Items for Disclosure on the Internet Pursuant to Laws, Regulations, and the Articles of Incorporation Regarding the Notice of Convocation of the 168th Ordinary General Meeting of Shareholders

Dentsu Inc.

Pursuant to laws and regulations and Article 19 of the Company's Articles of Incorporation, the above items are provided to shareholders on the Company's website (http://www.dentsu.co.jp/ir/shares/sokai.html).

III 2. Situation of Important Con-current Posts

Name	Organization of Con-current Post	Position
Directors who are not Audit and Supervisory Committee Members		
Tadashi Ishii	TOKYO BROADCASTING SYSTEM HOLDINGS, INC.	Outside Director
	Tokyo Broadcasting System Television, Inc.	Director
	Dentsu Aegis Network Ltd.	Non-executive Director
Shoichi Nakamoto	Dentsu Aegis Network Ltd.	Non-executive Director
	Dentsu Corporate Pension Fund	President
Yoshio Takada	D2C Inc.	Outside Director
	Kyodo Television, Ltd.	Corporate Auditor
Timothy Andree	Dentsu Aegis Network Ltd.	Executive Chairman
	Dentsu Holdings USA, LLC.	President & CEO
Kunihiro Matsushima	Dentsu Aegis Network Ltd.	Non-executive Director
	Wunderman Dentsu, Inc.	Director
	Dentsu Sudler & Hennessey Inc.	Director
	Beacon Communications K.K.	Representative Director and Chairman
	Dentsu Young & Rubicam Inc.	Director
Directors who are Audit and Supervisory Committee Members		
Atsuko Toyama	The Toyota Foundation	President
	National Council on Mt. Fuji World Heritage	Chief Director
Toshiaki Hasegawa	T. Hasegawa & Co. Law Offices	Lawyer
	Mizuho Bank, Ltd.	Outside Corporate Auditor
	Mitsui Fudosan Co., Ltd.	Outside Corporate Auditor
Kentaro Koga	Hitotsubashi University Graduate School of International Corporate Strategy	Associate Professor
	Resona Bank, Ltd.	Outside Corporate Auditor

(Notes)

1. Director who is not an Audit and Supervisory Committee Member Shoichi Nakamoto resigned as President of Dentsu Corporate Pension Fund on April 18, 2016.
2. Director who is not an Audit and Supervisory Committee Member Yoshio Takada resigned as Outside Director of D2C Inc. on June 14, 2016 and resigned as Corporate Auditor of Kyodo Television, Ltd. on June 16, 2016.
3. No items to report for Director who is an Audit and Supervisory Committee Member Kenichi Kato.
4. Director who is an Audit and Supervisory Committee Member Toshiaki Hasegawa resigned as Outside Corporate Auditor of Mitsui Fudosan Co., Ltd. on June 29, 2016.
5. Director who is an Audit and Supervisory Committee Member Atsuko Toyama resigned as Chief Director of National Council on Mt. Fuji World Heritage on February 28, 2017.

5. (2) Important Con-current Posts and Relationship with Dentsu

Category / Name	Organization of Con-current Post / Description	Relationship with Said Organization
Outside Director Atsuko Toyama	The Toyota Foundation President	Dentsu does not have any special relationship with the Toyota Foundation.
	National Council on Mt. Fuji World Heritage Chief Director (Resigned on February 28, 2017)	Dentsu donates money to the National Council on Mt. Fuji World Heritage. However, the amount is extremely small.
Outside Director Toshiaki Hasegawa	T. Hasegawa & Co. Law Offices Lawyer	Dentsu does not have any special relationship with T. Hasegawa & Co. Law Offices.
	Mizuho Bank, Ltd. Outside Corporate Auditor	Dentsu maintains a business relationship with Mizuho Bank, Ltd.
	Mitsui Fudosan Co., Ltd. Outside Corporate Auditor (Resigned as of June 29, 2016)	Dentsu maintains a business relationship with Mitsui Fudosan Co., Ltd.
Outside Director Kentaro Koga	Hitotsubashi University Graduate School Associate Professor, Graduate School of International Corporate Strategy	Dentsu does not have any special relationship with Hitotsubashi University.
	Resona Bank, Ltd. Outside Corporate Auditor	Dentsu maintains a business relationship with Resona Bank, Ltd.

V Company System and Policy

1. Basic Policy on Internal Control System

With regard to Article 399-13, Paragraph 1, Item 1 (c) of the Companies Act (or Article 362, Paragraph 4, Item 6 of the Companies Act during the period prior to the transition to a company with an audit and supervisory committee from a company with an audit and supervisory board on March 30, 2016) "The development of systems necessary to ensure that the execution of the duties by the directors complies with the laws and regulations and the articles of incorporation, and other systems prescribed by the applicable Ordinance of the Ministry of Justice as systems necessary to ensure the properness of operations of a Stock Company and operations of group of enterprises consisting of said Stock Company and its Subsidiaries," the Board of Directors made a resolution at its meeting on March 30, 2006. Subsequent revisions to the Basic Policy on Internal Control System are made as necessary at the meetings of the Board of Directors. The Company's Basic Policy on Internal Control System is as follows.

Basic Policy on Internal Control System

The Internal Control System at Dentsu is designed to encourage compliance among Directors, Executive Officers, and employees while it supports continuous corporate development as the Company strives to meet its social responsibilities.

The Company has chosen the Dentsu Group Code of Conduct to define the parameters of acceptable behavior, which ensures that Directors, Executive Officers and employees of Dentsu and its subsidiaries comply with all laws, regulations, and the Articles of Incorporation during the course of their duties and that business is conducted appropriately. The CSR Committee is charged with creating, operating, and improving the Internal Control System.

1. Compliance System for Directors, Executive Officers and Employees

(1) Directors and Executive Officers must perform their duties appropriately, in accordance with rules such as the Rules for the Board of Directors, Rules for Executive Management Committee operation, Rules for Directors, and the Rules for Executive Officers.

(2) If a Director or an Executive Officer discovers a violation of the prevailing laws or comes across any other serious compliance-related issue, it is imperative that he/she reports it without delay to the Board of Directors or the Executive Management Committee. Audit and Supervisory Committee Members must also be immediately advised of the circumstances.

(3) The departments reporting to the CSR Committee create internal policies and manuals and conduct training to improve and enhance the compliance system for employees. The Internal Audit Office, which reports directly to the Representative Director, conducts internal audits.

(4) The Company has set up an internal reporting and proposal system to respond appropriately in the event a law is broken or some other internal compliance issue arises.

(5) If Audit and Supervisory Committee Members state opinions on the Company's compliance system or require steps to improve the system, Directors and Executive Officers must respond without delay and make the recommended improvements.

(6) The Company has established a department to facilitate the termination of business relationships with organized crime groups and elements thereof – termed "antisocial forces" in Japan – when a link is discovered and to resolutely refuse any and all future transactions. This department functions as the liaison between the affected in-house division and the relevant authorities to expedite an appropriate

course of action.

2. Systems to Ensure Efficient Execution of Duties by Directors and Executive Officers
   (1) In addition to meetings of the Board of Directors, Dentsu holds meetings of the Board of Executive Officers, Executive Management Committee, Business Management Committee, various important committees, and expert committees. These meetings provide opportunities to discuss important matters pertaining to management policy and strategy, and to make executive decisions.
   (2) Items resolved at such meetings a transmitted to all employees through the corporate structure for prompt reflection in the execution of duties. Urgent items are posted on the internal electronic bulletin board in the interest of rapid dissemination.

3. Storage and Management of Information Related to the Execution of Duties by Directors and Executive Officers

   Information concerning the execution of duties by Directors and Executive Officers is stored and managed appropriately, in accordance with the Company's documentation management regulations and information management guidelines.

4. Risk Management System
   (1) Dentsu establishes risk management regulations to maintain and improve a structure that precludes the spread of damage or loss and minimizes the impact of risk progression in the event risks become reality. The Company prioritizes key risks and formulates concrete measures that can be put into effect should a response be required.
   (2) Responsibility for monitoring the status of risk management efforts at Dentsu falls primarily on the department in charge of internal control, under the CSR Committee. Efforts are directed toward self-inspection and approaches to strengthen the risk management system.

5. Internal Structure to Support Audit and Supervisory Committee Members and Their Independent Status, etc.

   The Company maintains an Audit and Supervisory Committee Office, which consists of employees who assist Audit and Supervisory Committee Members in their duties. This office reports directly to the Audit and Supervisory Committee, thereby preserving its independence from Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers, and ensuring effectiveness of orders from Audit and Supervisory Committee Members.

6. System for Reporting to Audit and Supervisory Committee Members and Improving Audit Effectiveness
   (1) In addition to stipulating items that Directors (excluding Directors who are Audit and Supervisory Committee Members), Executive Officers, and employees (hereinafter "executives and employees") of Dentsu and its subsidiaries are required to report to Audit and Supervisory Committee Members of Dentsu, the system ensures that significant matters that have an impact on Dentsu's business operations or business results are reported by executives and employees to Audit and Supervisory Committee Members of Dentsu in a certain and prompt manner.
   (2) In the event that Audit and Supervisory Committee Members of Dentsu request information other than those contained in the previous item, executives and employees of Dentsu and its subsidiaries are still required to respond without delay.
   (3) It will be ensured that parties who report under the conditions of the previous items do not receive

harmful treatment as a result of reporting.

(4) Pursuant to laws and regulations, a policy will be defined to account for expenses, etc., incurred during the course of execution of duties by Audit and Supervisory Committee Members, and this information will be disseminated to concerned parties.

(5) To enhance audit effectiveness, the Internal Audit Office and the Accounting Auditors collaborate to handle any such requests from the Audit and Supervisory Committee Members.

7. Internal Control System for the Dentsu Group, Including Subsidiaries

Starting with the following items, matters that subsidiaries must establish and operate as members of the Dentsu Group will be defined, and the establishment, operation, and improvement of the Dentsu Group's Internal Control System will be promoted.

(1) The Dentsu Group Code of Conduct was drafted as the standard for acceptable corporate behavior and embraces the entire Group, including subsidiaries. Each subsidiary passes a resolution on the adoption of the Code.

(2) In addition to receiving periodic reports from subsidiaries concerning the business operations, business results, and other significant matters concerning subsidiaries, for certain matters that may have a significant effect on the business operation or business results of Dentsu, subsidiaries will request advance approval or report to Dentsu.

(3) Through Dentsu Aegis Network, which oversees each overseas subsidiary within the Dentsu Group, decision-making and business execution in overseas business operations will be made in an efficient manner.

(4) Subsidiaries will define standards pursuant to the Dentsu Group Code of Conduct, and by resolution of a meeting of the Board of Directors, etc., will ensure compliance and risk management as members of the Dentsu Group.

8. System to Ensure Appropriateness of Financial Reporting

(1) Through the CSR Committee, Dentsu continually supports a system that ensures appropriateness in financial reporting by the Group.

(2) Subsidiaries and departments involved in business activities perform self-checks through the course of day-to-day operations to determine if internal controls are functioning properly.

(3) The Internal Audit Office monitors the Internal Control System from a perspective free of operational bias to assess the effectiveness of internal controls related to financial reporting.

2. Summary of Operational Status of Internal Control System

In adherence with the Basic Policy on Internal Control System stated in 1. above which has been resolved by the Board of Directors, the Company is promoting the development and operation of an Internal Control System upon establishing risk management regulations, document handling regulations, and other internal regulations, holding meetings of the CSR Committee and other committees, and with the department in charge of internal control serving as the core.

The summary of operational status is as follows:

(1) The Company promotes risk management based on the "Risk Management Regulations," through the five steps of 1) identifying risks that impedes the Company's efforts to achieve its management targets or Internal Control targets, 2) evaluating identified risks, 3) specifying "highest order risk," which may have a significant impact on the Company, 4) formulating a plan to minimize such "highest order

risk," and 5) reporting progress in dealing with such "highest order risk." Formulation and implementation of plans to deal with risks are led by each specialized department on a companywide level.

(2) Concerning establishment of Internal Control Systems across the group of enterprises, including consolidated subsidiaries, applicable companies are identified in advance, rules that must be followed as a group of enterprises are formulated, and requests are made to each company to comply. The Company checks applicable companies in Japan and overseas at the end of each business year whether operations are performed in line with the aforementioned rules, and requires improvement in the case of issues.

(3) Regarding structures to ensure the appropriateness of financial reporting, in April 2016, in response to the "Internal Control Reporting System" stipulated in Article 24-4-4 of the Financial Instruments and Exchange Act, the Company formulated the "Basic Plan" which provides the companies and business processes applicable for evaluation and the evaluation system, etc., upon discussion with the Accounting Auditor. Following the Basic Plan, the departments executing the business applicable for evaluation and applicable companies confirm that internal control is implemented appropriately and functioning effectively in daily operations and such companies make reports on such confirmation to the Company.

During the fiscal year under review, as stated in "I 2. Issued to be Addressed," issues concerning inappropriate operations in digital advertising services and issues regarding long working hours and labor management were brought to light. The Company takes these issues extremely seriously, particularly from the viewpoint of internal control such as compliance structure and risk management structure. While taking action such as investigating facts and clarifying causes, the Company is establishing requisite measures to prevent recurrence. While continuing to verify the internal control systems, the Company is formulating and implementing measures to prevent recurrence, to avoid similar issues in the future.

Notes to Consolidated Financial Statements

1. Significant matters for preparing consolidated financial statements

(1) Accounting principles for preparing consolidated financial statements

The consolidated financial statements of Dentsu Inc. (hereinafter the “Company”) are prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) under the Paragraph 1 of Article 120 of the Ordinance on Company Accounting. Under the provisions of the second sentence of the same paragraph of the same Ordinance, some disclosure items required under IFRS are omitted.

(2) Scope of consolidation

Number of consolidated subsidiaries, including Dentsu Aegis Network Ltd., is 844.

The Company acquired shares of Merkle Group Inc. through its consolidated subsidiary, Dentsu Aegis Network Ltd., and therefore included Merkle in the scope of consolidation from the consolidated fiscal year under review.

(3) Scope of equity method

Number of associates, including Video Research Ltd., accounted for using the equity method is 64.

(4) Accounting policies

1) Basis and method of valuation for significant assets

i Non-derivative financial assets

The Group has early adopted IFRS 9 "Financial Instruments" (revised in October 2010).

a. Financial assets measured at amortized cost

Non-derivative financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met.

- 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.

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

The Group assesses whether objective evidence of impairment exists at each reporting date. 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 at the original effective interest rate of financial asset, and recognized as losses. If the amount of impairment losses decreases due to an event occurring after the impairment losses were recognized, the previously recognized impairment losses are reversed by the amount of the decrease through profit.

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

b. Financial assets measured at fair value through profit or loss

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

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value, and changes in fair value subsequent to initial recognition and dividends are recognized in profit or loss.

c. Financial assets measured at fair value through other comprehensive income

Equity financial assets 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.

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value. 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 declines significantly. Dividends derived from these financial assets are recognized in profit or loss for the year.

ii 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 between hedging instruments and hedged items, 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 an assessment of the hedge effectiveness.

These hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the periods for which they were designated.

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

a. Fair value hedge

Changes in the fair value of derivative financial instruments are recognized in profit or loss. The change in the fair value of the hedged item attributable to the hedged risk is recorded as part of its carrying amount and recognized in profit or loss.

b. Cash flow hedge

For the effective portion of gains or losses on hedging instruments, changes in the fair value are recognized in other comprehensive income. The amounts recognized in other comprehensive income are recognized in profit or loss when the cash flows from the hedged items affect profit or loss.

For the ineffective portion, changes in the fair value are recognized in profit or loss.

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

c. Hedge of net investment in foreign operations

Translation differences resulting from the hedges of a net investment in a foreign operation 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.

On disposal of the foreign operation, the cumulative gains or losses recognized in equity as other comprehensive income are reclassified to profit or loss.

d. Derivative financial instruments not designated as hedges

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

iii Inventories

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

2) Depreciation method for significant depreciable assets

i Property, plant and equipment

Property, plant, and equipment is presented at acquisition cost using the cost model subsequent to initial recognition less accumulated depreciation and accumulated impairment losses. The 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 that are not depreciated, property, plant, and equipment are depreciated mainly using the straight-line method over their estimated useful lives.

However, leased assets are depreciated using the straight-line method over the shorter of their estimated useful lives or lease terms.

ii Intangible assets

Intangible assets are presented at acquisition cost using the cost model subsequent to initial recognition less accumulated amortization and accumulated impairment losses. Intangible assets acquired separately are measured at acquisition cost for their 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.

Except for intangible assets with indefinite useful lives, intangible assets are amortized using the straight-line method over their estimated useful lives.

However, leased assets are depreciated using the straight-line method over the shorter of their estimated useful lives or lease terms.

iii Investment property

Investment property is presented at acquisition cost using the cost model subsequent to initial recognition 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.

3) Goodwill

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

Impairment tests for goodwill are performed once a year, irrespective of whether there is any indication that it may be impaired, and in cases where there is an indication of impairment.

4) Recognition of significant 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.

5) 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 difference between the present value of defined benefit obligations and the fair value of any plan assets as either liabilities or assets. For each of the 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. Discount rate is determined based on high quality corporate bonds yield rate at fiscal year end for the discount period which is set for the projected period until the expected date of benefit payment in each fiscal year.

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

6) Foreign currency translation

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

At each fiscal year end, 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 closing rate, and the resulting translation differences are recognized in profit or loss.

Non-monetary items measured at foreign currency-denominated costs are translated at exchange rate at the date of transaction.

For financial statements of foreign operations, assets and liabilities are translated into Japanese yen at closing rate for a reporting period, and revenue and expenses are translated into Japanese yen using the average rate for 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.

7) Accounting method for consumption taxes

Consumption taxes are accounted for using tax-excluding method.

8) All figures are rounded down to the nearest million yen.

2. Notes to consolidated statement of financial position

(1) Assets pledged as collateral

Other financial assets (current assets) **154** million yen

The above assets are pledged as collateral to secure trade and other payables of **493** million yen.

Other than the above, other financial assets (current assets) of **15** million yen are pledged as collateral for guarantee transactions that are disclosed in the "Official Gazette" (Kanpou) and related to other operations.

(2) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables	**345** million yen
Other financial assets (non-current assets)	**18,167** million yen

(3) Accumulated depreciation and impairment losses of property, plant and equipment **105,131** million yen

(4) Accumulated depreciation and impairment losses of investment property **8,419** million yen

(5) Contingent liabilities

Guarantees of loans and other liabilities

Liabilities on guarantees resulting from a loan scheme for housing funds for employees	**309** million yen
Liabilities for guarantees of bank loans and others	**2,051** million yen
Total	**2,360** million yen

3. Notes to consolidated statement of changes in equity

(1) Class and total number of issued shares as of December 31, 2016

Ordinary shares: **288,410,000** shares

(2) Cash dividends

1) Dividends paid

Resolution	Class of shares	Total dividends (million 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
Total		**22,811**			

2) Dividends for which the basis date falls before fiscal year end, while the effective date falls in the following fiscal year:

Dividends paid based on the resolution of the Board of Directors' meeting held on February 14, 2017.

i	Total dividends	**12,831** million yen
ii	Dividends per share	**45** yen
iii	Basis date	December 31, 2016
iv	Effective date	March 9, 2017

Retained earnings are reserved as a source of dividends.

4. Financial instruments

(1) Status of financial instruments

The Group limits the use of capital to short-term deposits and others, and raises working capital through borrowings from bank and other financial institution.

The Group aims to reduce customer credit risk associated with trade receivables, such as notes and accounts receivables, based on credit management rules and guidelines. Fair value for equity securities included in other financial assets or financial liabilities measured at fair value included in other financial liabilities are obtained and analyzed every quarter.

The use of the borrowings ranges from capital investment to investment and working capital. For interest rate fluctuation risks associated with a portion of long-term borrowings, interest expenses are fixed using interest rate swap contracts. In addition, derivative transactions are limited to those based on the actual demands in line with the internal management rules.

(2) Fair value of financial instruments

The carrying amount on the consolidated statement of financial position and the fair value as of December 31, 2016 are as follows. The fair value of financial assets and financial liabilities measured at amortized cost approximates their carrying amount, except for long-term borrowings.

(Unit: Million yen)

	Carrying amount	Fair value
(Financial liabilities) Long-term borrowings	**275,831**	**277,518**

(Note) The calculation method of fair value for financial instruments is as follows:

1. Long-term borrowings

   Current portion of long-term borrowings is included in the above. 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.

5. Investment property

(1) Status of investment property

The Company and its certain subsidiaries own some rental properties such as office buildings and commercial facilities in Tokyo Prefecture and other areas.

(2) Fair value of investment property

The carrying amount on the consolidated statement of financial position and the fair value as of December 31, 2016 are as follows:

(Unit: Million yen)

	Carrying amount	Fair value
Investment property	**37,837**	**46,820**

(Notes)

1. The carrying amount on the consolidated statement of financial position is the acquisition cost less accumulated depreciation and accumulated impairment losses, if any.
2. The fair value of investment property is mainly based on a valuation conducted by independent real estate appraisers. The valuation techniques are based on discounted cash flow model or observable quoted prices for similar properties and others.

6. Per share information

(1) Equity attributable to owners of the parent per share **3,271.21** yen

(2) Basic earnings per share (attributable to owners of the parent) **292.85** yen

7. Significant subsequent events

Purchase of treasury shares

The Company resolved at the Board of Directors' meeting held on February 14, 2017 to authorize a share repurchase pursuant to the Company's Articles of Incorporation in accordance with Article 156 of the Companies Act, as applied by replacing certain terms under the provisions of Article 165, Paragraph 3 of the Act.

(1) Reason for share repurchase

To enhance shareholder value and further improve capital efficiency, and at the same time to implement a flexible capital policy in response to changes in the business environment.

(2) Details of matters related to the share repurchase

1) Class of shares to be repurchased Common shares of the Company
2) Total number of shares to be repurchased 5,000,000 shares (maximum)
3) Total repurchase cost 20 billion yen (maximum)
4) Repurchase period From February 20 to May 31, 2017
5) Method of repurchase Open market purchase on the Tokyo Stock Exchange

8. Business combination

Acquisition of Merkle Group Inc.

(1) Outline of the business combination

1) Name of acquired company: Merkle Group Inc.

2) Line of business: advertising and marketing business

3) Reason for the business combination:

Merkle Group Inc. (hereinafter referred to as “Merkle”) is a leading independent firm specializing in the provision of data-driven and technology-enabled marketing solutions, based in the U.S., and offers services to clients who pursue enhancement of customer engagement, strengthening of competitiveness and maximization of marketing return on investment (ROI). The Company has determined Merkle’s scale of business and capability would help Dentsu Aegis Network Ltd. significantly strengthen its competitiveness and ability to propose solutions to clients in the business fields of strategic consulting, data analytics, CRM and customer experience.

4) Date of the business combination: September 1, 2016

5) Percentage of voting equity interests acquired: 68.3%

(Note) The remaining stake may be acquired partially or wholly.

6) Legal form of the business combination: share acquisition by cash

(2) Period for which the operating results of the business acquired are included in the consolidated statements of income

The operating results from September 1 to December 31, 2016 were included.

(3) Acquisition cost of the acquired business and the breakdown thereof

Acquisition cost of the acquired business: **101,218** million yen

Breakdown of the acquisition cost:

Consideration (cash) for shares: **101,218** million yen

(4) Acquisition-related costs and the line item

The amount of acquisition-related costs incurred in said business combination was **1,526** million yen, recognized in "selling, general and administrative expenses" in the consolidated statement of income.

(5) Fair values of assets and liabilities, consideration paid, non-controlling interests, and goodwill at the date of the business combination

(Unit: Million yen)

	Date of acquisition of control (September 1, 2016)
Current assets [*1]	**22,092**
Non-current assets	**63,288**
Total assets	**85,380**
Current liabilities	**18,723**
Non-current liabilities	**53,133**
Total liabilities	**71,856**
Fair value of identifiable net assets	**13,523**
Consideration paid	**101,218**
Non-controlling interests[*2]	**11,778**
Goodwill[*3]	**99,472**

*1 Cash and cash equivalents of **2,986** million yen were included. In addition, fair values of acquired trade and other receivables were **16,730** million yen, the gross contractual amounts receivable was **16,889** million yen, while the amount not expected to be collected is **158** million yen.
*2 Non-controlling interests were measured by multiplying the fair values of identifiable net assets of the acquired company at the date of acquisition of control, excluding the portion individually attributable to non-controlling shareholders, by the shareholding ratio after the business combination.
*3 Goodwill reflected the expected future excess earning power. The total amount of goodwill that is expected to be deductible for tax purposes is **3,315** million yen.

(6) Amount allocated to intangible assets other than goodwill, the breakdown and amortization period

(Unit: Million yen)

Type	Amount	Amortization period (year)
Brand	**24,911**	**15**
Relationship with clients	**22,465**	**10**
Others	**11,505**	**6** to **7**
Total	**58,882**	

(7) Impact of the business combination on cash flows

Payment of acquisition costs: (**101,218**) million yen

Cash and cash equivalents accepted at the date of the business combination: **2,986** million yen

Payment for share acquisition: (**98,231**) million yen

(8) Revenue and profit of the acquired business

Revenue and profit of Merkle for the period after the date of acquisition of control included in the consolidated statement of income are **23,588** million yen and **195** million yen, respectively.

(Pro forma information)

Assuming that the business combination was executed at the beginning of the current fiscal year, revenue and loss included in the consolidated statement of income for the year ended December 31, 2016 would be **62,722** million yen and (**2,124)** million yen respectively.

This pro forma information has not received audit certification. Furthermore, the information herein 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 under review.

Notes to Nonconsolidated Financial Statements

1. **Summary of significant accounting policies**

(1) **Valuation basis and method for securities**

1) **Subsidiaries' and associates' shares**

Stated at cost determined by the moving-average method

2) **Other securities**

Available-for-sale securities with fair values

Stated at fair value as of the fiscal year end date, based on quoted market prices (Unrealized gains and losses are reported, net of applicable taxes, in a separate component of net assets. The cost of securities sold is determined by the moving-average method.)

Available-for-sale securities without fair values

Stated mainly at cost determined by the moving-average method

(2) **Valuation basis and method for inventories**

Inventories held for the purpose of ordinary sales

Works, work in process and supplies

Stated at cost determined by the specific identification method

(Amounts in the balance sheet were calculated by writing down the book value based on decreased profitability.)

(3) **Valuation basis and method for derivative instruments**

Stated at fair value

(4) **Depreciation method for non-current assets**

1) **Property, plant and equipment**

Depreciation of property, plant and equipment is calculated by the declining-balance method based on the fixed rates, while the straight-line method is applied to buildings (excluding building improvements) acquired on or after April 1, 1998 and building improvements and structures acquired on or after April 1, 2016.

The range of useful lives is principally as follows:

Buildings: 2-50 years

Structures: 2-50 years

Tools, furniture and fixtures: 2-20 years

However, finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees are depreciated by the straight-line method, assuming the lease period as the useful life and residual value as zero.

2) **Intangible assets**

Amortization of intangible assets is calculated by the straight-line method. Software for internal use is amortized by the straight-line method over the estimated useful lives (5 years).

Assets leased under finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees are amortized by the straight-line method, assuming the lease period as the useful life and residual value as zero.

3) Long-term prepaid expenses

Long-term prepaid expenses are equally amortized.

(5) Accounting policy for provisions

1) Allowance for doubtful accounts

To prepare for losses from bad debts such as operating receivables, the Company provides an allowance for doubtful accounts at an amount corresponding to possible losses from uncollectible trade receivables based on the actual rate of losses from bad debt for ordinary receivables, and on the estimated recoverability for specific doubtful receivables.

2) Provision for directors' bonuses

The Company makes a provision for directors' bonuses based on the estimated amount payable.

3) Provision for loss on guarantees

To prepare for future losses arising from debt guarantees, the Company makes a provision at the estimated amount of loss based on the financial condition of the guaranteed companies.

4) Provision for retirement benefits

The Company accounts for the liability for employees' retirement benefits based on the projected retirement benefit obligation and plan assets at the balance sheet date.

i. Service period attribution method for projected retirement benefits

In calculating retirement benefit obligations, expected benefit payments are assigned to the period up to the current fiscal year in accordance with the benefit formula method.

ii. Accounting for actuarial gain or loss and past service cost

The actuarial gain or loss is amortized by the straight-line method over a certain number of years (17 years) within the average remaining service years for employees at the time of recognition from the following fiscal year of recognition during each fiscal year.

Past service cost is amortized by the straight-line method over a certain number of years (17 years) within the average remaining service years for employees at the time of recognition.

The actuarial gain or loss related to a defined benefit pension plan for retired employees before transfer to a defined contribution pension plan is amortized over a certain number of years (8 years) by the straight-line method within the average remaining years of payment for eligible employees.

(6) Derivatives and hedging activities

1) Hedge accounting methods

The Company uses the deferred-hedge accounting method. The interest rate swaps which qualify for hedge accounting and which meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

2) Hedging instruments and hedged items

i. Hedging instrument: Forward exchange contracts

Hedged item: Forecasted transactions denominated in a foreign currency

ii. Hedging instrument: Interest rate swaps

Hedged item: Interest on loans payable

3) Hedging policy

The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange for transactions denominated in foreign currencies and interest rate fluctuations on loans payable. The Company does not enter into derivatives for trading or speculative purposes.

4) Method of evaluating hedge effectiveness

Concerning forward foreign exchange contracts, the Company evaluates hedge effectiveness by confirming that there is a high correlation between the exchange rate fluctuations of hedged items or cash flow fluctuations and exchange rate fluctuations of hedging instruments or cash flow fluctuations.

The evaluation of hedge effectiveness for interest rate swaps which qualify for hedge accounting and which meet specific matching criteria is omitted since the above exceptional treatment is adopted.

(7) Accounting method for consumption taxes

Consumption taxes are accounted for using tax-excluding method.

(8) Accounting for retirement benefits

The method of accounting for unrecognized actuarial losses and unrecognized past service costs relating to retirement benefits differs from the method used in the consolidated financial statements.

(9) All figures are rounded down to the nearest million yen.

2. Change in accounting policy

Pursuant to an amendment to the Corporate Tax Act, the Company adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 32 issued on June 17, 2016) and have changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from declining-balance method to straight-line method.

The effect of this change on profit or loss for the period under review is immaterial.

3. For nonconsolidated balance sheets

(1) Assets pledged as collateral

Cash and deposits securing transactions — **10** million yen

(2) Accumulated depreciation of property, plant and equipment — **68,791** million yen

(3) Contingent liabilities

Guarantee obligations outstanding

Liability on guarantees resulting from a loan scheme for housing funds for employees — **309** million yen

Liabilities on guarantees of bank loans taken out by the following companies:

Dentsu Aegis Network Ltd. and Aegis Group Holdings Ltd.

(Line of credit for operating funds: GBP 500 million)	**71,500** million yen
Aegis Triton Ltd.	
(Loan of USD 400 million to cover early redemption of US private placement bonds)	**46,596** million yen
Total of 8 companies including Dentsu East Japan Inc.	**1,340** million yen
Total	**119,745** million yen

(4) Monetary claims/obligations to associated companies

Short-term monetary claims	**74,411** million yen
Long-term monetary claims	**49,004** million yen
Short-term monetary obligations	**246,370** million yen
Long-term monetary obligations	**274** million yen

(5) Monetary obligations toward Directors

Long-term monetary obligations	**72** million yen

(6) The Company revalued the land used for its business in accordance with the "Law Concerning Revaluation of Land (Act No. 34; March 31, 1998)." The revaluation difference after deducting the related tax has been included in "Net assets" as "Revaluation reserve for land," and the related tax is included in "Liabilities" as "Deferred tax liabilities for land revaluation."

Revaluation method set forth in Paragraph 3 of Article 3 of said law

The value of land is determined using two methods. One is to compute the property value based on the assessed value of the property, which becomes the basis of calculation of the property tax amounts as stipulated in Article 16 of the Property Tax Act, computed by a method determined and announced by the Director-General of the National Tax Agency Japan, adjusted reasonably, as stipulated in Paragraph 4 of Article 2 of the Ordinance for Enforcement of the Act on Revaluation of Land (government ordinance No. 119; March 31, 1998). The other method is calculation by appraisal and evaluation by a real estate appraiser as stipulated in Paragraph 5 of Article 2 of the Ordinance for Enforcement of the Act on Revaluation of Land.

Date of revaluation	**March 31, 2001**

Total fair values of revaluated properties as of the end of the fiscal year ended December 31, 2016 were not below the book value after the revaluation.

4. For nonconsolidated statement of income

Volume of transactions with associated companies

Sales	**113,523** million yen
Cost of sales	**309,644** million yen
Other operating transactions	**21,622** million yen
Other than operating transactions	**40,701** million yen

5. For nonconsolidated statement of changes in net assets

Classes and number of treasury shares at the end of the fiscal year ended December 31, 2016

Common stock	**3,273,259** shares

6. Tax effect accounting

The main factors resulting in deferred tax assets are provision for retirement benefits and losses on valuation of securities.
The main factors resulting in deferred tax liabilities are valuation difference on available-for-sale securities and the gain on contribution of securities to the employee benefit trust.

7. Transactions with related parties

Subsidiaries and associates

Category	Name of company	Ratio of voting rights	Relationship with affiliated entity	Description of transactions	Transaction sum (mil. yen)	Item	Ending balance (mil. yen)
Subsidiary company	Dentsu Aegis Network Ltd.	Dentsu has voting rights Direct; **100%**	Entrusted management of overseas business operation and guarantee of bank loans Concurrently serving officers	Contribution in kind[1]	**52,114**	-	-
				Guarantee of bank line of credit[2]	**71,500**	-	**-**
				Receipt of guarantor's fees[2]	**10**	Other (Accrued income)	**10**
Subsidiary company	Aegis Group Holdings Ltd.	Dentsu has voting rights Indirect; **100%**	Guarantee of bank loans	Guarantee of bank line of credit[2]	**71,500**	-	**-**
				Receipt of guarantor's fees[2]	**10**	Other (Accrued income)	**10**
Subsidiary company	Aegis Triton Ltd.	Dentsu has voting rights Indirect; **100%**	Lending to cover early redemption of US private placement bonds which had been issued by Dentsu Aegis Network and guaranteeing its bank loans	Loans receivable[3]	-	Long-term loans receivable	**46,596**
				Receipt of loans interest[3]	**582**	Other (Accrued income)	**156**
				Guarantee of bank loans[4]	**46,596**	-	-
				Receipt of guarantor's fees[4]	**88**	Other (Accrued income)	**65**
Subsidiary company	Dentsu Management Services Inc.	Dentsu has voting rights Direct; **100%**	Lending operational fund to Dentsu Management Services Inc. for its factoring operations and receiving factoring services	Loans receivable[5]	-	Other (Short-term loans receivable)	**26,740**
				Receipt of loans interest[5]	**21**	Other (Accrued income)	**1**
				Factoring of accounts receivable[6]	**182,276**	Accounts payable-trade	**44,516**
Subsidiary company	Dentsu Tec, Inc.	Dentsu has voting rights Direct; **100%**	Dentsu purchases ad planning and production services	Purchases[7]	**110,332**	Accounts payable-trade	**36,509**
				Loans payable via cash management system[8]	**-**	Short-term loans payable	**19,270**
				Payment of loans interest[8]	**6**	Accrued expenses	**0**
Subsidiary company	Information Services International -Dentsu, Ltd.	Dentsu has voting rights Direct; **61.8%**	Dentsu outsources information processing services	Loans payable via cash management system[8]	**-**	Short-term loans payable	**27,218**
				Payment of loans interest[8]	**7**	Accrued expenses	**0**

Remarks

1. The Company has made a contribution in kind of its 450,000 redeemable preferred shares of Aegis GPS Holdings Ltd. and in exchange obtained 1,000 ordinary shares of Dentsu Aegis Network Ltd.
2. A guarantee was made for a bank line of credit (GBP 500 million, five-year period) with Dentsu Aegis Network Ltd. and Aegis Group Holdings Ltd. as counterparties, and based on the actual amount of borrowings, guarantee fee is received at the rate of 0.2% per annum.
3. The interest rates for the loaned funds (USD 400 million, five-year period, and bullet repayment upon maturity) are determined reasonably with reference to market interest rates. No collateral has been accepted.
4. The bank loans (USD 400 million, seven-year period) have been guaranteed, and a guarantor's fee of 0.2% per annum has been received.
5. Because the balance of the loaned funds fluctuates daily based on the basic contract, only the ending balance is stated here. Interest rates are determined with reference to market interest rates.
6. Factoring transactions are settled through a factoring method based on a three-party basic contract between the Company, the Company's business partner and Dentsu Management Service Inc.; the terms of the transactions set out in the basic contract are determined with reference to the market conditions. The transaction sum and ending balance also include consumption tax.
7. Transaction terms and the principles for deciding on them are determined in the same manner as for ordinary transaction terms. Consumption taxes and other expenses are not included in the transaction sum. However, they are included in the ending balance.
8. Because the balance for the loans payable via cash management system fluctuates daily based on the basic contract, only the ending balance is stated here. Interest rates are determined with reference to market interest rates.

8. Per share information

(1)	Net assets per share	**3,006.13 yen**
(2)	Net income per share	**322.52 yen**

9. Significant subsequent events

(Purchase of treasury shares)

The Company resolved at the Board of Directors' meeting held on February 14, 2017 to authorize a share repurchase pursuant to the Company's Articles of Incorporation in accordance with Article 156 of the Companies Act, as applied by replacing certain terms under the provisions of Article 165, Paragraph 3 of the Act.

The details of the purchase of treasury shares are described in "7. Significant subsequent events" of Notes to Consolidated Financial Statements.