on the above policies, the Group will itself institute changes to meet social and industrial transformations. The ultimate goal is for the Group to become the best possible partner when it comes to helping customers realize their own business transformations.

The Group comprises in excess of 900 companies operating in over over 145 countries and regions with more than 60,000 talented employees. By organically linking these employees, strengthening their capabilities, and providing them all with optimal missions, we can increase the value of the services we provide clients. My vision for the Dentsu Group's future is that it be able to create new social value through an organizational structure that facilitates employee and Company growth. We will make every effort to ensure that this is achieved.

Message

Message from Chief Financial Officer

REFORMS, TRANSFORMATION TO BOOST CORPORATE VALUE

FY2017 Performance

FY2017 (ended December 31, 2017) saw the Dentsu Group engage in reforms and transformation in both Japan and overseas.

Marking the ongoing transition to digitization, many of our clients around the world revamped their traditional marketing activities, and there were signs of a temporary slowdown in ad spending. According to the global ad spend growth forecast published in June 2018 by our international head office, Dentsu Aegis Network (hereinafter "DAN"), the global growth rate for calendar 2017 was 3.3%. Broken down by region, Japan grew 1.6%, the area comprising Europe, the Middle East and Africa (hereinafter "EMEA") 3.2%, the Americas 3.1% and the Asia-Pacific region (excluding Japan; hereinafter "APAC") 4.0%.

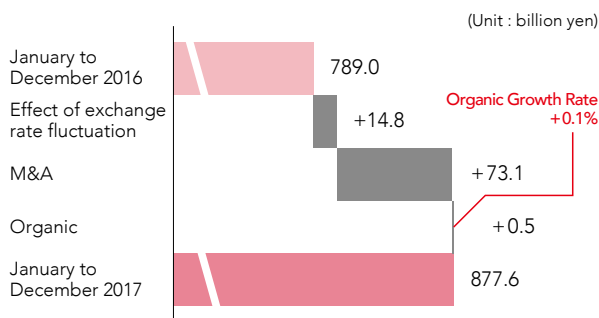
The Dentsu Group continued to emphasize its priority on working environment reforms and corporate infrastructure development in Japan, while stressing Group-wide business transformation. In Japan, amid the environmental changes reflecting ongoing technological innovations, we engaged in business improvement efforts designed to provide the value demanded by society, not just our customers. We

focused on ensuring legal compliance in our domestic business, with emphasis on eliminating overwork, and on establishing a corporate infrastructure that will lead to sustainable growth. In the area of international business, conducted by DAN, we accelerated our efforts to become a 100% digital economy business by 2020. Ongoing strategic M&A activities have allowed us to expand our ratio of digital business, bolster our scale and capabilities, and acquire talents with an entrepreneurial spirit.

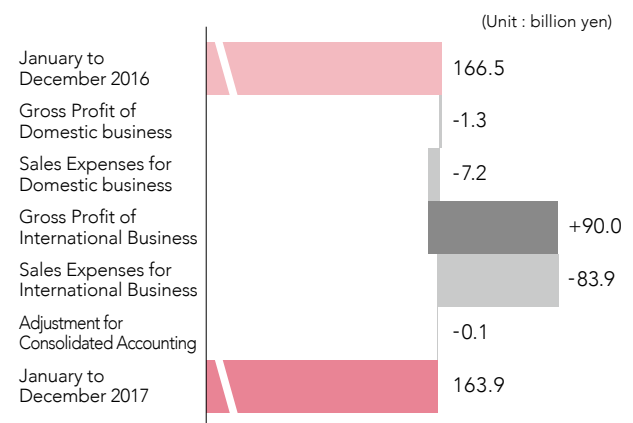
As a result, gross profit was ¥877.6 billion (a year-on-year increase of 11.2%, or 9.2% on a constant-currency basis), mainly due to acquisitions (up ¥73.1 billion year on year) and the currency effect (up ¥14.8 billion year on year). At the same time, with expenses of ¥7.0 billion for work environment-related reforms in Japan, the underlying operating profit was ¥163.9 billion (down 1.6% year on year; 3.8% on a constant-currency basis). (Diagrams 1 and 2)

In Japan, gross profit for the Group was nearly the same as for the previous fiscal year, despite growth in the digital domain. It stood at ¥361.9 billion (down 0.4% year on year; organic growth down 0.3% by the same comparison). This was mainly due to the absence of major events such as the

Diagrams 1: Growth of Gross Profit



Diagrams 2: Underlying Operation Profit



2016 Olympic Games in Rio de Janeiro held the previous year. The Group's operating profit* in Japan was down 8.8% year on year, with Japan business accounting for ¥88.8 billion. The decrease mainly was due to the sluggish organic growth of gross profit, as well as to expenses related to working environment reforms.

The Group's international business, meanwhile, continued to show growth, with an overall gross profit of ¥516.0 billion (up 21.1% year on year), mainly due to aggressive M&A activities and contributions from the acquisition of Merkle Group Inc., in September 2016. The constant currency basis growth rate increased 17.1% year on year, while the organic growth rate rose only a slight at 0.4% year on year, reflecting the slowdown in advertising markets.

Broken down by region, the gross profit growth rate in the Americas increased 28.7% year on year (organic growth declined 1.5% by the same comparison), in the EMEA 22.3% year on year (organic growth up 3.1%), and in APAC 9.0% (organic growth down 0.6%). International business accounted for ¥75.1 billion of the underlying operating profit (up 8.8% year on year; up 3.5% on a constant-currency basis by the same comparison).

In addition, the digital domain ratio was 43.2% on a consolidated basis (37.3% in FY2016), with year-on-year increases in Japan business of 22.2% (19.7% in FY2016), and in international business of 57.9% (52.3% in FY2016).

* Underlying operating profit is a key performance indicator to measure recurring business performance. It is calculated as operating profit less one-off items, such as amortization of acquisition-related intangible assets, M&A-related expenses, impairment losses, and gains/losses on sales of non-current assets.



Arinobu Soga

Director
Executive Officer

Leadership

FY2018 Key Measures

Looking at our business in Japan, work environment-related reforms will remain our top priority during FY2018 (ending December 31, 2018), while at the same time we will promote infrastructure development with a view to attaining future growth. In line with the Working Environment Reform Plan announced on July 27, 2017, we will complete the promised office environment reforms and infrastructure development started in 2017.

Our working environment-related reforms mark a new phase in the Group's growth, as we seek to optimize the time and energy of each employee so as to create an environment that is truly efficient. We see this as a necessary step in our bid to provide our clients with higher value services, help realize social innovations, and ensure the personal growth of employees and the Company.

On the Japan business front, in FY2018 we will strive to enhance sustainable corporate value by investing in necessary reforms.

In FY2017, the Group's investments associated with office environment-related reform amounted to ¥7.0 billion on a non-consolidated basis. This comprised ¥1.3 billion for the addition of 300 employees to remedy the staffing shortfall; ¥4.0 billion for internal work inventories, in line with operational efficiencies related to the introduction of IT, robotic process automation (RPA), information communications technology (ICT), as well as measures including outsourcing and strict labor management; and ¥1.7 billion for office environment-related improvements.

In FY2018, we plan to invest ¥13.0 billion to accelerate work environment-related reforms. We will strengthen our efforts in the areas of IT, RPA, and ICT that were effective last fiscal year, and implement major changes to our internal operational and human resource systems. To this

end, we plan to spend ¥8.0 billion on measures to increase operational efficiency and manage labor appropriately; ¥2.5 billion on office environment-related improvements; and ¥2.5 billion on hiring additional employees.

While maintaining the 2017 momentum our international business enjoyed from the Group's all-time high procurement of new businesses*, we will continue investing in data-related capabilities. Reflecting our long-term business perspective, we also will invest in projects that provide a common platform and shared services that contribute to operational standardization, rapid decision-making, and increased work efficiency. Further, we plan to continue enhancing scale and capabilities, engaging in M&As, and acquiring talent with an entrepreneurial spirit.

According to the global ad spend growth forecast published by DAN in June 2018, global growth for calendar 2018 stood at 3.9%, with growth in Japan 1.6%, the EMEA 3.1%, the Americas 3.8% and APAC 5.7%. Given this environment, the Group will continue to seek organic growth exceeding that of the competition.

* The net new business wins minus losses in 2017 amounted to an all-time high of \$5.2 billion.

Capital Policy and Dividends

The Dentsu Group's top priority is to continue allocating capital for aggressive investment in growth domains in Japan and overseas to achieve sustainable profit growth.

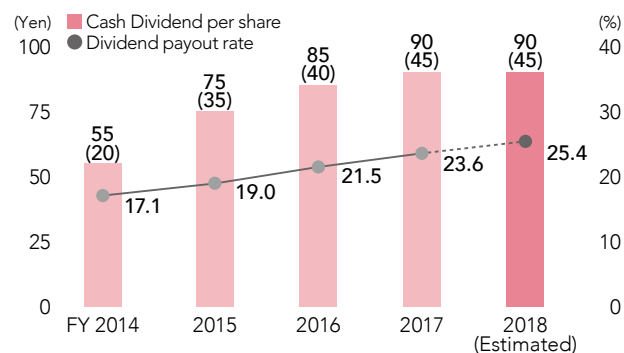
Our policy is to enhance our intrinsic corporate value, and realize stronger competitiveness, higher profitability, and business growth. At the same time, we are focusing on management stability and financial soundness. This we are doing through investments to create further business opportunities, in response to increasingly international corporate activities and the advance of digitization.

Shareholder returns are an important management issue. Reflecting the changes in the management environment surrounding the Company, we will attempt to provide comprehensive returns, and aim to increase the return on equity over the medium term. This we shall do by maximizing corporate value through long-term business growth, by achieving sustainable and stable dividends, and through flexible share buybacks. (Diagram 3)

Dividends are determined in consideration of the need for stable internal reserves to ensure sustainable investments in business growth, consolidated earning trends, and financial conditions. In FY2017, we paid a dividend of ¥90 per share, comprising an interim dividend of ¥45 per share and a year-end dividend of ¥45 per share.

Your continued understanding and support for the Dentsu Group is highly appreciated.

Diagrams 3: Cash Dividend



- Dividend payout rate: Underlying Net Profit (Equity attributable to owners of the parent) base
- (): interim dividend per share

Message

Message from Domestic Business Director

ACHIEVING SUSTAINABLE GROWTH IN THE JAPAN BUSINESS

For FY2017, 41.2% of the Group-wide gross profit and 54.1% of the underlying operating profit make Japan the Dentsu Group's largest market. The Group handles a broad variety of business in Japan, mainly involving advertising. At the more than 50 directly owned Group subsidiaries working on Japan business, there are approximately 17,000 employees in the Group, and including those at Dentsu, the Parent Company.

The World Economic Outlook 2018, published by the International Monetary Fund (IMF) in April, predicts that the world economic growth rate for 2018 and 2019 will be +3.9%. The forecasts for Japan are growth of +1.2% in 2018 and +0.9% in 2019. Japan is expected to have lower economic growth than the United States and China. The organization's outlook for economic growth in both the latter nations, which have a higher GDP and larger advertising markets than Japan, indicates that they are forecast to grow in the upper two percentile range and six percentile range, respectively. Nevertheless, we believe that there is potential for both economic expansion in Japan and growth in Dentsu's business in Japan, where the Company was founded.

In order that the Group's Japan business might realize sustainable growth during the 2020 Tokyo Olympic and Paralympic Games and beyond, we are engaged in working environment reforms, involving full-scale initiatives launched in 2016 and are promoting changes in the Japan business. The changes in line with the business transformation engaged in by the entire Dentsu Group are being introduced to expand our Japan business are based on the following three pillars, and are designed to achieve sustainable growth.

Strengthening Marketing Competitiveness

The People Driven Marketing™, Dentsu Group's planning platform, introduced in 2017, is used in advertising and a wide range of other areas. Also since 2017, as a planning platform we have been promoting extensive standardization within the Group. Further, through proactive collaboration with partners possessing highly specialized and advanced technologies, we have been carrying out functional advances and already are seeing results.

In February 2018, we announced our acquisition of Data Artist Co., Ltd., one of Japan's leaders in the AI domain. We are already using that company's excellent AI technologies to enhance services in advertising and other areas, and to sharpen our competitive edge.

We also plan to use the technologies to bolster our corporate foundation by increasing Group-wide operational efficiency and further optimizing human resource management.

Amid the rapid advance and practical applications of various technologies, and from the perspective of succeeding with transformations in areas of our Japan business, it is important to proactively use technologies at the forefront of our industry.

Expanding Business Domains in Japan

Expanding our business domains in Japan, which have advertising business at its core, is one of the key elements in the transformation in order to achieve sustainable growth.

Business supporting customer company management, and intended thereby to achieve business transformation and expansion, is an area generally referred to as business design. Here we aim to acquire business opportunities since it is a domain that holds great potential for growth.

Besides steadily acquiring business design opportunities, we are promoting the start of business in such areas as data management, support for sales force automation, and customer relationship management. In addition, we are encouraging the introduction of cloud-based marketing in corporations. We plan to continue expanding our business domain in Japan by combining Dentsu Group capabilities with outside expertise and cutting-edge technologies.

Attempting to Establish a Position as Customer Business Partner

Advancing competitive capabilities in the marketing domain, together with business domain expansion in Japan, are services designed to resolve business issues directly faced by Dentsu Group customer companies.

While we often have led business promotions jointly

with customers, if such cooperation is to increase, we must continue seeking business investment opportunities in Japan.

Dentsu currently has a client base in Japan comprising several thousand companies. But, considering the Group as a whole, the number and variety of companies is even greater. Indicative of the massive potential of the Dentsu Group is the fact that it is in constant contact with a range of clients, including media companies, platform developers, rights holders, content creators, organizations and public institutions.

As last year, 2018 represents a period of reform and fundamental development. Ensuring the health and individual growth of all Japan-based Dentsu Group employees, by supporting them individually as they work to expand their potential and broaden their possibilities, are the most important requirements for our Japan business to grow.

With the goal of realizing sustainable growth in our Japan business, we aim to advance and expand our traditional business domains, while attempting to establish a position as a client business partner.



Hiroshi Igarashi

Director
Executive Officer

Leadership

Message

Message from International Business Director



Tim Andree

Director and Executive Vice President, Dentsu Inc.
Executive Chairman, Dentsu Aegis Network

Ten years ago, I became the first non-Japanese Executive Officer in the history of the company. At that time, the executive management of Dentsu recognized that although we had a long and distinguished history of leadership in the Japanese market, macro economic forecasts for Japan showed slowing growth, a mature market and a declining and aging population. In addition, management recognized that our leadership role in traditional media would inevitably be challenged by the fast growing developments in the global digital domain. In 2008, Dentsu's overseas business amounted to just 10% of the Group's revenue and our digital activities made only a small contribution. Through strategic expansion and investment, in just ten years, the Dentsu Group has transformed into a truly global business. By FY2017, Dentsu Group's revenues had almost tripled. 59% of our Group revenues are now generated outside of Japan, and of those revenues, 57.9% come from digital. The Dentsu Group strategy of digitalization and globalization has worked effectively to increase our global competitiveness and our corporate value. Dentsu has transformed itself from a powerful Japanese company with limited impact outside

of Japan to a formidable global competitor headquartered in Japan.

Strategic acquisitions have played an important role in accelerating our globalization and digitalization. 2018 marks the five year anniversary of Dentsu's largest acquisition, Aegis Media. The timing provides an opportunity to reflect on the changes to our business we have seen over that time.

Aegis Media was 15,000 people when we acquired the company in 2013. When we merged Dentsu's global operations and Aegis in 2014 to create Dentsu Aegis Network, we were an organization of 22,000 people. Since then we have made 150 additional acquisitions and investments, have grown organically on average by 6% and now just four years later we are 42,000 people. Dentsu Aegis Network now operates in 145 countries and regions and our revenue footprint continues to diversify. The Americas now contributes to 40% of our global (excluding Japan) revenue, EMEA 35% and APAC 25%.

Our strategic acquisitions have not only improved our competitiveness globally and driven operational growth, but have contributed to our balance sheet as ROIC over the past 10 years on the portfolio of our acquisitions has significantly exceeded our cost of capital.

Our unique operating model is well-established and removes barriers to collaboration; we're set-up to connect our capabilities around our clients. Our people blend creativity, agility and a pioneering spirit with the process, systems and rigour that data and technology-led marketing demands.

2017 Business Review

In 2017, for the first time, Dentsu's global operations grew in line with the peer group average rather than significantly above the market and competitors as had occurred every year since establishing Dentsu Aegis Network in 2014. A variety of explanations point to both cyclical and structural pressures that impacted the entire industry in 2017. Yet, in the midst of a challenging operating environment, we won more new business than ever before – an achievement that will provide a tailwind to our performance in 2018.

Our offer is built around data, insight and 'addressability', putting a direct relationship with consumers at the heart of how brands are built – and that is clearly resonating with our clients. In 2018, we will fully leverage M1™, a proven product in the US market. M1™ will be rolled out across our largest markets by the end of 2018.

We continue to use M&A investment as a means of accelerating our strategy. In 2017, we brought in new talent and key capabilities to the organization through strategic acquisitions that, once integrated, will drive future organic growth and continued competitiveness.

2018 strategy will prioritize growing revenue, both organically and inorganically. To drive continued competitiveness and sustainable growth, investment in the business is required. 2018 is an investment year for Dentsu Aegis Network to provide common platforms and systems across our Network. Those investments will stimulate sustainable long-term growth.

Client-Centricity

Understanding our clients' business, moreover their consumers, remains critical – solving clients' challenges is our business. We make our clients' most important marketing assets—their brands—win in a changing world.

In a rapidly changing marketplace, we help our clients maximise the value of data and drive competitive advantage for their brands—turning consumer data into addressable insight, powered by dynamic content, that delivers consumer engagement. We do this through global platforms such as M1™ and our Global Data Innovation Centre in Singapore—where data scientists and the best technology talent are driving innovation in machine learning, artificial intelligence and cognitive algorithms to augment our expertise in data analytics, media and marketing.

Our investment in data, technology and analytics is differentiating. We also have a different proposition – focussed on the growth certainty that every business will need a digital economy solution, creating competitive advantage through the insight and addressability our data strategy provides.

People-Centricity

Ours is a people business, so we have to take care of our employees. At every level, we are people serving people. A network of agencies, supporting agency people, serving clients, serving customers and consumers. For this reason, talent is both our biggest expense and our biggest asset. We recognise the power of praise and recognition, the importance of leading with integrity, and instilling a culture of collaboration.

A principle I learned as a young executive in Japan, and which has been proven as invaluable as it is true, is the principle *Genchi Genbutsu*, which means "go and see." It suggests that for a manager to truly understand a situation, one needs to go to the *genba* or, the "frontline" - where work is done, where value is created, and where problems are identified and solved. This is a tangible, practical and effective way to challenge the status quo and I encourage our leaders across the business to engage with these principles .

Our future is in the hands of the next generation of leaders; the quality of our people and their passion for our business gives me confidence in the future of the Dentsu Group.

International Business Strategy



Jerry Buhlmann

Senior Vice President, Dentsu Inc.
CEO, Dentsu Aegis Network

2018 Marks the Fifth Anniversary of the Creation of Dentsu Aegis Network

Completed in March 2013, the acquisition of Aegis Group by Dentsu was the largest ever deal seen in the advertising sector. Since then, much has been achieved. Our revenues have increased three-fold, with 57.9% of our revenue now generated from digital activities – an industry leading figure. Our workforce has grown from 15,000 to more than 42,000 people and we have made 150 acquisitions and investments, transforming our capabilities and talent. However, while we have a lot to be proud of, we remain focused on the future and the opportunities that lay ahead.

2017 was a challenging year for our industry and our business. We posted a resilient performance despite many of our clients pulling back some of their marketing spend. Within the context of a challenging environment, we responded well, we mobilised around a new reality and delivered the right response quickly.

We controlled our discretionary cost line and focused on new business, delivering a record year for net new business at \$5.2 billion, a result I am very proud of. We introduced strong, new management to three of our five largest markets (US, UK & China). The speed of our response generated momentum towards the end of the year, providing a tailwind into 2018.

Managing Complexity in a Fast Changing Environment

Looking forward, many of the forces that made 2017 challenging remain in 2018 and, if anything, will accelerate. We are seeing structural changes in the market. Advertising spend growth is lagging GDP growth for the first time and in 2018 digital advertising spend will overtake TV spend.

To address these issues we have continued to invest in data capabilities. Our competitive advantage comes through the insight and addressability data provides, this is critical to our long-term success in a changing industry. The M1 platform is a key pillar of our data strategy and is the first phase in realising our vision for all media planning and activation to be people based. 2018 will see the roll out of the M1 platform in a number of key markets.

Data governance remains a key priority for Dentsu Aegis Network and data privacy and protection is fast becoming a focus of our clients and society as a whole. We have combined data, legal and compliance professionals together under new data governance councils to ensure our data protection officers and compliance staff are actively involved in the decisions we make around data – helping ensure we continue to act responsibly, fairly and ethically.

Strategic Priorities for 2018

Continued focus on our key strategic priorities will drive momentum and growth across the business.

1. Purposefully grow revenue in high margin, high growth sectors
2. Strengthen our point of differentiation around data and People Based Marketing
3. Leverage media and content to create more scaled investment opportunities
4. Enhance our integrated solutions offering in service of client needs
5. Maximise efficiency across our operations
6. Continue to evaluate market transformation opportunities to grow capability

In a high change environment a focus on growth and investment is key and frames everything we do.

We have a high performance culture underpinned by one set of values – collaborative, agile, pioneering, responsible, ambitious. To move faster we need to continue to build on our culture; allowing for greater collaboration between brands on a local, regional and global level. We plan to crystallise our integrated solutions offer that enables our network brands to operate together better.

2018 will see a more proactive approach to transformation. The investment in and transformation of the business continues as we build shared global systems and platforms. This allows us to execute more effectively and drives efficiencies through the business, such as shared services. We will continue to invest in the business through 2018 to drive long-term sustainable growth. We have a strong, cash generative balance sheet, which is an important tool in remaining competitive.

Despite the challenges of 2017, we are still on course for our long-term target of £5 billion revenue by 2020. We will embrace the storm of disruption so that we emerge stronger, more successful and more valuable to our clients.

The strength of our network and the way we operate the business brings an advantage. Uniquely in our sector, we have a vision, to innovate the way brands are built; and a purpose, to be a 100% digital economy business by 2020. We remain commercially agile, focused on the opportunities the digital economy provides and ready to embrace the disruption it brings.

M&A Strategy



Nick Priday

Senior Vice President, Dentsu Inc.
CFO, Dentsu Aegis Network

2017 was a Challenging Year for the Industry

In 2017 Dentsu Aegis Network reported revenue of £3.6 billion, which represents total revenue growth of 17.1% at constant currency exchange rates. In 2017, our growth was primarily driven by acquisitions, as organic growth came under pressure.

2017 was a challenging year for Dentsu Aegis Network, our clients and the industry as a whole. As a result, we missed our budget globally and in all three regions. A disappointing performance given our track record of outperformance versus the industry. However, our trading comparatives were much tougher than those of the holding companies.

We did experience an improvement in our momentum towards the end of the year. After a first quarter which was relatively strong, the second quarter saw a sharp slowdown and was the weakest quarter of 2017. Performance stabilised in the third quarter, and then growth returned in fourth quarter where we reported organic revenue up by 1.2 per cent.

In 2018 we forecast a return to organic growth driven by an improving market and strong new business wins in 2017. In 2018 and beyond we envisage returning to a more balanced revenue growth profile of organic growth and acquisitions.

A Record Year for Net New Business

2017 was a record year for net new business in terms of media billings. We won \$5.2 billion dollars of net new business, well above the average of the previous three years and more than double that achieved in 2016. We won the biggest media pitch of the year as well as the biggest creative assignment.

These wins demonstrate the talent and capability we have in our organisation as well as the competitiveness of our product. The level of new business wins in 2017 are expected to contribute one to two percent of organic revenue growth in 2018. This helps drive our expectation that our organic revenue growth will improve in 2018 and for us to return to a position of outperformance against the sector.

Acquisitions Provide Scale, Capability Infill and Entrepreneurial Talent

We continue to show strategic intent in the market to accelerate our strategy. 2017 saw Dentsu Aegis Network make a total of 31 acquisitions and investments, 25 of which were new acquisitions. This brought in some fantastic talent to help us transform our business, almost three thousand people moved to DAN in 2017 – a real benefit to the network. There was activity across all three regions with an emphasis on data, CRM and performance marketing businesses as well as adding new innovative capabilities, such as with the Gleam acquisition, which is a digital-first, talent management business.

Cash Performance

We finished 2017 with a strong cash position driven by close management of working capital. The introduction of a cash performance metric to the senior management bonus scheme has yielded results.

Net debt / EBITDA, our leverage measurement, at the end of 2017 was 1.1x, lower than that of 2016, despite topping the M&A league table across the sector for the second year in succession. This gives the business capacity to continue to invest in targeted acquisitions going forward.

2018 is an Investment Year as We Seek to Accelerate Our Business Transformation

In 2017 the underlying operating margin declined in line with our budget – the margin contraction reflects planned investments and the impact from slower top line growth in a challenging market. Investment in the business for long term growth will continue in 2018 to support common platforms and shared global systems across our network. This will allow the business to operate efficiently at scale.

Further inward investment will standardize business operations, support faster decision making and improve efficiency. We expect to see further margin moderation in 2018 with a return to growth in 2019 & 2020.

Driving Growth Across the Business

Rolling out best in class systems and platforms will be a key enabler of our strategy. A number of key initiatives will be activated throughout 2018 to improve our efficiency. The introduction of Salesforce; further roll out of our Key Account Planning (KAP) function to a greater number of global clients and the expansion of the Growth Platform, a shared platform to increase collaboration across the network.

In the five years since the creation of Dentsu Aegis Network, the Group has seen enormous transformation. Looking forward, we will continue to evolve further and faster in order to exceed our clients' expectations and drive future growth.

Perspectives of the Key People

Change Client Value with the Opportunities Brought by Disruptions

Disruption is an inevitable consequence of the scale and speed of innovation that is happening in the transition to a digital economy. This is generating both risk and opportunity as market structures shift and both people and organisations are impacted in new, often unexpected ways. Business is powered by a new set of economics that has been created by digital innovation and is close to the conditions of Perfect Competition. At the same time innovation is also helping us better understand people, their motivations and their demand patterns.

Building a business that is fit for the digital economy is the best way of embracing the potential of disruption with resilience and optimism. This means seeing opportunity where others see uncertainty, as we create personalised brand experiences that engage consumers to drive growth for our clients.

Through our pioneering and agile culture, our focus is to innovate across the marketing and business mix and to deliver short term business performance, long-term growth and value creation for our clients. To achieve that, our system is designed to harness all our capabilities across media & performance, content, creative & technology in two key ways; offering deep specialist services and fully integrated solutions depending on the needs of our clients.

Underpinning everything we do is our ability to maximise the value of data and drive competitive advantage for brands and businesses. We transform consumer data into addressable insight, powered by dynamic content, that delivers consumer engagement to drive business outcomes.

There is a need for the new level of expertise that Agency Groups can offer, to be delivered through a new model of collaboration. In taking a consultative approach we can help identify, source and drive new streams of revenue and value to our clients' businesses and brands. My new role will enable me to work even closer with clients in the transition to a demand-led digital economy.

Use Personally Identifiable Information Data to Advance to the Front Line of People-Based Marketing

The future of Dentsu Aegis Network's business is founded on the new marketing world where marketing is planned around people, and not just product. Bolstered by strategic acquisitions, including Merkle, and in the context of a transforming digital economy, Dentsu Aegis is at the forefront of this shift in our industry to people-based marketing via PII data (Personally Identifiable Information). I'm excited to lead the Americas to achieve this ambitious agenda where sophisticated data analytics and real-time insight enable us to imagine the best creative, experiences, engagement and addressability to deliver the optimum results for our clients.

The rules of brand engagement have changed in a world where consumers are in control and innovation outpaces regulation. Brands are either built for this environment or have to adapt quickly. That's why we've set out to become a leading digital economy business ourselves. In this way, we can ensure that we're better placed to support all our clients in the digital economy, helping them to embrace the potential of disruption together—using high-quality data, cutting-edge technology and world-class talent to innovate the way brands are built and experienced.

Dentsu Aegis continues to evolve as a diversified business with an exciting ambition, progressive vision and high performance culture, all of which are critical to creating value for clients. Diversity is key to driving innovation and creativity, and Dentsu Aegis Americas continues to reflect this. I'm looking forward to building on the existing success within the region, by drawing upon the groups' talent and connecting resources and capabilities between North America and Latin America to drive regional growth.



Nigel Morris

Chief Strategy and Innovation Officer, Dentsu Aegis Network

Nigel Morris is Chief Strategy and Innovation Officer for Dentsu Aegis Network, focusing on the transformation of the Group to enable its clients to make marketing a key driver of sustainable success in the digital economy. Nigel joined Aegis Media in 1992 and founded Isobar in 2003. Nigel became CEO of Aegis Media Americas in 2009 and CEO of EMEA in 2012.



Nick Brien

CEO, Dentsu Aegis Network Americas

Nick Brien joined Dentsu Aegis Network as the CEO of Dentsu Aegis Network Americas and US in June 2017 to create innovative marketing solutions for clients that drive superior business performance. Nick has led a number of global companies and their teams as CEO McCann Worldgroup, Global CEO of iCrossing and President of Hearst Magazines Marketing Services as well as IPG Mediabrands, Arc Worldwide, Leo Burnett and Starcom.

People Behind the Data: Marketing Innovations

In 2017, Dentsu and Dentsu Digital announced People Driven Marketing™ (PDM) as a planning platform for the entire Dentsu Group in Japan. Based on changes in people's awareness and behavior, the platform integrates and manages marketing measures that take a fresh look at client business and marketing issues. More than a methodology, PDM is a vision and strategy for how the Dentsu Group will develop data infrastructure and cultivate human resources, as well as what we must do to provide high-quality services.

With digitization now commonplace, we discern a need to look at the people behind the data. To this end, our vision is to approach planning from the basis of IDs rather than cookies. This has accelerated data alliances in a variety of areas, thanks to the support of numerous clients and platform developers in Japan and overseas. We are planning advances in PDM through alliances with the Merkle Group Inc., and Dentsu Aegis Network.

Japan is preparing to host the Tokyo Olympic and Paralympic Games in 2020. We see this as a golden opportunity to understand, through the use of data, changes in people's feelings and behavior.

With its role as growth leader in the Dentsu Group, Dentsu Digital has adopted "Exciting Digital" as its slogan. By generating stimulating ideas, we hope to drive marketing innovation and contribute to Group growth.



Shuji Yamaguchi

President and CEO
Dentsu Digital

Yamaguchi joined Dentsu in 1989. After working as head of the Digital Platform Center, appointed CEO of Dentsu Digital Co., Ltd., in January 2018.

Business Producers with Solutions

In 2018, Dentsu changed the name of its Account Management Division to Business Producers Division. This expresses our intention to commit to the success of customer businesses by going beyond the meeting of corporate needs and creating solutions in the advertising communications domain to deliver true achievements, namely, those resulting from meeting the needs of consumers and society, the recipients of products, services and advertisements.

Given that consumers are increasingly discerning and have the option of not buying or using items and services, they must grasp the underlying meaning of products if purchases are to be encouraged. To this end, Dentsu is engaged in two major reforms.

The first reform involves piecing together the behaviors and articulations of individual people, rather than viewing product and service recipient as a group. As a result of the advancement of digital technologies, we have devised a People Driven Marketing™ concept to take the pulse of individuals' behavior.

The second reform involves working environment innovation. We will share and utilize the knowledge and skills accumulated by each Dentsu employee, and improve their performance competency so as to increase opportunities for individual input. Through these reforms, we will develop human resources able to offer a variety of solutions for the issues surrounding business partner products and services, with a Company-wide and social perspective.

In this way, Dentsu will continue taking on challenges and growing as business producers with solutions.



Hiromi Suzuki

Executive Officer
Dentsu Inc.

Suzuki joined Dentsu in 1984. After working in Marketing Division and Account Management Division 3, appointed Manager of the Division in 2006, Deputy Director of the Division in 2013, and Head of the Division in 2016.

People

Attract Diverse and Talented Human Resources, Support Growth and Leap Forward Through Cutting-Edge Learning and Work

In a fast-paced and constantly evolving digital economy, the companies that will succeed are those with the people who have the skills and capabilities to combine data, technology and creativity to drive innovation. That's why, at Dentsu Aegis Network, we believe our people are at the heart of delivering our vision 'innovating the way brands are built.'

Our approach is straight forward. We continue to invest in our unique, values-led culture built on empowerment and entrepreneurial thinking, where diverse and talented people can thrive. We are committed to attracting and retaining world-class talent, and supporting them to grow and develop through cutting-edge learning and career opportunities. Underpinning this is an approach to leadership that enables us to blend the experience and judgement of our more established leaders with the digital mindset and curiosity of our emerging leadership talent.

We are built for agility, collaboration and innovation, and this enables us to evolve with our clients, to create even more engaging and powerful experiences for their consumers. It is also why most of the leaders of the businesses we have acquired have chosen to stay within our network and build their careers with us.

Our Network is at the forefront of the industry in its shift to people-based marketing, with an unwavering commitment to our ambition of being 'a 100% digital economy business.' Having the right capabilities, values and culture, and talent have never been more important to us.

Promote Technologies that Transform All Aspects of Business and Deliver Better Results to Clients

Technology plays a fundamental role in Dentsu Aegis Network's strategy and is a key enabler of our business priorities and goals. In 2018, we will continue to invest in our Data platforms and products and strengthen the management of our Global Alliances with Technology Partners so we can offer an increased range of compelling solutions to clients. For Dentsu Aegis Network, technology will help us transform how we operate in every area so that we can deliver better outcomes for clients and be more efficient. Modern, agile tools will enable our young, mobile workforce to work anytime anywhere and will connect all our brands and markets to allow effective collaboration. Powerful, flexible global platforms and increased automation will allow us to streamline every aspect of how we work with clients, manage creative work, buy media and optimise the way our finance, legal and HR teams support the business. All of this will be supported by a flexible, secure infrastructure using the best, modern, public cloud technology platforms.

In 2018 we will pursue several initiatives across the group: Salesforce will be rolled out across all of our major markets to enhance our client management capability across the network; strengthening the client relationships we have built through the launch of the Growth Platform. Workday, our people management system, will complete its rollout across the Network. This helps managers to manage their teams and employees to build their careers.

We will continue our multi-year rollout of a standard set of finance platforms across all markets to improve the consistency and timeliness of our financial data. We will continue to invest in technology to streamline our Media Planning and Buying processes. This year will also see the group begin a rapid migration of its infrastructure to the cloud which will provide better security, speed, and flexibility. As we do so, we will focus on cyber security culture, to keep our organisation safe from increasing risks.

My aim is to ensure that Dentsu Aegis has a strong, effective technology capability that provides the maximum amount of support for our business priorities and enables us to delight clients and operate with a high level of efficiency and effectiveness. As we drive this major transformation, a key part of my approach will be to foster collaboration around the best people, ideas and solutions, so that we help our clients navigate the rapidly evolving technology landscape and create greater value.



Anna Moulton

Global HR Director
Dentsu Aegis Network

Anna joined Dentsu Aegis Network in 2014 as the Regional HR Director for EMEA, where she successfully led talent and culture strategies that have supported the growth and transformation of the region. She was promoted to Group Human Resources Director in October 2017. Anna succeeds Valerie Scoular who announced her retirement from the business as Global HR Director from the end of 2018.



Dominic Shine

CTO, Dentsu Aegis Network

Dominic Shine joined Dentsu Aegis Network in September 2017 as Chief Technology Officer. Dominic oversees technology strategy and day-to-day technology operations across the Network, with a remit including client-focused technology products and platforms and all of the group's internal technology platforms, infrastructure and cyber security. He also oversees the Network's Global Technology Alliances and the ongoing development and integration of Dentsu Aegis' Data assets and capabilities.

Work Setting Changes Spark Employee Growth

The goal of the working environment reforms being undertaken at Dentsu in Japan is the creation of a new Dentsu: characterized by new opportunities for growth by our highly motivated employees and the Company. At the core of the reforms and, thus, our main priority, are the mental and physical health of our employees. We are promoting improvements and reforms in a broad area, covering from in-house equipment and environments to work processes, in order to simultaneously achieve shorter working hours and higher quality work.

In 2017, we introduced the “Work-Diet” to visualize and review our business processes Company-wide. This was the starting point for our work-environment reforms. The result was leaner operations, with some eliminated, while others were simplified, automated, or outsourced. By the end of 2017, approximately 400 business processes had been switched to an emerging form of business automation technology: robotic process automation. In December alone, the automated workflows generated approximately 12,000 hours of operations.

Having achieved this, the Company will support employees so that they have greater input in their work, thereby enhancing the quality of their output. My role is to encourage all employees to increase the value of their activities.

We will grow as a Company by fulfilling our social responsibilities and earning the trust of society. With this goal in mind, I am currently engaged in working environment reforms as a member of a team that will transform Dentsu. This is a huge challenge, but when the reforms have been achieved, the Company will undoubtedly be stronger. I believe we will continue to shine 10 years, and even 100 years, from now.

Beyond the 2020 Olympic and Paralympic Games

Dentsu will have the chance to play a number of roles in connection with the 2020 Tokyo Olympic and Paralympic Games. These activities will enhance the value of the Summer Olympics not only for the Japanese sports world, but also for the nation as a whole, as well as for countries around the world.

The Games represent an opportunity to increase interest in sports and ties to competitive sporting organizations in Japan and abroad. They will help enhance the enjoyment of Japanese professional sports, as well as those sports in which members of the Japanese public routinely engage. At the same time, the Olympics will promote the further maturation of the nation’s sporting world. Another offshoot will be a soft legacy: know-how related to the hosting and management of Olympic and Paralympic Games. That proficiency later can be utilized again in Japan and abroad, while by using it to further social development, we will benefit society at large and create Dentsu-specific value.

Opening up our country to people from around the world by hosting the Games will surely provide us with a chance to transform our values. Having to accept a more diverse way of thinking, to confront the existence of that which differs from our conventional and narrow concept of “common sense,” and to embrace inclusive values will become a driving force—for Japanese society and Dentsu. It will break down any sense of stagnation we may experience and propel developments even after 2020.

Dentsu will earnestly fulfill its obligations to the sponsors and partners of the 2020 Tokyo Olympic and Paralympic Games. Thereafter, we will continue to look ahead, while transforming ourselves in order to advance, parallel with society, beyond 2020.



Chieko Ouchi

Executive Officer
Dentsu Inc.

Ouchi joined Dentsu in 1983. After working in the Head Office Marketing Division, appointed department head of the AP Solution Division in 2003, and head of CR Planning Division 3 in 2016.



Soichi Takahashi

Executive Officer
Dentsu Inc.

Takahashi joined Dentsu in 1989. After working at the International Business Division, was sent to Dentsu New York. Appointed department head of Television Division in 2007. After becoming department head of Sports Division and deputy head of Sports Division, appointed head of Sports Division in 2014.

Corporate Governance

Basic Perspective

The pursuit of optimal corporate governance is critical for achieving Dentsu's goal of creating new social values and sustainable societies. We aim to achieve sustainable growth and enhance corporate value by ensuring transparent, fair, rapid, and decisive decision-making, as well as the effective allocation of management resources.

To this end, we will continue to improve corporate governance by:

1. To respect shareholders' rights and ensure their equal treatment
2. To consider the interests of stakeholders, including shareholders, and cooperate with them appropriately
3. To appropriately disclose company information and ensure transparency
4. To enhance the effectiveness of the supervisory function of the Board of Directors concerning business execution
5. To engage in constructive dialogue with shareholders who have an investment policy that conforms to the mid- to long-term interests of shareholders

Corporate Governance Policy ⇒ <http://www.dentsu.com/whoweare/cgp.html>

Promotion of Corporate Governance

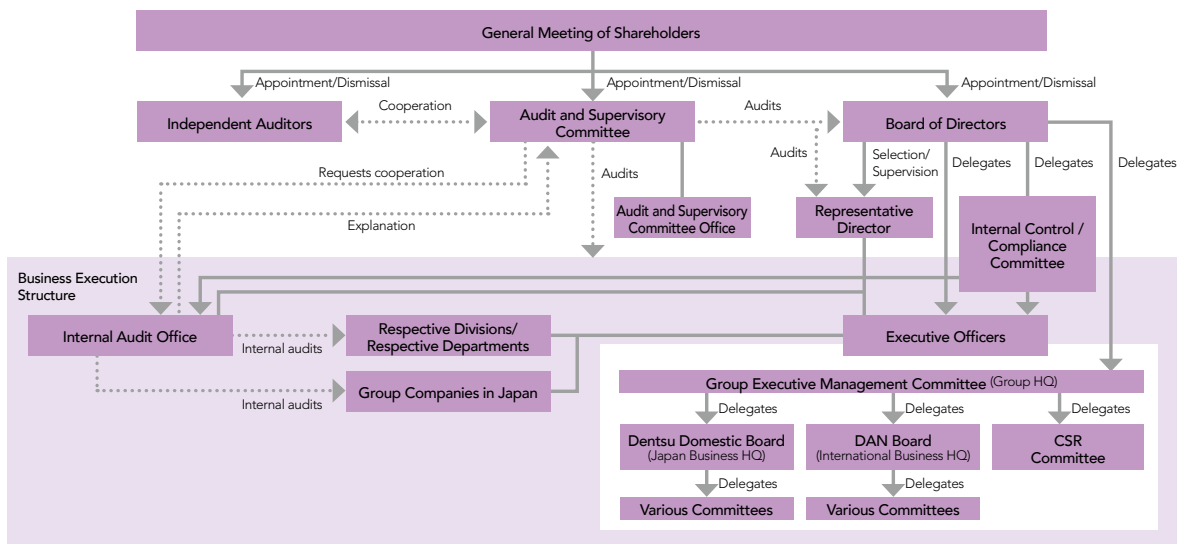
Dentsu has an Audit and Supervisory Committee comprising individuals in executive positions appointed by the Board of Directors to promote swift and effective decision-making in the conduct of business. At the same time, we have reinforced the supervisory function of the Board of Directors over executive officers.

As of January 1, 2018, the Board of Directors comprises 12 Directors (of whom four are independent outside directors). We have appointed four directors who are Audit and Supervisory Committee members (of whom three are outside directors). Under the Board of Directors is the Group Executive Management Committee, comprising executive officers, including the representative director and executive directors. This committee makes decisions on important matters relating to management and conducts preliminary deliberations on Board of Directors agenda items. Furthermore, we delegate authority on domestic group business to "Dentsu Domestic Board" and set up "DAN Board" for international business. In the business execution structure of Japan Business HQ and International Business HQ, we are delegating profit responsibilities and authority to each. In addition, the Internal Control and Compliance Committee, which has been delegated by the Board of Directors on internal control and risk management, has been established to improve the effectiveness of internal control and risk management.

Through these systems, we are ensuring soundness, transparency and efficiency of management, and are working to improve corporate value over the medium to long term.

Corporate Governance Policy ⇒ <http://www.dentsu.com/whoweare/cgp.html>

Corporate Governance Structure



Response to Implementation of the Corporate Governance Code

Appointment of Senior Management; Nomination of Director Candidates

When nominating directors who are not members of the Audit and Supervisory Committee, the representative director—the individual in a Japanese company who has the company seal and represents it in transactions—will submit the proposed names and, to ensure transparency, explain to the independent outside director members of the Audit and Supervisory Committee the reasons for having selected, and suitability of, nominees. Directors shall be nominated by the Board of Directors, which will take into consideration the opinions of outside directors. When nominating directors who are members of the Audit and Supervisory Committee, the representative director will submit a list of proposed names and, after they have been approved by the Audit and Supervisory Committee, the Board of Directors shall decide the new board members. For the policies and procedures involved in nominating director candidates, please refer to the Corporate Governance Report.

Corporate Governance Report → http://www.dentsu.com/csr/pdf/governance_201803_en.pdf

Effectiveness, Self-evaluation of Board of Directors

To ensure the maximum effectiveness of the Board of Directors, a questionnaire was submitted to all Board members pertaining to the efficacy and appropriateness of the Board's supervision of management. Based on results of analysis and evaluation by a third party, Overall efficacy were analyzed and evaluated. The analysis and evaluation for FY2017 indicated that the composition, operation, and items deliberated by the Board of Directors were generally appropriate. It was noted that sufficient deliberation had been conducted through the exchange of opinions, and confirming that the Board remained effective and appropriate in its supervision of operations. In the future, the Company will strive to make improvements on the issues* identified in these areas, in order to further improve the effectiveness and appropriateness of management oversight by the Board of Directors.

*1 Issues identified

- The allocation of an appropriate amount of time for the deliberation of items, depending on their importance.
- Regular progress reports on the status of important strategies.
- Enhanced monitoring of compliance and reporting systems.
- Opinions and other feedback from investors.

Training for Directors and Executive Officers

Directors and executive officers are provided with trainings and continuous opportunities to acquire essential knowledges for executing duties in order to properly fulfill given roles.

Specific Examples of Training

Position	When appointed	After appointment
Directors and Executive Officers	<ul style="list-style-type: none"> • Training on Dentsu management, business and financial strategies, related important matters and laws • Discussion related to identifying and formulating solutions to Dentsu Group issues 	<ul style="list-style-type: none"> • Monthly study seminars as opportunity to acquire the latest information regarding best practices and megatrend-related issues
Outside Directors	<ul style="list-style-type: none"> • Explanation of Dentsu's business, organizational structure, etc. 	<ul style="list-style-type: none"> • Regular provision of information related to business issues, etc.

Total Amount of Remuneration for Directors and Audit & Supervisory Board Members

	Directors (excluding Audit and Supervisory Committee Members) (Of which are Outside Directors)	Directors (Audit and Supervisory Committee Members) (Of which are Outside Directors)	All Directors (of which are Outside Directors)
Monthly Remuneration	261 million yen: 10 persons (11 million yen) (1 persons)	81 million yen: 4 persons (45 million yen) (3 persons)	342 million yen: 14 persons (56 million yen) (4 persons)
Bonuses	106 million yen: 8 persons (- yen) (- persons)	- yen: - persons (- yen) (- persons)	106 million yen: 8 persons (- yen) (- persons)
Total	367 million yen: 10 persons (11 million yen) (1 persons)	81 million yen: 4 persons (45 million yen) (3 persons)	448 million yen: 14 persons (56 million yen) (4 persons)

Notes:

1. The annual remuneration amounts for Directors who are not Audit and Supervisory Committee Members and Directors who are Audit and Supervisory Committee Members were approved by shareholders at the Ordinary General Meeting of Shareholders held on March 30, 2016. The resolution limits the amounts to 1,200 million yen per year and 150 million yen per year, respectively.
2. Bonuses in the table above shows the amount approved at the meeting of the Board of Directors held in February 2018 within the limit of remuneration for Directors stated in Note 1. above. The Company does not pay bonuses to Directors who are Audit and Supervisory Committee Members.
3. The Audit and Supervisory Committee considered the above, and did not find any particular points of note.

Message

Message from Outside Director

DENTSU GROUP CORPORATE GOVERNANCE

Kentaro Koga

Director
Audit and Supervisory Committee Member



In recent years, corporate governance has attracted a lot of media coverage and has come to mean a variety of things. Personally, I understand the term to denote management, conducted by managers, that reflects the kind of management demanded by shareholders. However, to distinguish between owners (shareholders) and management (managers), many modern corporations find that it is not so easy to completely align management demanded by shareholders with that conducted by managers.

The primary aim of corporate governance is to provide guidance, so that management might be seen by shareholders as being convincing in terms of balance between growth and stability, long-term investment and short-term returns, as well as scale and efficiency. The secondary objective is to appropriately explain these initiatives and degree of achievement to obtain shareholder support.

We have done much to improve our corporate governance system and its implementation. Currently, it is our goal to conduct Dentsu Group management in such a way as will garner shareholder approval with respect to our globalized, digitized, and value-added business efforts. Another important focus is on innovation management, whereby management and stakeholders—including customers, business partners, employees and society—coexist and work well together. An example of this kind of management involves the supervision of managers, to make sure that the Dentsu Group working environment reforms in Japan are promoted.

To maintain the system of rules, practices, and processes by which a firm is directed and controlled, in 2016 Dentsu transitioned to being an enterprise with an Audit and Supervisory Committee, and increased the number of independent outside directors. This has resulted in lively discussions at Board of Director and Audit and Supervisory Committee meetings. There is a constant awareness, among the directors and committee members, regarding the need for us to engage in the kind of management that our shareholders and other stakeholders expect. Before meetings, outside directors are provided with the information they require through briefings on agendas. In addition to prepared proposals, we also discuss new agenda items proposed by outside directors.

In order to summarize the Dentsu Group's management performance we prepare appropriate financial statements and create the Dentsu Integrated Report. This report is designed to increase understanding of, and support for, our management practices. Regardless of whether the Group's performance is good or bad, the Board of Directors and Audit and Supervisory Committee work with independent accounting auditors to ensure the financial statements are an accurate and timely representation of management.

Message from Executive Officer

INTERNAL CONTROLS TO MEET STAKEHOLDER EXPECTATIONS

Shun Sakurai

Executive Officer



In January 2018, I was appointed executive officer from outside Dentsu to be in charge of internal controls. To address a series of labor issues and proceed resolutely with working environment-related reforms, it was decided that a person with an outside perspective and no prior experience in this position should be placed in the executive structure to review Company management. Looking at Dentsu from the viewpoint of someone with experience outside the Company, it would appear that all employees are engaged in their work with a high degree of motivation. In addition, since Dentsu develops business in many areas, I sense diversity in human resources. That said, even with the high quality of these human resources, there are some areas in need of consideration with respect to the working environment.

As I understand it, my role in internal controls is to set up a mechanism ensuring thoroughgoing, solid Company management. This includes ensuring financial soundness, appropriate business processes, IT environment improvements, and legal compliance. I am then to verify the proper functioning of the mechanism, and to see that risks surrounding the Company are at a minimum. In light of labor issues, in April 2017 Dentsu took steps to enhance its internal control function by setting up the Internal Control and Compliance Committee under the Board of Directors. As the chairman of this committee since January 2018, I was selected as the executive in charge of identifying and analyzing critical risks surrounding Dentsu, and the one to engage in responding to each of these risks by preventing or mitigating them.

In addition to maintaining this system of controls, I liaise with the Internal Audit Office and the Audit and Supervisory Committee. This reflects the need to properly implementing the plan–do–check–act process and product improvement cycle. Further, we are creating an internal control system for the Dentsu Group to identify Group-wide risks in an attempt to thoroughly manage the Group from the standpoint of internal controls. I think about internal controls and compliance in the context of sports. In the sporting world, one is required to strictly follow the rules to win the competition. Even if you win, you will not be respected unless you have followed the rules. The same is true in business; we must compete while following basic rules. Internal controls—a prerequisite for successfully developing any business—are the product of rules that have been formulated and to which there must be strict adherence.

With rapid advances in the digital economy and other developments, the business environment is undergoing massive changes. In order to contribute to the resolution of issues at the societal and international levels, and to the achievement of the United Nations' Sustainable Development Goals while pursuing the Dentsu Group's own sustainable development, we must address corporate management issues head on and meet stakeholder expectations.

Governance

Dentsu Group Internal Control System

Internal Control System

The Dentsu Group Internal Control System encourages compliance among directors, executive officers, and employees, while at the same time supporting continuous corporate development as Dentsu meets its social responsibilities. The Dentsu Group Code of Conduct is positioned as a shared behavioral code to ensure that directors, executive officers, and employees of Dentsu and its subsidiaries carry out their duties in compliance with the law, regulations, and the Company's Articles of Incorporation. The code also ensures that business is conducted appropriately, while the Internal Control and Compliance Committee works to maintain and improve internal controls. In accordance with Internal Control and Compliance Committee policies, the CSR Committee and other committees formulate rules and develop manuals to inculcate a thorough awareness of proper business execution among all employees through training and other activities.

There are business-related check items for risk management and compliance, while a broad range of inspections are conducted. The items checked include the appropriateness of rules; whether business is conducted in accordance with the rules; and if reporting of, and responses to, problems are prompt, in order that issues might be identified and issues improved. We also establish internal control mechanisms at Group companies to maintain and enhance corporate value throughout the entire Dentsu Group.

Dentsu Group Code of Conduct ⇒ <http://www.dentsu.com/csr/overview/codeofconduct.html>

Risk Management

Under the Internal Control and Compliance Committee, which is chaired by the executive director in charge of internal controls as a system for comprehensively managing Group-wide risks, the Dentsu Group strives to achieve continuous improvement by understanding Group risk management conditions and formulating, executing, monitoring, and improving policies and risk management processes using the four-step PDCA management method. We establish risk management rules, as well as formulate and execute specific response plans, prioritized in order of risk severity. This we do to maintain and improve our system to prevent risks and to minimize their impact should they occur. Departments are assigned responsibility for each key risk. They formulate and implement response plans to reduce the likelihood of risk; submit mid-term progress reports; and prepare year-end self-assessments as well as guidelines for the next fiscal year after they have been discussed by the Internal Control and Compliance Committee. The committee then shares risk awareness and the proposed responses with the Board of Directors and Audit and Supervisory Committee, and monitors situations as appropriate. To prioritize key risks, the Dentsu Group conducts quantitative and qualitative analyses using a risk map. This data visualization tool takes into consideration the frequency and impact of each risk, and uses correlation analysis to identify those risks considered key.

Information Security

Development of an Information Management System

The Company set up the Dentsu Group Basic Policy for Information Security and a very strict information security management system to protect the Group's important data, as well as personal and other information received from clients. Based on this Basic Policy, information management rules and other related guideline details were formulated to clarify procedures that must be followed. We also conduct detailed awareness activities for officers and employees through training, briefings, and the distribution of pamphlets and other materials. Given the importance of managers in information management, the Company has started a new manager training course to educate managers about their roles and responsibilities. Further, Dentsu and 49 Dentsu Group companies in Japan have obtained ISO/IEC 27001:2005 and JISQ 27001:2006 certification, international standards for information security management systems. Dentsu is striving to implement more stringent information security management Group-wide, to flexibly respond to the ever-changing and increasingly sophisticated environment of information and communication technology.

Compliance

Compliance Promotion System

Dentsu formulated the Dentsu Group Code of Conduct, according to which directors and executive officers who discover violations of prevailing laws or who encounter other serious compliance-related issues are required to report their findings immediately to the Board of Directors, Internal Control and Compliance Committee, as well as the Audit and Supervisory Committee. To maintain and improve the level of employee compliance and ensure employee awareness of compliance-related issues, rules and manuals are developed and training programs conducted.

In addition, a Compliance Line was set up for the reporting of internal violations and an external contact point handled by a law office was established to ensure that those seeking consultation or reporting violations are in no way penalized.

In FY2017 (ended December 2017), Dentsu Inc. and Dentsu Group employees in Japan submitted nine reports and proposals (FY2016: 7; FY2015: 15; FY2014: 10), all of which were addressed. Moreover, the booklet Compliance Digest was distributed to all Group companies to promote an understanding of compliance.

Corruption Prevention Response

In accordance with the Dentsu Group Code of Conduct, which underpins our CSR activities, we have anti-corruption policies to ensure that we conduct business in an honest, fair, and transparent manner. In compliance with bribery regulations in the countries and communities around the world where we do business, Dentsu is proscribed from involvement in corrupt acts designed to enable the Company to obtain unfair profits.

In order to meet our social responsibilities and conduct sound business activities, we shall strive always to cultivate compliance awareness through in-house training.

Policies on Antisocial Forces

Dentsu rejects all requests from antisocial forces and groups. It has departments that block relationships with groups and offer support through alliances with cooperating entities within and outside the Company. Dentsu and all Group Companies comply with a Basic Policy on the Rejection of Organized Crime Groups and Other Antisocial Forces, in respect of which they take a firm stand against antisocial forces, and at the same time request that business partners do the same.

Basic Policy on the Rejection of Organized Crime Groups and Other Antisocial Forces →

<http://www.dentsu.com/csr/compliance/compliance.html>

Bid to End Bribery by Group Companies Abroad

DAN provides compliance training on the intranet for Group companies outside of Japan, the participation rate of which is up to 90%. As a follow-up, each company also holds its own training sessions and strives to raise employee awareness regarding bribery.

Speak Up! Policy

The risk of fraud and other wrongdoing is a threat to the Group's profitability and reputation. DAN thus established an internal reporting program, called Speak Up!, for reporting any incident of concern or that raises suspicions of wrongdoing in the workplace. Employees can make a report to line managers, HR staff or senior managers, or they can follow internal grievance procedures. Appropriate legal and/or disciplinary action will be taken against perpetrators of fraud and other wrongdoing.

DAN also employs Safecall Limited, an independent specialist that employees can contact anonymously on the phone, by email and through a website, 24 hours a day, 365 days a year, and in a number of languages.



The Compliance Digest booklet

Incident of concern or suspicion of wrongdoing within the workplace

- Bullying or harassment
- Theft or fraud
- Bribery and corruption
- Information security breaches (e.g., loss or theft of personal/ sensitive data)
- Abuse or inflation of expenses
- Non-compliance with contractual obligations
- Accounting and tax malpractice

Progress toward Working Environment Reforms

Working Environment Reforms

In July 2017, we announced a Working Environment Reform Plan.

Based on the three pillars of thorough labor management, enhanced worker protection, the review of workflows through job inventories and smart work styles, we worked on reforming our labor management, business processes, internal infrastructure, office environment, personnel evaluation system, and health management system in 2017. Recognizing that employees with healthy minds and bodies are the foundation on which strong management is built, we aim to foster the self-actualization of each employee while simultaneously reducing hours and increasing operational quality. They will enable us to change the work style of Dentsu employees in Japan and create a new Dentsu.

The Independent Advisory Committee, which comprises outside experts, is currently monitoring our efforts.

Measures developed and implemented in 2017 (excerpt)

1. Reinforcement of regulatory knowledge and insights

- Trained all employees in labor laws and regulations and prevention of harassment, and tested their comprehension
- Reduced actual working hours by lowering the upper limit of overtime and ensuring strict compliance with Article 36
- Established the "Independent Advisory Committee for Labor Environment Reform Activities" in February 2017, inviting outside experts to provide advice, management, and verification for the progress of the reform activities

2. Improvement and reinforcement of employee management

- Introduced a Time Management Dashboard to visualize employees' current working situation
- Appointed executive directors exclusively in charge of human resources management in each division
- Checked on individual employees whose overtime work hours were near the maximum for several consecutive months
- Enforced lights-out hours between 10pm and 5am and prohibited work, including overtime work at home
- Held a "Day for thinking over a New Work Style" in which employees participated during "Death from Overwork Awareness Month" sponsored by the Ministry of Health, Labor, and Welfare.

3. Reallocation of personnel and leveling of workload

- Conducted a thorough review of workflows, driving "Work-Diet" and outsourcing
- Introduced RPA to 400 workflows (to be expanded further)
- Added "Compliance with legal and societal rules" and "work efficiency" to evaluation metrics

4. Improvement of office environment and work efficiency

- Improved work efficiency through technology making our internal application processes paperless
- Promoted a teleworking system by providing laptops and smartphones to all employees and upgrading applications
- Redesigned work areas to create an open space to encourage more face-to-face communications among employees
- Opened satellite offices in 20 locations nationwide

5. Better services to maintain employees' health and support family care

- Established "Family Line" through which employees' families can directly talk about employees' physical and mental health
- Introduced rest-interval system on a trial basis
- Encouraged employees to take more paid holidays and investigated a new holiday system

6. More diverse working style alternatives

- Increased the number of departments offering flextime
- Introduced a work-from-home system on a trial basis
- Added a new employee-evaluation metric, "medium-term goal for self-improvement and career development," for non-managers

7. Reviewed our employee evaluation system to strengthen leadership capability

- Conducted 360-degree evaluation and aptitude tests for line managers
- Defined "Development of team members" and "Proper management of work volume" as key evaluation criteria

8. Keeping employees motivated

- Fully compensated employees for any reduction in overtime pay from previous year through an increase in bonus



Compliance training



Enforced lights-out hours between 10pm and 5am

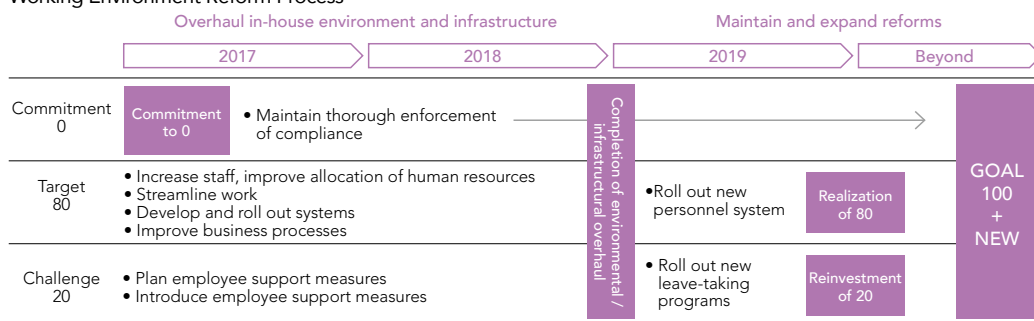


Refurbishing open workplace

Working Environment Reform Plan



Working Environment Reform Process



2017 Achievements

In 2017, the total amount of time worked by employees (including managers) was reduced to 2,031 hours from 2,166 hours in 2016, for a year-on-year reduction of 135 hours. This was less than the 2,100 hour target announced in our Basic Plan for 2017. Following the January 2017 transition to the management of overtime work in excess of statutory working hours (achieved by calculating the number of employees exceeding the Article 36 rule), we found that only one employee exceeded the rule in March and, from April to December, no employee has exceeded the overtime rule. The utilization rate of paid leave per employee was 64.0% in 2017, an 8-point improvement over the 56.0% achieved in the previous year. This was assisted by the use of robotic process automation (RPA), which allowed some 400 work processes previously carried out by humans to be automated by the end of 2017. Thus, the goal of having RPA work processes account for 12,000 hours of work per month had been achieved in December of that year.

In terms of costs incurred related to work environment reforms, we spent ¥1.3 billion for an urgent increase in employees; ¥4.0 billion for operational efficiencies, including the introduction of IT, RPA, and ICT for in-house work inventories, policies such as outsourcing, and labor management; and ¥1.7 billion for office environment improvements, amounting to a total of ¥7.0 billion.

In 2018, we plan to invest a total of ¥13.0 billion, broken down into ¥8.0 billion for promoting the creation of a foundation for future growth through the acceleration of various measures and work environment reforms; ¥2.5 billion for office environment improvements; and ¥2.5 billion for the hiring of additional employees.

Measures to be Implemented in 2018

- The entire Company takes a day off once a month as non-statutory holidays (Input Holidays).
- Employees are able to check their condition when they arrive at work (Vitality Note).
- Dentsu has been developing programs that focus on the growth of individual employees and will make available more than 100 hours per year of learning opportunities.

We will continue to focus our efforts on strictly observing legal requirements and reducing long working hours through the steady execution of our basic plan, while at the same time we will protect the physical and mental health of our employees. In addition, we will promote Company-wide work environment-related reforms, so that past labor problems will never again occur.

Inappropriate Domestic Digital Advertising Business Practices in 2016

An in-house committee—that was formed on August 15, 2016, included outside professionals (attorneys), and was chaired by then-senior executive vice president and CFO Shoichi Nakamoto—drew on advice from third-party professionals (certified fraud examiners and accountants) regarding instances of inappropriate or potentially inappropriate practices within the digital advertising services provided by Dentsu and some Dentsu Group companies in Japan. The committee identified related issues and their causes, and formulated measures to prevent their recurrence.

In January 2017, after having investigated approximately 214,000 invoices issued for digital advertising services in Japan between November 1, 2012, and July 31, 2016, projects involving unsuitable practices were reported individually to advertisers.

The following measures have been adopted to prevent a recurrence of such practices.

1. Since 2016, the independently established Business Process Management Division's Digital Confirmation Section has conducted inconsistency checks on media placement and transaction data. As of this publication, not a single case of impropriety has been detected.
2. We implemented business process reengineering to digitally manage advertising, conducted an extensive inventory of operations, and formulated a standardized work flow in November 2017. From 2018, business process auditing will be conducted by an auditing firm.
3. As part of our promotion of system compliance, in February 2018 we implemented a major overhaul of our online ordering system. This improves work efficiency and accuracy by coordinating advertiser and Dentsu order data and reduces posting and confirmation work. During 2018, this will be linked to reporting and alert systems as we promote further automation.

Sustainability

Message

Message from the Chairperson of the CSR Committee

New Group-wide Challenges

Nobuyuki Tohya

Representative Director
Executive Vice President



We are approaching an age that demands transformations unlike any that Japanese society has experienced up to now. The changes are required in areas from digitization to the working environment and the realization of a diverse and inclusive society. Amid significant changes in the working environment, there are demands that corporations like ours also embrace this new society.

As a result, the Corporate Social Responsibility (CSR) Committee has been holding serious discussions on a broad range of social issues faced inside the Company as well as by external stakeholders. The issues include the environment, social and governance (ESG) criteria emphasized by institutional investors and the UN's Sustainable Development Goals (SDGs).

In terms of a standard of corporate evaluation, I believe the ESG criteria will become increasingly important. The Dentsu Group's CSR Committee, the main promoter of the criteria, is committed to proactively disseminating relevant information outside the Company. At the same time, we are increasing our focus on the Dow Jones Sustainability Indices and the Carbon Disclosure Project.

To this end and through an employee initiative, we have created Group-wide project teams to engage in such activities as seminars to raise employee awareness, as well as to conduct surveys on consumer awareness of the SDGs. We believe the teams provide each employee an opportunity to consider what their social value is to society, and how they might work for society. We expect this will provide employees with a chance to attain personal growth.

The CSR activities demanded by society are not limited to social contributions, but include those realized through business activities, thus more than anything else, they represent an opportunity for employees to build relationships with society. We will continue to strengthen the efforts directed at our stakeholders and driven by the CSR Promotion Committee members, which promotes CSR activities in each Group department.

Even as times change in the face of progress, the ideas of employees and their gift of visualization remain the core competence of the Group's marketing and communications business. We thus hope to ensure a freer and more flexible environment to facilitate creativity as we take on new challenges Group-wide.

Sustainability

Dentsu Group CSR

Code of Conduct

The Dentsu Group Code of Conduct, basic to our CSR activities, is based on seven key areas of Dentsu CSR activities: corporate governance, respect for human rights, ensuring a safe and civilized working environment, environmental protection, fair business practices, addressing consumer issues, and contributing to the community.

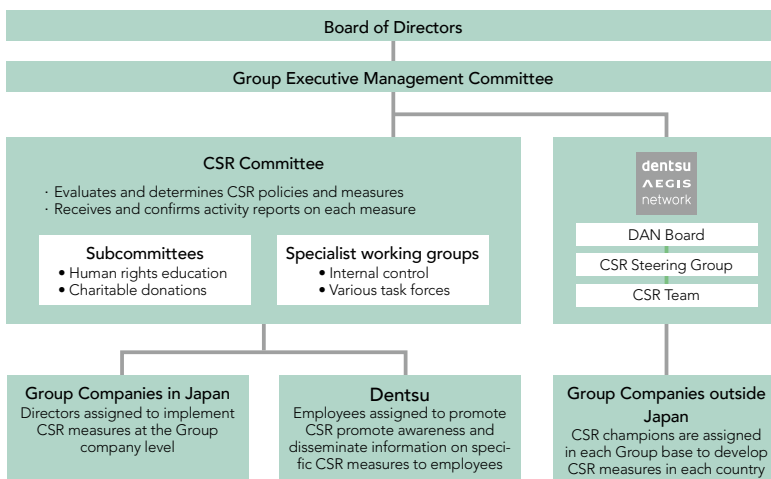
While strictly observing the laws, regulations, and social norms of each country, the code outlines the conduct that all managers and employees in the Dentsu Group must comply with to fulfill their social responsibilities.

Dentsu Group CSR Promotion System

The Dentsu Group's CSR Committee—comprising five officers and chaired by an executive officer—serves as an advisory body to the Group Management Committee, which is tasked with making important management decisions. In FY2017, the CSR Committee met 11 times.

Subordinate advisory committees are set up under the CSR Committee to examine specific facets of the Company. CSR activities for our overseas businesses are formulated by Dentsu Aegis Network Board of Directors, before being reported to the Management Committee and CSR Committee. CSR promotion committee members have been designated in all Dentsu Head Office divisions, in an effort to promote awareness of specific CSR policies among all employees. At the same time, executive officers in charge of CSR have been appointed in Group companies in Japan, while in Group companies abroad, CSR Champions have been appointed. These efforts are designed to advance CSR activities on a Group-wide basis.

Dentsu Group CSR Promotion System



Participation in International Initiatives

Dentsu participates in international initiatives in order to contribute to global social development, and strives to address activities with a focus on environmental, social and governance (ESG) issues and to promote information sharing. The Company joined the United Nations Global Compact in December 2009 and upholds its 10 principles on human rights, labor, the environment, and anti-corruption. It submits a CSR report every year to the UN Global Compact, and compiles an annual stand-alone activities report (Communication on Progress: COP) aimed at the realization of the 10 principles. Dentsu also has become a member of CSR Asia, the largest CSR-related think tank in the Asia-Pacific region, which focuses on deliberation of ESG issues in Asia and the strengthening of alliances with companies in Asia.



Dentsu Group Medium-Term CSR Strategy 2020

In accordance with the Dentsu Group Code of Conduct, based on the medium-term CSR strategy—stipulating the four key areas and common goal—the Group will continue contributing to the realization of a sustainable society by steadily promoting CSR activities worldwide.

CSR Planning: Realizing a Sustainable Society

Nations around the world face a number of social issues, including those that are environment-related, such as global warming, as well as human rights violations that are found in some countries and regions. Many of the issues are the result of corporate activities, since the increased social expectations and demands are causing companies to focus on a variety of activities to fulfill their responsibilities. The advertising industry being no exception, we have persevered in our effort to manage the impact on the environment and society.

However, the role that should be played by the advertising industry is far greater than we had anticipated. That said, we have a significant impact on consumer behavior as it relates to the buying of such goods as daily consumer items, and extends to once-in-a-lifetime major purchases. While being aware of the magnitude of the impact that advertising has on consumption, we also should remain aware of our responsibilities in terms of the fairness of the content and of goods and services that consumers purchase. When it comes to environmental and social impact, we believe advertising companies should bear in mind both direct and indirect impact.

Based on the above considerations, we developed a plan that defines the common goal of the Dentsu Group. The plan—involving the collection of data regarding the Group’s resources and knowledge in Japan and overseas—will be steadily executed with a view to realizing a sustainable society, and through the promotion of sustainable business activities.





Four Key Areas

 <p>Environment To tackle climate change through reducing our environmental footprint across our operations</p>	 <p>Community To build a more effective civil society through a wide variety of community activities</p>
 <p>Supply Chain To develop a more resilient supply chain through developing sustainable procurement practices</p>	 <p>Responsible Marketing and Sustainable Consumption To promote a sustainable society through implementing responsible marketing practices as well as encouraging sustainable behavior</p>

Quantitative Targets in Japan and Group Companies outside Japan

dentsu
Dentsu Group companies in Japan

dentsu
LEGIS
network
Group Companies outside Japan

	Dentsu Group companies in Japan	Group Companies outside Japan
 Environment	Reduce our carbon footprint per person by 30%	Reduce our carbon footprint per person by 40%
 Community	Have 90% of the employees participate in Dentsu’s CSR program and contribute to community development	Enable 500 charities to build communications capabilities
 Supply Chain	Cooperate with 90% of our main suppliers to promote sustainable business activities	Achieve 100% compliance with our supply chain charter principles
 Responsible Marketing and Sustainable Consumption	Provide 90% of our employees with training in the responsible execution of their duties and use their skills and expertise to give something back to society	Engage 1,000,000 people with sustainable consumption campaigns

Respect for Human Rights

Human Rights Policy and Systems

The Dentsu Group is engaged in business activities that incorporate a respect for global human rights in all communications related to business activities, including advertising. We ensure that our activities maintain high ethical standards and reflect awareness of human rights, with the aim of helping to realize a sustainable and rich communication society. We recognize protecting employee human rights to be an important responsibility, and so strive to prevent harassment and honor the human rights and individuality of all our employees, in order to make the most of their abilities. Dentsu Aegis Network released the Group's declaration with regard to slave labor and human trafficking, which echoes the stipulations of the United Kingdom's Modern Slavery Act 2015.

We will make an effort to prevent human trafficking, slavery, and forced labor by identifying and evaluating potential human rights impacts and risks in our business activities and supply chain.

Statement on UK's Modern Slavery Act 2015 → <http://www.dentsuaegisnetwork.co.uk/modern-slavery-statement>

Human Rights Promotion System

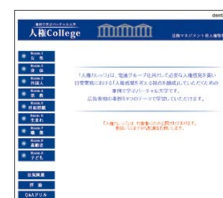
The Dentsu Group Human Rights Education Conference is held twice a year for those in charge of human rights education at the Company, and for human rights education managers at Group companies in Japan. In addition to fundamental human rights issues, topical themes are also covered.

Human Rights Awareness

To increase human rights awareness, the Group runs human rights awareness training programs based on both employee hierarchy and occupational field. The Dentsu Group Human Rights Education Conference is held twice a year for those in charge of human rights education at the Company, and for human rights education managers at Group companies. There are also various opportunities to raise awareness of human rights. Textbooks with information on human rights and explanations of their connection to advertising are utilized by employees.

The Human Rights College, a site that collects past examples of advertising expressions related to human rights, is posted on the Company's intranet. This initiative enables continuous online learning that increases knowledge and realizes the pursuit of better communication. Further, a newsletter dealing with timely human rights-related topics is distributed within the Group twice a month.

In the area of advertising and human rights, the Group has a permanent consulting contact, to ensure that expressions communicated to the world are appropriate, and to respond to Group-wide inquiries. In addition to this, we cooperate with human rights-related seminars held at the Japan Advertising Agencies Association, and make efforts to raise awareness throughout the advertising industry.



Site screen of the Human Rights College

Internal Reporting to Protect Human Rights

We established a contact desk that responds to inquiries from Group employees and allows the identification of possible human rights-related risks associated with the right of expression in advertising. During FY2017, the desk received 296 inquiries. These were handled individually, in a bid both to prevent any recurrence of the issues and to increase human rights awareness.

All harassment-related issues are centralized at the Harassment Counseling Section, which has contact points at Dentsu branches as well as law firms outside the Company, and provides consultation services. The section coordinates with harassment contacts at each Group company, in a bid to prevent harassment across the Group.

To ensure that employee education prevents both power and sexual harassment at Dentsu offices, we have issued an educational book entitled STOP! HARASSMENT. We also hold training sessions tailored to target audiences, including new employees and new managers, and post messages on bulletin boards calling attention to the Company's anti-harassment policy as well as Human Resource Management Division manager's assistant and CSR promotion committee members.

Ensuring a Safe, Civilized Work Environment

Development of Human Resources

Recognizing that human resources are its greatest asset, the Group provides employees with appropriate capability-developing opportunities and supports employee self-development, in line with each individual's career and the organization's goals.

Diversity Promotion

Promoting Female Participation

Dentsu helps develop and support the careers of female employees. To maximize the Company's strength, we formulated an action plan for the promotion of diversity to run from January 1, 2015 until December 31, 2019. Through the plan, Dentsu is striving to expand its existing female-friendly work environments so that female participation in the workplace might increase.

Summary of the Action Plan

Goals

1. Increase the ratio of women among new graduate recruits (permanent employees) to at least 35% by 2020.
2. Increase the ratio of women among managers to at least 10% by 2020.

Specific efforts

1. Adopt measures to recruit and select female employees.
2. Enhance management skills of managers.
3. Foster career awareness among female employees.
4. Dispel uncertainty over work-family balance (raising children, providing care) by revising current systems and support measures.
5. Redesign work style to encourage greater output, reduce long working hours.

Summary of the Action Plan → <http://www.dentsu.com/csr/workingenvironment/workplaceenvironment.html>.

In FY2013, we launched the Female Employees Promotion Project, to create a working environment in which temporary leaves of absence will not jeopardize employees' careers. In addition, at an early stage of their careers, women are given ample opportunities to think about their careers at, for example, lunch meetings with senior female employees. This gives them the chance to hear about the experiences of others, and to attend career seminars held by lecturers invited from outside the Company.

Employing People with Disabilities

As part of its efforts to promote the employment of people with disabilities, in April 2013 the Company established Dentsu Solari, a wholly owned Group company that was designated as a special-purpose subsidiary in November of that year. The employment rate of people with disabilities at three Group companies (Dentsu, Dentsu Works, and Dentsu Solari) is 2.14% (as of 1st of June, 2018). The Company also employs people with disabilities in account management, as well as in creative and other areas. Along with Dentsu Solari, we are trying to expand their employment opportunities.

Contributing to the Community

Dentsu Group Initiatives

Recognizing that local communities are important stakeholders and as a leader in the sphere of communications, Dentsu develops social contribution and community activities. These facilitate the resolution of issues, as well as promote development within, and build relationships of trust with, local communities.

Employee Participatory Community Activities

At Dentsu, we provide opportunities for employees to collaborate with local communities and support volunteer activities.

In 2017, Dentsu twice conducted an in-house volunteer foreign currency coin sorting activity, led by the NPO Japan Habitat Association. Fifty-seven employees took part, with the sorted coins then changed to US dollars and used in Southeast Asian countries for afforestation projects and to help improve the living conditions of local children.



Employee Participatory Community Activities



SOCIETY AND THE POWER OF COMMUNICATION

Kyoko Ikeda

Director, Corporate Philanthropy Dept. Administration Division

For business to be sustainable, it must coexist in harmony with, and be beneficial for, society. Under the slogan The Power of Communication for Society, Dentsu leverages the know-how and skills accumulated through our core business to support human resource cultivation and activities that tackle social issues.

One of our core activities is the Advertising Elementary School project in Japan. During a study period, students create a commercial intended to improve their communication skills and encourage self-discovery. The activity leads them to discover issues in an educational environment, resulting in the creation of better curriculums through the development of educational materials and class support.

Further, our social contribution activities enable us to contribute to the United Nations' Sustainable Development Goals (SDGs). In conjunction with the National Federation of UNESCO Associations in Japan, we have developed a variety of NPO support programs and projects. For many years, we have also been engaged in activities focused on education, hunger, responsible use, the environment and other of the 17 SDGs.

One result of the activities having been conducted over the long term is that they have had a positive impact on communities. At the same time, the employees involved have learned a lot, while gaining a sense of the enjoyment of social contribution. We plan to create a platform that combines the knowledge of our business partners and stakeholders with the know-how of our employees to further expand the scope of activities in which Dentsu can play an important part.

Responsible Marketing Communications

Dentsu Group Initiatives

In recognition of the substantial impact advertising has on society, Dentsu has established behavioral principles and guidelines related to creative work, and pays the utmost attention to advertising production.

Dentsu Creative Code

Society is substantially impacted by creative output and processes centered on advertising. In recognition of our social responsibility and in order to fulfill our role, we position the success of our customers and the creation of a better society as our mission. To this end, we established the Dentsu Group Creative Operational Code, a behavior policy for every employee involved in creative businesses in all Dentsu Group companies, units and divisions. We make an effort to improve ethics and creativity within creative businesses by constantly learning and improving.

Guidelines Regarding Advertising and Marketing That Affect Children

In 2016, NGO Save the Children Japan published *Guidelines Regarding Advertising and Marketing that Affects Children* formulated by the NGO's Children's Rights and Marketing/Advertisement Review Committee. Dentsu cooperated with the formulation of these guidelines through Global Compact Network Japan.

Publicity Business Guidelines

Dentsu has formulated Publicity Business Guidelines, and conducts its publicity business in accordance with these guidelines.

Contributing To Sustainable Development

At the September 2015 United Nations Sustainable Development Summit, the Sustainable Development Goals (SDGs) were announced as an action plan for humanity, the Earth and prosperity. The plan comprises 17 goals and 169 targets. The Dentsu Group, which provides a diverse array of value in the communications field and always looks to the future, is contributing to the resolution of global social issues. Through seminars and workshops, we are helping to provide support for stakeholder SDG initiatives. As part of these activities, in November 2017 we invited photographer Leslie Kee to create portraits of Dentsu employees engaged in efforts to achieve the SDGs. In this way it was hoped that awareness of the SDGs would be further inculcated within the Company. In addition, we created the SDGs Communication Guide. It is a guide for employees engaged in corporate management and advertising, as they go about their advertisement-related and promotional activities in connection with the SDGs.

Further, the Dentsu Group is participating in the groundbreaking initiative called Common Ground, with the world's five other top advertising and marketing services groups (Havas, IPG, Omnicom, Publicis, and WPP). The Group is focused on Goal 3, which is health, and is working with NGOs to counter global infectious diseases such as malaria and tuberculosis.

Common Ground ⇒ <http://www.dentsu.com/csr/commonground.html>

SDGs Communication Guide ⇒ http://www.dentsu.com/csr/team_sdgs/pdf/sdgs_communication_guide.pdf



Photographed by LESLIE KEE



SDGs Communication Guide



Supply Chain

Dentsu Group Initiatives

To ensure that procurement activities are socially responsible throughout its supply chain, the Dentsu Group distributes guidelines and CSR-related questionnaires to its business partners, while monitoring environmental, social and governance risks.

Dentsu Basic Procurement Policy

In line with the Dentsu Group Code of Conduct and desire for fair business dealings with its suppliers and business partners, the Company established the Dentsu Basic Procurement Policy.

1. Fair business dealings

We shall conduct fair business dealings.

- (1) Our business dealings shall comply with laws and regulations.
- (2) When selecting suppliers and business partners, we shall not only take into account economic factors, but also give due consideration to compliance and environmental issues.

2. Cooperation with Dentsu's management system

When our suppliers and business partners collaborate with us, we request understanding of, and cooperation with, Dentsu's management system, including the Dentsu Group Code of Conduct, the Dentsu Procurement Guidelines and other Dentsu Group rules.

Dentsu Basic Procurement Policy, Dentsu Procurement Guidelines →
<http://www.dentsu.com/csr/compliance/procurementactivities.html>

Dentsu's CSR Procurement Activities

The Dentsu Group promotes CSR initiatives even with regard to procurement. By distributing Dentsu procurement guidelines among its business partners, we expect them to respect human rights, comply with prevailing laws and regulations, support environmental conservation, and show respect for intellectual property rights in terms of the production and provision processes of all services.

The Dentsu procurement guidelines were revised in March 2014, in order to observe the addition of international anti-corruption regulation tenets (the 1977 US Foreign Corrupt Practices Act and the 2010 UK Bribery Act), as well as regulations pertaining to conflict minerals (Section 1502 of the US Dodd-Frank Act of 2010) as part of our business ethics with the aim of realizing CSR procurement that helps contribute to human rights.

To monitor environmental, social, and governance (ESG) risks in the supply chain, Dentsu conducts supply chain assessments. These are online surveys comprising 30 ESG-related questions. By 2020, we aim to have collected survey responses from 900 companies. Having already received responses from 246 companies, it was revealed that 182 companies (73.9%) are specifically aware of the existence of the Dentsu Group Code of Conduct.

In addition, we ask all new clients to comply with the requirements of CSR-related procurement by incorporating a subcontractor basic agreement clause governing CSR procurement activities.

Respect for Laws and Regulations and Various Rights in Business Activities

In order to maintain fair business practices in communications activities, compliance with various laws and regulations is expected and Dentsu aims to take the lead to be the cornerstone of legal norms in order to maintain its stakeholders' and society's trust. To this end, efforts are taken to ensure compliance with various laws such as the Act against Unjustifiable Premiums and Misleading Representations, for the appropriate offering of premiums and advertising; Act on the Protection of Personal Information, for the adequate protection of personal information of consumers who participate in campaigns and questionnaires; the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, to conduct fair and appropriate dealings with subcontractors; and the Financial Instruments and Exchange Act, to conduct appropriate stock trading.

As part of such efforts, for intellectual property rights in the realm of creative expression for advertising works, such as trademarks, design rights, copyrights, and publicity rights, Dentsu works to (1) improve the knowledge and awareness of employees through continuous educational and training programs, (2) disseminate information through easy-to-understand legal handbooks and manuals and the Company intranet, and (3) establish a designated department for consulting on legal and creative affairs. Going forward, Dentsu will continue to protect intellectual property rights and develop an environment for legal compliance in order to be a cornerstone for legal norms.

Tax Behavior Principle

The Dentsu Group formulated its Tax Mission Statement and Tax Strategy to maintain consistency with Dentsu Group business strategies and activities, corporate values and social responsibilities, as well as to maintain and improve Group value by taking appropriate tax positions and paying taxes as appropriate.

Structures for Environmental Activities

Dentsu Group Initiatives

Recognizing environmental problems to be a key issue in terms of the Group's corporate social responsibility, Dentsu established the Dentsu Eco Program to promote Group-wide environmental protection initiatives.

In recognition of these efforts, Dentsu was certified as an Eco-First Company by the Ministry of the Environment. As a result, the Group will continue these activities and contribute to the realization of a sustainable society by collaborating with all stakeholders and environmental communication initiatives.

Environmental Policy

The Dentsu Group aims to make each employee strongly conscious of its corporate philosophy of Good Innovation and, based on the Dentsu Group Code of Conduct, reduce the environmental burden generated through its business operations in order to contribute to the realization of a sustainable society.

- In order to realize a sustainable society, we will correctly assess the environmental impact of its business activities and work to reduce its burden on the environment.
- Work to develop and propose environmentally conscious business activities and contribute to the improvement of environmental issues.
- Ensure thorough implementation of environmental compliance and engage in ongoing improvements to boost environmental performance through more precisely defined environmental objectives and outcomes.

Environmental Protection

- Actively endeavor to prevent pollution, alleviate climate change, and conserve biodiversity and ecosystems.

Environmental Communication

- Actively engage in environmental education, for the next generation and environmental communication activities for business partners and employees, to raise recognition of environmental issues.

Structures for Environmental Activities and Management System

Dentsu designated environmental managers to advance Group-wide efforts for the environment. Additionally, we adopted the Dentsu Group Eco Program (ongoing) in January 2005, and we acquired ISO 14001 certification in May 2005. Integrated Group certification that included subsidiaries in Japan was acquired in June 2006. Dentsu and 17 Group companies hold this certification as of January 2017.

Raising Awareness

At Dentsu, we promote environmental slogans, eco-awards, and other awareness activities as measures aimed at heightening employee environmental awareness. In addition, we encourage employees to take the Tokyo Chamber of Commerce and Industry's Certification Test for Environmental Specialists and acquire certification.

Our activities include providing handbooks for use in employee education, including the Green Event Guide to promote eco-friendly green events, and the Greenwash Guide to eliminate advertisements that are misleading in terms of their impact on the environment.

Eco-First Commitment Declaration

Dentsu is an Eco-First company¹ certified under the Eco-First System² set up in 2004 by the Ministry of the Environment. In 2017, Dentsu declared its commitment to the Eco-First System, which aims to help realize sustainable societies through cooperation with stakeholders. We will continue to promote awareness and understanding of environmental issues, as we work to reduce environmental burdens.



1. Dentsu was certified under the government's market greening policy in 2008.

2. For Eco-First System details, see Ministry of the Environment website: <https://www.env.go.jp/en/focus/docs/files/20111109-07.pdf>, pp. 15, 18.

The system is operated by the Ministry of the Environment for companies that promote initiatives for environmental conservation, involving initiatives that support environmental conservation, such as those designed to ameliorate the effects of global warming, as well as curb waste and support recycling and other environment-friendly conservation efforts.

Climate Change Countermeasures

Governance

The CSR Committee takes a lead in determining Company policies and key items related to global climate. These are discussed by the CSR Committee, before being reported to the Group Executive Management Committee.

Strategies and Responses

Based on the Group's environmental policy, the CSR Committee conducts performance evaluations on sustainability and provides feedback to business units through the CSR Promotion Committee. During this process, risks and opportunities are discussed from medium- and long-term perspectives. This is imperative, given that environmental protection is one of the key targets of the Group's Medium-term CSR Strategy 2020.

Risks and Opportunities

With the recent expansion of our international business involving M&As and other arrangements, our global environmental burden may increase. Recognizing the issue as an emerging risk, in collaboration with DAN we are working on ways to reduce this burden.

Initiatives to Reduce CO₂ through SBT

To realize a decarbonized society, the Dentsu Group aims to achieve the 2°C target* stipulated in the Paris Agreement, an accord within the United Nations Framework Convention on Climate Change, with the goal of reducing greenhouse gas emissions based on scientific evidence by establishing Science Based Targets (SBT). Dentsu received the international Science Based Targets initiative certification in recognition of having established science-based goals. The Dentsu Group aims to reduce Scope 1 and 2 CO₂ emissions 24% by 2030 compared with 2014 levels, and to reduce Scope 3 (business trips) CO₂ emissions 25% per employee by 2050 compared with 2015 levels. We plan to continue tackling climate change issues by making further efforts to reduce CO₂ emissions.



* According to the framework for global warming countermeasures adopted at COP 21, the planet's average temperature increase is to be held at under 2°C compared with pre-industrial revolution levels. It was agreed that we must reduce global greenhouse gas emissions to zero during this century.

Sustainability

Data Summary

Employment Data (Parent Company only)

Number of Employees (Each year-end)

	March 2014	March 2015	December 2015	December 2016	December 2017
Consolidated	39,427	43,583	47,324	55,843	60,064
Non-consolidated	7,425	7,348	7,261	6,799	6,927

Ratio of Women among Managers (FY2017)

(Unit : %)

Total	8.0%	(including personnel seconded to the Company and excluding personnel seconded from the Company)
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New Graduates Hired

	April 2014	April 2015	April 2016	April 2017	April 2018
Total	135	132	144	145	145
Male	91	92	88	82	84
Female	44	40	56	63	61
Female Component	32.6%	30.3%	38.9%	43.4%	42.0%

Number of New Graduates and Mid-career Personnel Hired

	FY2013	FY2014	FY2015	FY2016	FY2017
Total	169	167	152	176	244
Male	114	120	108	115	158
Female	55	47	44	61	86
Female Component	32.5%	28.1%	28.9%	34.7%	35.2%

Work-Life Balance

Average Number of Paid Vacation Days Taken

	FY2013	FY2014	FY2015*	FY2016	FY2017
Total	10.3	10.8	8.4	11.2	12.8
Male	9.2	9.6	7.5	10.2	12.1
Female	13.1	13.8	10.6	13.9	14.5
Leave Taken	51.5%	54.0%	42.0%	56.0%	64.0%

Annual Paid Vacation in Hour Increments Taken (Part of paid vacation days)

	FY2013	FY2014	FY2015*	FY2016	FY2017
Total Hours Taken	45,005	49,712	38,275	47,138	49,459
Total Number of People Taking Leave	17,111	14,568	14,308	18,217	19,401
Number of Hours Taken at One Time	2.6	3.4	2.7	2.6	2.5

Employee Composition (December 31, 2017)

	Male	Female	Total
Executive officers, others	43	2	45
Management staff	1,531	136	1,667
Non-management staff	2,575	1,028	3,603
Contract employees	269	288	557
Clerical staff	1	532	533
Partners / Senior staff	117	43	160
Part-timers, others	32	24	56
Seconded from other entities	211	95	306
Total	4,779	2,148	6,927

Average Age of Employees

Overall	40.1
Male	41.8
Female	36.4

Average Number of Consecutive Years Served

Overall	40.1
Male	41.8
Female	36.4

Note: "Executive officers, others" indicates senior corporate advisors, special advisors and executive officers (excluding Directors and Audit and Supervisory Committee Member). "Part-timers, others" indicates permanent part-timers, non-permanent part-timers and employees of overseas branches.

Note: Employees on temporary transfer are excluded.

Employees Taking Childcare Leave, Reinstatement Ratio

	FY2013	FY2014	FY2015*	FY2016	FY2017
Total	51	60	81	81	106
Male	11	10	15	31	47
Female	40	50	66	50	59
Reinstatement ratio	96.1%	100%	100%	100%	100%

Note: In FY2014, we recounted the number of the employees who took childcare leave in the past and revised the number in conjunction with the reinstatement ratio.

Total Hours Worked per Year (Per Non-management Employees)

	FY2013	FY2014	FY2015*	FY2016	FY2017
Total	2,265	2,252	2,187	2,166	2,031

Note: 1. Employees on temporary transfer are excluded.
2. Following the change in the working hours management, the number of actual working hours has been revised from FY2017
3. Including management positions from FY2017.

Leveraging Diverse Human Resources

	Employment Rate of People with Disabilities (Unit : %)				
	June 2014	June 2015	June 2016	June 2017	June 2018
Total	1.79%	2.01%	2.04%	2.07%	2.14%

Social Contribution Activities

	Community Investment (Unit : British Pound)				
	Cash Donations	Time Donations	In-kind Donations	Management costs of CSR	total
DAN	689,463	2,188,574	8,632,475	432,090	11,942,602

Employee Engagement Survey

	Survey on the Company and Work (Unit : %)				
	January 2014	January 2015	January 2016	January 2017	January 2018
Q. Have you gained experience and knowledge made possible only by working at Dentsu?	94.0%	95.1%	94.4%	93.2%	92.3%
Q. Are you proud to work at Dentsu?	87.3%	88.1%	86.8%	80.2%	78.4%
Q. Going forward, do you want to continue working at Dentsu?	78.9%	78.5 %	75.6%	73.5%	72.1%

Source: "Employee Engagement Survey 'Dentsu Now in 2018' results summary (comparisons between rank and class)" March 2018

Environmental Performance Data

	FY2015	FY2016	FY2017
CO ₂ emissions (tons)	109,840	124,698	113,134
Dentsu (non-consolidated)	29,188	30,886	28,991
Dentsu Group in Japan	19,360	18,584	16,443
DAN (Dentsu Group Overseas)	61,292	75,229	67,700
CO ₂ emissions per FTE	2.49	2.42	2.11
Scope 1 (tons)	4,482	5,170	5,611
Dentsu (non-consolidated)	577	594	452
Dentsu Group in Japan	310	409	417
DAN (Dentsu Group Overseas)	3,595	4,166	4,742
Scope 2 (market-based, tons)	53,836	55,126	48,573
Dentsu (non-consolidated)	20,938	21,867	20,287
Dentsu Group in Japan	11,432	10,496	8,258
DAN (Dentsu Group Overseas)	21,466	22,762	20,028
Scope 3 (tons)	51,523	64,403	58,949
1. Purchased goods and services	4,844	3,066	2,396
5. Waste generated in operations	884	933	1,110
6. Business travel	42,460	57,372	52,603
7. Employee commuting	3,334	3,030	2,841

Scope and Method of Calculation

- Excluding some of Dentsu Group companies
- Based on the calculation standards of WRI (World Resources Institute) GHG Protocol
- For CO₂ emissions, Categories 1, 5, 6, and 7 were calculated for Scope 3

Financial Report

Management's Discussion and Analysis of Financial Position and Operating Results

Dentsu Inc. and Consolidated Subsidiaries
As of March 29, 2018

Any forward-looking statements in the following discussion and analysis are based on the judgment of management as of the date that Dentsu Inc. (hereinafter "Dentsu" or "the Company") filed its securities report for the fiscal year ended December 31, 2017 with regulatory authorities.

Significant Accounting Policies and Estimates

The Company's consolidated financial statements are prepared on the basis of International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board.

In the preparation of these consolidated financial statements, management discloses the amounts of the reported asset and liability figures as well as those of off-balance sheet transactions such as contingent liabilities, as of the date the accounts are closed. Management also estimates the impact of these figures on the Company's financial position and operating results during the reporting period. Management continuously evaluates forecasts and assumptions regarding such items as investments, business combinations, retirement benefits and corporate taxes, as well as contingencies and litigation. Management bases its estimates and assumptions on the consideration of several factors, given past performance and conditions. These results underpin asset and liability book values and reported revenue and expense figures. However, uncertainties are inherent in such results and estimates may vary from actual results.

The critical accounting policies described below are those that management considers to have specific potential to affect the financial position and operating results of the Group. Such policies may also include important assumptions and estimates used in creating the Company's consolidated financial statements and therefore have a material impact on these statements.

Revenue Recognition

Revenue consists primarily of commissions received for the placement of advertising into different media and consideration received from advertisers and others for providing services, such as assistance in the production of advertising, including creative, and various content-related services.

Revenue from the production of advertising and other advertising-related services is recorded based on the consideration paid as compensation for such services to the Group by advertisers and others less costs incurred. In some cases, revenue is also recorded based on a fixed fee or other compensation.

Revenue from commissions received from advertisers for the placement of advertising is generally recognized when the media is placed. Other revenue is generally recorded when the service is completed, an estimate of the amount of compensation can be reasonably determined and it is probable that the future economic benefit will flow to the Group.

Revenue and costs arising from transactions relating to services other than advertising services are presented as a gross amount.

Turnover represents the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of turnover information is not required under IFRS.

Impairment Loss on Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Property

The Group determines whether there is any indication of potential impairment loss on non-financial assets excluding inventories and deferred tax assets on the closing date. If any such indication exists, an impairment test shall be conducted based on the recoverable amount of relevant assets. Goodwill is not subject to amortization, and is instead tested for impairment loss annually regardless of whether there is any indication of impairment, or every time when there is an indication of impairment loss. The recoverable amount of assets shall be either the fair value of assets or cash-generating units after deducting costs of disposal of the assets, or value in use, whichever is higher. If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount and impairment loss is recognized. In the calculation of its value in use, certain assumptions regarding useful life, future cash flow, growth rate, discount rate, etc., of the asset are used.

These assumptions are determined based on past performance, best estimates, and judgments based on

business plans approved by the management of the Company. The assumptions, however, may be affected by modifications in business strategies and changes in market environment. If any change to these assumptions is required, the amount of impairment loss to be recognized may be significantly affected.

Valuation of Financial Instruments

The Group holds financial assets such as securities and derivatives, and uses certain assumptions in the valuation thereof. Fair values are determined in accordance with calculation procedures such as the market approach, as well as referencing market prices.

In particular, the fair value of stocks that are actively traded in the market, among other securities and financial assets, is determined based on the market price. The fair value of stocks that are not actively traded in the market is evaluated at the amount calculated by using observable market data, or at the amount calculated primarily by the market approach using unobservable inputs.

The fair value of compensation attached to conditions arising from the result of business combinations and share price obligations is assessed based on valuations calculated with the discounted cash flow method using unobservable inputs.

Management evaluates whether the valuation of fair value of financial instruments is conducted in a reasonable manner. However, fair value to be recognized may be significantly affected if any revision to the estimate is required due to unforeseeable changes in assumptions that underlie the value.

Valuation of Defined Benefit Obligation

Defined benefit obligation and retirement benefit costs are recorded on the basis of pension actuarial calculations. These calculations are dependent upon such factors as the discount rate, future compensation levels, employee turnover, and mortality rates, among others.

Management evaluates whether those assumptions that underlie the above values are reasonable. However, if the actual values of these factors vary from the forecast values, or if the assumptions that underlie these values change, the Company may be significantly impacted by the recognition

of such costs or by the recording of such liabilities, on a consolidated basis.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the obligation will be required to be settled, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, provisions are measured based on the present value using a discount rate reflecting the risks specific to the liability.

Such provisions are calculated based on the best estimate, taking uncertainties on the closing date into consideration. However, the amount may be impacted in case of any unforeseeable events or changes in circumstances. If the actual result varies from the estimate, the amount of obligations to be recorded may be significantly affected.

Collectability of Differed Tax Assets

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which carryforwards of unused tax losses, tax credit carryforwards and deductible temporary differences can be utilized. Deferred tax assets are reassessed at the end of the fiscal year and reduced by the amount of any tax benefits that are not expected to be realized.

The Group records deferred tax assets based on future taxable income and ongoing tax planning that emphasizes cautious and highly implementable approaches. Thus, we determine that the collectability is evaluated based on reasonable estimates. However, such estimates may be impacted in case of any unforeseeable events or changes in circumstances. If the actual result varies from the estimate, costs to be recognized and assets to be recorded may be significantly affected.

Analysis of Operating Results for the Fiscal Year under Review

Revenue and Gross Profit

Consolidated revenue for the fiscal year under review reached 928.841 billion yen (up 10.8% compared to

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the previous consolidated fiscal year), and gross profit totaled 877.622 billion yen (up 11.2%).

Within gross profit, the Japan business generated 361.902 billion yen (down 0.4%), roughly in line with the previous consolidated fiscal year.

In the Group's international business operations, gross profit was 516.052 billion yen (up 21.1%). The organic gross profit growth rate in the international business rose 0.4% year on year. By region, growth in EMEA was up 3.1%; the Americas, down 1.5%; and APAC, down 0.6%.

Selling, General and Administrative Expenses, Other Income, Other Expenses and Operating Profit

Consolidated selling, general and administrative (SG&A) expenses for the consolidated fiscal year under review came to 751.957 billion yen (up 14.0% compared to the previous consolidated fiscal year).

Other income was 23.347 billion yen (up 40.7%), and other expenses came to 11.62 billion yen (up 44.1%).

As a result, operating profit for the consolidated fiscal year under review reached 137.392 billion yen (down 0.2%).

Share of Results of Associates, Finance Income or Costs, and Profit for the Year

Share of results of associates for the consolidated fiscal year under review was 4.222 billion yen (up 25.6% compared to the previous consolidated fiscal year), and the net difference between finance income and finance costs came to 8.048 billion yen in income. As a result, profit before tax came to 149.662 billion yen (up 12.6%).

Of the profit for the year, derived by deducting income tax expense from profit before tax, profit attributable to owners of the parent reached 105.478 billion yen (up 26.3%).

Management Policies, Business Environment and Issues to Be Addressed

In the Japan business, the Dentsu Group places the highest priority on work environment reforms and is making every effort to drastically improve approaches to work and work styles. The two-year period during FY 2017 and 2018 is positioned as a time for reforms, thus we are promoting corporate infrastructure reforms that

will enable sustainable growth.

At the same time, responding to the use of data and technologies amid ongoing digitization is becoming increasingly critical in the Dentsu Group's Japan and international businesses. In this changing environment, to create the value truly desired by Dentsu Group clients and society, we recognize business transformation represented by changes in the way we do business to be a pressing issue.

The following are specific issues and initiatives with respect to work environment reforms conducted mainly in the Japan business and business transformations throughout the entire Dentsu Group.

Forward-looking items in the following section were determined by the Dentsu Group as of the Securities Report filing date.

(1) Working Environment Reforms

Dentsu understands the seriousness of its Labor Standards Law violations and recognizes that it failed to fulfill its social responsibilities as a corporation. We are engaged in drastic reforms to ensure thorough compliance, reduce heavy workloads and improve the working environment.

We will shorten working hours and improve operational quality, while engaging in the structural reforms to the overall function of our corporate infrastructure, as well as promoting working environment reforms that are inextricably linked to our business transformation.

Specifically, in FY2017 we strove to implement a wide range of improvement and reform measures focused on thorough labor management, enhanced worker protection, review of workflows through job inventories, and smart work styles. We also established the Independent Advisory Committee for Labor Environment Reforms comprising outside experts to provide advice and monitoring with regard to working environment reform measures as well as verify the actual state of improvements executed through these measures. As a result of these efforts, the total amount of time worked by employees in 2017 was 2,031 hours, which was lower than the 2,100-hour 2017 target announced in our basic plan. The employee rate of paid leave utilization in 2017 was 64.0%, an improvement compared with the 56.0% rate in the previous fiscal year. Going forward, Dentsu will steadily implement these reforms with the aim of once again becoming a corporate Group trusted by all Group employees, business partners, shareholders, investors and society at large.

The ultimate goal is for the Group to become the best possible partner when it comes to helping clients realize their own business transformations.

(2) Dentsu Group Business Transformation

i. Japan Business

In the Dentsu Group's Japan business, which achieved record high profits in the previous fiscal year and was impacted by working environment reforms, FY2017 Japan business gross profit and underlying operating profit both decreased compared to the previous fiscal year. However, we did achieve the second highest gross profit ever.

Dentsu will continue efforts to strengthen competitiveness with the aim of achieving sustainable growth in the Japan business. Specifically, client companies, the advertising industry and consumer behaviors are all changing because of technological innovations mainly in digital technologies. Client companies tend to emphasize returns on advertisement investment, thus we believe it necessary to continually refine integrated planning methods based on technology and data. Concrete examples of these efforts include the promotion of equipment standardization through the restructuring of internal systems and proactive collaborations and alliances with partners with greater specialization to further advance the function of People Driven Marketing™, an integrated planning framework launched in the previous fiscal year. We aim to further strengthen our competitiveness in the marketing communications domain through these functional enhancements as well as proactive external alliances and investment. Further, amid the ongoing advance and increasing complexity of client company business issues, we will promote the expansion of service lines within the business design domain with regard to client management and business development in light of the growing importance of providing solutions that take into consideration business issues that exist within client companies. In addition to our several thousand clients, we possess a variety of contact points, including the media and platform developers. We will take on the challenge of deepening these alliances and linking them to our various capabilities to go beyond our traditional business domains. The Dentsu Group will promote various measures and engage in business transformations within the Group itself to evolve into the best possible partner when it comes to helping clients realize their own business transformations.

ii. International Business

The Group transformed itself into a full-fledged global network through the March 2013 acquisition of Aegis Group plc (currently Dentsu Aegis Network Ltd.) and has since proactively promoted international business. FY2017 was a year in which we took on new challenges, including the comprehensive revamping of many client companies' traditional marketing activities and the transition to marketing utilizing data in response to the digital age.

In anticipation of these changes, we are acquiring the resources necessary for building a foundation for future growth, engaging in several M&A projects that will contribute to strengthening our competitiveness and improving our capabilities and service quality in the digital domain. As a result, the net increase in new business in FY2017 within media amounted to a record high \$5.2 billion. Going forward, we will maintain this momentum and continue investing in the data domain. In the data marketing domain in particular, this will mainly revolve around the global deployment of the "M1" data platform developed by the Merkle Group Inc., a company we acquired in FY2016, for use by the entire Group to create synergies and realize greater growth. Further, we will conduct investments intended to create a common corporate infrastructure contributing to operational standardization, quick decision-making and business efficiency as well as establish shared services to achieve long-term business growth. Going forward, we will strive to develop and expand our global network to be globally competitive while promoting business transformations overseas.

Finally, we will continue to engage in CSR activities globally.

Based on the "Dentsu Group Medium-term CSR strategy 2020" formulated in 2015, the Group is promoting activities in pursuit of targets to be achieved by 2020 in four key domains including environmental conservation. We also participate in activities supporting NGOs with the aim of eliminating malaria and tuberculosis through the Common Ground campaign engaged in the Sustainable Development Goals (SDGs) in conjunction with the world's five largest advertising agencies. In addition, this fiscal year we have begun updating our current medium-term CSR strategy. With regard to the selection of important CSR issues, we gather opinions from a wide range of employees, and in

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order to fulfill our social responsibilities to a greater degree than ever through Dentsu Group business activities, we see this as an opportunity to encourage managers and employees to consider the relationship between their own work and society.

In June 2016, in response to a call from the United Nations Secretary General, Dentsu announced Sustainable Development Goal (SDG) initiatives in collaboration with the five largest advertising agencies in the world. This campaign, called Common Ground, is a groundbreaking initiative that approaches global social issues through cooperation overriding competitive business relationships.

Moving forward, we plan to continue efforts to enhance corporate value by augmenting desirable CSR activities as a leading global group in the communication domain.

Analysis of Capital Resources and Cash Liquidity

Assets, Liabilities and Equity

As of December 31, 2017, total assets increased by 407,626 million yen compared to the previous consolidated fiscal year, due primarily to increases in trade and other receivables. Total liabilities increased by 239,453 million yen, mainly due to increases in trade and other payables and borrowings. Total equity increased by 168,173 million yen due to recording of net profit and other factors.

Cash Flows

As of December 31, 2017, cash and cash equivalents (hereinafter "cash") amounted to 305,760 million yen (242,410 million yen was posted at the end of the previous consolidated fiscal year). As net cash provided by operating activities and net cash provided by financing activities exceeded net cash used in investing activities and net cash provided by financing activities, cash at the end of the consolidated fiscal year under review increased by 63,349 million yen from the end of the previous consolidated fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to 141,557 million yen (provided 143,585 million yen in

the previous consolidated fiscal year), primarily due to recording of profit before tax.

Cash flows from investing activities

Net cash used in investing activities amounted to 85,531 million yen (used 156,161 million yen in the previous consolidated fiscal year), primarily due to purchase of investments in subsidiaries.

Cash flows from financing activities

Net cash provided by financing activities amounted to 1,226 million yen (used provided 2,539 million yen in the previous consolidated fiscal year), as cash provided by long-term borrowings exceeded the decrease in short-term borrowings.

Capital Requirements

The Group's principal working capital requirements are payments for the purchase of advertising time and/or space and the production of advertisements, as well as personnel costs and other SG&A expenses.

In recent years, capital requirements have increased for investments in the digital and global domains in the course of exploring different from existing advertising opportunities.

Financial Policy

The Group's primary source of funds is cash generated from internal reserves, corporate bonds, short-term borrowings and the issuance of commercial paper. The Group has generally had positive working capital (current assets minus current liabilities) on a consolidated basis. In the previous fiscal year and the fiscal year under review, the Group's working capital recorded positive amounts of 18.8 billion yen and 94.3 billion yen, respectively.

To ensure short-term liquidity, Dentsu established a bank credit line of up to 50.0 billion yen via a syndication arrangement. Also, Dentsu Aegis Network established a bank credit line of 500 million pounds (approximately 71.5 billion yen) as a contingency fund. In addition, to improve cash efficiency within the Group, a cash management system (CMS) was introduced so that Dentsu could borrow cash from domestic consolidated subsidiaries. A Groupwide finance system is now in place that enables nearly all

domestic consolidated subsidiaries that require funding to borrow funds acquired for this purpose from other domestic consolidated subsidiaries with excess cash. Also, a global CMS has been introduced at Dentsu Aegis Network, through which overseas cash is consolidated in London.

The Japanese rating agency Rating and Investment Information, Inc., or R&I, has assigned a rating of AA- to Dentsu's long-term debt and a rating of a-1+ to its short-term debt.

Operating and Other Risks

The operating results, share price and financial position of Dentsu and, by extension, the Dentsu Group are subject to various risks, as described below.

Any forward-looking statements in the following discussion are based on the judgment of management as of the date of filing the securities report.

Overall Industry-related Risk

Risk related to fluctuations in the economic and business environments

The financial results of the Dentsu Group and other companies in the advertising industry are highly susceptible to changes in the market and business conditions because many advertisers adjust their spending in response to changes in these conditions.

Management has taken steps, such as diversifying the types of services the Group provides and geographic regions in which the Group operates, to reduce exposure to the impact of fluctuations in economic and business environments. Nonetheless, the Group's financial results may be influenced by macroeconomic trends in Japan and fluctuations in the operating environment of key domestic industry sectors that have significant advertising expenditures. In addition, changes in business conditions outside Japan, such as an economic slowdown or exchange rate fluctuations, could also adversely affect business conditions in Japan, and therefore adversely affect the results of operations of the Group's business in Japan.

The Great East Japan Earthquake that occurred in March 2011 adversely affected the Japanese economy due to supply chain disruptions, electricity shortages and other factors. While economic and business conditions in Japan have improved since then, there is no assurance that

conditions may not deteriorate again in the future, including as a result of future earthquakes or other natural disasters.

With the acquisition of the major British advertising agency Aegis in March 2013, the proportion of the Group's gross profit accounted for by its operations outside of Japan increased significantly, to 54%, in FY2015. With this development, downturns in the economies and business environments of the principal markets in which the Group operates outside of Japan could have an increased adverse impact on its overall results of operations.

Risk related to technological innovation and structural changes in the media

Developments in technology and structural changes in the media are having an increasing impact on the Dentsu Group's business. According to 2017 Advertising Expenditures in Japan (issued by Dentsu), Internet advertising expenditures have continued to grow since the first survey in 1996 and have reached a level surpassing the amounts allocated to newspaper, magazine or radio advertising, which are three of the four traditional mass media (newspapers, magazines, radio and television).

Management believes that the development of Internet-based and other new media advertising should contribute to expanding the overall advertising market by generating synergies between advertising in the four traditional mass media and such new advertising. The Dentsu Group also believes that it has already secured a leading position in Japan not only in advertising in the four traditional mass media but also in Internet advertising, and the Group continues to seek to explore and exploit further business opportunities.

Nevertheless, if the Group cannot cope appropriately with changes in the media structure associated with the rapid pace of technological innovation, its results of operations could be adversely affected.

Risk related to common business practices

In Japan, Dentsu Group companies are liable for payment to media companies regardless of whether they receive payment from their clients. This practice exposes the Group to the risk of payment default by advertiser clients, including as the result of the bankruptcy of clients. An increase in payment defaults by clients could adversely affect the Group's results

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of operations. The nature of the advertising business is such that sudden changes in advertising proposals and actual advertisements are frequent. The Group strives to preclude problems related to work for clients through measures such as encouraging the conclusion of basic written contracts with them, but unforeseen events or disputes with clients may arise.

Overseas, especially in Europe and the Americas, relationships between advertisers and advertising agencies are usually exclusive within a particular industry. In Japan, however, these relationships are typically less exclusive. Accordingly, the Dentsu Group, like other advertising agencies in Japan, handles multiple clients in a single industry. If the practice in Japan were to change in favor of exclusive relationships, and if the Group's efforts to respond to such a change were ineffective, its results of operations could be adversely affected.

Competition-related Risk

Risk related to competition among advertising agencies

The Dentsu Group faces increasing competition from advertising agencies in Japan and overseas.

In Japan, mergers among domestic advertising companies or other reorganizations of the domestic industry, or further entry into the market by large global advertising companies, could alter the structure of Japan's advertising industry and increase the competitive pressure that the Group faces. Going forward, the Group's results of operations could be adversely affected by increased competition to secure clients if the Group is unable to respond effectively to changes in the structure of the industry or standard business practices prompted by such developments.

Outside of Japan, the Group competes with large global advertising companies, some of which have greater geographic scope and greater financial, human and other resources than the Group, as well as with smaller agencies that specialize in one or more countries or local markets. To the extent that the Group is not able to remain competitive and obtain and retain key clients, its results of operations may be adversely affected.

Risk related to competition from new market entries and from adjacent industries

The rapid expansion and diversification of the advertising field is giving rise to competition from

an increasing number of companies in adjacent industries, including general trading and consulting companies. Fields related to Internet advertising and social networking services are also seeing a sharp increase in the number of new market entrants, and the Dentsu Group competes with these companies in the development and expansion of new businesses. If the Group is unable to respond effectively to client needs in such business domains from either a service or a cost perspective, or if the entrance of new companies into these new markets suddenly causes rapid changes in customary advertising business practices, the Group's results of operations could be adversely affected.

Risk Related to Advertisers and Media Companies

The Dentsu Group has formed business ties with major advertisers in Japan and has maintained stable, long-term relationships with a large majority of its current clients.

The Group has also established strong relationships with Japan's mass media companies, which enhances its ability to coordinate operations and sales activities between advertisers and media companies, and thereby facilitate transactions.

However, if the Group is unable to provide services that match the needs of existing or new advertisers and media companies, the Group may be adversely affected, including by the termination of business relationships, the reduction of accounts or unfavorable changes in the terms of business.

In recent years, advertisers have sought to consolidate their media service activities with one advertising agency to boost advertising efficiency and reduce costs. For this and other reasons, the Group and other advertising companies have experienced a decrease in the profitability of mass media advertising services. If this trend persists, the Group's results of operations could be further adversely affected.

Risk Related to Efforts to Reinforce Domestic Service Capabilities

Risk related to the development of information technology processes and databases

The Dentsu Group is currently involved in research and development on information technology processes and databases that verify the effectiveness of clients'

advertising activities and marketing budgets. Through these efforts, management seeks to bring latent demand to the surface and expand its share of the Japanese advertising market. However, it is unclear if or when the results of these efforts will be marketable and put to practical use. Moreover, even if the Group is able to develop marketable services from its R&D activities, these services may not produce the results the Group expects, especially if the needs of clients have changed significantly or technological challenges preclude widespread use of the services.

Risk related to investments in media and internet advertising businesses

To reinforce the Dentsu Group's position in the media markets and otherwise expand its business, the Group has made investments in the four traditional mass media, OOH media (out-of-home media such as transit and billboard) and satellite media (broadcast and communication satellites), as well as in related research and business development programs. However, if demand for media advertising becomes stagnant or competition in the media advertising market intensifies, profits and other business results may not be sufficient to generate the return the Group expects from these investments in R&D and commercialization.

In the Internet advertising domain, as advertising methods diversify and demands from clients expand, the Dentsu Group has been actively establishing alliances with leading, specialized agencies as well as investing in other specialized companies and technologies. These moves support the Group's efforts to further promote and propose cross-media campaigns that are aimed at creating effective synergies among multiple media and creative outlets that are effective in light of target consumers' behavior patterns. The Group is also focusing on performance-based advertising, a method of ad delivery which utilizes platforms that employ ad technologies processing vast amounts of data to provide automatic or instantaneous optimization of advertising. However, if the Group's efforts fail to adequately address the rapid progress in technologies and services associated with the Internet advertising domain, the Group may be unable to realize its initially expected return on these investments.

Risk related to expansion of the promotion business

The importance of promotional activities has been rising for advertisers, and the market is expanding. Taking advantage of this opportunity, the Dentsu Group has established several specialized companies in promotion-related fields such as point-of-purchase marketing, flyer production, direct business and client access in order to expand its future promotion business. However, if demand for these services falls short of expectations, or if the Group is unable to maintain competitiveness with other solutions providers, the Group may not realize the return on investments that it expects.

Risk Related to Content Business

The Dentsu Group actively invests in the acquisition of rights to, and in the production of, films, television programs, sports events and music, and seeks to generate profits from the production, distribution, sale and licensing of films and other content as well as from the sale of sponsorships, broadcasting rights and content-related advertising. However, these projects may extend over several fiscal years and require significant acquisition costs and financial commitments. In addition, media that provide content have been diversifying in recent years. Moreover, the success of the Group's content business depends primarily upon acceptance by the general public, which can be difficult to predict. Therefore, if these investments in content or events do not develop as planned or do not realize the benefits expected, the Group's results of operations may be adversely affected.

Risk Related to International Businesses

Risks related to international business development

With the acquisition of Aegis, the Dentsu Group's global operations have expanded to over 145 countries and regions. The Group's global operations are subject to a number of risks, including but not limited to the following:

- Difficulties in monitoring and coordinating operations in such a large number and wide range of jurisdictions;
- Heightened exposure to any downturn affecting the

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global economy;

- Risks related to foreign laws, regulations and policies, including capital and exchange controls;
- Differences in, or conflicts among, the taxation regimes in the different jurisdictions in which the Group operates;
- Changes with respect to taxation, including impositions or increases of withholding and other taxes on remittances and other payments by the Group's overseas subsidiaries;
- Fluctuations in foreign currency exchange rates;
- Varying standards and practices in the legal, regulatory and business cultures in which the Group operates, including potential inability to enforce contracts or intellectual property rights and restrictions on employment matters;
- Trade restrictions and changes in tariff;
- Risks related to political instability and uncertain business environments;
- Changes in the political or economic relationship between Japan and the other countries and regions in which the Group operates;
- Acts of terrorism, war, epidemics and other sources of social disruption; and
- Difficulties associated with managing local personnel and preventing misconduct by local third-party alliance partners.

Any one or more of these or other factors could increase the Group's costs, reduce its revenues or disrupt its operations, with possible material adverse effects on its business, financial condition and results of operations.

Risk related to impairment losses on goodwill and other intangible assets

The Dentsu Group carries significant amounts of goodwill and other intangible assets on its balance sheet, particularly as a result of the acquisition of Aegis. The Group is to recognize impermanent losses when the carrying amount of an asset is not recoverable. The recognition of such impairment charges may adversely affect the Group's business, financial condition and results of operations.

Risk Related to Maintaining and Developing Human Resources

The growth potential and competitiveness of the Dentsu Group are highly dependent upon attracting, retaining and developing excellent human resources. Therefore, Group companies strive to attract the necessary talent by hiring a stable number of new graduates and by recruiting mid-career professionals with expertise and experience that will make an immediate contribution. At the same time, the Group endeavors to promote personnel development by offering training opportunities according to the position and ability of each individual. However, these efforts could be sidetracked for all sorts of reasons, making it difficult to attract exceptional people or keep them within the Group. If this were to occur, the Group's growth potential and its competitive edge could be adversely affected.

Moreover, the Group is continuing to address issues inherent in the management of a greater number of employees in diverse cultural and geographic areas, particularly with the integration of a large number of new overseas employees in connection with the acquisition of Aegis. There can be no assurance that the Group will be able to attract or retain key employees and successfully manage them. The Group's inability to do so could disrupt its business and have a material adverse effect on its financial condition, results of operations and competitive position.

Risk Related to Reliance on Information Technology Systems

The Dentsu Group relies on information technology systems and infrastructure to process transactions, summarize results and manage its business, including maintaining client marketing and advertising information. The Group's information technology systems are potentially vulnerable to system failures and network disruptions, malicious intrusion and random attack. Likewise, data security incidents and breaches by employees and others with or without permitted access to its systems may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. Additionally, the Group utilizes third parties to store, transfer or process data. While the

Group has taken prudent measures to protect its data and information technology systems, there can be no assurance that its efforts will prevent system failures or network disruptions or breaches in its systems, or in systems of third parties the Group uses, which could adversely affect its results of operations.

Risk Related to Legal or Regulatory Changes

Advertising companies in Japan, including those under the Dentsu Group umbrella, are subject to a number of laws and regulations, including the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors and the Act on the Protection of Personal Information. At the current time, management does not anticipate that these laws and regulations will have any material impact on the Group's business. However, the financial results of the Dentsu Group and other advertising companies could be adversely affected if existing laws or regulations governing the advertising activities of advertisers or the format or content of advertisements are strengthened, if new laws or regulations are introduced, or if existing laws and regulations are reinterpreted.

Members of the Group handle personal and other advertiser information in the course of doing business. The Dentsu Group's information security system is certified to international standards, and the utmost care is given to safeguarding information entrusted to the Group. However, in the unlikely event of an information leak or other such incident occurring, the Group's credibility could be severely compromised. This could adversely affect its financial results.

Risk of Litigation

The Dentsu Group could become involved in litigation brought against it directly or indirectly in association with the execution of business by members of the Group, including claims by clients, organizations, consumers or owners of intellectual property.

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Consolidated Financial Statements

Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2017

ASSETS	Notes	(Millions of Yen)		(Millions of U.S. Dollars)
		FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
CURRENT ASSETS:				
Cash and cash equivalents	8, 34	¥242,410	¥305,760	\$2,706
Trade and other receivables	9, 34	1,275,044	1,410,454	12,482
Inventories	10	18,862	22,074	195
Other financial assets	11, 20, 34	17,814	21,934	194
Other current assets	12	60,621	74,525	660
Subtotal		1,614,753	1,834,749	16,237
Non-current assets classified as held for sale	13	3,357	1,835	16
Total current assets		1,618,111	1,836,584	16,253
NON-CURRENT ASSETS:				
Property, plant and equipment	14	193,757	196,659	1,740
Goodwill	7, 15	718,717	798,177	7,064
Intangible assets	7, 15	274,074	274,502	2,429
Investment property	17	37,837	37,360	331
Investments accounted for using the equity method	6, 18	55,691	56,752	502
Other financial assets	11, 34	224,723	327,356	2,897
Other non-current assets	23	13,183	15,062	133
Deferred tax assets	19	19,133	20,401	181
Total non-current assets		1,537,118	1,726,272	15,277
TOTAL ASSETS	6	¥3,155,230	¥3,562,857	\$31,530

Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2017

LIABILITIES AND EQUITY	Notes	(Millions of Yen)		(Millions of U.S. Dollars)
		FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
LIABILITIES:				
CURRENT LIABILITIES:				
Trade and other payables	20, 34	¥1,230,496	¥1,380,875	\$12,220
Borrowings	21, 34	130,490	89,325	790
Other financial liabilities	16, 21, 34	26,781	43,030	381
Income tax payables		34,248	23,366	207
Provisions	22	1,179	2,070	18
Other current liabilities		176,030	203,091	1,797
Subtotal		1,599,226	1,741,758	15,414
Liabilities directly associated with non-current assets classified as held for sale	13	8	456	4
Total current liabilities		1,599,235	1,742,215	15,418
NON-CURRENT LIABILITIES:				
Borrowings	21, 34	273,108	371,187	3,285
Other financial liabilities	16, 21, 34	166,216	146,076	1,293
Liability for retirement benefits	23	31,377	19,210	170
Provisions	22	4,295	4,983	44
Other non-current liabilities	33	20,141	19,497	173
Deferred tax liabilities	19	78,893	109,552	969
Total non-current liabilities		574,033	670,507	5,934
Total liabilities		2,173,269	2,412,722	21,352
EQUITY:				
Share capital	24	74,609	74,609	660
Share premium account	24	99,751	99,751	883
Treasury shares	24	(20,168)	(40,182)	(356)
Other components of equity		121,346	231,185	2,046
Retained earnings	24	657,203	727,846	6,441
Total equity attributable to owners of the parent	34	932,742	1,093,211	9,674
Non-controlling interests		49,218	56,923	504
Total equity		981,961	1,150,134	10,178
TOTAL LIABILITIES AND EQUITY		¥3,155,230	¥3,562,857	\$31,530

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Consolidated Statement of Income

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2017

	Notes	(Millions of Yen)		(Millions of U.S. Dollars)
		FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
(Turnover (Note 1))	6	¥4,924,933	¥5,187,300	\$45,905
Revenue	6	838,359	928,841	8,220
Cost	14, 15, 23, 27	49,316	51,218	453
Revenue less cost of sales	6	789,043	877,622	7,767
Selling, general and administrative expenses	14, 15, 23	659,885	751,957	6,654
Other income	26, 27	16,588	23,347	207
Other expenses	28	8,063	11,620	103
Operating profit	14, 15, 29, 33	137,681	137,392	1,216
Share of profits of investments accounted for using the equity method	6	3,362	4,222	37
Profit before interest and tax	18	141,044	141,614	1,253
Finance income		5,104	20,302	180
Finance expenses	30	13,230	12,254	108
Profit before tax	23, 27, 30	132,918	149,662	1,324
Income tax expenses		43,572	36,520	323
Profit for the year	19	¥89,345	¥113,142	\$1,001
Profit attributable to:				
Owners of the parent		¥83,501	¥105,478	\$933
Non-controlling interests		¥5,844	¥7,663	\$68
Earnings per share				
			(Yen)	(U.S. Dollars)
Basic earnings per share	32	¥292.85	¥373.11	\$3.30
Diluted earnings per share	32	¥292.84	¥373.10	\$3.30

Reconciliation from operating profit to underlying operating profit		(Millions of Yen)		(Millions of U.S. Dollars)
	Notes	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Operating profit		¥137,681	¥137,392	\$1,216
Amortization of intangible assets incurred in acquisitions		24,506	31,779	281
Other adjusting items (selling, general and administrative expenses)		8,762	5,265	47
Other adjusting items (other income)		(7,522)	(15,410)	(136)
Other adjusting items (other expenses)		3,137	4,919	44
Underlying operating profit (Note 2)	6	¥166,565	¥163,946	\$1,451

(Note 1) Turnover represents the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes.

Disclosure of turnover information is not required under IFRS; however, it is voluntarily disclosed in the Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.

(Note 2) For the definition of underlying operating profit, refer to "3. SIGNIFICANT ACCOUNTING POLICIES (21) Underlying Operating Profit."

Consolidated Statement of Comprehensive Income

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2017

		(Millions of Yen)	(Millions of U.S. Dollars)
	Notes	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)
PROFIT FOR THE YEAR		¥89,345	\$1,001
OTHER COMPREHENSIVE INCOME			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:			
Net change in financial assets measured at fair value through other comprehensive income	31, 34	17,571	590
Remeasurements of defined benefit plans	23, 31	(3,655)	102
Share of other comprehensive income of investments accounted for using the equity method	18, 31	(454)	1
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:			
Exchange differences on translation of foreign operations	31	(133,674)	289
Effective portion of the change in the fair value of cash flow hedges	31	(3,101)	(8)
Share of other comprehensive income of investments accounted for using the equity method	18, 31	(268)	2
Other comprehensive income, net of tax		(123,582)	978
COMPREHENSIVE INCOME FOR THE YEAR		¥(34,237)	\$1,979
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent		¥(39,851)	\$1,902
Non-controlling interests		¥5,614	\$76

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Consolidated Statement of Changes in Equity

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2017

	Notes	(Millions of Yen)						
		Total equity attributable to owners of the parent					Other components of equity	
		Share capital	Share premium account	Treasury shares	Share options	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges	Net change in financial assets measured at fair value through other comprehensive income
As of January 1, 2016		¥74,609	¥99,751	¥(20,155)	¥48	¥171,132	¥10,222	¥83,639
Profit for the year								
Other comprehensive income						(133,729)	(3,101)	17,109
Comprehensive income for the year		–	–	–	–	(133,729)	(3,101)	17,109
Repurchase of treasury shares				(13)				
Disposal of treasury shares				(0)				
Dividends	25							
Transactions with non-controlling interests	24							
Transfer from other components of equity to retained earnings								(16,339)
Other					(0)			
Transactions with owners—total		–	(0)	(12)	(0)	–	–	(16,339)
As of December 31, 2016		¥74,609	¥99,751	¥(20,168)	¥48	¥37,403	¥7,120	¥84,409
Profit for the year								
Other comprehensive income						32,331	(888)	66,510
Comprehensive income for the year		–	–	–	–	32,331	(888)	66,510
Repurchase of treasury shares	24			(20,014)				
Disposal of treasury shares				(0)				
Dividends	25							
Transactions with non-controlling interests	24							
Transfer from other components of equity to retained earnings								337
Transactions with owners—total		–	(0)	(20,013)	–	–	–	337
As of December 31, 2017		¥74,609	¥99,751	¥(40,182)	¥48	¥69,734	¥6,231	¥151,258

	Notes	(Millions of U.S. Dollars)						
		Total equity attributable to owners of the parent					Other components of equity	
		Share capital	Share premium account	Treasury shares	Share options	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges	Net change in financial assets measured at fair value through other comprehensive income
As of December 31, 2016		\$660	\$883	\$(178)	\$0	\$331	\$63	\$747
Profit for the year								
Other comprehensive income						286	(8)	589
Comprehensive income for the year		–	–	–	–	286	(8)	589
Repurchase of treasury shares	24			(177)				
Disposal of treasury shares				(0)				
Dividends	25							
Transactions with non-controlling interests	24							
Transfer from other components of equity to retained earnings								3
Transactions with owners—total		–	(0)	(177)	–	–	–	3
As of December 31, 2017		\$660	\$883	\$(356)	\$0	\$617	\$55	\$1,339

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent					Non-controlling interests	Total equity
		Other components of equity						
		Remeasurements of defined benefit plans	Total	Retained earnings	Total			
As of January 1, 2016		¥(4,003)	¥261,039	¥652,972	¥1,068,216	¥34,526	¥1,102,743	
Profit for the year		–	–	83,501	83,501	5,844	89,345	
Other comprehensive income		(3,630)	(123,352)	–	(123,352)	(229)	(123,582)	
Comprehensive income for the year		(3,630)	(123,352)	83,501	(39,851)	5,614	(34,237)	
Repurchase of treasury shares		–	–	–	(13)	–	(13)	
Disposal of treasury shares		–	–	–	0	–	0	
Dividends	25	–	–	(22,811)	(22,811)	(4,581)	(27,392)	
Transactions with non-controlling interests	24	–	–	(72,798)	(72,798)	13,658	(59,139)	
Transfer from other components of equity to retained earnings		–	(16,339)	16,339	–	–	–	
Other		–	(0)	–	(0)	–	(0)	
Transactions with owners—total		–	(16,339)	(79,270)	(95,622)	9,077	(86,545)	
As of December 31, 2016		¥(7,634)	¥121,346	¥657,203	¥932,742	¥49,218	¥981,961	
Profit for the year		–	–	105,478	105,478	7,663	113,142	
Other comprehensive income		11,547	109,501	–	109,501	978	110,479	
Comprehensive income for the year		11,547	109,501	105,478	214,979	8,642	223,621	
Repurchase of treasury shares	24	–	–	–	(20,014)	–	(20,014)	
Disposal of treasury shares		–	–	–	0	–	0	
Dividends	25	–	–	(25,516)	(25,516)	(2,735)	(28,252)	
Transactions with non-controlling interests	24	–	–	(8,980)	(8,980)	1,798	(7,182)	
Transfer from other components of equity to retained earnings		–	337	(337)	–	–	–	
Transactions with owners—total		–	337	(34,834)	(54,510)	(937)	(55,448)	
As of December 31, 2017		¥3,913	¥231,185	¥727,846	¥1,093,211	¥56,923	¥1,150,134	

(Millions of U.S. Dollars)

	Notes	Total equity attributable to owners of the parent					Non-controlling interests	Total equity
		Other components of equity						
		Remeasurements of defined benefit plans	Total	Retained earnings	Total			
As of December 31, 2016		\$(68)	\$1,074	\$5,816	\$8,254	\$436	\$8,690	
Profit for the year		–	–	933	933	68	1,001	
Other comprehensive income		102	969	–	969	9	978	
Comprehensive income for the year		102	969	933	1,902	76	1,979	
Repurchase of treasury shares	24	–	–	–	(177)	–	(177)	
Disposal of treasury shares		–	–	–	0	–	0	
Dividends	25	–	–	(226)	(226)	(24)	(250)	
Transactions with non-controlling interests	24	–	–	(79)	(79)	16	(64)	
Transfer from other components of equity to retained earnings		–	3	(3)	–	–	–	
Transactions with owners—total		–	3	(308)	(482)	(8)	(491)	
As of December 31, 2017		\$35	\$2,046	\$6,441	\$9,674	\$504	\$10,178	

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Consolidated Statement of Cash Flows

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2017

	Notes	(Millions of Yen)		(Millions of U.S. Dollars)
		FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		¥132,918	¥149,662	\$1,324
ADJUSTMENTS FOR:				
Depreciation and amortization		45,860	55,587	492
Impairment loss		522	1,093	10
Interest and dividend income		(4,326)	(5,544)	(49)
Interest expense		7,491	11,391	101
Share of profits of investments accounted for using the equity method		(3,362)	(4,222)	(37)
Increase (decrease) in liability for retirement benefits		(3,055)	2,462	22
Other — net		2,481	(19,558)	(173)
Cash flows from operating activities before adjusting changes in working capital and others		178,528	190,870	1,689
CHANGES IN WORKING CAPITAL:				
(Increase) decrease in trade and other receivables		(49,992)	(93,833)	(830)
(Increase) decrease in inventories		649	(2,158)	(19)
(Increase) decrease in other current assets		(19)	(11,059)	(98)
Increase (decrease) in trade and other payables		41,035	111,943	991
Increase (decrease) in other current liabilities		13,175	10,402	92
Change in working capital		4,847	15,293	135
Subtotal		183,376	206,164	1,824
Interest received		1,776	2,082	18
Dividends received		5,137	5,792	51
Interest paid		(7,623)	(11,424)	(101)
Income taxes paid		(39,080)	(61,058)	(540)
Net cash flows from operating activities		143,585	141,557	1,253
CASH FLOWS FROM INVESTING ACTIVITIES				
Payment for purchase of property, plant and equipment, intangible assets and investment property	6	(22,234)	(27,767)	(246)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		12,006	18,420	163
Net cash (paid) received on acquisition of subsidiaries	7	(170,419)	(67,299)	(596)
Net cash (paid) received on disposal of subsidiaries		121	86	1
Payments for purchases of securities		(13,610)	(14,985)	(133)
Proceeds from sales of securities		40,430	6,754	60
Other — net		(2,456)	(739)	(7)
Net cash flows from investing activities		(156,161)	(85,531)	(757)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in short-term borrowings		99,683	(95,990)	(849)
Proceeds from long-term borrowings		28,511	155,773	1,379
Repayment of long-term borrowings		(89,257)	(4,131)	(37)
Payment for acquisition of interest in subsidiaries from non-controlling interests		(6,093)	(5,396)	(48)
Payments for repurchase of treasury shares	24	(13)	(20,014)	(177)
Dividends paid	25	(22,811)	(25,516)	(226)
Dividends paid to non-controlling interests		(4,121)	(2,983)	(26)
Other — net		(3,359)	(513)	(5)
Net cash flows from financing activities		2,539	1,226	11
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(10,874)	6,097	54
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(20,911)	63,349	561
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8	263,322	242,410	2,145
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8	¥242,410	¥305,760	\$2,706

Notes to Consolidated Financial Statements

Dentsu Inc. and Consolidated Subsidiaries

1. REPORTING ENTITY

Dentsu Inc. (hereinafter referred to as the "Company") is a joint stock corporation under the Companies Act of Japan located in Japan.

The addresses of the Company's registered corporate headquarters and principal business offices are available on the Company's website (<http://www.dentsu.co.jp/>).

The details of businesses and principal business activities of the Company and its subsidiaries (hereinafter referred to as the "Group") are stated in "6. SEGMENT INFORMATION".

The consolidated financial statements for the year ended December 31, 2017 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Arinobu Soga, Director, Executive Officer, on March 29, 2018.

2. BASIS OF PREPARATION

(1) Compliance with the International Financial Reporting Standards (hereinafter referred to as "IFRS")

The Company's consolidated financial statements meet all of the requirements of Article 1-2 "Designated IFRS Specified Company" stipulated in the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; (the "Ordinance on Consolidated Financial Statements")) and are prepared in accordance with IFRS under the provisions of Article 93 of the Ordinance on Consolidated Financial Statements.

(2) Basis of Measurement

The consolidated financial statements are prepared on the historical cost basis, except for financial instruments and others stated in "3. SIGNIFICANT ACCOUNTING POLICIES."

(3) Functional Currency and Presentation Currency

The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company.

For the convenience of readers outside Japan, the accompanying Consolidated Financial Statements are also presented in United States dollars by translating Japanese yen amounts at the exchange rate of ¥113.00 to U.S.\$1, the approximate rate of exchange at the end of December 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into United States dollars at the above or any other rate.

Amounts less than one million yen have been rounded to the nearest million yen and those less than one million U.S. dollars have been rounded to the nearest million U.S. dollars in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

(4) Early Application of New Standards

The Group has early applied IFRS 9 "Financial Instruments" (revised in October 2010) effective the date of transition to IFRS (April 1, 2013).

3. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Consolidation

A. Subsidiaries

A subsidiary is an entity controlled by the Group. An entity is treated as a subsidiary if the Group is deemed, in principle, to have control over that entity when it holds a majority of the voting rights of that entity. An entity is treated as a subsidiary even if the Group holds less than a majority of the voting rights of the entity, where control is deemed to be achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. In cases where the accounting policies adopted by a subsidiary are different from those adopted by the Group, adjustments are made to the subsidiary's financial statements, as necessary, to conform with the accounting policies adopted by the Group.

A change in the ownership interest in a subsidiary without a loss of control is accounted for as an equity transaction, and any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as equity attributable to owners of the Company.

When the Group loses control of a subsidiary, any resulting gain or loss is recognized in profit or loss.

B. Associates and Joint Ventures

An associate is an entity over which the Group has significant influence in respect to the financial and operating policies but does not have control. When the Group holds between 20% and 50% of the voting rights, the entity is, in principle, treated as an associate.

When the Group holds less than 20% of the voting rights of the entity but is determined to have significant influence over the entity, such as through delegation of officers, the entity is treated as an associate.

A joint venture is an entity in which two or more parties, including the Group, have contractually agreed to sharing of control of an arrangement and have rights to the net assets of the joint venture, and in which unanimous consent of the controlling parties is required to make decisions on relevant business activities.

The Group's investments in associates and joint ventures are accounted for using the equity method. The investments are measured as the carrying amount (including goodwill recognized upon acquisition) determined using the equity method less accumulated impairment losses.

The consolidated financial statements include the Group's share of changes in profit or loss and other comprehensive income of an associate and joint venture from the date of acquisition of significant influence or joint control until the date such influence or control is lost. In cases where the accounting policies adopted by an associate or joint venture are different from those adopted by the Group, adjustments are made to the associate or joint venture's financial statements, as necessary, to conform with the accounting policies adopted by the Group.

If application of the equity method ceases as a result of the loss of significant influence on associates or joint ventures, gain or loss on the sales

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of shares is recognized in profit or loss, and the valuation difference arising from remeasurement of the residual shares at fair value is recognized in profit or loss in the same period the significant influence is lost.

C. Transactions Eliminated Under Consolidation

All intragroup balances, transactions, and unrealized gains resulting from intragroup transactions are eliminated on consolidation. Unrealized gains resulting from transactions with associates and joint ventures are deducted from investments, to the extent it does not exceed Company's share in an investee.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the assets transferred, the liabilities assumed and equity instruments issued by the Company in exchange for control over an acquiree and includes contingent consideration when appropriate.

At the acquisition date, the identifiable assets and liabilities are recognized at their fair value, except that:

- (i) Deferred tax assets or liabilities, and assets or liabilities, which are related to employee benefit arrangements, are recognized and measured in accordance with International Accounting Standards (hereinafter referred to as "IAS") 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively.
- (ii) Assets or disposal groups that are classified as held-for-sale under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with such standard.

Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized in profit.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts of incomplete items are measured based on best estimates. Provisional amounts are adjusted retrospectively to reflect new information obtained during the measurement period, within one year from the date of acquisition, that, if known, would have affected the amounts recognized at that date.

The contingent consideration is recognized at fair value at the time of acquisition and the change in fair value after acquisition is reflected as an adjustment to the consideration transferred when the change qualifies as adjustment during the measurement period, otherwise the change is recognized in profit or loss.

The Group elects to measure non-controlling interests at either fair value or based on the proportionate share in the recognized identifiable net asset amounts for each business combination transaction.

Acquisition-related costs incurred to achieve a business combination are recognized as expenses when incurred, with the exception of costs related to the issuance of debt instruments and equity instruments.

(3) Foreign Currency Translation

A. Translation of Foreign Currency Transactions

Foreign currency transactions are translated into each functional currency of the group entity using the exchange rate at the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies, and non-monetary assets and liabilities denominated in foreign currencies carried at fair value are translated into the functional currency at the closing rate, and the resulting translation differences are recognized in profit or loss.

Non-monetary items denominated in foreign currencies are translated at the exchange rate at the date of transaction.

B. Translation of Foreign Operations

For financial statements of foreign operations such as subsidiaries, assets and liabilities are translated into Japanese yen using the closing rate of the reporting period, and revenue and expenses are translated into Japanese yen using the average rate of the reporting period unless there are significant changes in the exchange rate. Resulting translation differences are recognized in other comprehensive income, and cumulative differences are recognized in other components of equity.

When a foreign operation of the Group is disposed of, cumulative translation differences relating to that foreign operation are transferred to profit or loss.

(4) Financial Instruments

A. Non-derivative Financial Assets

(i) Initial Recognition and Measurement

The Group initially recognizes trade and other receivables on the date of occurrence. All other financial assets are initially recognized on the transaction date when the Group became the contracting party for the financial asset.

Non-derivative financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met at the time of initial recognition of financial assets. Otherwise, they are classified as financial assets measured at fair value.

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value are classified as financial assets in which changes in fair value subsequent to initial recognition are recognized in profit or loss (hereinafter referred to as "financial assets measured at fair value through profit or loss") and financial assets in which changes in fair value subsequent to initial recognition are recognized in other comprehensive income (hereinafter referred to as "financial assets measured at fair value through other comprehensive income").

At the time of initial recognition, debt financial instruments that do not satisfy amortized cost criteria are classified as financial assets measured at fair value through profit or loss.

Equity financial instruments not held-for-sale, in principle, are designated as financial assets measured at fair value through other comprehensive income at the time of initial recognition.

All financial assets are measured at fair value plus transaction costs that are directly attributable to such financial assets, except for when they are classified as financial assets measured at fair value through profit or loss.

(ii) Subsequent Measurement

After initial recognition, financial assets are measured based on the classification as follows:

(a) Financial Assets Measured at Amortized Cost

Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest rate method.

(b) Financial Assets Measured at Fair Value through Profit or Loss

Subsequent to initial recognition, financial assets are remeasured at fair value at each reporting period end. Changes in fair value and income such as dividends are recognized in profit or loss.

(c) Financial Assets Measured at Fair Value through Other Comprehensive Income

Changes in fair value subsequent to initial recognition are recognized in other comprehensive income, and are transferred to retained earnings if a financial asset is derecognized or the fair value declined significantly. Dividends derived from these financial assets are recognized in profit or loss.

(iii) Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows expire, or when substantially all risks and rewards of ownership are transferred to another entity.

B. Impairment of Financial Assets Measured at Amortized Cost

The Group assesses whether objective evidence of impairment exists at each reporting date. Financial assets are determined to be impaired when there is objective evidence that loss events occurred subsequent to initial recognition of the financial assets and when negative effects on estimated future cash flows of the financial assets from those events can be reasonably estimated.

Objective evidence of impairment for a financial asset measured at amortized cost includes, but is not limited to; default or delinquency by the borrower, reductions of repayment amounts or extensions of repayment periods, significant financial difficulty of the borrower, and bankruptcy of the borrower.

The existence of objective evidence of impairment is assessed individually and collectively for financial assets measured at amortized cost.

Impairment losses for a financial asset measured at amortized cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted using the original effective interest rate of the financial asset, and recognized as losses. If the amount of impairment losses decreases due to an event occurring after the impairment losses were recognized, impairment losses previously recognized are reversed by the amount of such decrease through profit.

The impairment losses are recognized through an allowance for doubtful accounts, and the carrying amount of a receivable is directly reduced by an offset against the allowance for doubtful accounts when it is considered uncollectible.

C. Non-derivative Financial Liabilities (Including put option liabilities.

Refer to "(2) Business combination" for contingent consideration.)

(i) Initial Recognition and Measurement

The Group initially recognizes debt securities on the date of issue. All other financial liabilities are initially recognized on the transaction date when the Group becomes the contracting party for the financial liability.

Non-derivative financial liabilities are classified as financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost, net of transaction costs that are directly attributable to the financial liabilities. In addition, put option liabilities are measured based on the present value of future redemption amount.

(ii) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the classification as follows. However, put option liabilities are measured at the present value of the redemption amount, with changes recognized as profit or loss.

(a) Financial Liabilities Measured at Amortized Cost

Subsequent to initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest rate method.

(b) Financial Liabilities Measured at Fair Value Through Profit or Loss

Subsequent to initial recognition, financial liabilities measured at fair value through profit or loss are remeasured at fair value at each reporting period end and changes in fair value are recognized in profit or loss.

(iii) Derecognition

A financial liability is derecognized when the obligation is fulfilled, discharged, or expired.

D. Derivative Financial Instruments and Hedge Accounting

The Group utilizes derivative financial instruments, such as foreign exchange contracts and interest rate swap contracts, to hedge its foreign currency risks and interest rate risks, respectively.

At the inception of the hedge, the Group designates and documents the relationship to which hedge accounting is adopted, as well as the objectives and strategies of risk management for undertaking the hedge. The documentation includes hedging relationships, the risk management objective, strategies for undertaking the hedge and assessments of hedge effectiveness.

These hedges are expected to be highly effective in offsetting changes in fair value or cash flows, however are assessed on an ongoing basis to determine whether hedge relationship have actually been highly effective throughout the hedging periods.

Derivative financial instruments are initially recognized at fair value. In addition, derivatives are measured at fair value after initial recognition and changes in fair value are accounted for as follows:

(i) Cash Flow Hedge

Regarding gains or losses on hedging instruments where hedges are effective, changes in fair value are recognized in other comprehensive income, and are reclassified from other comprehensive income to profit or loss

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when the cash flows from the hedged items affect profit or loss.

Where hedges are ineffective, changes in fair value are recognized in profit or loss.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, when the hedge no longer meets the criteria for hedge accounting, or when the hedging designation is revoked.

(ii) Hedge of Net Investment in Foreign Operations

Translation differences resulting from the hedges of net investment in foreign operations are accounted for similarly to cash flow hedges.

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while those for the ineffective portion are recognized in profit or loss.

Cumulative gains or losses recognized in equity as other comprehensive income are reclassified to profit or loss upon disposal of foreign operations.

(iii) Derivative Financial Instruments not Designated as Hedges

Changes in fair value of derivative financial instruments are recognized in profit or loss.

E. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and presented on a net basis if, and only if, there is a currently enforceable legal right to offset the recognized amounts, and if there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(6) Inventories

Inventories are mainly comprised of rights and contents related to sports and entertainment. Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined mainly by the specific identification method.

(7) Property, Plant and Equipment (Excluding Leased Assets)

Cost model is applied for subsequent measurement of property, plant and equipment, and is measured at acquisition cost less accumulated depreciation and accumulated impairment losses.

Acquisition cost includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs.

Except for assets such as land which are not depreciated, property, plant and equipment are depreciated mainly using the straight-line method over their estimated useful lives.

The estimated useful lives of major property, plant and equipment items are as follows:

- Buildings and structures: 2 to 100 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and changes are made as necessary.

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is not amortized and is measured at acquisition cost less accumulated impairment losses.

B. Intangible Assets (Excluding Leased Assets)

Cost model is applied for subsequent measurement of intangible assets, and are measured at acquisition cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at acquisition cost for initial recognition, and the costs of intangible assets acquired in business combinations are recognized at fair value at the acquisition date.

The acquisition cost for internally generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets all of the capitalization criteria.

Intangible assets are amortized using the straight-line method over their estimated useful lives.

The estimated useful lives of major intangible asset items are as follows:

- Software: 3 to 5 years
- Customer relationships: Effective period (mainly 5 to 18 years)

Amortization methods and useful lives of intangible assets with finite useful lives are reviewed at the end of each reporting period and changes are made as necessary.

(9) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership are transferred to the Group. All other leases are classified as operating leases.

A. Finance Leases

Leased assets and lease obligations are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Leased assets are depreciated using the straight-line method over the shorter of their estimated useful lives or lease terms. Total minimum lease payments are apportioned between the finance costs and the reduction of the outstanding liability, and the finance costs allocated to each reporting period are calculated using the effective interest rate method.

B. Operating Leases

Lease payments are recognized as expenses using the straight-line method over their lease terms.

(10) Investment Property

Investment property is property held to earn rental income, for capital appreciation or for both.

Cost model is applied for subsequent measurement of investment property, and is measured at acquisition cost less accumulated depreciation and accumulated impairment losses.

Except for assets that are not depreciated, such as land, investment

property is depreciated mainly using the straight-line method over its estimated useful life. Estimated useful lives are between 6 and 50 years.

Depreciation methods, useful lives and residual values of investment property are reviewed at the end of each reported period and changes are made as necessary.

(11) Impairment of Non-financial Assets

Except for inventories and deferred tax assets, the Group assesses at the end of the reporting period whether there is any indication that a non-financial asset may be impaired. If such an indication exists, an impairment test is performed based on the recoverable amount of the asset.

Goodwill is not amortized. Impairment tests for goodwill are performed once a year, irrespective of whether there is any indication that they may be impaired, or in cases where there is an indication of impairment. Refer to Note "15. GOODWILL AND INTANGIBLE ASSETS" for details of impairment testing of goodwill.

Except for assets that generally do not generate independent cash flows from other assets or asset groups, the recoverable amount of an asset or a cash-generating unit is determined individually by asset at the higher of its fair value less costs of disposal or its value in use.

Where the carrying amount of the asset or cash-generating unit exceeds its recoverable amount, the asset is written down to its recoverable amount and impairment losses are recognized.

An impairment loss recognized for goodwill is not reversed in a subsequent period. For assets excluding goodwill, an assessment is made at reporting period end to determine whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If any such indication exists, the recoverable amount of the asset is estimated. In cases that the recoverable amount exceeds the carrying amount of the asset, a reversal of impairment losses is recognized. The amount of the reversal of the impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

Because goodwill that forms part of the carrying amount of an investment in entities accounted for using the equity method is not separately recognized, it is not tested for impairment separately. If there is any indication that an investment in entities accounted for using the equity method may be impaired, the entire carrying amount of the investment is tested as a single asset.

(12) Non-current Assets Classified as Held for Sale

A non-current asset or asset group whose carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use is classified as held-for-sale if the non-current asset or asset group is available for immediate sale in its present condition, Group management is committed to a sales plan and its sale is expected to be completed within one year.

The Group measures a non-current asset or asset group classified as held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(13) Post-employment Benefits

The Group has set up defined benefit plans and defined contribution plans as employee retirement benefit plans.

For defined benefit plans, the Group recognizes the present value of defined benefit obligations less the fair value of any plan assets as liabilities or assets.

For defined benefit plans, the Group determines the present value of defined benefit obligations, related current service cost and past service cost using the projected unit credit method. The discount rate is determined based on high quality corporate bond yield rates at fiscal year end for the corresponding discount period based on projected period until the expected benefit payment date.

Service costs and interest costs of defined benefit plans are recognized in profit or loss, and net interest is determined using the discount rate described above. Remeasurements of defined benefit plans are recognized in other comprehensive income in the period when they are incurred. Past service costs are recognized in profit or loss in the period incurred.

The cost for defined contribution plans is recognized in profit or loss in the period in which the employees render the related services.

(14) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the obligation will be required to be settled and a reliable estimate can be made for the amount of the obligation.

Where the effect of the time value of money is material, provisions are measured based on the present value using a discount rate reflecting the risks specific to the liability.

(15) Revenue

Revenue consists primarily of commissions received for the placement of advertising into different media and consideration received from advertisers and others for providing services, such as assistance in the production of advertising, including creative, and various content-related services.

Revenue from the production of advertising and other advertising related services is recorded based on the consideration paid as compensation for such service to the Group by advertisers and others less costs incurred. In some cases, revenue is recorded based on fixed or certain fee.

Revenue from commissions received from advertisers for the placement of advertising is generally recognized when the media is placed. Other revenue is generally recorded when the service is complete, an estimate of the amount of compensation can be reasonably determined and it is probable that the future economic benefits will flow to the Group.

Revenue and cost arising from transactions relating to services other than advertising services are presented on a gross basis.

Turnover represents the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of turnover information is not in accordance with IFRS.

(16) Finance Income and Finance Expenses

Finance income mainly consists of interest and dividend income. Interest income is recognized as accrued using the effective interest rate method while dividend income is recognized when the shareholder's right to

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receive payment is established.

Finance expenses mainly consist of interest expenses on borrowings and bonds. Interest expenses are recognized as incurred using the effective interest rate method.

(17) Income Taxes

Income taxes consist of current income taxes and deferred income taxes. Income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and taxes arising from business combinations.

Current income taxes are measured at the amount which is expected to be paid to or refunded from the taxation authorities. The tax rates and tax laws used to calculate the amount are those that are enacted or substantively enacted, by the end of the reporting period.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of assets and liabilities in the Consolidated Statement of Financial Position and their tax basis amount. Deferred tax assets or liabilities are not recognized for differences arising from the initial recognition of assets or liabilities in transactions that are not business combinations and affect neither accounting profit or loss nor taxable profit or loss. Deferred tax liabilities are also not recognized for taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures. However, deferred tax liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent the Group controls the timing of the reversal of the temporary difference and it is probable the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the reporting period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the reporting period end.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which carryforwards of unused tax losses, tax credit carryforwards and deductible temporary differences can be utilized. Deferred tax assets are reassessed at the end of the fiscal year and reduced by the amount of any tax benefits that are not expected to be realized.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

(18) Equity

A. Share Capital and Share Premium Account

Equity instruments issued by the Company are recorded in share capital and share premium account. Transaction costs directly attributable to the issuance of an equity instrument are deducted from equity.

B. Treasury Shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of treasury shares.

When treasury shares are sold, any difference between their carrying amount and consideration received is recognized in the share premium account.

(19) Earnings per Share

Basic earnings per share are calculated by dividing profit for the year attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares. Diluted earnings per share are calculated by adjusting the effects of all potential ordinary shares with dilutive effect.

(20) Share-based Payments

Certain subsidiaries grant cash-settled share-based payment plans.

For cash-settled share-based payments, services received and the liability incurred are measured at the fair value of the liability. The Group recognizes expense and liability, as the employees render services during the vesting period.

The fair value of the liability is remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss.

(21) Underlying Operating Profit

The underlying operating profit is calculated by eliminating from operating profit certain adjusting items such as amortization of intangible assets incurred in acquisition, cost associated with M&A, share-based compensation expense attributable to the acquiree, impairment, and gain or loss on sale of property, plant and equipment, and is used by management for the purpose of measuring constant business performance.

The underlying operating profit is not defined under IFRS; however, it is voluntarily disclosed in the Consolidated Statement of Income and Note "6. SEGMENT INFORMATION" since management has concluded that the information is useful for users of the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the fiscal year end date. However, given their nature, actual results may differ from those

estimates and assumptions.

The estimate and underlying assumptions are continuously reviewed. The effects of a change in estimate are recognized in the period of the change and future periods.

Information relating to judgements carried out in the process of the application of accounting policies that have a material impact on the consolidated financial statements, is mainly as follows:

- Scope of subsidiaries, associates and joint ventures ("3. SIGNIFICANT ACCOUNTING POLICIES (1) Basis of Consolidation")
- Revenue recognition ("3. SIGNIFICANT ACCOUNTING POLICIES (15) Revenue")

Estimates and assumptions that may have a material effect on the amounts recognized in the consolidated financial statements are as follows:

- Impairment of property, plant and equipment, goodwill, intangible assets and investment properties ("14. PROPERTY, PLANT AND EQUIPMENT," "15. GOODWILL AND INTANGIBLE ASSETS," and "17. INVESTMENT PROPERTY")
- Valuation of financial instruments ("34. FINANCIAL INSTRUMENTS")
- Valuation of defined benefit obligations ("23. POST-EMPLOYMENT BENEFITS")
- Provisions ("22. PROVISIONS")
- Recoverability of deferred tax assets ("19. INCOME TAXES")

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5. NEW ACCOUNTING STANDARDS NOT YET ADOPTED BY THE GROUP

New accounting standards, amended standards and new interpretations that have been issued by the date of approval of the consolidated financial statements, but have not been subject to early adoption by the Group are as follows:

The Group does not anticipate that the adoption of IFRS 15 will have a material impact on income.

The adoption of IFRS 9, IFRS 2 and IAS 40 will not have a material impact.

The impact of adoption of IFRS16 and IFRIC23 are being assessed by the Group at the time of preparing the consolidated financial statements.

Standards	Name of standards	Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending December 31, 2018	Amendments for accounting treatment for recognizing revenue
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending December 31, 2018	Amendments for impairment requirements and hedge accounting
IFRS 2	Share-based Payment	January 1, 2018	Fiscal year ending December 31, 2018	Clarification of classification and measurement of share-based payment transactions
IAS 40	Investment Property	January 1, 2018	Fiscal year ending December 31, 2018	Requirements for transfers to, or from, investment properties
IFRS 16	Leases	January 1, 2019	Fiscal year ending December 31, 2019	Amendments for accounting treatment for lease arrangements
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	Fiscal year ending December 31, 2019	Amendments for accounting treatment for uncertainty over income tax treatments

6. SEGMENT INFORMATION

(1) Description of reportable segments

The Group's reportable segments are those for which discrete financial information is available and the Board of Directors conducts regular reviews to make decisions about resources to be allocated and assess their performance.

The Group is mainly engaged in providing communication-related services focusing on advertising, and manages its Japan business and international business separately.

Accordingly, the Group has two reportable segments: Japan business segment and international business segment.

(2) Information on reportable segments

Accounting methods for reportable segments are identical to those described in "3. SIGNIFICANT ACCOUNTING POLICIES."

Segment profit is based on operating profit, adjusted by "Amortization of intangible assets incurred in acquisitions" and "Other adjusting items."

Intersegment revenues are based on the prevailing market price.

FY2016: Year ended December 31, 2016

(Millions of Yen)

	Japan business	International business	Total	Adjustments	Consolidated
Turnover (Note1)	¥1,890,445	¥3,046,532	¥4,936,977	¥(12,044)	¥4,924,933
Revenue (Note 2)	420,387	430,016	850,404	(12,044)	838,359
Revenue less cost of sales (Note 3)	363,242	426,014	789,257	(213)	789,043
Segment profit (underlying operating profit) (Note 3)	97,362	69,059	166,421	143	166,565
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	-	-	-	-	(24,506)
Other adjusting items (selling, general and administrative expenses) (Note 5)	-	-	-	-	(8,762)
Other adjusting items (other income) (Note 5)	-	-	-	-	7,522
Other adjusting items (other expenses) (Note 5)	-	-	-	-	(3,137)
Operating profit	-	-	-	-	137,681
Share of profits of investments accounted for using the equity method	-	-	-	-	3,362
Finance income	-	-	-	-	5,104
Finance expenses	-	-	-	-	13,230
Profit before tax	-	-	-	-	132,918
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	10,805	10,547	21,353	-	21,353
Segment assets (Note 4)	1,224,733	2,083,491	3,308,224	(152,993)	3,155,230
(Other asset items)					
Investments accounted for using the equity method	53,879	1,812	55,691	-	55,691
Capital expenditures	¥7,081	¥15,152	¥22,234	-	¥22,234

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FY2017: Year ended December 31, 2017

(Millions of Yen)

	Japan business	International business	Total	Adjustments	Consolidated
Turnover (Note1)	¥1,865,117	¥3,329,418	¥5,194,536	¥(7,235)	¥5,187,300
Revenue (Note 2)	416,671	519,405	936,077	(7,235)	928,841
Revenue less cost of sales (Note 3)	361,902	516,052	877,954	(331)	877,622
Segment profit (underlying operating profit) (Note 3)	88,801	75,146	163,948	(1)	163,946
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	-	-	-	-	(31,779)
Other adjusting items (selling, general and administrative expenses) (Note 5)	-	-	-	-	(5,265)
Other adjusting items (other income) (Note 5)	-	-	-	-	15,410
Other adjusting items (other expenses) (Note 5)	-	-	-	-	(4,919)
Operating profit	-	-	-	-	137,392
Share of profits of investments accounted for using the equity method	-	-	-	-	4,222
Finance income	-	-	-	-	20,302
Finance expenses	-	-	-	-	12,254
Profit before tax	-	-	-	-	149,662
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	9,477	14,330	23,807	-	23,807
Segment assets (Note 4)	1,337,776	2,373,085	3,710,862	(148,005)	3,562,857
(Other asset items)					
Investments accounted for using the equity method	55,726	1,026	56,752	-	56,752
Capital expenditures	¥9,659	¥18,108	¥27,767	-	¥27,767

FY2017: Year ended December 31, 2017

(Millions of U.S. Dollars)

	Japan business	International business	Total	Adjustments	Consolidated
Turnover (Note1)	\$16,505	\$29,464	\$45,969	\$(64)	\$45,905
Revenue (Note 2)	3,687	4,597	8,284	(64)	8,220
Revenue less cost of sales (Note 3)	3,203	4,567	7,770	(3)	7,767
Segment profit (underlying operating profit) (Note 3)	786	665	1,451	(0)	1,451
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(281)
Other adjusting items (selling, general and administrative expenses) (Note 5)	–	–	–	–	(47)
Other adjusting items (other income) (Note 5)	–	–	–	–	136
Other adjusting items (other expenses) (Note 5)	–	–	–	–	(44)
Operating profit	–	–	–	–	1,216
Share of profits of investments accounted for using the equity method	–	–	–	–	37
Finance income	–	–	–	–	180
Finance expenses	–	–	–	–	108
Profit before tax	–	–	–	–	1,324
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	84	127	211	–	211
Segment assets (Note 4)	11,839	21,001	32,839	(1,310)	31,530
(Other asset items)					
Investments accounted for using the equity method	493	9	502	–	502
Capital expenditures	\$85	\$160	\$246	–	\$246

(Note 1) Turnover represents the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of turnover information is not required under IFRS; however, it is voluntarily disclosed since management has concluded that the information is useful for users of the financial statements.

(Note 2) Adjustments for revenue are due to eliminations of intersegment transactions (same amount as for turnover).

(Note 3) Adjustments for revenue less cost of sales and segment profit (underlying operating profit) are due to eliminations of intersegment transactions.

(Note 4) Adjustments for segment assets are due to eliminations of intersegment transactions.

(Note 5) The breakdown of "Other adjusting items (selling, general and administrative expenses)," "Other adjusting items (other income)" and "Other adjusting items (other expenses)" is as follows:

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	(Millions of Yen)		(Millions of U.S. Dollars)	
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)
Other adjusting items (selling, general and administrative expenses)				
Early retirement benefits	¥5,183	¥366	\$3	
Costs associated with merger and acquisitions	3,579	1,795	16	
Other	0	3,103	27	
Total	¥8,762	¥5,265	\$47	
Other adjusting items (other income)				
Gain on sale of property, plant and equipment, intangible assets and investment property	¥6,506	¥14,441	\$128	
Gain on sale of investments in subsidiaries and affiliates	664	790	7	
Other	351	178	2	
Total	¥7,522	¥15,410	\$136	
Other adjusting items (other expenses)				
Loss on sale of property, plant and equipment, intangible assets and investment property	¥130	¥1,069	\$9	
Impairment losses (Note)	522	1,093	10	
Other	2,483	2,757	24	
Total	¥3,137	¥4,919	\$44	

(Note) Impairment losses in Japan business and International business are ¥216 million and ¥306 million, respectively, for the year ended December 31, 2016, and ¥451 million (\$4 million) and ¥641 million (\$6 million), respectively, for the year ended December 31, 2017.

(3) Information about products and services

With regard to advertising services, the Group provides various advertising through media including newspapers, magazines, radio, television, internet, sales promotion, movies, out-of-home, public transportation, and others. The Group also provides clients with event marketing, creative services, marketing, public relations, contents services, and other services.

With regard to information services, the Group provides information services, sales of information-related products and other services.

The Group also provides other services such as office rentals, building maintenance and fiduciary services of computation.

Revenues from external customers for each product and service are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)	
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)
Advertising Services	¥767,867	¥857,439	\$7,588	
Information Services	66,443	67,531	598	
Other Services	4,048	3,870	34	
Total	¥838,359	¥928,841	\$8,220	

(4) Regional information

A. Revenue from external customers

Revenue attributable to the United States within the international business is ¥133,852 million for the year ended December 31, 2016 and ¥177,156 million (\$1,568million) for the year ended December 31, 2017. In general, the amount is based on the customer's location.

B. Non-current assets (property, plant and equipment, goodwill, intangible assets and investment property)

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Japan business	¥213,617	¥212,894	\$1,884
International business (mainly the United Kingdom and the United States)	1,010,768	1,093,805	9,680
Total	¥1,224,386	¥1,306,700	\$11,564

(Note 1) Non-current assets are allocated according to the location of each group entity.

(Note 2) Within the International business, goodwill and intangible assets not tied to a specific country amounted to ¥718,447 million and ¥261,708 million, respectively, for the year ended December 31, 2016, and ¥798,177 million (\$7,064million) and ¥262,312 million (\$2,321million), respectively, for the year ended December 31, 2017.

(5) Information about major customers

Information about major customers is omitted as the Group does not have a single external customer that contributes 10% or more to Group revenue in the Consolidated Statement of Income.

7. BUSINESS COMBINATIONS

The Group's major acquiree acquired during the year ended December 31, 2017 are as follows:

Name of acquiree	Place of incorporation
Blue Infinity	Switzerland
Grant Advertising	Sri Lanka
Grant Agencies	Sri Lanka
Emerald	Vietnam
Leapfrog	USA
Divisadero	Spain
SVG	India
Accordant	Australia
Sesliharfler	Turkey
Outfox	Sweden
Paragon	India
Novus	Singapore
The Customer Framework	UK
Gleam	UK
Dwi Sapta	Indonesia
media.at	Austria
Aquila	UK
Sokrati	India
Little Giant	New Zealand
Carat SA	Australia
Swirl	USA
Oxyma	Netherlands
Klipdesk	Australia
DWA	Singapore
HelloWorld	USA
mcgarrybowen HK	Hong Kong

The acquisitions were entered into to strengthen the Group's operations and increase its market share around the world, especially in faster growing regions; and to enhance its servicing capabilities in media and digital.

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During the period, the Group acquired multiple subsidiaries. As the impact of each acquisition is not significant on the consolidated financial statements of the Group, The Group has taken the exemption, which allows for the non-disclosure on each acquisition basis.

Total consideration for acquisitions of subsidiaries is ¥74,265 million (\$657 million), consisting of cash consideration of ¥53,195 million (\$471 million) and deferred consideration, which is subject to performance criteria of the acquiree, of ¥21,070 million (\$186 million).

Acquisition related costs is ¥1,795 million (\$16 million).

The fair values of the identifiable assets and liabilities acquired through all acquisitions, total consideration, non-controlling interests and goodwill as of the date of acquisitions are as follows:

	(Millions of Yen)	(Millions of U.S. Dollars)
Total assets	¥58,599	\$519
Total liabilities	37,761	334
Fair value of identifiable net assets	20,839	184
Total consideration	74,265	657
Non-controlling interests (Note 1)	2,211	20
Goodwill (Note 2)	¥55,637	\$492

(Note 1) Non-controlling interests were measured by multiplying the shareholding ratio after the business combination by the fair values of identifiable net assets of the acquiree at the date control was acquired, excluding the portion individually attributable to non-controlling shareholders.

(Note 2) Goodwill reflects the expected future excess earning power. The total amount of goodwill that is expected to be deductible for tax purposes is ¥3,960 million (\$35 million).

The above amounts, which are fair values based on the best estimate at present, may change within one year from the acquisition dates when additional information was obtained related to facts and circumstances that existed as of the acquisition dates.

Post-acquisition revenue and profit of acquisitions during the year ended December 31, 2017 were ¥16,503 million (\$146 million) and ¥334 million (\$3 million), respectively.

(Pro forma information)

Assuming that the business combinations were executed at the beginning of the current fiscal year, revenue and profit of the consolidated statement of income for the year ended December 31, 2017 would be ¥948,047 million (\$8,390 million) and ¥111,938 million (\$991 million), respectively.

This pro forma information is unaudited. Furthermore, such information does not necessarily indicate possible future events, nor reflect the operating results of the Group should the actual equity investment have occurred as of the beginning of the fiscal year.

8. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows:

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
	(Millions of Yen)		(Millions of U.S. Dollars)
Cash and time deposits due within three months	¥242,410	¥305,760	\$2,706

Cash and cash equivalents are classified as financial assets measured at amortized cost.

The above amount is after eliminating the deposit into the cash pooling account which the Company considers as loans to Dentsu Aegis Network Ltd. amounting to ¥100,000 million and ¥100,000 million (\$885 million), respectively, as of December 31, 2016 and December 31, 2017.

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
	(Millions of Yen)		(Millions of U.S. Dollars)
Notes and accounts receivable-trade	¥1,245,919	¥1,376,672	\$12,183
Other	29,469	34,009	301
Allowance for doubtful accounts	(345)	(227)	(2)
Total	¥1,275,044	¥1,410,454	\$12,482

Trade and other receivables are presented net of allowance for doubtful accounts in the Consolidated Statement of Financial Position.

Trade and other receivables are classified as financial assets measured at amortized cost.

10. INVENTORIES

The breakdown of inventories is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Work-in-process	¥17,408	¥20,430	\$181
Other	1,453	1,643	15
Total	¥18,862	¥22,074	\$195

The amount of inventories recognized as expense by sales was ¥46,599 million for the year ended December 31, 2016 and ¥48,879 million (\$433 million) for the year ended December 31, 2017. In addition, the amount of write-down of inventories recognized as expense was ¥609 million for the year ended December 31, 2016 and ¥743 million (\$7 million) for the year ended December 31, 2017. There was no reversal of write-down of inventories for the year ended December 31, 2016 and for the year ended December 31, 2017.

11. OTHER FINANCIAL ASSETS

(1) The breakdown of other financial assets is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Derivative assets	¥26,240	¥18,886	\$167
Equity securities	180,720	288,543	2,553
Debt securities	5	5	0
Other	53,739	63,958	566
Allowance for doubtful accounts	(18,167)	(22,104)	(196)
Total	¥242,538	¥349,290	\$3,091
Current assets	17,814	21,934	194
Non-current assets	224,723	327,356	2,897
Total	¥242,538	¥349,290	\$3,091

Other financial assets are presented net of allowance for doubtful accounts in the Consolidated Statement of Financial Position.

In addition, derivative assets include those which hedge accounting is applied.

Derivative assets are classified as financial assets measured at fair value through profit or loss, equity securities are classified as financial assets measured at fair value through other comprehensive income, and debt securities are classified as financial assets measured at amortized cost. Of the "Other", ¥3,309 million and ¥3,343 million (\$30 million), respectively as of December 31, 2016 and 2017 are classified as financial assets measured at fair value through profit or loss, ¥9,343 million and ¥11,785 million (\$104 million), respectively, as of December 31, 2016 and 2017 are classified as financial assets measured at fair value through other comprehensive income, remainder is classified as financial assets measured at amortized cost.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their respective fair values are as follows:

	(Millions of Yen)
	FY2016 (As of December 31, 2016)
Investees	
Recruit Holdings Co., Ltd.	¥98,490
Digital Garage, Inc.	6,669
Perform Group Limited	5,012
Tokyo Broadcasting System Holdings, Inc.	4,787
Lion Corporation	3,444
Asahi Group Holdings, Ltd.	3,388
TV Asahi Holdings Corporation	3,311

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(Millions of Yen)	
Investees	FY2017 (As of December 31, 2017)
Recruit Holdings Co., Ltd.	¥176,400
Digital Garage, Inc.	9,827
Macromill, Inc.	7,890
Tokyo Broadcasting System Holdings, Inc.	7,203
Perform Group Limited	5,363
Asahi Group Holdings, Ltd.	5,133
Lion Corporation	3,830
Workpoint Entertainment Public Company Limited	3,634
TV Asahi Holdings Corporation	3,249
TOHO CO., LTD.	3,158

(Millions of U.S. Dollars)	
Investees	FY2017 (As of December 31, 2017)
Recruit Holdings Co., Ltd.	\$1,561
Digital Garage, Inc.	87
Macromill, Inc.	70
Tokyo Broadcasting System Holdings, Inc.	64
Perform Group Limited	47
Asahi Group Holdings, Ltd.	45
Lion Corporation	34
Workpoint Entertainment Public Company Limited	32
TV Asahi Holdings Corporation	29
TOHO CO., LTD.	28

Equity securities are designated as financial assets measured at fair value through other comprehensive income since they are held mainly for strengthening relationships with investees.

In order to enhance the efficiency of assets held and to use them effectively, sales (derecognition) of financial assets measured at fair value through other comprehensive income are being carried out.

The fair value and cumulative gain or loss that was recognized in as other comprehensive income at the date of sales within equity for each fiscal year is as follows:

FY2016: Year ended December 31, 2016

(Millions of Yen)	
Fair value	Cumulative gain or loss recognized in equity as other components of equity
¥35,508	¥17,938

FY2017: Year ended December 31, 2017

(Millions of Yen)	
Fair value	Cumulative gain or loss recognized in equity as other components of equity
¥4,945	¥1,113

FY2017: Year ended December 31, 2017

(Millions of U.S. Dollars)	
Fair value	Cumulative gain or loss recognized in equity as other components of equity
\$44	\$10

The cumulative gain or loss recognized in equity as other components of equity are transferred to retained earnings when an equity instrument is sold or its fair value declined significantly.

12. OTHER CURRENT ASSETS

Advance payments included in other current assets which are expected to be recognized in profit or loss after more than 12 months are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Advance payments which are expected to be recognized in profit and loss after more than 12 months	¥9,298	¥5,393	\$48

13. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The breakdown of non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale as of December 31, 2016 and 2017 is as follows.

Components of non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale.

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Non-current assets classified as held for sale			
Cash and cash equivalents	-	¥10	\$0
Trade and other receivables	-	857	8
Inventories	-	26	0
Other financial assets	-	0	0
Other current assets	-	9	0
Property, plant and equipment	3,357	63	1
Intangible assets	-	5	0
Investments accounted for using the equity method	-	804	7
Other financial assets (non-current)	-	5	0
Deferred tax assets	-	53	0
Total	¥3,357	¥1,835	\$16
Liabilities directly associated with non-current assets classified as held for sale			
Trade and other payables	-	¥266	\$2
Other financial liabilities (current)	-	11	0
Income tax payables	-	21	0
Other current liabilities	-	21	0
Other financial liabilities (non-current)	8	1	0
Liability for retirement benefits	-	120	1
Provisions (non-current)	-	14	0
Total	¥8	¥456	\$4

Non-current assets classified as held for sale as of December 31, 2016 consist of assets and liabilities related to real estate in Japan held by the Company and its subsidiaries.

Non-current assets classified as held for sale as of December 31, 2017 consist of assets and liabilities related to subsidiaries and affiliated companies accounted for under the equity method classified as disposal groups in the Japan business.

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14. PROPERTY, PLANT AND EQUIPMENT

The schedule of the carrying amount during the period is as follows:

FY2016: Year ended December 31, 2016

	(Millions of Yen)			
	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	¥66,224	¥114,040	¥16,518	¥196,782
Additions	7,971	–	6,538	14,510
Acquisitions through business combinations	1,578	–	2,275	3,854
Sales or disposals	(1,541)	(755)	(351)	(2,648)
Depreciation	(6,711)	–	(6,218)	(12,929)
Impairment losses	(22)	–	(2)	(24)
Exchange differences on translation of foreign operations	(650)	(157)	(782)	(1,589)
Other	(1,815)	(1,863)	(518)	(4,196)
Balance at the end of the year	¥65,033	¥111,263	¥17,460	¥193,757

FY2017: Year ended December 31, 2017

	(Millions of Yen)			
	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	¥65,033	¥111,263	¥17,460	¥193,757
Additions	9,434	279	8,492	18,207
Acquisitions through business combinations	129	–	853	982
Sales or disposals	(455)	(1,101)	(326)	(1,884)
Depreciation	(7,374)	–	(7,282)	(14,657)
Impairment losses	(60)	–	(15)	(76)
Exchange differences on translation of foreign operations	138	39	397	575
Other	(251)	–	6	(245)
Balance at the end of the year	¥66,593	¥110,480	¥19,584	¥196,659

FY2017: Year ended December 31, 2017

	(Millions of U.S. Dollars)			
	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	\$576	\$985	\$155	\$1,715
Additions	83	2	75	161
Acquisitions through business combinations	1	–	8	9
Sales or disposals	(4)	(10)	(3)	(17)
Depreciation	(65)	–	(64)	(130)
Impairment losses	(1)	–	(0)	(1)
Exchange differences on translation of foreign operations	1	0	4	5
Other	(2)	–	0	(2)
Balance at the end of the year	\$589	\$978	\$173	\$1,740

The acquisition cost, accumulated depreciation and impairment losses, and carrying amount of property, plant and equipment are as follows:

	(Millions of Yen)			
	Buildings and structures	Land	Other	Total
FY2016 (As of December 31, 2016)				
Acquisition cost	¥130,905	¥112,059	¥55,923	¥298,888
Accumulated depreciation and impairment losses	65,872	796	38,462	105,131
Carrying amount	65,033	111,263	17,460	193,757
FY2017 (As of December 31, 2017)				
Acquisition cost	¥139,100	¥110,485	¥67,757	¥317,343
Accumulated depreciation and impairment losses	72,506	4	48,173	120,684
Carrying amount	66,593	110,480	19,584	196,659

	(Millions of U.S. Dollars)			
	Buildings and structures	Land	Other	Total
FY2017 (As of December 31, 2017)				
Acquisition cost	\$1,231	\$978	\$600	\$2,808
Accumulated depreciation and impairment losses	642	0	426	1,068
Carrying amount	589	978	173	1,740

The carrying amount of property, plant and equipment above includes the carrying amount of the following leased assets.

	(Millions of Yen)		
Leased assets	Buildings and structures	Other	Total
FY2016 (As of December 31, 2016)	¥8	¥1,736	¥1,744
FY2017 (As of December 31, 2017)	7	2,361	2,369

	(Millions of U.S. Dollars)		
Leased assets	Buildings and structures	Other	Total
FY2017 (As of December 31, 2017)	\$0	\$21	\$21

There is no property, plant and equipment whose title is restricted or pledged as security for liabilities.

Depreciation is recorded in the Consolidated Statement of Income as "Cost" and "Selling, general and administrative expenses."

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15. GOODWILL AND INTANGIBLE ASSETS

(1) Schedule of goodwill and intangible assets

The schedule of the carrying amount during the period is as follows:

FY2016: Year ended December 31, 2016

	(Millions of Yen)				
	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	¥656,862	¥181,929	¥26,052	¥49,009	¥913,853
Additions	–	–	9,446	458	9,905
Acquisitions through business combinations	162,023	37,574	472	41,865	241,935
Sales or disposals	–	–	(290)	(32)	(323)
Amortization	–	(17,197)	(7,278)	(7,727)	(32,202)
Impairment losses	–	–	(498)	0	(498)
Exchange differences on translation of foreign operations	(102,753)	(30,646)	(2,199)	(6,348)	(141,948)
Other	2,585	1,052	(1,566)	(1)	2,071
Balance at the end of the year	¥718,717	¥172,712	¥24,138	¥77,223	¥992,791

FY2017: Year ended December 31, 2017

	(Millions of Yen)				
	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	¥718,717	¥172,712	¥24,138	¥77,223	¥992,791
Additions	–	–	10,162	725	10,888
Acquisitions through business combinations	55,637	14,404	154	7,503	77,700
Sales or disposals	–	–	(165)	94	(71)
Amortization	–	(20,926)	(8,099)	(11,333)	(40,358)
Impairment losses	(946)	(42)	(17)	(9)	(1,016)
Exchange differences on translation of foreign operations	24,489	6,200	811	1,071	32,573
Other	280	(30)	(54)	(21)	174
Balance at the end of the year	¥798,177	¥172,318	¥26,930	¥75,253	¥1,072,680

FY2017: Year ended December 31, 2017

	(Millions of U.S. Dollars)				
	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	\$6,360	\$1,528	\$214	\$683	\$8,786
Additions	–	–	90	6	96
Acquisitions through business combinations	492	127	1	66	688
Sales or disposals	–	–	(1)	1	(1)
Amortization	–	(185)	(72)	(100)	(357)
Impairment losses	(8)	(0)	(0)	(0)	(9)
Exchange differences on translation of foreign operations	217	55	7	9	288
Other	2	(0)	(0)	(0)	2
Balance at the end of the year	\$7,064	\$1,525	\$238	\$666	\$9,493

The acquisition cost, accumulated amortization and impairment losses, and carrying amount of goodwill and intangible assets are as follows:

	(Millions of Yen)				
	Goodwill	Customer relationships	Software	Other	Total
FY2016 (As of December 31, 2016)					
Acquisition cost	¥718,717	¥229,606	¥103,100	¥106,777	¥1,158,200
Accumulated amortization and impairment losses	–	56,893	78,961	29,553	165,409
Carrying amount	718,717	172,712	24,138	77,223	992,791
FY2017 (As of December 31, 2017)					
Acquisition cost	¥798,447	¥252,941	¥114,786	¥117,138	¥1,283,314
Accumulated amortization and impairment losses	269	80,623	87,855	41,885	210,634
Carrying amount	798,177	172,318	26,930	75,253	1,072,680

	(Millions of U.S. Dollars)				
	Goodwill	Customer relationships	Software	Other	Total
FY2017 (As of December 31, 2017)					
Acquisition cost	\$7,066	\$2,238	\$1,016	\$1,037	\$11,357
Accumulated amortization and impairment losses	2	713	777	371	1,864
Carrying amount	7,064	1,525	238	666	9,493

The carrying amount of intangible assets above includes the carrying amount of the following leased assets.

	(Millions of Yen)
Leased assets	Software
FY2016 (As of December 31, 2016)	¥230
FY2017 (As of December 31, 2017)	249

	(Millions of U.S. Dollars)
Leased assets	Software
FY2017 (As of December 31, 2017)	\$2

There are no intangible assets whose title is restricted or pledged as security for liabilities.

Amortization is recorded in the Consolidated Statement of Income as "Cost" and "Selling, general and administrative expenses."

(2) Significant goodwill and intangible assets

The significant portion of goodwill as of December 31, 2016 and 2017, arose from the international business segment which forms a group of cash generating units, and amounted to ¥718,447 million and ¥798,177 million (\$7,064 million) as of December 31, 2016 and 2017, respectively.

Significant intangible assets other than goodwill as of December 31, 2016 and 2017, consist of customer relationships in the international business segment, which amounted to ¥172,712 million and ¥172,318 million (\$1,525 million) as of December 31, 2016 and 2017, respectively. Among them, the amount recognized when the Company acquired Dentsu Aegis Network Ltd. in March 2013 was ¥114,297 million and ¥112,775 million (\$998million) as of December 31, 2016 and 2017, respectively, which the remaining amortization period at December 31, 2017 is 13 years.

(3) Impairment testing of goodwill

Recoverable amounts of the international business segment to which significant goodwill was allocated are determined by the value in use based on the financial budget for the next fiscal year approved by management and the management forecast for the subsequent four years. The continuing growth rate of 2.0% (2.0% as of December 31, 2016) is set for cash flows beyond the four-year period.

The pre-tax discount rates used for determining value in use are 7.5% and 7.3% as of December 31, 2016 and 2017, respectively.

For the goodwill above, the recoverable amount of the cash-generating units sufficiently exceeds its carrying amount. Therefore, it is unlikely that the recoverable amount of the group of cash-generating units will fall group of below the carrying amount even with reasonable changes in the key assumptions.

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16. LEASES

The Group leases buildings, software and other assets as a lessee. The lease contracts include those with renewal options, while they do not include significant contracts with escalation clauses.

There are no restrictions on additional debt, further leasing and others imposed by the lease contracts.

(1) Present value of finance lease obligations

The total of future minimum lease payments for leased assets recognized based on the finance lease contracts, their future financial costs and present value are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Not later than 1 year			
Total of future minimum lease payments	¥964	¥1,126	\$10
Future finance costs	13	19	0
Present value	¥951	¥1,106	\$10
Later than 1 year and not later than 5 years			
Total of future minimum lease payments	¥1,168	¥1,692	\$15
Future finance costs	12	22	0
Present value	¥1,155	¥1,670	\$15
Later than 5 years			
Total of future minimum lease payments	¥15	¥25	\$0
Future finance costs	0	0	0
Present value	¥15	¥25	\$0
Total			
Total of future minimum lease payments	¥2,148	¥2,844	\$25
Future finance costs	26	41	0
Present value	¥2,122	¥2,802	\$25

(2) Future minimum lease payments under non-cancellable operating leases

The total of future minimum lease payments under non-cancellable operating leases are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Not later than 1 year	¥24,347	¥22,997	\$204
Later than 1 year and not later than 5 years	65,075	72,804	644
Later than 5 years	32,684	93,735	830
Total	¥122,106	¥189,537	\$1,677

(3) Total of minimum lease payments

The total of minimum lease payments of operating lease contracts for the years ended December 31, 2016 and 2017 are ¥25,689 million and ¥30,326 million (\$268 million), respectively.

17. INVESTMENT PROPERTY

(1) Schedule of investment property.

The schedule of the carrying amount of investment property during the period is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Nine months ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥41,642	¥37,837	\$335
Additions	50	97	1
Depreciation	(637)	(572)	(5)
Sales or disposals	(3,215)	(2)	(0)
Other	0	-	-
Balance at the end of the year	¥37,837	¥37,360	\$331
Acquisition cost (balance at the beginning of the year)	¥50,950	¥46,253	\$409
Accumulated depreciation and impairment losses (balance at the beginning of the year)	9,308	8,416	74
Acquisition cost (balance at the end of the year)	¥46,253	¥46,345	\$410
Accumulated depreciation and impairment losses (balance at the end of the year)	8,416	8,984	\$80

(2) Fair value

The carrying amount and fair value of investment property are as follows:

	(Millions of Yen)				(Millions of U.S. Dollars)	
	FY2016 (As of December 31, 2016)		FY2017 (As of December 31, 2017)		FY2017 (As of December 31, 2017)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property (Level 3)	¥37,837	¥46,820	¥37,360	¥48,006	\$331	\$425

The fair value of investment property is determined by real estate appraisal value mainly based on discounted cash flow model and observable quoted prices for similar properties and others.

The investment property that is measured at fair value is categorized into the three levels of the fair value hierarchy according to observability and significance of the inputs used in the measurements.

The fair value hierarchy is defined as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is measured using the observable price other than categorized in level 1 directly or indirectly

Level 3: Fair value that is measured based on unobservable inputs

The fair value of investment property for each fiscal year end is categorized within level 3 of the fair value hierarchy.

(3) Income and expenses from investment property

The rental income from investment property and direct operating expenses associated with the investment property are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Rental income	¥2,331	¥2,213	\$20
Direct operating expenses	1,154	1,020	9

There are no investment properties that do not generate rental income and direct operating expenses associated with the investment property.

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18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of investments in associates and joint ventures is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Total of carrying amount	¥55,691	¥56,752	\$502

The financial information of associates and joint ventures is as follows. These amounts take into account the Group's ownership ratio.

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Profit for the year	¥3,362	¥4,222	\$37
Other comprehensive income	(723)	396	4
Comprehensive income for the year	¥2,639	¥4,618	\$41

The Group does not recognize the share of the cumulative amount of losses exceeding the carrying amounts incurred in certain investees accounted for using the equity method.

Unrecognized losses for each fiscal year and cumulative unrecognized losses for the investments are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Unrecognized losses	¥42	¥1	\$0

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Cumulative unrecognized losses	¥334	¥156	\$1

19. INCOME TAXES

(1) Deferred tax assets and deferred tax liabilities

The breakdown of deferred tax assets and deferred tax liabilities by major causes of their occurrence is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Deferred tax assets			
Liability for retirement benefits	¥29,904	¥25,546	\$226
Accrued expenses	10,729	10,864	96
Carryforwards of tax losses	7,851	7,214	64
Other	6,316	10,911	97
Total deferred tax assets	¥54,801	¥54,536	\$483
Deferred tax liabilities			
Gain on establishment of retirement benefit trust	¥(13,079)	¥(13,079)	\$(116)
Unrealized gain on securities	(36,521)	(66,193)	(586)
Valuation differences on intangible assets	(63,483)	(57,046)	(505)
Other	(1,476)	(7,368)	(65)
Total deferred tax liabilities	¥(114,561)	¥(143,688)	\$(1,272)
Net deferred tax assets (liabilities)	¥(59,759)	¥(89,151)	\$(789)

Changes in net deferred tax assets (liabilities) are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Net deferred tax assets (liabilities)			
Balance at the beginning of the year	¥(54,118)	¥(59,759)	\$(529)
Deferred income taxes	4,691	12,042	107
Deferred taxes related to components of other comprehensive income			
Exchange differences on translation of foreign operations	1	0	0
Effective portion of the change in the fair value of cash flow hedges	1,601	392	3
Net change in financial assets measured at fair value through other comprehensive income	(6,966)	(29,887)	(264)
Remeasurements of defined benefit plans	1,492	(5,219)	(46)
Changes in deferred tax assets (liabilities) arising from business combinations, and others	(6,462)	(6,720)	(59)
Balance at the end of the year	¥(59,759)	¥(89,151)	\$(789)

Taxable temporary differences, future taxable income determinations and tax planning are taken into account when recognizing deferred tax assets.

The breakdown of deductible temporary differences and carryforwards of tax losses, for which deferred tax assets are not recognized in the Consolidated Statement of Financial Position, is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Deductible temporary differences	¥12,859	¥11,389	\$101
Carryforwards of tax losses	64,152	55,925	495

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The breakdown of carryforwards of tax losses by expiry date as of December 31, 2016 and 2017, for which deferred tax assets are not recognized in the Consolidated Statement of Financial Position, is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Within 1 year	¥16,040	¥408	\$4
Within 2 years	202	194	2
Within 3 years	379	491	4
Within 4 years	723	268	2
Within 5 years	501	1,094	10
Over 5 years	3,932	5,167	46
Indefinite periods	42,372	48,301	427
Total	¥64,152	¥55,925	\$495

The total amount of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, for which deferred tax liabilities are not recognized amounted to ¥126,014 million and ¥122,501 million (\$1,084 million) as of December 31, 2016 and 2017, respectively.

Deferred tax liabilities are not recognized for these differences since the Group is able to control the timing of the reversal of the temporary difference and it is probable the temporary difference will not reverse in the foreseeable future.

(2) Income tax expense

The breakdown of income tax expense is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Current income taxes	¥48,264	¥48,562	\$430
Deferred income taxes	(4,691)	(12,042)	(107)

Deferred income taxes increased by ¥1,217 million due to a change in the income tax rate in Japan and decreased by ¥1,063 million due to a change in the tax rate in England in the year ended December 31, 2016.

Deferred income taxes decreased by ¥5,809 million (\$51 million) due to tax reform in the United States in the year ended December 31, 2017.

(3) Reconciliation of effective tax rate

The breakdown of major items that caused differences between the effective statutory tax rate and income tax rate after applying deferred tax accounting is as follows:

The Company is mainly subject to corporate tax, inhabitant tax and enterprise tax. The effective statutory tax rates calculated based on these taxes are 33.0% and 31.0% for the years ended December 31, 2016 and 2017, respectively. Foreign subsidiaries are subject to income taxes at their respective locations.

	FY2016 (Year ended December 31, 2016)		FY2017 (Year ended December 31, 2017)	
			(%)	
Effective statutory tax rate	33.0		31.0	
(Reconciliation)				
Non-deductible items, such as entertainment expenses	3.2		0.9	
Non-taxable items, such as dividend income	(5.3)		(0.3)	
Share of profits of investments accounted for using the equity method	(0.8)		(0.9)	
Reduction of deferred tax assets (liabilities) at fiscal year end due to tax rate changes	0.1		(3.9)	
Other	2.5		(2.4)	
Income tax rate after applying of deferred tax accounting	32.8		24.4	

20. TRADE AND OTHER PAYABLES

(1) The breakdown of trade and other payables is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Notes and accounts payable—trade	¥1,172,829	¥1,315,941	\$11,645
Other	57,667	64,933	575
Total	¥1,230,496	¥1,380,875	\$12,220

Trade and other payables are classified as financial liabilities measured at amortized cost.

(2) Assets pledged as collateral for liabilities

Assets pledged as collateral and corresponding liabilities are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Assets pledged as collateral			
Other financial assets (current assets)	¥154	¥54	\$0
Corresponding liabilities			
Notes and accounts payable	¥493	¥515	\$5

In addition to the above, other financial assets (current assets) of ¥15 million (\$0 million) are pledged as collateral for guarantee transactions related to the "Official Gazette" (*Kanpou*), sales etc as of December 31, 2016 and 2017.

21. BORROWINGS (INCLUDING OTHER FINANCIAL LIABILITIES)

(1) Breakdown of financial liabilities

The breakdown of borrowings (including other financial liabilities) is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Derivative liabilities	¥4,478	¥3,451	\$31
Put option liabilities	¥107,568	¥105,758	\$936
Short-term borrowings	127,768	41,413	366
Current portion of long-term borrowings	2,722	47,912	424
Long-term borrowings	273,108	371,187	3,285
Other (mainly contingent consideration)	80,951	79,896	707
Total	¥596,597	¥649,619	\$5,749
Current liabilities	¥157,272	¥132,355	\$1,171
Non-current liabilities	439,325	517,263	4,578
Total	¥596,597	¥649,619	\$5,749

Derivative liabilities include those to which hedge accounting is applied.

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss.

Borrowings are classified as financial liabilities measured at amortized cost. The average interest rates of short-term borrowings and long-term borrowings (including the current portion of long-term borrowings) for year ended December 31, 2017 are 2.96% and 1.83%, respectively.

"Other (mainly contingent consideration)" includes financial liabilities measured at fair value through profit or loss of ¥66,067 million and ¥61,932 million (\$548 million) as of December 31, 2016 and 2017, respectively. Remaining amounts are classified as financial liabilities measured at amortized cost.

Financial covenants are attached to certain borrowings as of December 31, 2016 and 2017. The Group has complied with these covenants. The Group monitors these covenants to maintain the required level.

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(2) Changes in liabilities arising from financing activities

FY2017: Year ended December 31, 2017

(Millions of Yen)

	Balance at the beginning of the year	Changes from cash flows from financing activities	Non-cash changes			Balance at the end of the year
			Newly recognized	Changes from remeasurements	Exchange differences and others	
Short-term borrowings	¥127,768	¥(95,990)	–	–	¥9,636	¥41,413
Long-term borrowings (Note 1)	275,831	151,641	–	–	(8,372)	419,099
Put option liabilities (Note 1, 2)	107,568	(5,396)	10,711	(5,186)	(1,938)	105,758
Total	¥511,167	¥50,254	¥10,711	¥(5,186)	¥(675)	¥566,271

FY2017: Year ended December 31, 2017

(Millions of U.S. Dollars)

	Balance at the beginning of the year	Changes from cash flows from financing activities	Non-cash changes			Balance at the end of the year
			Newly recognized	Changes from remeasurements	Exchange differences and others	
Short-term borrowings	\$1,131	\$(849)	–	–	\$85	\$366
Long-term borrowings (Note 1)	2,441	1,342	–	–	(74)	3,709
Put option liabilities (Note 1, 2)	952	(48)	95	(46)	(17)	936
Total	\$4,524	\$445	\$95	\$(46)	\$(6)	\$5,011

(Note1) The above includes current liabilities due within one year.

(Note2) Changes from remeasurements includes interest expense from the passage of time.

22. PROVISIONS

The breakdown and schedule of provisions are as follows:

FY2016: Year ended December 31, 2016

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Other provisions	Total
Balance at the beginning of the year	¥1,056	¥989	¥2,871	¥4,916
Additional provisions in the year	188	64	1,523	1,777
Interest expense incurred over the discount period	15	–	–	15
Provisions used	(12)	(989)	(76)	(1,077)
Provisions reversed	–	–	(489)	(489)
Exchange differences on translation of foreign operations	–	–	287	287
Other	–	–	45	45
Balance at the end of the year	¥1,247	¥64	¥4,162	¥5,475
Current liabilities	¥167	¥64	¥946	¥1,179
Non-current liabilities	1,080	–	3,215	4,295
Total	¥1,247	¥64	¥4,162	¥5,475

FY2017: Year ended December 31, 2017

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Other provisions	Total
Balance at the beginning of the year	¥1,247	¥64	¥4,162	¥5,475
Additional provisions in the year	596	625	1,981	3,203
Interest expense incurred over the discount period	5	–	–	5
Provisions used	(224)	(64)	(281)	(570)
Provisions reversed	–	(3)	(1,029)	(1,032)
Exchange differences on translation of foreign operations	0	–	(39)	(39)
Other	(27)	–	40	12
Balance at the end of the year	¥1,598	¥622	¥4,833	¥7,053
Current liabilities	¥28	¥622	¥1,419	¥2,070
Non-current liabilities	1,569	–	3,413	4,983
Total	¥1,598	¥622	¥4,833	¥7,053

FY2017: Year ended December 31, 2017

(Millions of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Other provisions	Total
Balance at the beginning of the year	\$11	\$1	\$37	\$48
Additional provisions in the year	5	6	18	28
Interest expense incurred over the discount period	0	–	–	0
Provisions used	(2)	(1)	(2)	(5)
Provisions reversed	–	(0)	(9)	(9)
Exchange differences on translation of foreign operations	0	–	(0)	(0)
Other	(0)	–	0	0
Balance at the end of the year	\$14	\$6	\$43	\$62
Current liabilities	\$0	\$6	\$13	\$18
Non-current liabilities	14	–	30	44
Total	\$14	\$6	\$43	\$62

(1) Provisions for asset retirement obligations

The probable amount to be paid in the future, taking past results in consideration is recognized in order to settle restoration obligations in lease contracts for offices that the Group uses.

These expenses are primarily expected to be paid after one year, however may change due to future events such as changes in business plan.

(2) Provisions for loss on order received

If losses are expected to be incurred in subsequent years from the performance of contracts related to orders received from customers and such losses can be reasonably estimated, loss provisions are recognized at the amounts expected to be incurred in subsequent years.

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23. POST-EMPLOYMENT BENEFITS

The Group operates defined benefit corporate pension plans and retirement lump-sum payment plans as defined benefit plans.

The Group and asset managers are required by law to act in the best interests of the plan participants, and is responsible for managing the plan assets in accordance with the designated policy.

The Company voluntarily operates a retirement benefits trust for defined benefit corporate pension plans and retirement lump-sum payment plans.

In addition, the Company and certain domestic consolidated subsidiaries operate defined contribution pension plans while certain overseas consolidated subsidiaries operate defined contribution retirement benefit plans.

Regional Dentsu subsidiaries (Dentsu East Inc., Dentsu West Inc., Dentsu Kyushu Inc., and Dentsu Hokkaido Inc.) partially shifted from a defined benefit corporate pension plan to a defined contribution pension plan on January 1, 2016.

(1) Reconciliation of defined benefit obligations and plan assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Funded defined benefit obligations	¥118,043	¥121,816	\$1,078
Plan assets	(101,369)	(119,037)	(1,053)
Subtotal	16,674	2,779	25
Unfunded defined benefit obligations	13,757	14,409	128
Total	¥30,431	¥17,188	\$152
Balance recognized in the Consolidated Statement of Financial Position			
Liabilities for retirement benefits	¥31,377	¥19,210	\$170
Assets for retirement benefits	(945)	(2,021)	(18)
Net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position	¥30,431	¥17,188	\$152

(2) Schedule of defined benefit obligations

The schedule of defined benefit obligations is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥136,982	¥131,800	\$1,166
Current service cost (Note 1)	6,752	7,431	66
Interest expense (Note 1)	1,015	626	6
Actuarial gains and losses (Note 2)	3,868	2,981	26
Benefits paid	(11,529)	(6,824)	(60)
Past service cost	(52)	–	–
Changes due to termination (curtailment or settlement) of defined benefit plans	(4,533)	–	–
Exchange differences on translation of foreign operations	(702)	353	3
Other	–	(143)	(1)
Balance at the end of the year	¥131,800	¥136,226	\$1,206

(Note 1) Current service cost is recognized in "Cost" and "Selling, general and administrative expenses". Interest expenses, net of interest income, are recognized in "Finance expenses."

(Note 2) Actuarial gains and losses arise from changes in financial assumptions, etc.

The weighted average duration of defined benefit obligations as of December 31, 2016 and 2017 is as follows:

	(Years)	
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
Weighted average duration	9.7	9.7

(3) Schedule of plan assets

The schedule of plan assets is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥107,123	¥101,369	\$897
Interest income	848	475	4
Return on plan assets (excluding amounts included in interest income)	(1,260)	19,763	175
Contributions by the employer	193	179	2
Contributions (refunds) associated with transfer to defined contribution pension plans	2,136	-	-
Benefits paid	(2,963)	(2,847)	(25)
Changes due to termination (curtailment or settlement) of defined benefit plans	(4,533)	-	-
Exchange differences on translation of foreign operations	(174)	96	1
Balance at the end of the year	¥101,369	¥119,037	\$1,053

The Group plans to pay contributions of ¥204 million (\$2 million) in the year ending December 31, 2018.

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(4) Major breakdown of plan assets

The major breakdown of the total of plan assets is as follows:

	(Millions of Yen)						(Millions of U.S. Dollars)		
	FY2016 (As of December 31, 2016)			FY2017 (As of December 31, 2017)			FY2017 (As of December 31, 2017)		
	Plan assets with quoted market price in an active market	Plan assets without quoted market price in an active market	Total	Plan assets with quoted market price in an active market	Plan assets without quoted market price in an active market	Total	Plan assets with quoted market price in an active market	Plan assets without quoted market price in an active market	Total
Equity instruments	¥70,931	¥4	¥70,936	¥86,800	–	¥86,800	\$768	–	\$768
Debt instruments	1,151	80	1,231	2,705	66	2,771	24	1	25
General account of life insurance companies	–	15,716	15,716	–	12,504	12,504	–	111	111
Other	–	13,485	13,485	–	16,960	16,960	–	150	150
Total	¥72,082	¥29,286	¥101,369	¥89,506	¥29,531	¥119,037	\$792	\$261	\$1,053

(Note) Plan assets above include retirement benefit trusts established for defined benefit corporate pension plans and retirement lump-sum payment plans of ¥70,841 million and ¥87,521 million (\$775 million), as of December 31, 2016 and 2017, respectively.
As of December 31, 2016 and 2017, equity instruments are mainly those issued in Japan and debt instruments are mainly those issued in overseas.

The objectives of plan asset investments are to reduce long-term contribution obligations and improve benefits within a tolerable risk while securing sufficient assets to grant benefits. To achieve these objectives, medium- to long-term future estimates of pension finance are taken into account, and the effect of uncertainty in the plan asset management on plan assets financing (such as the possibility of fund shortages) and tolerable levels of uncertainty in the rates of return on plan assets are adequately reviewed.

In addition, asset investments are managed to achieve these objectives by establishing a policy for future optimal asset composition ratios (hereinafter referred to as "policy asset allocation"), selecting an asset manager and monitoring asset allocation, after setting forecasts of expected rates of returns on appropriate assets for investment.

The policy asset allocation is verified annually and reviewed as necessary if any changes are made to the terms and conditions set at the time of the policy's establishment.

(5) Actuarial assumptions

The major items of actuarial assumptions are as follows:

	FY2016		FY2017	
	(As of December 31, 2016)		(As of December 31, 2017)	
Discount rate	0.5		0.5	

(Note) The sensitivities of the defined benefit obligations due to changes in major assumptions as of each fiscal year are as follows. Each of these analyses assumes that other variables remain fixed; however, they do not always change independently. Negative figures indicate a decrease in defined benefit obligations, while positive figures indicate an increase.

	Change in assumptions	(Millions of Yen)		(Millions of U.S. Dollars)
		FY2016		FY2017
		(As of December 31, 2016)		(As of December 31, 2017)
Discount rate	Increase by 0.5%	¥(6,074)	¥(5,802)	\$(51)
	Decrease by 0.5%	¥6,572	¥6,286	\$56

(6) Defined contribution plans

Expenses recognized due to contributions to defined contribution plans by the Company and consolidated subsidiaries amounted to ¥7,560 million and ¥9,218 million (\$82 million) for the years ended December 31, 2016 and 2017, respectively.

Such amounts are recognized in "Cost" and "Selling, general and administrative expenses."

24. EQUITY AND OTHER EQUITY ITEMS

(1) Share capital

A. authorized shares

The number of authorized shares as of December 31, 2016 and 2017 is 1,100,000,000 ordinary shares.

B. Fully paid and issued shares

The number of issued shares is as follows:

	Number of ordinary issued shares (Shares)
FY2016 (As of December 31, 2016)	288,410,000
Increase (decrease)	-
FY2017 (As of December 31, 2017)	288,410,000

All the shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(2) Treasury shares

A. Number of treasury shares is as follows:

	Number of shares (Shares)
FY2016 (As of December 31, 2016)	3,273,259
Increase (decrease)	3,237,823
FY2017 (As of December 31, 2017)	6,511,082

(Note) The above includes 2,600 shares of increase due to repurchase of shares less than one unit, and 77 shares of decrease due to sales of shares less than one unit.

B. Repurchase of treasury shares

The Company executed the repurchase of treasury shares as follows, based on the resolution by the Board of Directors held on February 14, 2017, in accordance with article 156 of the Companies Act applied with article 165, paragraph 3 of the Companies Act, and the articles of incorporation of the Company.

(i) Type of shares repurchased: Ordinary shares of the Company

(ii) Total number of repurchased shares: 3,235,300 shares

(iii) Total amount of repurchased shares: ¥19,999 million (\$177million)

(iv) Repurchase period: From February 20, 2017 to May 17, 2017

(v) Repurchase method: Market purchase at Tokyo Stock Exchange

(3) Reserves

A. Share premium account

Under the Companies Act of Japan, at least 50% of the proceeds upon issuance of equity instruments shall be credited to share capital, while the remainder of the proceeds shall be credited to capital reserves included in share premium account.

B. Retained earnings

The Companies Act of Japan provides that 10% of the dividends of retained earnings shall be appropriated as capital reserves or as retained earnings reserves until their aggregate amount equals 25% of share capital.

(4) Transactions with non-controlling interests in subsidiaries

The Group enters into a contract with non-controlling shareholders, mainly those of a newly acquired company, to purchase their shares under certain condition in the future.

The Group recognizes financial liabilities at the present value of redemption amount based on the contract, and reduces retained earnings by the same amount upon execution of the contract.

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25. DIVIDENDS

(1) Dividends paid

FY2016: Year ended December 31, 2016

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (March 30, 2016)	Ordinary shares	¥11,405	¥40.00	December 31, 2015	March 31, 2016
Board of Directors (August 12, 2016)	Ordinary shares	¥11,405	¥40.00	June 30, 2016	September 2, 2016

FY2017: Year ended December 31, 2017

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 14, 2017)	Ordinary shares	¥12,831	¥45.00	December 31, 2016	March 9, 2017
Board of Directors (August 9, 2017)	Ordinary shares	¥12,685	¥45.00	June 30, 2017	September 1, 2017

FY2017: Year ended December 31, 2017

Resolution	Class of shares	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 14, 2017)	Ordinary shares	\$114	\$0.40	December 31, 2016	March 9, 2017
Board of Directors (August 9, 2017)	Ordinary shares	\$112	\$0.40	June 30, 2017	September 1, 2017

(2) Dividends for which the basis date falls before fiscal year end, while the effective date falls in the following fiscal year

FY2016: Year ended December 31, 2016

Resolution	Class of shares	Source of dividends	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 14, 2017)	Ordinary shares	Retained earnings	¥12,831	¥45.00	December 31, 2016	March 9, 2017

FY2017: Year ended December 31, 2017

Resolution	Class of shares	Source of dividends	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 13, 2018)	Ordinary shares	Retained earnings	¥12,685	¥45.00	December 31, 2017	March 8, 2018

FY2017: Year ended December 31, 2017

Resolution	Class of shares	Source of dividends	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 13, 2018)	Ordinary shares	Retained earnings	\$112	\$0.40	December 31, 2017	March 8, 2018

26. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of selling, general and administrative expenses for each fiscal year is as follows:

	(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)
Staff costs	¥444,657	\$4,432
Depreciation and amortization	43,576	471
Other	171,652	1,751
Total	¥659,885	\$6,654

(Note) "Other" includes research and development expenses of ¥936 million and ¥1,134 million (\$10 million) for the years ended December 31, 2016 and 2017, respectively.

27. STAFF COSTS

The breakdown of staff costs for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Salaries, bonuses and allowances	¥388,417	¥438,515	\$3,881
Welfare expenses	56,840	65,517	580
Post-employment benefits costs	14,590	17,072	151
Other	5,183	366	3
Total	¥465,031	¥521,472	\$4,615

Staff costs are recorded in "Cost," "Selling, general and administrative expenses" and "Finance expenses" in the Consolidated Statement of Income.

28. OTHER INCOME

The breakdown of other income for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Profit distributions	¥6,262	¥6,405	\$57
Foreign exchange gains	1,453	-	-
Gain on sale of property, plant and equipment, intangible assets and investment property	6,506	14,441	128
Other	2,365	2,499	22
Total	¥16,588	¥23,347	\$207

29. OTHER EXPENSES

The breakdown of other expenses for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Amortization of long-term prepaid expenses	¥3,684	¥4,073	\$36
Loss on sale of property, plant and equipment, intangible assets and investment property	130	1,069	9
Impairment losses	522	1,093	10
Cash-settled share-based payment	446	2,046	18
Foreign exchange losses	-	625	6
Other	3,278	2,713	24
Total	¥8,063	¥11,620	\$103

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30. FINANCE INCOME AND FINANCE COSTS

(1) The breakdown of finance income for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Interest income			
Financial assets measured at amortized cost	¥1,743	¥2,137	\$19
Dividend income			
Financial assets measured at fair value through other comprehensive income	2,583	3,407	30
Changes in fair value of contingent consideration	–	8,499	75
Revaluation of put option liabilities	–	5,186	46
Dividend income and asset management gains from insurance	559	584	5
Other (Note)	218	486	4
Total	¥5,104	¥20,302	\$180

(Note) "Other" includes finance income arising from financial instruments measured at fair value through profit or loss of ¥17 million and ¥8 million (\$0 million) for the years ended December 31, 2016 and 2017, respectively.

The breakdown of dividend income is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Financial assets derecognized during the fiscal year	¥477	¥101	\$1
Financial assets held at the end of the fiscal year	2,105	3,305	29

(2) The breakdown of finance expenses for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Interest expense			
Financial liabilities measured at amortized cost	¥7,474	¥11,366	\$101
Other	211	156	1
Changes in fair value of contingent consideration	3,400	–	–
Revaluation of put option liabilities	1,444	–	–
Foreign exchange losses (Note 1)	325	318	3
Other (Note 2)	375	412	4
Total	¥13,230	¥12,254	\$108

(Note1) Foreign exchange losses include valuation loss on currency derivatives.

(Note2) "Other" includes finance expenses arising from financial instruments measured at fair value through profit or loss of ¥160 million and ¥41 million (\$0 million) for the years ended December 31, 2016 and 2017, respectively.

31. OTHER COMPREHENSIVE INCOME

Amount arising during the year, reclassification adjustments to profit or loss and income tax effects for each component of other comprehensive income for each fiscal year are as follows:

	FY2016 (Year ended December 31, 2016)	(Millions of Yen) FY2017 (Year ended December 31, 2017)	(Millions of U.S. Dollars) FY2017 (Year ended December 31, 2017)
Exchange differences on translation of foreign operations			
Amount arising during the year	¥(132,961)	¥32,460	\$287
Reclassification adjustments	(715)	226	2
Before tax effects	(133,676)	32,686	289
Tax effects	1	0	0
Exchange differences on translation of foreign operations	¥(133,674)	¥32,687	\$289
Effective portion of the change in the fair value of cash flow hedges			
Amount arising during the year	¥(3,929)	¥(5,869)	\$(52)
Reclassification adjustments	(774)	4,588	41
Before tax effects	(4,703)	(1,280)	(11)
Tax effects	1,601	392	3
Effective portion of the change in the fair value of cash flow hedges	¥(3,101)	¥(888)	\$(8)
Net change in financial assets measured at fair value through other comprehensive income			
Amount arising during the year	¥24,538	¥96,609	\$855
Before tax effects	24,538	96,609	855
Tax effects	(6,966)	(29,887)	(264)
Net change in financial assets measured at fair value through other comprehensive income	¥17,571	¥66,721	\$590
Remeasurements of defined benefit plans			
Amount arising during the year	¥(5,147)	¥16,782	\$149
Before tax effects	(5,147)	16,782	149
Tax effects	1,492	(5,219)	(46)
Remeasurements of defined benefit plans	¥(3,655)	¥11,563	\$102
Share of other comprehensive income of investments accounted for using the equity method			
Amount arising during the year	¥(723)	¥396	\$4
Share of other comprehensive income of investments accounted for using the equity method	¥(723)	¥396	\$4

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32. EARNINGS PER SHARE

(1) Basic earnings per share and diluted earnings per share

	(Yen)		(U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Basic earnings per share	¥292.85	¥373.11	\$3.30
Diluted earnings per share	¥292.84	¥373.10	\$3.30

(2) Basis of calculating basic earnings per share and diluted earnings per share

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Profit for the year used for calculation of basic earnings per share and diluted earnings per share			
Profit for the year attributable to owners of the parent	¥83,501	¥105,478	\$933
Amounts not attributable to ordinary equity holders of the parent	–	–	–
Profit for the year used for calculation of basic earnings per share	83,501	105,478	933
Adjustment			
Share options issued by associates	(2)	(1)	(0)
Profit for the year used for calculation of diluted earnings per share	¥83,499	¥105,476	\$933
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings per share and diluted earnings per share			
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings per share (Thousands of shares)	285,138	282,702	
Effect of dilutive potential ordinary shares (Thousands of shares)	–	–	
Weighted average number of ordinary shares outstanding used for the calculation of diluted earnings per share (Thousands of shares)	285,138	282,702	

33. SHARE-BASED PAYMENTS

Certain subsidiaries of the Company adopts cash-settled share-based payment plans for employees, under which the eligible employees receive compensation in the form of cash-settled payments based on the difference between the exercise price and the share price as of the exercise date. Rights to cash-settled share-based payments vest over between four and five years from the grant date and the exercise period is 10 years from the grant date. Expenses recognized in relation to the cash-settled share-based payment plans granted to employees is ¥446 million and ¥2,046 million (\$18 million) for the years ended December 31, 2016 and 2017, respectively, and the corresponding liability as of December 31, 2016 and 2017 are ¥6,877 million and ¥8,568 million (\$76 million), respectively.

The following table provides a summary of the status of cash-settled share-based payment plans.

	FY2016 (Year ended December 31, 2016)		FY2017 (Year ended December 31, 2017)		FY2017 (Year ended December 31, 2017)
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Weighted Average Exercise Price
Balance at the beginning of the year	–	¥–	771,271	¥8,821	\$78.06
Increase due to business combination	624,732	6,304	–	–	–
Granted	171,375	15,091	287,606	15,550	137.61
Exercised	(1,610)	7,095	(16,546)	7,011	62.04
Forfeited	(8,300)	7,852	(63,138)	11,408	100.96
Repurchased	(14,926)	5,959	(19,264)	6,123	54.19
Balance at the end of the year	771,271	8,821	959,929	10,573	93.57
Exercisable at the end of the year	300,850	¥5,892	460,375	¥8,033	\$71.09

1. The weighted average remaining life of the cash-settled share-based payments plans is 8.2 years and 7.8 years as of December 31, 2016 and 2017, respectively.

2. The weighted average share price upon exercise is ¥15,091 and ¥15,550 (\$137.61) for the years ended December 31, 2016 and 2017, respectively.

3. The intrinsic value of the cash-settled share-based payments vested in the years ended December 31, 2016 and 2017 is ¥3,918 million and ¥7,704 million (\$68 million), respectively.

The weighted-average fair value at the measurement date of the stock options granted during the year ended December 31, 2017 is ¥10,737 (\$95.02).

Fair value is measured as follows:

	FY2016 (Year ended December 31, 2016)		FY2017 (Year ended December 31, 2017)		FY2017 (Year ended December 31, 2017)
	Black-Scholes model		Black-Scholes model		Black-Scholes model
Valuation method used	Black-Scholes model		Black-Scholes model		Black-Scholes model
Key inputs and assumptions:					
Grant date share price	¥22,069		¥24,006		212.44
Exercise price	¥15,091		¥15,550		137.61
Expected volatility (Note)	31.0%		30.0%		
Option life	4.0–4.2 years		3.3 years		
Dividend yield	0%		0%		
Risk-free interest rate	2%		3%		

(Note) Volatility of the stock price is calculated based on the performance of the share price for the most recent period depending on the period to maturity.

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34. FINANCIAL INSTRUMENTS

(1) Capital management

The Group's basic policy for capital management aims to enhance capital efficiency by the long-term improvement of its value through business growth, while maintaining a sound financial structure.

Indicators for monitoring the capital management include total equity attributable to owners of the parent and underlying ROE (ratio of underlying profit for the year to total equity attributable to owners of the parent).

The balances as of December 31, 2016 and 2017 are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Total equity attributable to owners of the parent	¥932,742	¥1,093,211	\$9,674
Underlying ROE (%)	11.3	10.6	

(Note) The underlying profit for the year (attributable to owners of the parent), the numerator of underlying ROE, is a KPI used to measure recurring profit attributable to owners of the parent which is calculated as profit for the year (attributable to owners of the parent) adjusted for adjustment items related to operating profit, revaluation of contingent consideration and put option liabilities, related tax effects, profit or loss attributable to non-controlling interests, and other one-off items. Reconciliation from profit for the year (attributable to owners of the parent) to underlying profit for the year (attributable to owners of the parent) is stated below.

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (From January 1, 2015 to December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Profit for the year (attributable to owners of the parent)	¥83,501	¥105,478	\$933
(Adjustment items)			
Adjustment items related to operating profit	28,883	26,554	235
Revaluation of contingent consideration and share put option	4,844	(13,686)	(121)
Tax expenses related to the above items and effects from tax regulation changes	(3,637)	(9,239)	(82)
Others	(620)	(1,232)	(11)
Underlying profit for the year (attributable to owners of parent)	¥112,972	¥107,874	\$955

(2) Basic policy on risk management associated with financial instruments

The Group is exposed to financial risks in the course of its business activities; and it manages risks based on a specific policy in order to avoid or reduce these risks.

Derivative transactions for speculative purposes or short-term trading purposes are prohibited and limited to transactions based on actual demands.

(3) Credit risk

A. Credit risk management

Trade receivables, such as notes and accounts receivable, are exposed to customers' credit risk. The Group aims to reduce these risks based on credit management rules and guidelines.

The Company conducts review of new counterparties and credit management based on credit management rules and guidelines. With respect to trade receivables, based on accounting rules and guidelines, the relevant controlling departments in each business unit, together with the accounting department, manage due dates and outstanding balances for each counterparty and regularly monitor the status of major counterparties to detect and reduce doubtful receivables due to deteriorating financial conditions or other reasons in a timely manner.

Consolidated subsidiaries perform credit management and receivables management and have management systems in place that require reporting and approval for certain significant transaction and events.

The Group does not have excess concentration of credit risk in specific counterparties.

B. Maximum exposure to credit risk

With the exception of guarantee obligations, maximum exposure to the Group's credit risk is represented by the carrying amounts of trade and other receivables in the Consolidated Statement of Financial Position.

Maximum exposure to credit risk associated with guarantee obligations is the balance of the contingent liabilities described in "36. Contingent liabilities."

C. Financial assets that are past due

The analysis of the age of trade and other receivables that are past due but not impaired as of December 31, 2016 and 2017 is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Within 30 days	¥120,917	¥159,987	\$1,416
Over 30 days, within 60 days	39,659	51,205	453
Over 60 days, within 90 days	19,132	22,400	198
Over 90 days	24,986	33,619	298
Total	¥204,696	¥267,212	\$2,365

D. Schedule of allowance for doubtful accounts

The schedule of allowance for doubtful account for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥21,593	¥18,512	\$164
Addition	4,541	3,874	34
Decrease (intended use)	(3,193)	(64)	(1)
Decrease (reversal)	(1,203)	(1,145)	(10)
Other	(3,226)	1,155	10
Balance at the end of the year	¥18,512	¥22,331	\$198

(4) Liquidity risk

A. Liquidity risk management

The Company manages liquidity risk by having the treasury division establish and update a finance plan based on information collected from each division and also by maintaining liquidity based on cash flow status.

The Group raises working capital through internal funds, commercial paper and short-term borrowings.

The Group has established credit facilities (commitment lines) to ensure liquidity.

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B. Balance of financial liability (including derivative financial instruments) by maturity

Balance of financial liability (including derivative financial instruments) by maturity as of December 31, 2016 and 2017 is as follows:

FY2016: As of December 31, 2016

(Millions of Yen)

	Carrying amount	Contractual cash flow	Due within 1 year	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	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	¥1,230,496	¥1,230,496	¥1,230,496	¥-	¥-	¥-	¥-	¥-
Contingent consideration on acquisition and others	66,021	66,021	17,725	14,104	13,651	9,688	6,933	3,917
Put option liabilities	107,568	107,568	1,432	7,991	26,496	17,111	45,661	8,875
Borrowings	403,599	415,447	135,244	51,868	52,738	80,263	33,388	61,943
Subtotal	1,807,685	1,819,534	1,384,899	73,964	92,887	107,064	85,984	74,737
Derivative liabilities	4,478	4,478	391	143	1,116	795	811	1,218
Total	¥1,812,163	¥1,824,012	¥1,385,290	¥74,107	¥94,003	¥107,859	¥86,795	¥75,955

FY2017: As of December 31, 2017

(Millions of Yen)

	Carrying amount	Contractual cash flow	Due within 1 year	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	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	¥1,380,875	¥1,380,875	¥1,380,875	¥-	¥-	¥-	¥-	¥-
Contingent consideration on acquisition and others	61,909	61,909	23,952	10,952	5,886	16,866	4,185	66
Put option liabilities	105,758	105,758	8,931	24,115	13,034	46,360	5,651	7,663
Borrowings	460,512	496,453	99,042	58,381	83,164	37,848	59,928	158,086
Subtotal	2,009,055	2,044,996	1,512,801	93,449	102,085	101,076	69,765	165,816
Derivative liabilities	3,451	3,451	336	736	632	625	988	131
Total	¥2,012,507	¥2,048,448	¥1,513,138	¥94,186	¥102,718	¥101,701	¥70,754	¥165,948

FY2017: As of December 31, 2017

(Millions of U.S. Dollars)

	Carrying amount	Contractual cash flow	Due within 1 year	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	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	\$12,220	\$12,220	\$12,220	\$-	\$-	\$-	\$-	\$-
Contingent consideration on acquisition and others	548	548	212	97	52	149	37	1
Put option liabilities	936	936	79	213	115	410	50	68
Borrowings	4,075	4,393	876	517	736	335	530	1,399
Subtotal	17,779	18,097	13,388	827	903	894	617	1,467
Derivative liabilities	31	31	3	7	6	6	9	1
Total	\$17,810	\$18,128	\$13,391	\$834	\$909	\$900	\$626	\$1,469

C. Undrawn committed facilities

Undrawn committed facilities amounted to ¥281,113 million and ¥373,857 million (\$3,308 million) as of December 31, 2016 and 2017, respectively.

The undrawn committed facilities include commitment lines of credit, overdraft lines of credit and commercial paper facilities.

(5) Foreign currency risk

A. Foreign currency risk management

Monetary receivables and payables denominated in foreign currencies are exposed to foreign exchange fluctuation risks. The Company uses forward foreign exchange contracts to hedge its foreign exchange fluctuation risks identified for each currency in each month.

In addition, forward foreign exchange contracts and others are used to hedge foreign currency transactions that exceed a specified amount in accordance with accounting rules and guidelines.

Some of the consolidated subsidiaries use forward foreign exchange contracts to hedge significant foreign exchange fluctuation risks.

B. Foreign currency derivatives to which hedge accounting is applied

The details of foreign currency derivatives to which hedge accounting is applied as of December 31, 2016 and 2017 are as follows:

	(Millions of Yen)						(Millions of U.S. Dollars)		
	FY2016 (As of December 31, 2016)			FY2017 (As of December 31, 2017)			FY2017 (As of December 31, 2017)		
	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
Foreign exchange contracts	¥53,830	¥42,011	¥13,913	¥48,230	¥32,459	¥11,714	\$427	\$287	\$104

Foreign exchange contracts above are designated as cash flow hedges.

The amounts either included in or deducted from the initial cost of a non-financial asset or non-financial liability as a result of execution of a highly probable forecasted transaction in which an acquisition or incurrence of such non-financial asset or liability is designated as a hedged item are ¥942 million (deduction) and ¥1,953 million (\$17 million) (deduction) for the years ended December 31, 2016 and 2017, respectively.

C. Foreign currency sensitivity analysis

With respect to financial instruments held by the Group, in cases where the functional currency (Yen) increases by 1% in value against the US Dollar or Euro assuming all other variables remain unchanged, the effect on profit before tax as of December 31, 2016 and 2017 end is as follows:

The impact from the translation of financial instruments denominated in its functional currencies, as well as assets and liabilities of foreign operations into yen is not included.

	(Millions of Yen)		(Millions of U.S. Dollars)	
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
US Dollars	¥406	¥371	\$3	\$0
Euros	155	(52)	(0)	(0)

(6) Interest rate risk

A. Interest rate risk management

Certain portion of the Group's borrowings is issued with floating interest rates and is exposed to interest rate fluctuation risk. For interest rate fluctuation risks associated with borrowings, interest expenses are fixed using interest rate swap contracts and others.

B. Interest rate derivatives to which hedge accounting is applied

The details of interest rate derivatives to which hedge accounting is applied as of December 31, 2016 and 2017 are as follows:

	(Millions of Yen)						(Millions of U.S. Dollars)		
	FY2016 (As of December 31, 2016)			FY2017 (As of December 31, 2017)			FY2017 (As of December 31, 2017)		
	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
Interest rate swap contracts (including cross currency interest rate swap contracts)	¥220,115	¥220,115	¥7,990	¥263,799	¥200,365	¥3,645	\$2,335	\$1,773	\$32

Interest rate swap contracts included in the above are designated as cash flow hedges. Cross currency interest rate swap contracts are designated as cash flow hedges or hedges of net investment in foreign operations.

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C. Interest rate sensitivity analysis

Regarding the financial instruments held by the Group, the table below presents the effect of 100bps increase in interest rates on profit before tax in the Consolidated Statement of Income. The analysis includes the financial instruments (borrowings) that is subject to exchange rate fluctuation and assumes that all other factors, including exchange rate, are unchanged.

	(Millions of Yen)		(Millions of U.S. Dollars)	
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Profit before tax	¥(271)	¥(281)		\$(2)

(7) The carrying amount and fair value of financial instruments

The breakdown of the carrying amount and fair value of financial instruments as of December 31, 2016 and 2017 is as follows:

The fair value of financial assets and financial liabilities measured at amortized cost other than long-term borrowings approximates their carrying amount.

	(Millions of Yen)				(Millions of U.S. Dollars)	
	FY2016 (As of December 31, 2016)		FY2017 (As of December 31, 2017)		FY2017 (As of December 31, 2017)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	¥275,831	¥277,518	¥419,099	¥420,572	\$3,709	\$3,722

(Note) Current portion that is scheduled for repayment within one year is included.

The fair value of long-term borrowings is determined by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

The fair value hierarchy of long-term borrowings is categorized as Level 3.

(8) Fair value hierarchy of financial instruments

Financial instruments measured at fair value on a recurring basis after initial recognition are categorized into the three levels of the fair value hierarchy according to observability and significance of input used in measurements.

The fair value hierarchy is defined as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is measured using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is measured based on unobservable inputs

When multiple inputs are used to measure fair value, fair value levels are determined based on the lowest level input that is significant to the entire fair value measurement.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of each quarter.

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2016 and 2017.

The followings table includes put option liabilities.

FY2016: As of December 31, 2016

	(Millions of Yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	¥-	¥26,240	¥-	¥26,240
Equity securities	168,406	-	12,314	180,720
Other	514	2,397	9,337	12,250
Total	¥168,920	¥28,637	¥21,652	¥219,211
Financial liabilities				
Derivative liabilities	¥-	¥4,478	¥-	¥4,478
Put option liabilities	-	-	107,568	¥107,568
Other (mainly contingent consideration)	-	-	66,021	66,021
Total	¥-	¥4,478	¥173,589	¥178,067

FY2017: As of December 31, 2017

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	¥-	¥18,886	¥-	¥18,886
Equity securities	268,141	-	20,401	288,543
Other	522	2,825	11,780	15,128
Total	¥268,664	¥21,712	¥32,181	¥322,558
Financial liabilities				
Derivative liabilities	¥-	¥3,451	¥-	¥3,451
Put option liabilities	-	-	105,758	¥105,758
Other (mainly contingent consideration)	-	-	61,909	61,909
Total	¥-	¥3,451	¥167,667	¥171,119

FY2017: As of December 31, 2017

(Millions of U.S. Dollars)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	\$-	\$167	\$-	\$167
Equity securities	2,373	-	181	2,553
Other	5	25	104	134
Total	\$2,378	\$192	\$285	\$2,854
Financial liabilities				
Derivative liabilities	\$-	\$31	\$-	\$31
Put option liabilities	-	-	\$936	\$936
Other (mainly contingent consideration)	-	-	548	548
Total	\$-	\$31	\$1,484	\$1,514

The fair values of interest rate swap contracts and foreign exchange contracts included in derivative assets and derivative liabilities are categorized within Level 2 as they are valued using price estimates obtained from financial institutions or observable market data.

The fair values of stocks included in equity securities and other (financial assets) for which active markets exist are categorized within Level 1 as they are determined based on market prices.

For stocks in which active markets do not exist, the stocks whose fair values are measured using observable market data are categorized within Level 2, while stocks whose fair values are measured based mainly on market approaches (guideline public company method) using unobservable inputs are categorized within Level 3.

Significant unobservable inputs mainly include the price/net asset value multiples, and fair value increases (decreases) based on the increase (decrease) of the price/net asset value multiples.

The price/net asset value multiples used at December 31, 2016 and 2017, are 0.68 and 0.77, respectively.

The fair values, etc. and others of put option liabilities and other (financial liabilities) are categorized within Level 3 as they are valued based on the discounted cash flow method using unobservable inputs. Significant unobservable inputs are level of future profitability and discount rate. The fair values, etc. increases (decreases) as level of profitability increases (decreases). The discount rate increase (decrease) by 100bps will decrease (increase) the fair values, etc. by ¥3,084 million (\$27 million).

The fair values of assets and liabilities categorized within Level 3 are measured using asset and liability valuation methods determined by the department in charge in accordance with fair value measurement valuation policies and procedures. Fair value measurement results are approved by the appropriate personnel in charge.

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The schedule of financial instruments categorized within Level 3 is as follows:

Financial assets	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥19,984	¥21,652	\$192
Other comprehensive income (Note 1)	(1,352)	522	5
Purchases or acquisition	4,564	11,131	99
Sales or settlements	(1,192)	(324)	(3)
Transfers out of Level 3 (Note 2)	–	(21)	(0)
Other	(351)	(778)	(7)
Balance at the end of the year	¥21,652	¥32,181	\$285

Financial liabilities	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥90,421	¥173,589	\$1,536
Profit or loss (Note 3)	4,844	(13,686)	(121)
Purchases (Note 4)	105,490	32,878	291
Sales or settlements	(31,362)	(25,561)	(226)
Other	4,195	447	4
Balance at the end of the year	¥173,589	¥167,667	\$1,484

(Note 1) "Other comprehensive income" is associated with financial assets measured at fair value through other comprehensive income and included in "Net change in financial assets measured at fair value through other comprehensive income."

(Note 2) "Transfers out of Level 3" recognized for the year ended December 31, 2017 is due to investees being listed on exchanges.

(Note 3) "Profit or loss" is associated with financial liabilities at fair value through profit or loss and included in finance income or expenses. Profit or loss arising from financial instruments held at fiscal year end amounted to finance expenses of ¥4,844 million and finance income of ¥13,686 million (\$121 million) for the years ended December 31, 2016 and 2017, respectively.

(Note 4) The increase in the year ended December 31, 2016 resulted from the Group entering into contracts with shareholders of non-controlling interests of the acquiree, to purchase the shares held by these shareholders in the future under certain circumstances.

(9) Offsetting of financial assets and liabilities

The amount of financial assets and liabilities as of December 31, 2016 and 2017, that are against the same counterparty and that are offset in accordance with the criteria for offset, are as follows.

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents
Total recognized financial assets	¥80,423	¥87,038	\$770
The amount of financial assets and liabilities offset in accordance with the criteria	(38,200)	(51,464)	(455)
Net amount recorded in Consolidated Statement of Financial Position	¥42,222	¥35,574	\$315

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
	Borrowings (current)	Borrowings (current)	Borrowings (current)
Total recognized financial assets	¥38,200	¥51,708	\$458
The amount of financial assets and liabilities offset in accordance with the criteria	(38,200)	(51,464)	(455)
Net amount recorded in Consolidated Statement of Financial Position	–	¥243	\$2

The amount of financial assets and liabilities that are under enforceable master netting agreements or similar contracts, but are not offset as they do not meet certain or all criteria of offsetting is not material.

35. RELATED PARTIES

(1) Remuneration for the Company's directors

Remuneration for the Company's directors for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Remuneration and bonuses	¥418	¥448	\$4

(2) Major subsidiaries

The Company's significant subsidiaries are as follows:

Company name	Location	Ownership percentage of voting rights (%)
Dentsu East Japan Inc.	Tokyo, Japan	100.0
Dentsu West Japan Inc.	Osaka, Japan	100.0
Dentsu Kyushu Inc.	Fukuoka, Japan	100.0
Dentsu Hokkaido Inc.	Sapporo, Japan	100.0
Dentsu Meitetsu Communications Inc.	Nagoya, Japan	50.0
The Goal Inc.	Tokyo, Japan	100.0
Dentsu Ad-Gear Inc.	Tokyo, Japan	66.7
Dentsu Young & Rubicam Inc.	Tokyo, Japan	51.0
Cyber Communications Inc.	Tokyo, Japan	100.0
Dentsu Digital Inc.	Tokyo, Japan	100.0
Dentsu Live Inc.	Tokyo, Japan	100.0
Dentsu Tec Inc.	Tokyo, Japan	100.0
Information Services International-Dentsu, Ltd.	Tokyo, Japan	61.8
Dentsu Works Inc.	Tokyo, Japan	100.0
Dentsu Aegis Network Ltd.	London, the United Kingdom	100.0
Dentsu Aegis London Ltd.	London, the United Kingdom	100.0
Aegis International Ltd.	London, the United Kingdom	100.0
Portman Square US Holdings Ltd.	London, the United Kingdom	100.0
Aegis Group Participations Ltd.	London, the United Kingdom	100.0
Aegis Triton Ltd.	London, the United Kingdom	100.0
Aegis GPS Holdings Ltd.	London, the United Kingdom	100.0
Aegis Finance Ltd.	London, the United Kingdom	100.0
Dentsu Aegis Network Central Europe Holding GmbH	Wiesbaden, Federal Republic of Germany	100.0
Dentsu Aegis Network Central Europe GmbH	Wiesbaden, Federal Republic of Germany	100.0
Dentsu Aegis Network France SAS	Paris, France	100.0
Dentsu McGarry Bowen, LLC	New York, the United States	100.0
360i LLC	Atlanta, the United States	100.0
Dentsu Aegis Network US Holdings, Inc.	New York, the United States	100.0
Merkle Group Inc.	Columbia, the United States	73.8
Dentsu Aegis (Shanghai) Investment Co., Ltd.	Shanghai, China	100.0
Beijing Dentsu Advertising Co., Ltd.	Beijing, China	70.0

Consolidated subsidiaries increased by 67, and affiliates accounted for using the equity method increased by 4, during the year ended December 31, 2017.

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36. CONTINGENT LIABILITIES

The contingent liabilities as of December 31, 2016 and 2017 are as follows:

Guarantees of loans and other liabilities

	FY2016 (As of December 31, 2016)	(Millions of Yen) FY2017 (As of December 31, 2017)	(Millions of U.S. Dollars) FY2017 (As of December 31, 2017)
Liabilities on guarantees resulting from a loan scheme for housing funds for employees	¥309	¥207	\$2
Liabilities for guarantees of bank loans and others	2,051	1,906	17
Total	¥2,360	¥2,114	\$19

37. SUBSEQUENT EVENTS

At the board of directors' meeting held on March 15, 2018, the Company approved to issue ordinary unsecured corporate bonds to raise necessary funds for future business growth. The planned issue amount is ¥100,000 million (\$885 million) yen at the maximum, and will be issued in Japan. The Company plans to use the proceeds for capital expenditure, investments, repayment of borrowings, and working capital.



Independent Auditor's Report

To the Board of Directors of Dentsu Inc.:

We have audited the accompanying consolidated financial statements of Dentsu Inc. and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dentsu Inc. and its consolidated subsidiaries as at December 31, 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Dentsu Inc. and its consolidated subsidiaries for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 30, 2017.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note "2. BASIS OF PREPARATION (3) Functional Currency and Presentation Currency" to the consolidated financial statements.

KPMG AZSA LLC

May 25, 2018
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Subsidiaries and Affiliates

Dentsu conducts its business together with its subsidiaries and affiliates. As of December 31, 2017, the Dentsu Group includes 911 consolidated subsidiaries and 68 affiliated companies accounted for by the equity method.

Consolidated Subsidiaries

Dentsu East Japan Inc.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Advertising in the Kanto and Tohoku regions as well as Shizuoka and Niigata prefectures

Dentsu West Japan Inc.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Advertising in the Chugoku region and Shikoku as well as Hyogo, Ishikawa, Fukui and Toyama prefectures

Dentsu Kyushu Inc.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Advertising in Kyushu

Dentsu Hokkaido Inc.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Advertising in Hokkaido

Dentsu Meitetsu Communications Inc.*1

Geographic Area: Japan
Equity Held by Dentsu: 50.0%
Description of Business: Total advertising services, specializing in promotion and out-of-home media

The Goal Inc.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Fashion and accessories industry advertising

Dentsu Ad-Gear Inc.

Geographic Area: Japan
Equity Held by Dentsu: 66.7%
Description of Business: Advertising firm specializing in out-of-home media and store promotions

Dentsu Young & Rubicam Inc.

Geographic Area: Japan
Equity Held by Dentsu: 51.0%
Description of Business: Advertising company established by Dentsu and Young & Rubicam

Cyber Communications Inc.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%
Description of Business: Internet-based advertising media rep

Carat Japan Co., Ltd.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Media communication company

Dentsu Digital Inc.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of business: Consulting, development and implementation, management and operation in all digital marketing domains

Dentsu Tec Inc.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Planning and production for sales promotions, events, commercials, print, etc.

Information Services International-Dentsu, Ltd.*2 *3

Geographic Area: Japan
Equity Held by Dentsu: 61.8%
Equity Held Indirectly: 0.0%
Description of Business: Information systems building; software sales and support for various business areas

Dentsu Works Inc.

Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Environment-related consulting, building management, real estate services and business consulting services

Dentsu Aegis Network Ltd.*3

Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Description of Business: Headquarters of the Dentsu Group's global business, which oversees operations outside of Japan

Dentsu Aegis London Ltd.

Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Aegis International Ltd.*3

Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Portman Square US Holdings Ltd.*3

Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Aegis Group Participations Ltd.*1

Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Aegis Toriton Ltd.

Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Aegis GPS Holdings Ltd.*3

Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Aegis Finance Ltd.*3

Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu Aegis Network Central Europe Holding GmbH

Geographic Area: Germany
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu Aegis Network Central Europe GmbH

Geographic Area: Germany
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu Aegis Network France SAS*3

Geographic Area: France
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu McGarry Bowen, LLC*3

Geographic Area: U.S.A.
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

360i LLC*3

Geographic Area: U.S.A.
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu Aegis Network US Holdings, Inc.*3

Geographic Area: U.S.A.
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Merkle Group Inc.

Geographic Area: U.S.A.
Equity Held by Dentsu: 73.8%
Equity Held Indirectly: 73.8%

Dentsu Aegis (Shanghai) Investment Co., Ltd.

Geographic Area: China
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Beijing Dentsu Advertising Co., Ltd.

Geographic Area: China
Equity Held by Dentsu: 70.0%

and 880 other companies

*1 Although Dentsu's ownership is 50% or less, the Company is considered a subsidiary because Dentsu exerts effective control.

*2 It is a Company which Submits Annual Securities Report.

*3 It is a Specified Subsidiary.

Affiliated Companies Accounted for by the Equity Method

Video Research Ltd.

Geographic Area: Japan
Equity Held by Dentsu: 34.2%
Description of Business: TV audience rating surveys, radio audience rating surveys and other research

D2C Inc.

Geographic Area: Japan
Equity Held by Dentsu: 46.0%
Equity Held Indirectly: 10.0%
Description of Business: Advertising for i-mode and other mobile platforms

Kakaku.com, Inc.*1 *2

Geographic Area: Japan
Equity Held by Dentsu: 16.7%
Description of Business: An Internet media company that operates the customer procurement support site Kakaku.com, word of mouth restaurant and gourmet guide site Tabelog, and other sites

and 65 other companies

*1 Although Dentsu's equity is less than 20%, because Dentsu can have significant impact on its business policy decisions, it is considered an affiliated company.

*2 It is a Company Which Submits Annual Securities Report.

Information for Shareholders

(As of December 31, 2017)

Corporate Headquarters

1-8-1, Higashi-shimbashi, Minato-ku, Tokyo
105-7001, Japan
Phone: +81-3-6216-5111

Contact Info

Investor Relations Department,
Corporate Strategy Division,
1-8-1, Higashi-shimbashi, Minato-ku, Tokyo
105-7001, Japan
Email: irmail@dentsu.co.jp

Stock Exchange Listing

Tokyo Stock Exchange, First Section
Securities code: 4324

Capital

74,609.81 million yen

Total Number of Shares Issued

288,410,000

General Meeting of Shareholders

The Ordinary General Meeting of Shareholders is held in Tokyo in March each year.

Transfer Agent

The Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo
100-8212, Japan

Internet Address

<http://www.dentsu.com>

Share Information

(As of December 31, 2017)

Breakdown of Shareholders by Type

	Number of Shareholders	Number of Shares Held	Percentage of Total Number of Shares Issued
Japanese financial institutions	82	88,696,260	30.75
Japanese securities firms	63	9,012,676	3.12
Other Japanese corporations	671	77,549,771	26.89
Japanese individuals and others (Including treasury stock)	40,808	48,278,775	16.74
Foreign institutions and individuals	627	64,827,518	22.49
Total	42,251	288,410,000	100.00

Major Shareholders (Top 10)

Major Shareholders	Number of Shares Held	Percentage of Total Number of Shares Issued
The Master Trust Bank of Japan, Ltd. (Trust accounts)	31,329,200	10.86
Kyodo News	19,375,500	6.72
Jiji Press, Ltd.	18,988,800	6.58
Japan Trustee Services Bank, Ltd. (Trust accounts)	16,678,680	5.78
State Street Bank and Trust Company 505001	7,955,155	2.76
Group Employees' Stockholding Association	6,511,082	2.26
Mizuho Bank, Ltd.	5,963,698	2.07
Yoshida Hideo Memorial Foundation	5,000,000	1.73
Recruit Holdings Co., Ltd.	4,984,808	1.73
Tokyo Broadcasting System Television, Inc.	4,929,900	1.71

(Note) The percentage of total number of share shows the ratio of shares held by each investor to the total number of issued shares.

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