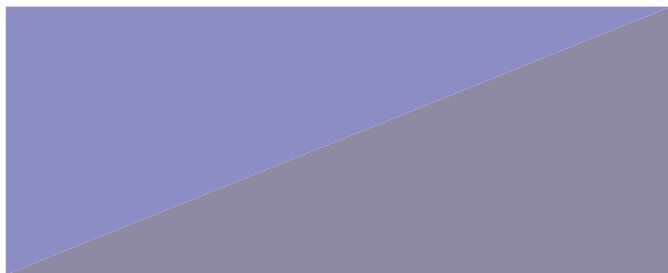
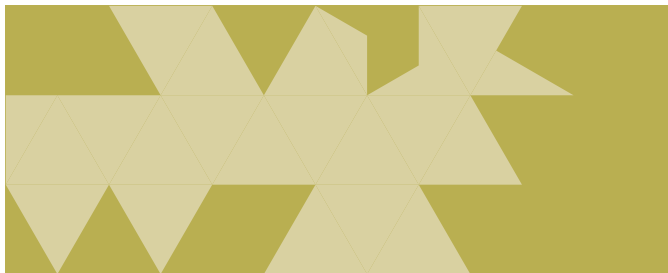
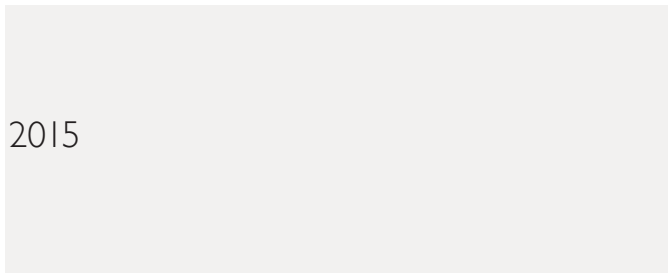




Dentsu Annual Report 2015



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Forward-Looking Statements This annual 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 annual 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.

Dentsu: A Quick Read

At a Glance

Expansion of International Business

Positioning as a Global Network

Unique Operating Model

Capabilities by Business Domain

Operating Highlights

The Dentsu Group's Management Structure

At a Glance

- **11,000+** clients globally, served by **43,000** professionals
- Gross profit international ratio¹ reached **51%**, exceeding the Japan business ratio of **49%** for the first time
- **No. 1** brand agency globally²
3rd largest media agency group in the world³
- Leading position with a **25%** share of the advertising market in Japan
- Leverage global competitiveness through a **“One P&L”** per market operating model
- Digital domain ratio⁴ accounts for **43%** at Dentsu Aegis Network and **30%** for the entire Dentsu Group
- Placed **2nd** in the “Most Awarded Agencies in the World in 2014”⁵ rankings
in recognition of creative strength, one of our capabilities
- **World’s largest** agency in the field of sports marketing, with a track record of over 40 years
through long-term, **successful relationships** with a number of major sports federations
- Both sales and profits increased in fiscal 2014, with gross profit reaching a record-high **¥676.9 billion**
Organic growth rate^{1, 6} of Dentsu Aegis Network reached **10.3%**,⁷ outperforming the peer group

¹ Based on gross profit

² Source: *Advertising Age*, May 4, 2015 edition

³ Media billings of WPP, Publicis, Omnicom, Interpublic Group and Havas are based on overall activity billings in *RECMA Overall Activity Rankings 2014*. The Dentsu Group’s media billings are a simple sum of Dentsu Aegis Network’s media billings and Dentsu’s non-consolidated media billings. Dentsu Aegis Network’s media billings are based on overall activity billings in *RECMA Overall Activity Rankings 2014*. Dentsu’s U.S. dollar-denominated non-consolidated media billings are converted from yen to U.S. dollars using the average exchange rate for 2014 (calendar year).

⁴ Based on gross profit of Internet-related marketing services, entrusted development and sales of information technology systems

⁵ Source: *THE GUNN REPORT SHOWREEL OF THE YEAR 2014*

⁶ 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

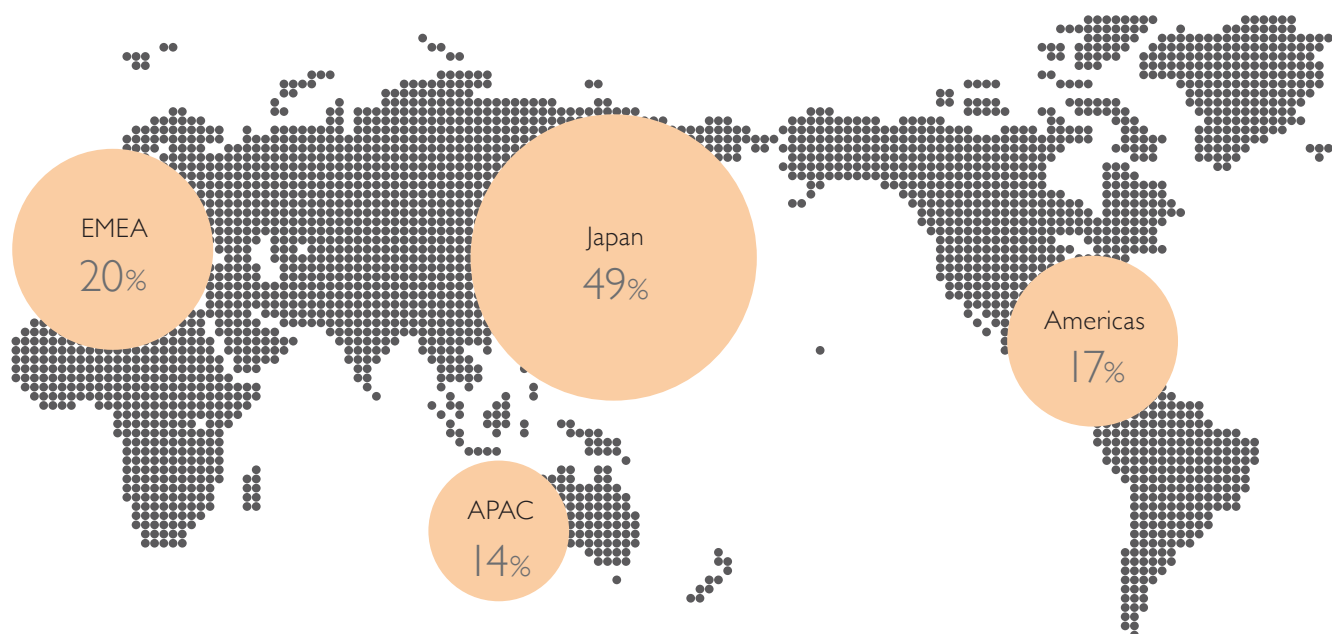
⁷ 5.8% for the Dentsu Group (Consolidated)

Expansion of International Business

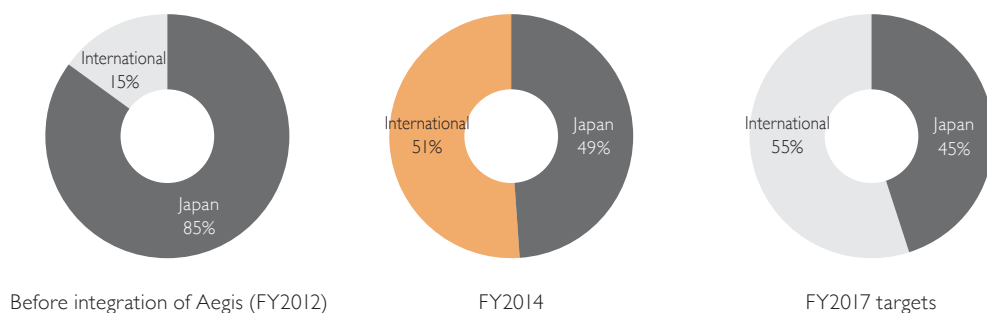
The global business operates with 380 offices and 43,000 employees in 124 countries around the world.

In terms of the percentage mix by major region, Japan accounts for 49%; EMEA,¹ 20%; the Americas,² 17%; and APAC,³ 14%.

¹ Europe, Middle East and Africa
² North, Central and South America
³ Asia Pacific (excl. Japan)

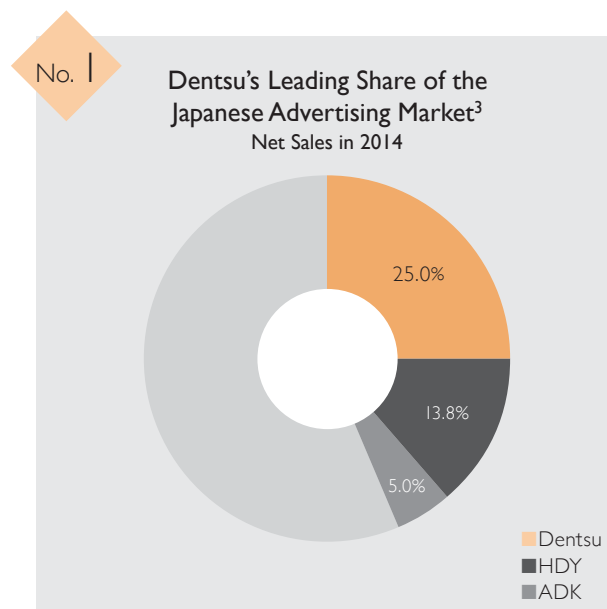
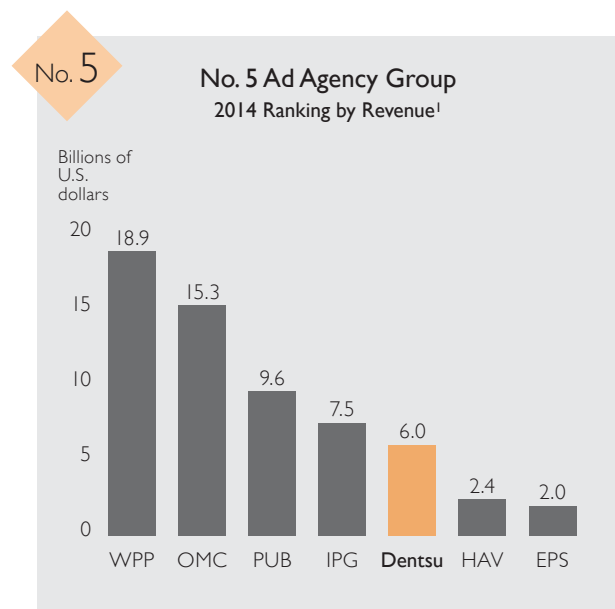
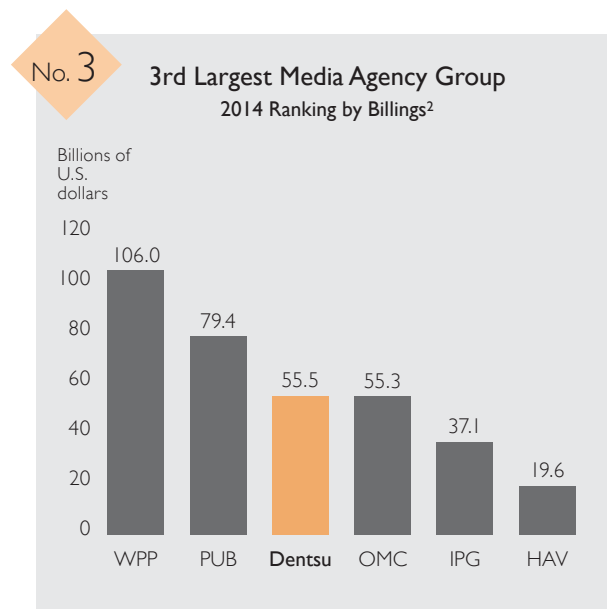


With the acquisition of Aegis Group plc in March 2013, the international contribution to the Dentsu Group's gross profit grew significantly, and its business structure is much more regionally diverse.



Positioning as a Global Network

Dentsu ranks as the No. 1 brand agency globally¹; the 3rd largest media agency group in the world²; and in Japan it has a leading share of the market. The Dentsu Group is evolving into a truly global network:



¹ Source: Advertising Age, May 4, 2015 edition

² Media billings of WPP, Publicis, Omnicom, Interpublic Group and Havas are based on overall activity billings in *RECMA Overall Activity Rankings 2014*. The Dentsu Group's media billings are a simple sum of Dentsu Aegis Network's media billings and Dentsu's non-consolidated media billings. Dentsu Aegis Network's media billings are based on overall activity billings in *RECMA Overall Activity Rankings 2014*. Dentsu's U.S. dollar-denominated non-consolidated media billings are converted from yen to U.S. dollars using the average exchange rate for 2014 (calendar year).

³ (1) HDY is the total of net sales by Hakuholdo, Daiko Advertising and Yomiuri Advertising.

(2) Under JGAAP, net sales are calculated in calendar 2014.

Sources: Advertising and Economy, *Current Situation of Japanese Advertising Agencies and 2014 Advertising Expenditures in Japan* (Dentsu)

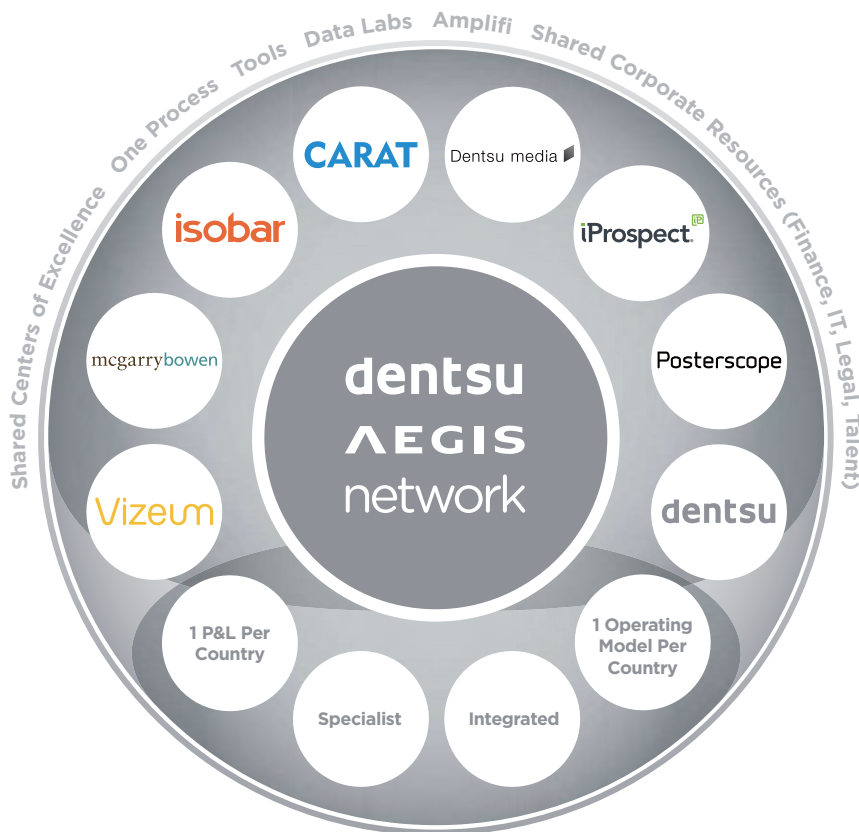
Unique Operating Model

Leveraging the structural advantage of “One P&L” per market in a unique, scalable operating model

The Dentsu Group has established a “One P&L” per market operating model, which is unique and collaborative. Group companies are incentivized to collaborate across agencies and countries. This model enables Dentsu to provide integrated and specialist services for clients across markets and regions.

In an age of marketing convergence,* advertisers are looking for integrated and specialist services from their agency partners. Our operating model offers a source of differentiation that gives the Dentsu Group an edge over the peer group, and has been a key driving force in our strong performance in recent years.

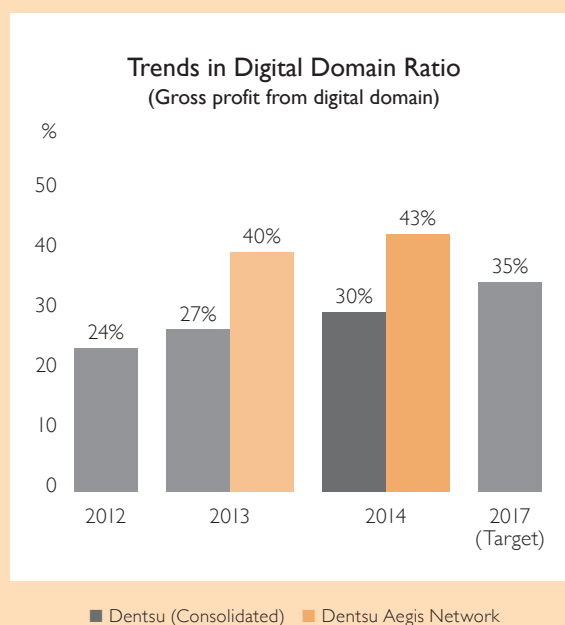
* New marketing paradigm reflecting spread of digital media and social media in recent years as well as changing consumer behavior patterns and progress in all kinds of technologies



Capabilities by Business Domain

Digital

The Dentsu Group has established a leading position in the digital domain. The digital domain ratio in the international business increased to 43% in fiscal 2014.



The Dentsu Group's market-leading digital brands

isobar

Global, borderless digital marketing agency with a team of 4,000 working in 70 locations across 43 markets

- Market-leading position within Gartner's "Magic Quadrant" agencies
- Recognition from Forrester as a leading innovation agency
- APAC "Digital Network of the Year" award three times in the last four years

iProspect

The world's leading digital performance agency. RECMA's digital agency report confirms iProspect as the world's largest digital media and performance agency

amnet

Amnet trading desk was created in response to the technology-driven revolution in digital media buying and provides best in class service and expertise in emerging data-driven media strategies. Grown from 0 to 33 markets in 2 years, doubling revenue in 2014


Capabilities by Business Domain

Media

3rd largest media agency group in the world¹



The Dentsu Group's market-leading media brands

Media	CARAT	Vizeum	Dentsu media 	Posterscope
Footprint	124 countries 8,000 headcount	45 countries 2,200 headcount	13 countries 1,100 headcount	32 countries 800 headcount

¹ Media billings of WPP, Publicis, Omnicom, Interpublic Group and Havas are based on overall activity billings in *RECMA Overall Activity Rankings 2014*. The Dentsu Group's media billings are a simple sum of Dentsu Aegis Network's media billings and Dentsu's non-consolidated media billings. Dentsu Aegis Network's media billings are based on overall activity billings in *RECMA Overall Activity Rankings 2014*. Dentsu's U.S. dollar-denominated non-consolidated media billings are converted from yen to U.S. dollars using the average exchange rate for 2014 (calendar year).

Capabilities by Business Domain

Creative

Dentsu placed second in the “Most Awarded Agencies in the World in 2014”² rankings.

	Grand Prix/ Special Award	Gold	Silver	Bronze
October 2014 CLIO	👑 × 3	★ × 7	☆ × 7	★ × 3
March 2015 ADFEST	👑 × 4 ⁴	★ × 4	☆ × 15	★ × 22
May 2015 The One Show	👑 × 1 ⁵	★ × 3	☆ × 4	★ × 10
June 2015 Cannes Lions International Festival of Creativity ⁶		★ × 3	☆ × 5	★ × 13

² Source: THE GUNN REPORT SHOWREEL OF THE YEAR 2014

³ The 55th Annual CLIO Awards: Agency of the Year

⁴ ADFEST 2015: Grande Lotus in the Design category/Advertising Agency of the Year/Interactive Agency of the Year/Branded Content Lotus

⁵ The 42nd Annual ONE SHOW AWARDS: Best In Design

⁶ The Cannes Lions International Festival of Creativity got its start as a cinema screen advertising contest within the Cannes International Film Festival but became a separate event in 1954. It has gained particularly high recognition among numerous international advertising awards for its scale, the composition of its judging panel, and the high level of award-winning works.

Sports Marketing

Dentsu has enjoyed long-term, successful relationships with a number of major sports federations. Dentsu was designated as the exclusive marketing agency for the Tokyo 2020 Olympic and Paralympic Games.

	Marketing Rights	Media Rights
IOC (The Olympic Games)	Japan	Asia
FIFA (Football/Soccer)	Japan	Japan
IAAF (Athletics/Track & Field)	Global	Global
FINA (Swimming)	Global	Global
FIVB (Volleyball)	Asia	Global

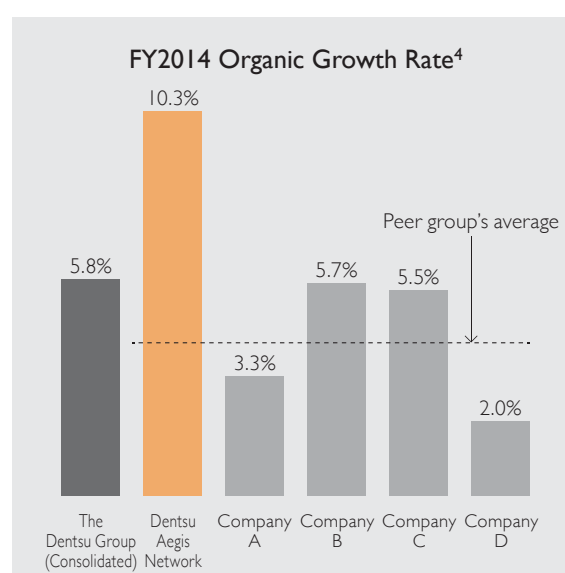
Operating Highlights

With the growth in operating profit, gross profit reached a record-high ¥676.9 billion in fiscal 2014.

Billions of yen, YoY

Gross profit	676.9	+10.1%
Operating profit	132.3	+23.3%
Profit for the year (attributable to owners of the parent)	79.8	+20.1%
Underlying operating profit ¹	131.9	+5.1%
Operating margin ²	19.5%	-0.9 ppt
Underlying net profit ³ (attributable to owners of the parent)	92.8	+10.0%

In terms of organic growth, Dentsu Aegis Network significantly outperformed the peer group.



¹ Underlying operating profit: KPI to measure recurring business performance which is calculated as operating profit added with amortization of M&A-related intangible assets, impairment loss, gain/loss on sales of non-current assets, acquisition costs and other one-off items

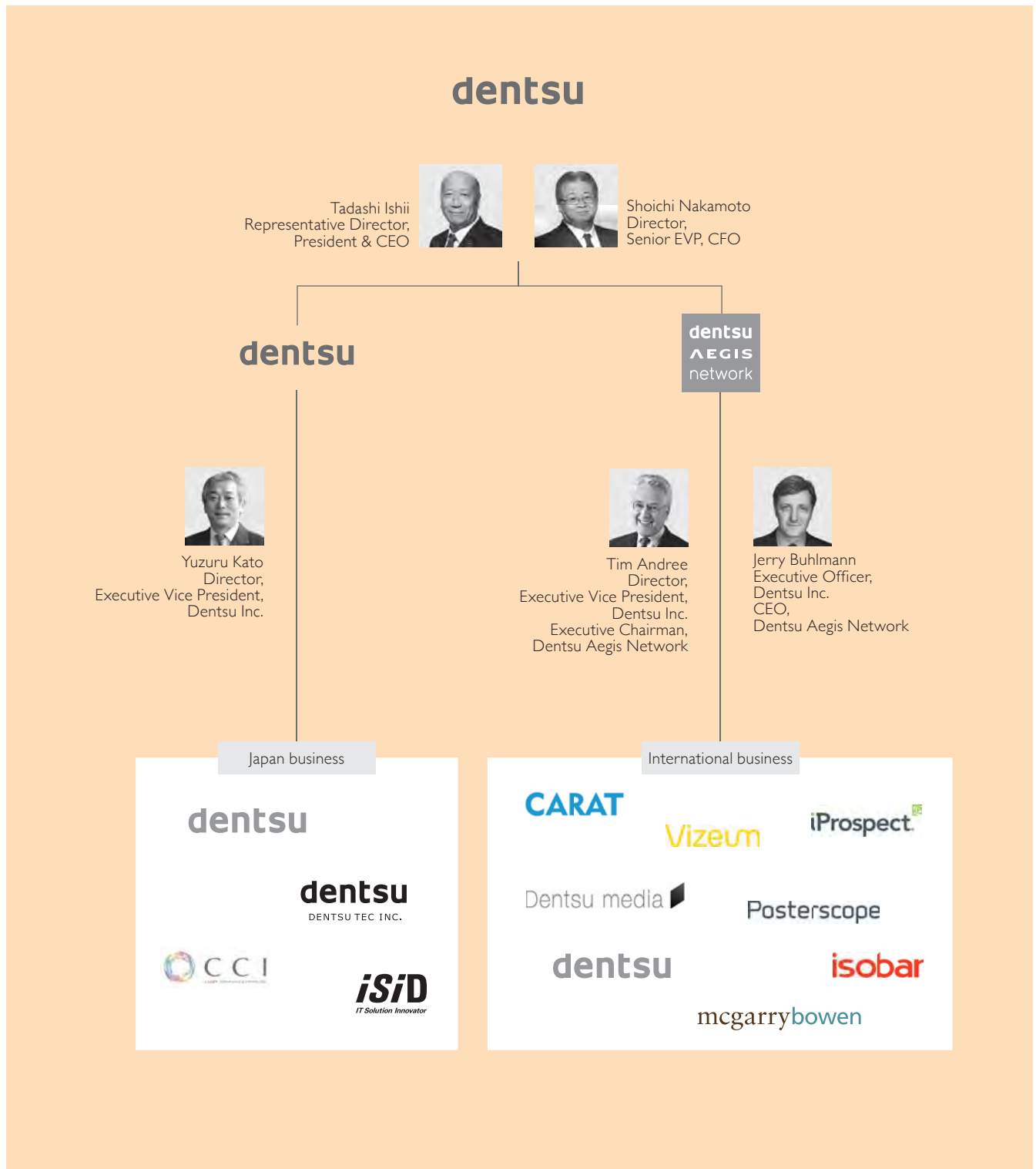
² Operating margin = Underlying operating profit ÷ Gross profit × 100

³ 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, NCI profit-related and other one-off items

⁴ Organic growth rates of the Dentsu Group, Dentsu Aegis Network and WPP are based on gross profit. Other competitors' organic growth rates are based on revenue.

The Dentsu Group's Management Structure

The Japan business is spearheaded by Dentsu while the international business is led by Dentsu Aegis Network, which includes Aegis and Dentsu's legacy international businesses.



To Our Shareholders



Tadashi Ishii
Representative Director
President & CEO

Looking Back on Fiscal 2014

Progress on Medium-term Management Plan “Dentsu 2017 and Beyond”

Market Outlook and Performance Forecast for Fiscal 2015

Looking Back on Fiscal 2014

Firstly, I would like to take this opportunity to express, on behalf of the Dentsu Group, my sincere appreciation to you for your invaluable support and understanding of our efforts.

The Japanese economy during the fiscal year ended March 31, 2015 (hereinafter “fiscal 2014” or “the fiscal year under review”) was on a moderate recovery trend, supported by improved corporate earnings, a recovery in employment conditions, and higher wages, against a backdrop of aggressive economic and monetary policies by the government and the Bank of Japan. In this environment, the calendar year-based *Advertising Expenditures in Japan* for 2014, as compiled by Dentsu, revealed continuing moderate growth as spending increased for the third straight year, up 2.9% over 2013, to 6,152.2 billion yen, surpassing the 6 trillion yen mark on a full-year basis for the first time in six years.

Conditions in the global economy, however, remained mixed, reflecting a moderation in the growth rate in emerging economies and geopolitical instability, despite a strong performance in the U.S. economy and other key territories. Against this backdrop, the growth rate for worldwide advertising expenditures, as compiled by the Dentsu Group’s media communications agency Carat in

March 2015 for the 2014 calendar year, showed an increase of 4.6% over the previous year. By region, Europe, the Middle East and Africa (EMEA) grew 2.6%; the Americas, 5.2%; and Asia Pacific, excluding Japan (APAC), 6.2%.

With this background in mind, the Dentsu Group recorded an increase in gross profit of 1.7% over the previous fiscal year for its business operations in Japan, reflecting the contribution of sponsorship sales associated with the 2014 FIFA World Cup Brazil™ and the Tokyo 2020 Olympic and Paralympic Games, in spite of the negative impact of the consumption tax increase in April.

Internationally, the Dentsu Group recorded double-digit organic growth with an increase of 10.3% over the previous fiscal year, partly owing to the contribution of new client accounts. By region as well, each area was up significantly compared with the previous fiscal year, with an increase of 9.7% in EMEA, 7.9% in the Americas, and 14.4% in APAC.

Consolidated revenue for fiscal 2014 increased 10.4% year on year, to 728,626 million yen; gross profit rose 10.1%, to 676,925 million yen; underlying operating profit¹ was up 5.1%, to 131,937 million yen; operating profit climbed 23.3%, to 132,305 million yen; and profit for the year attributable to owners of the parent jumped 20.1%, to 79,846 million yen.

Furthermore, from the fiscal year under review, the Group has adopted International Financial Reporting Standards (IFRS).

¹ KPI to measure recurring business performance which is calculated as operating profit added with amortization of M&A-related intangible assets, impairment loss, gain/loss on sales of non-current assets, acquisition costs and other one-off items

Progress on Medium-term Management Plan “Dentsu 2017 and Beyond”

As the Group entered a new stage with the acquisition of Aegis Group plc (hereinafter “Aegis”), we formulated the medium-term management plan “Dentsu 2017 and Beyond” in fiscal 2013. The aim of “Dentsu 2017 and Beyond” is to evolve into a truly global network at the forefront of marketing convergence,² and, as indicated by the results of the four key performance indicators, we have made steady progress thus far and are definitely realizing the deliverables from these strategies.

² New marketing paradigm reflecting the spread of digital media and social media in recent years as well as changing consumer behavior patterns and progress in all kinds of technologies

³ Organic 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.

⁴ Digital domain includes Internet-related marketing services and entrusted development and sales of information technology systems.

⁵ Underlying operating margin: Underlying operating profit ÷ Gross profit × 100

KPIs for Medium-term Management Plan: Targets and Results

	FY2013 Actual	FY2014 Actual	FY2017 Target
Gross profit organic growth rate ³	7.7%	5.8%	3%–5% (Compound average growth rate)
Gross profit international ratio	46.7%	50.7%	55% or higher
Gross profit digital domain ⁴ ratio	27%	30%	35% or higher
Underlying operating margin ⁵	20.4%	19.5%	20% or higher

Note: FY2013 and FY2014 commenced on April 1 and ended on March 31 of the following year. Dentsu Inc. and its subsidiaries with closing dates other than December 31 will change their closing dates to December 31 from FY2015.

The “Dentsu 2017 and Beyond” medium-term management plan sets out the following four strategic themes. I would like to update you on our progress in fiscal 2014 within the context of these strategic themes.

Four Strategic Themes of “Dentsu 2017 and Beyond”

1. Diversifying the portfolio on a global basis
2. Evolving and expanding in the digital domain
3. Re-engineering business processes and improving profitability
4. Further reinforcing the business platform in the core Japanese market

I. Diversifying the portfolio on a global basis

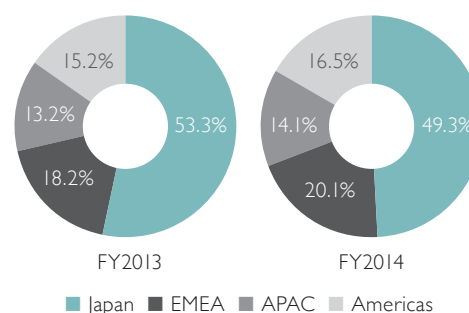
■ Expansion of the gross profit international ratio

We have been making steady progress on diversifying the portfolio on a global basis, which is an issue of paramount importance. The gross profit international ratio for fiscal 2014 increased 4.0 percentage points (ppt) year on year, to 50.7%, exceeding the ratio in Japan for the first time. We are aiming to achieve 55% or higher in fiscal 2017. The percentage mix for the three regions making up the international business is EMEA, 20.1% (a 1.9 ppt increase year on year); the Americas, 16.5% (a 1.3 ppt increase); and APAC, 14.1% (a 0.9 ppt increase).

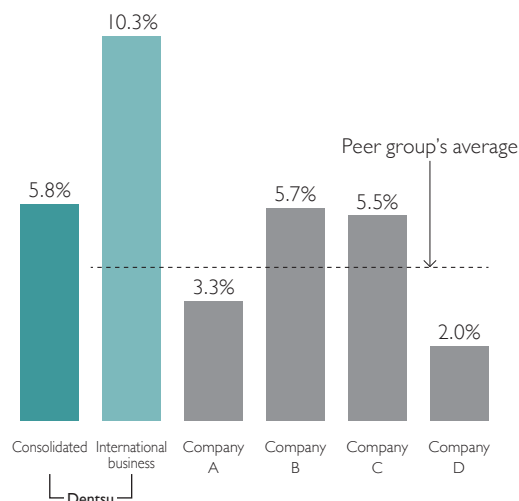
■ Expansion of the international business through our unique operating model

The gross profit organic growth rate in our international business was 10.3%, continuing from the previous fiscal year to greatly exceed that of our peer group. A major factor underlying this result is our unique operating model,⁶ which enables Group companies to collaborate seamlessly toward shared business goals, and to provide integrated and specialist client services. This model is based around cross-selling and up-selling, contributing to an increase in business with existing clients and enabling us to strategically capture new accounts. As a result, we acquired many new client accounts in fiscal 2014. Newly acquired businesses include numerous projects that we were able to win through cooperation between Japan and our international network. With the integration of Aegis, we aimed at the further acceleration of winning Japanese clients’ businesses outside of Japan, and we are beginning to see steady results from that. In addition, by taking advantage of our strength in the Japanese market, we are succeeding in acquiring global accounts, and are beginning to fully leverage the Group’s unique strengths while maintaining our peer group-leading position.

Percentage Mix by Region
(On a gross profit basis)



Organic Growth Far Exceeding That of Peer Group
FY2014 Organic Growth Rate⁷



⁷ Organic growth rates of the Dentsu Group, Dentsu Aegis Network and WPP are based on gross profit. Other competitors’ organic growth rates are based on revenue.

⁶ For more details, please see Dentsu: A Quick Read on page 5.

2. Evolving and expanding in the digital domain

As marketing convergence advances, clients' needs in the digital domain are increasing.

Gross profit in the digital domain in Japan in fiscal 2014 continued to achieve double-digit growth, increasing 12.2% year on year. Now with growing use of smartphones and performance-based advertising, we achieved strong results, not only by Dentsu on a non-consolidated basis, but also by key digital companies such as cci, NEXTAGE Dentsu and DA search & link.

In our international business, we carried out various acquisitions in the digital domain, with a total of 11 in fiscal 2014, and we will continue to enhance our capabilities through acquisitions. Furthermore, the driver of growth in the digital domain is programmatic buying. Amnet, the programmatic trading desk for the Group's international business, doubled its sales in fiscal 2014. As a result of such acquisitions and organic growth, the digital domain ratio⁸ of our international business increased 3 ppt from the previous year, to 43%.

As a result, the digital domain ratio for the entire Dentsu Group was 30%, up 3 ppt year on year. We will further increase this toward the fiscal 2017 target of 35% or higher.

As we continued these efforts, the digital network capability of the Dentsu Group received recognition in the form of numerous international advertising awards and awards from industry magazines in fiscal 2014. We take these awards as proof that the Dentsu Group's digital capabilities are recognized worldwide, while at the same time we are committed to improving our capabilities and the quality of services by enhancing existing networks through an aggressive, but targeted, acquisition strategy.

⁸ Based on gross profit

M&As in the Digital Domain in Fiscal 2014

Date	Country	Company and area of specialty
May 2014	Kazakhstan	Fifty Four Media LLP Digital media/OOH
July 2014	India	Milestone Brandcom Pvt. Ltd OOH
Sept. 2014	U.S.A.	Covario, Inc. Digital agency
Nov. 2014	U.K.	Fetch Media Limited Mobile agency
Dec. 2014	U.K.	Tempero Limited Social media management agency
Dec. 2014	Brazil	OOH Plus Participações Ltda OOH
Dec. 2014	U.S.A.	Rockett Interactive, Inc. Digital marketing agency
Dec. 2014	Canada	The SPOKE Agency Ltd. Digital agency
Jan. 2015	India	WATConsult Digital agency
Feb. 2015	Australia	Soap Creative Pty Ltd Digital creative agency
Mar. 2015	Greece	Mindworks S.A. Digital agency

Digital Domain Ratio (On a gross profit basis)

FY2013	27%
	↓
FY2014	30%
	↓
FY2017	35% or higher

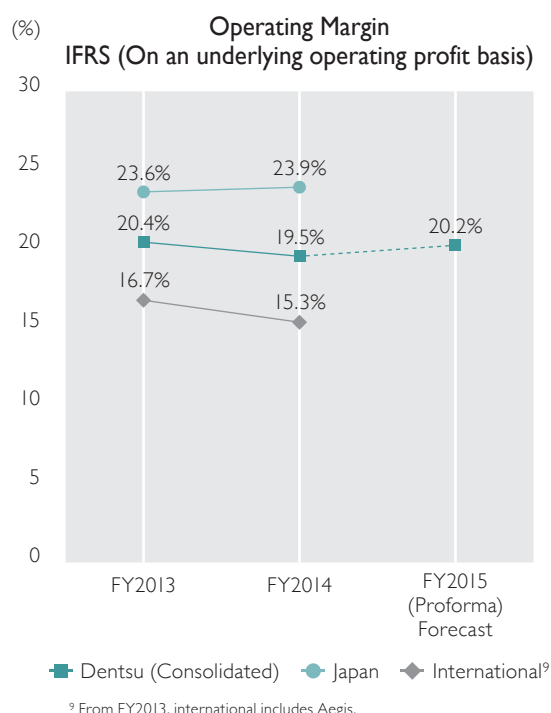
3. Re-engineering business processes and improving profitability

In our Japan business, the operating margin improved 0.2 ppt year on year, to 23.9%. This was the result of consistent cost control. Profitability is increasing in our Japan business, thanks to an improved gross profit margin in the marketing and promotion domains including digital solutions.

In our international business, we have enhanced the IT and finance infrastructure and have made upfront investment in shared and outsourced services.

As a result of these planned investments, the operating margin for the entire Dentsu Group was 19.5%, down 0.9% from the previous fiscal year.

We will continue to pursue top line growth both in Japan and internationally, while making ongoing efforts to improve operational efficiency and cost control with the goal of not only achieving but maintaining an operating margin of 20% or higher, in order to raise the profitability of the entire Group.



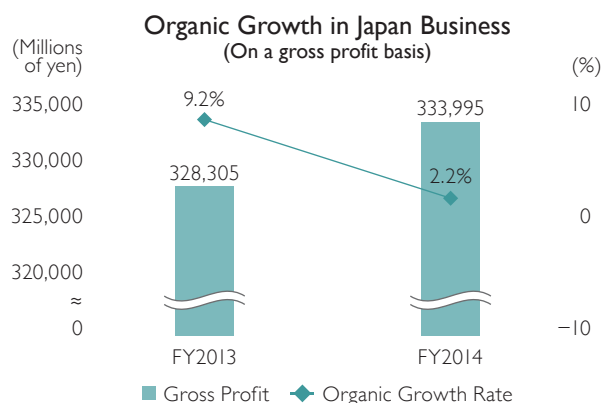
4. Further reinforcing the business platform in the core Japanese market

In fiscal 2014, despite concerns over the pullback in consumer spending in the wake of the consumption tax increase in April 2014, the Japan business absorbed the drop-off in spending and achieved positive growth, posting record-high gross profit notwithstanding the high benchmark established in the previous fiscal year. Meanwhile, consumer spending has started to show signs of gradual recovery in the context of strong corporate performance, rising wages and improvement in employment. Under these circumstances, orders from new clients as well as business opportunities related to new products and services from existing clients are increasing. We aim to further increase our market share through aggressive pursuit of business opportunities.

On the other hand, advancing IT technology and changing consumer behavior are further accelerating marketing convergence. With a view to further expanding the business in new domains such as customer relationship management (CRM), business intelligence and e-commerce, we have been integrating digital capabilities spread throughout the Group by facilitating and strengthening exchange and collaboration between our international digital brands such as Isobar and iProspect and our Japan business segments.

In order to evolve into a partner that can support client success from multiple angles, we will hone our integrated problem-solving and revenue-generating capabilities, including in new domains.

Last year, we were selected by the Tokyo Organising Committee of the Olympic and Paralympic Games (Tokyo 2020) to be its exclusive marketing agency. The Organising Committee has set a target of 150.0 billion yen as income from Japanese marketing programs. Sponsorship sales have made steady progress, and these will be some exciting opportunities for the Group to help our clients promote or activate their sponsorship programs.



Market Outlook and Performance Forecast for Fiscal 2015

Regarding the outlook for growth in the global advertising market, based on estimates by Carat, global growth as a whole is likely to remain steady in 2015 and thereafter, despite geopolitical risks in some regions. Meanwhile, the domain of digital advertising is likely to continue its strong growth, and is expected to increase even further in importance in the future.

We will continue to enforce our business platform with a view to achieving sustainable growth in line with the four strategic themes set out under the medium-term management plan. In particular, we consider growth measures focused on capability enhancement in the rapidly growing digital domain to be of primary importance. We will continue our efforts to achieve organic growth that outperforms market growth in each region around the world. Also, we will continue to aggressively promote our growth strategies through acquisitions.

Meanwhile, in our Japan business, the core market of the Dentsu Group, we will fulfill our responsibilities as marketing agency for the Tokyo 2020 Olympic and Paralympic Games, while aggressively taking advantage of the new business opportunities available to us in that capacity and linking these to revenue. We consider the year 2020 to be the perfect opportunity to make Groupwide efforts to drive the future growth and innovation of Japan as a whole.

The consolidated performance outlook for fiscal 2015 calls for revenue of 664.9 billion yen, gross profit of 643.3 billion yen, underlying operating profit of 122.3 billion yen, operating profit of 100.0 billion yen, and profit for the year attributable to owners of the parent of 63.5 billion yen. Dentsu Inc. and its subsidiaries with closing dates other than December 31 will change their closing dates to December 31 from fiscal 2015. Therefore, fiscal 2015 will correspond to the fiscal period for the nine months from April 1 to December 31, 2015, based on an adjusted year-end.¹⁰

On behalf of the Dentsu Group, I am very grateful for the continued support and guidance of our shareholders, and invite you to look forward to the ongoing development of the Group.

August 2015



Tadashi Ishii
Representative Director
President & CEO

Growth Results and Outlook for Major Advertising Markets

	2014	2015	2016
Global (59 countries)	4.6%	4.6%	5.0%
Japan	2.9%	0.9%	1.2%
EMEA	2.6%	2.6%	3.3%
Americas	5.2%	5.2%	5.4%
APAC (excl. Japan)	6.2%	7.0%	7.5%
Digital	17.4%	15.7%	13.8%

Source: Carat, *Global Advertising Expenditure Forecasts—March 2015*
(Figures are on a calendar year basis.)

FY2015 Forecast (On a financial reporting basis)

	FY2015 Forecast (Covering 9 months)	FY2014 Actual
Revenue	664,900	728,626
Gross profit	643,300	676,925
Operating profit	100,000	132,305
Profit for the year ¹¹	63,500	79,846
Underlying operating profit	122,300	131,937
Underlying net profit ¹¹	81,900	92,875

Note: FY2015 forecast uses the average exchange rate for the period January–February 2015; FY2014 actual uses the average exchange rate for the period January–December 2014. For the performance forecast on a calendar year proforma basis, please see the CFO Message on page 35.

¹¹ Profit for the year and Underlying net profit: Attributable to owners of the parent

¹⁰ For Dentsu Inc. and its subsidiaries with closing dates other than December 31, the fiscal year ending December 31, 2015 will correspond to the fiscal period for the nine months from April 1, 2015 to December 31, 2015, and for its subsidiaries with closing dates of December 31, the fiscal year ending December 31, 2015 will correspond to the fiscal period for the twelve months from January 1, 2015 to December 31, 2015, as before.

Spotlight: Diversifying the Portfolio on a Global Basis

“Diversifying the portfolio on a global basis” is set forth as one of the strategic themes of the medium-term management plan “Dentsu 2017 and Beyond.”

Five members of Dentsu Aegis Network’s Global Executive management team discuss the progress on this theme and the competitive advantages of the Dentsu Group.

Jerry Buhlmann	CEO, Dentsu Aegis Network, Executive Officer, Dentsu Inc.
Nigel Morris	CEO, Dentsu Aegis Network Americas & EMEA
Nick Waters	CEO, Dentsu Aegis Network Asia Pacific
Nick Priday	CFO, Dentsu Aegis Network
Valerie Scoular	Group HR Director, Dentsu Aegis Network

“Our strategy for global growth in a complex, disruptive and fast-paced environment”

Jerry Buhlmann

CEO, Dentsu Aegis Network
Executive Officer, Dentsu Inc.

- 1989 Founded BBJ
- 1999 Appointed MD of Carat International, following acquisition of BBJ by Aegis Group plc
- 2003 Appointed CEO of Aegis Media EMEA
- 2008 Appointed CEO of Aegis Media
- 2010 Appointed CEO of Aegis Group plc
- 2013 Appointed CEO of Dentsu Aegis Network and Executive Officer of Dentsu Inc., following acquisition of Aegis Group plc by Dentsu Inc.

Mr. Buhlmann has over 25 years' experience in media and advertising and worked at Young and Rubicam and WCRS in the early years of his career.



What is your view of the outlook for the global economy?

We are seeing increasing economic optimism, offset by geopolitical pessimism. By economic optimism, I am referring to the currently benign set of circumstances which will help drive growth—in particular, monetary policy will be accommodating, quantitative easing will support European economies and inflation will remain low. These factors, as well as continued economic strength in the United States and China, will keep global growth on track. However, this will be counter-balanced by geopolitical pessimism, with tensions remaining in certain regions, like the Middle East and Eastern Europe.

You have talked in the past about the dual forces of globalization and convergence driving your industry. Are these still important and relevant trends?

Yes, they are still extremely important and very relevant to our industry and to the wider macro environment. However, they are evolving and developing. We are seeing a pullback from globalization, with hard globalization, based on geopolitics, declining. Trust between governments is falling, protectionism is increasing and regional trade is outpacing global trade, forcing industry to fragment. Soft globalization, based on consumer culture, is growing significantly through consumers' adoption of cross-border media and knowledge sharing, which is fully connected to convergence, which is accelerating rapidly to critical mass.

What impact will this step change in convergence have in the future?

As technology, bandwidth and powerful devices drive consumer adoption, the "digital economy" will become increasingly fast-paced. In fact, the pace of change we will see in the next five years will be faster and more impactful than the changes of the last 15 years. As connectivity and computing power increase exponentially, we will see the transformation of business models and large-scale operational efficiencies. The Internet will become much more powerful as we approach the era of the "Internet of everything" where everything and everybody is connected.

What is the global impact of this step change in convergence today?

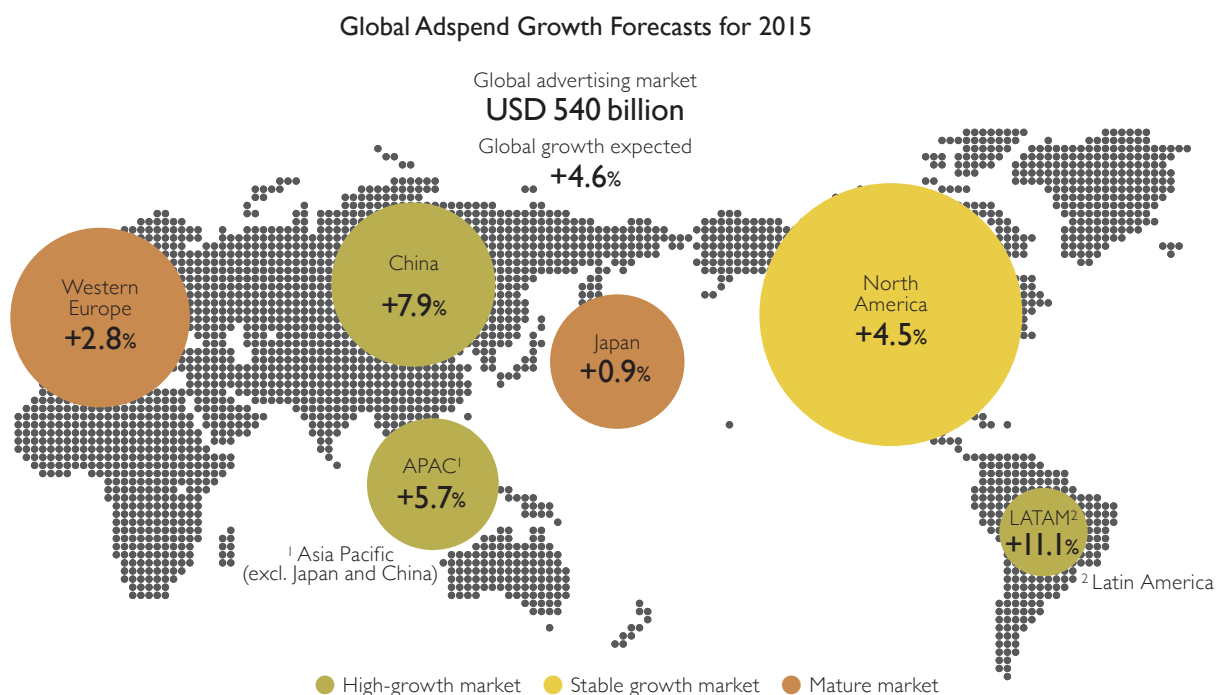
We are seeing the emergence of a new era of companies, which are providing cost-efficient services by connecting available capacity and expertise. Furthermore, these businesses are already expanding their expertise. These brands and others have established themselves globally in a very short timeframe and are following global online powerhouses in driving their brands into new areas. They are creating the "peer economy," by-passing established competitors in their field. I can therefore envisage the next generation of business being 100% within the digital economy, causing significant disruption to established business. So, convergence is creating this momentum for change and businesses will face the choice of being disrupted or creating disruption themselves.

What are the key drivers of this rapid step up in convergence?

The biggest driver of convergence is the smartphone. People spend on average two hours a day on smartphones and value them more than any other device or medium. There are two billion smartphones in use today and there will be five billion in use by 2020. In China alone in 2015, 500 million smartphones will be sold. Computing power through smartphones is growing exponentially, and everything and everyone will be connected by very powerful smartphones. The "Internet of things" will rely on smartphones as a relay, and apps will become complex mini-economies of their own with direct links to relevant businesses.

In the context of these global trends, what is the outlook for global advertising expenditure in 2015?

For 2015, Carat advertising spend forecasts indicate global growth of 4.6%, reflecting continued economic optimism. Digital media channels will grow by more than three times that figure at 15.7% and take a greater share of advertising revenue than newspapers and magazines at 23% of all advertising spend. In individual markets where e-commerce is thriving, like the United Kingdom, which is leading the world in online advertising, the digital share of adspend will be 48.2% in 2015. Convergence and connectivity drive e-commerce, which powers the digital economy. Social, mobile and video will continue to grow at over 50%, and the demand for richer and more powerful consumer engagement will drive demand for multi-format and multi-time-length content.



Source: Carat, March 2015

Note: The size of the circle represents the ad market size of each region.

How do you see the role of agencies in this complex and fast-moving environment?

Increasingly, clients are looking to benefit from agencies' ability to provide consistent best practice and instant access to information on consumer behavior and other key trends, on a global scale. In addition, a greater degree of specialization is required from agencies which can develop, manage and run focused marketing strategies for clients, supported by achievable ideas and rigorous execution. And finally, clients need independent advice from agencies which have a specialist and integrated approach, supported by highly sophisticated insight and marketing intelligence. The Dentsu Group is well positioned, with the right strategy, structure and geographic coverage, to be able to deliver this for our clients.

What is the Dentsu Group's global strategy?

Our global strategy has been designed to put our business at the heart of the digital economy, for our clients' benefit.

We aim to:

- Increase our exposure to faster growing regions and segments, to exploit growth opportunities quickly
- Build capability in the digital economy, by focusing on engaging across the entire digital economy: e-commerce, content, performance, insight and social with a significant focus on data and mobile
- Broaden our service offer across clients, by introducing our best and most innovative services
- Grow our international client and new business profile, by supporting our international clients as they build their positions in existing markets and enter new markets in the future
- Build leading positions in the top 20 markets, prioritizing the United States and China as the world's two largest advertising markets, through consistent execution of the operating model
- Build a market-leading scalable organization that is clearly differentiated, by evolving our operating model, supporting it with a strong global platform for data and information to drive consistency and coherence.

These strategic objectives will be achieved by a continued focus on targeted acquisitions.

You mention the Dentsu Group's operating model. Why is it so unique?

Our operating model maintains the integrity of the agency and network brands while providing a framework for working together to drive collaboration. The operating model works through a "One P&L" per market structure which empowers our local teams to offer specialist and integrated services to clients at a local level, but supported by a regional and a global infrastructure. This infrastructure includes a strong portfolio of global agency "brands" and global functions, which act to support and drive our business. Overlaying all of this is a culture of collaboration and delivery, supported by consistent vision and values across the Group. Therefore, as an organization, with global scale and multiple capability streams, based around connecting our clients with consumers, we are extremely well positioned to help guide our clients in today's complex, disruptive and fast-paced environment.

“The emergence of the digital economy will transform our business and is an immediate and significant opportunity for us in the U.S. and across the Americas”

Nigel Morris

CEO

Dentsu Aegis Network Americas & EMEA

- 1992 Joined Aegis Media
- 2003 Founded Isobar as CEO
- 2009 Appointed CEO of Aegis Media North America
- 2011 Appointed CEO of Aegis Media Americas
- 2012 Appointed CEO of Aegis Media EMEA (as well as Americas)
- 2013 Appointed CEO of Dentsu Aegis Network Americas & EMEA

Joining Aegis Media in 1992, Mr. Morris has held CEO positions across Aegis's global expanse, now brought to bear on sustainability and products and strategies of the future.



The rise of the digital economy and its impact on marketing

Digital has become the dominant force in the global economy. It is having a fundamental impact on the way companies are organized, with potentially significant implications for the value that marketing can bring to business and to the economy as a whole. In turn this is shaping the new dynamics of the advertising and marketing communications sector.

In an interconnected, interdependent, transparent and networked global economy, people are gaining as much knowledge and power as businesses, with the conditions of near-perfect competition starting to emerge in many markets. While this is disrupting many established sectors and businesses, it is a real opportunity for the economy, the environment and society to be more efficient and sustainable. A new model for a new economy.

As traditional barriers to entry are swept away, legacy infrastructure, systems, processes and sometimes people are becoming barriers to change. But those companies that are embracing innovation have real opportunities. Central to innovation are data strategies formed around people with marketing channels being the primary source of insight into consumer behavior and intention. As the point of engagement

and transaction converge through media, driving the growth of e-commerce with the ability to harness that insight into marketing action is critical to competing in the digital economy.

Marketing communications is therefore becoming a major, direct source of revenue for innovative businesses. It enables them to track their customers' behaviors and habits, often in real time. In this context, with the ability to help brands understand market demand and its drivers, the role of marketing will change, as it becomes both a sensor and a channel to market for successful businesses in the digital economy.

Impact of digital economy emerging at different rates in the Americas

The changes brought about by the emergence of the digital economy are starting to become prevalent, at varying speeds, across the Americas region. Overall, the Americas, powered by the major economies of the United States, Canada, Brazil, Argentina and Mexico, represents a major growth opportunity for the advertising industry. There are around one billion people, living in 60 countries across the region, generating GDP of around \$35 trillion. The Americas region is expected to generate around \$229 billion in advertising expenditure in 2015, according to Carat's latest forecasts,

which equates to over 40% of global advertising expenditure. Across the region, a major trend in the industry has been the convergence of e-commerce, content, creativity and media. This has been driven by a new set of requirements for advertising in the digital economy.

In Latin America, adspend is expected to grow at a relatively strong 11.1% in 2015, with Brazil a key potential swing factor, given it contributes over half of the region's advertising revenue. The TV market in Latin America remains sizable and strong, representing over 60% of adspend across all media in the region. Broadband penetration remains relatively low in Latin America with just 12% of the population in the region subscribing to broadband connections, and less than one-third of households having fixed connections to the Internet, compared to around 70% in Europe and North America. However, mobile penetration is high, with over 70% of the region's population having at least one mobile device. So, the smartphone will be the major driver of the digital economy in Latin America.

The U.S. has consolidated its position in the world's largest advertising market

The digital economy is in a more developed state in North America and, in particular, in the United States, where one in three adults now owns either a smart television or a device which streams video to their television. In that market, although TV is expected to continue to command the highest share of advertising spend in 2015 at 38%, digital media spend is forecast to increase by 16% in 2015. This includes growth of 20% in Online Video, 25% in Social Media and 50% in Mobile, which is expected to contribute nearly 30% of U.S. search spend. With the digital economy driving advertising budgets from more traditional media to these fast-growing digital channels, North American adspend is expected to continue to grow at a stable 4.5% in 2015.

Overall, the U.S. economy continues to show its strength, resilience and innovation, with advertising spend there now exceeding its 2007 pre-recession peak. This cements the position of the U.S. as the world's largest advertising market.

Dentsu Aegis Network has established a powerful and differentiated position in the U.S.

Our U.S. business is Dentsu Aegis Network's largest by revenue, and the Dentsu Group's second largest, behind Japan. Dentsu Aegis Network has had transformational success over the last five years in the U.S., and is perfectly positioned and designed to help clients navigate the emergence of the digital economy. In that time, we have built up significant momentum in the market as an organization and across all our agencies. We have a compelling proposition in the U.S., with a strong portfolio of media, creative, content, brand commerce and digital agency brands.

At the start of 2015, to ensure that we maximize the potential of our position over the coming years, we appointed Rob Horler as CEO of Dentsu Aegis Network, USA. Rob was previously CEO of Dentsu Aegis Network Northern Europe and, prior to that, has held a number of senior positions within the Group over many years. Rob has a track record of leveraging our Operating Model to deliver growth for our business and has deep experience and expertise in the digital economy. We are confident that our business in the U.S. will continue to be a transformational force and develop at pace, ensuring we stay ahead of the market and our competitors.

Strong foundation in the Americas from which to build our business for the digital economy

That momentum is being carried through to the rest of the region. We now have a high-quality leadership team in place across the Americas, which is driving our business to be at the center of the digital economy. As well as Rob in the U.S., Claudia Colaferro is Dentsu Aegis Network CEO for Latin America, Annette Warring is Dentsu Aegis Network CEO in Canada, and Abel Reis is Dentsu Aegis Network CEO in Brazil. The team combines a strong mix of industry expertise, people management and digital leadership.

The future of our business across the region will continue to be supported by our strong agency brand portfolio, within an operating model that continues to differentiate us from our competition. The market is changing fast; the Americas is at the center of the change and Dentsu Aegis Network is positioned to lead.

“Leveraging our position across Asia Pacific and, in particular, in China”

Nick Waters

CEO

Dentsu Aegis Network Asia Pacific

1992 Joined Ogilvy and Mather

1997 Joined Mindshare

2010 Joined Aegis Media as CEO of Aegis Media Asia Pacific

2013 Appointed CEO of Dentsu Aegis Network Asia Pacific

With almost two decades in senior management at Mindshare, then at Aegis Media, Mr. Waters has been CEO of Pan-Asia, and also of Europe, the Middle East and Africa.



Asia Pacific remains a key driver of global advertising spend

Asia Pacific will continue to be a major hub for global economic growth in the coming years. Across the region's 51 countries, there are around 4.4 billion people, equating to over 60% of the world's population. The region's GDP stands at nearly \$40 trillion, around 35% of global GDP, and this is expected to grow by around 6% in 2015, making it the fastest-growing region in the world.

Asia Pacific is expected to generate around \$187 billion in advertising expenditure in 2015, according to Carat's latest adspend forecasts, which equates to around 35% of global advertising expenditure. Across Asia Pacific adspend is expected to grow by 5.2% in 2015, supported by continued high growth in China and a bounce in India, where the BJP was elected with a strong mandate on a pro-business platform fueling positive sentiment among the business community. We also expect to see strong growth in the ASEAN region, where the launch of the ASEAN Economic Community scheduled this year will provide a boost for trade and investment with a particularly positive outlook for the advertising markets of Indonesia, the Philippines and Vietnam.

Although TV still dominates in the region, digital media is becoming increasingly prevalent, with Asia Pacific contributing around 40% of the world's Internet population. With 50% of the world's smartphone users now based in Asia Pacific, mobile is ubiquitous and has been a major catalyst for Internet penetration, with audiences in the region spending twice as much time on their mobile as they do watching TV. It is not surprising therefore that the adoption of social media and the growth of online video in every major market has been meteoric. These markets are leading the world in the transition of consumers and businesses to Internet-related platforms and technologies, and this uptake will drive a boom in mobile commerce in the region this year.

A fully convergent and digital advertising landscape is therefore rapidly becoming a reality in Asia Pacific, with a predicted 20.1% growth in digital advertising spend this year in Asia Pacific—the highest of any region globally.

Dentsu Aegis Network well placed to support our clients in an increasingly convergent environment in Asia Pacific

The convergence of Social, Mobile and Commerce has precipitated the emergence of new business models in the

digital space, which are disrupting traditional businesses. So, advertisers need to remain relevant to their customers, on a real-time 24/7 basis, and, at the same time, ensure they evolve their business models to stay ahead of the convergence curve. This will help them seize the major marketing opportunity in this fast-paced environment—the ability to drive customers from the point of engagement to the point of transaction.

Dentsu Aegis Network is well placed to help our clients seize this opportunity in the increasingly convergent marketing environment. Supported by the market-leading position of Dentsu Inc. in Japan, Dentsu Aegis Network in Asia Pacific has true scale, with 11,000 people in 36 offices across 17 countries. Furthermore, our unique operating model is fully enabled in these markets and we have strong digital leadership across our agency brands, with the highest number and ratio of digital experts, and the most digitally awarded, of any international agency group in the region.

China, the world's second largest advertising market, continues to be a major focus

China, with over 40% of Asia Pacific's GDP, and with nearly 1.4 billion people, remains the most important economy in the region, and thus a major driver of growth. To exemplify this, GDP in China is expected to grow by around 7% in 2015, which, although a moderation from previous expectations, is still the highest growth rate in the region, which is spectacular, given that it is off such a large base.

In line with this moderation in GDP forecasts, the advertising market in China is forecast to increase by 7.9% in 2015, which is slower than previously forecast.

TV still dominates in China, with a 55.8% share of advertising spend across all media expected in 2015. However, there are signs that TV's share is slowly decreasing, with a 53.7% share predicted for 2016. Broadcasters in China are therefore actively venturing into the digital realm, building their own online video platforms.

China dominates the region in the digital advertising arena, contributing nearly 50% of Asia Pacific's advertising spend in digital. This is not surprising, given that smartphone penetration in China is a huge 70%, and it is now the world's largest smartphone market.

Digital advertising spend in China is expected to grow by 29.8% in 2015. Within this, search spend is growing at 23.8%, Mobile at 55% and Display including Online Video at 18.7%. In social media, China again dominates the

digital landscape in Asia Pacific, with 60% of the region's active social media users being based in China. Finally, and importantly, China is now the world's largest e-commerce market, having overtaken the U.S. in recent years.

Our well executed integration program in China ensures Dentsu Aegis Network is well equipped for the future

At the time of Dentsu's acquisition of Aegis in 2013, we had a combined portfolio of strong businesses in China. As a result, we immediately focused on ensuring that the integration of those businesses was well planned and executed. Consequently, we implemented the full integration in 2013 and 2014, establishing Dentsu Aegis Network in China in January 2015, with clear management structures and reporting lines across the territory.

Bringing together our businesses in China under a single management structure enables us to utilize the power of the Group and create a differentiated position in the market, to deliver truly integrated solutions to our clients. Our new management structure in China represents a high-quality talent pool, with market-leading international and local expertise. We now have a balanced, strong and experienced team, well-equipped to drive one of Dentsu Aegis Network's largest businesses in the world.

As part of this major integration exercise, we also undertook the significant co-location of all of our businesses in Shanghai into one office in the fourth quarter of 2014. This was Dentsu Aegis Network's biggest co-location to date anywhere in the world, with over 1,400 staff moving into one building. It enables us to continue to foster collaboration, in order to drive the execution of the operating model in our business in China.

Following the execution of this integration program in China, our business is now perfectly positioned to continue to support our clients in the world's second largest advertising market.

“Accelerating our strategy through acquisitions”

Nick Priday
CFO
Dentsu Aegis Network

2003 Joined Aegis
2009 Appointed Chief Financial Officer of Aegis Group plc
2013 Appointed Chief Financial Officer of Dentsu Aegis Network

Having earned his qualifications at Ernst & Young, Mr. Priday has held senior finance positions at Aegis for over a decade.



Why does the Dentsu Group place so much emphasis and focus on acquisitions?

Acquisitions remain an important way to accelerate our strategy. In today's disruptive world, where opportunities need to be grasped and scaled quickly, acquisitions are an excellent way to move our business with speed and direction.

Are acquisitions commonplace in today's corporate environment, from a global perspective?

Acquisitions are indeed a key feature of the global corporate environment today. And, this is particularly the case in the media sector—last year, a total of around \$2.9 trillion was spent by corporates on acquisitions globally, and media was the third largest sector, in terms of funds invested.

So, is now a good time for the Dentsu Group to be making acquisitions?

Yes, the environment for acquisitions remains favorable, with very low interest rates in many developed markets, negative bond yields and investors' ongoing search for positive returns. So, it is definitely a good time to be making acquisitions.

What is the Dentsu Group's global acquisition strategy?

From a strategic perspective, we continue to target acquisitions which give us scale, help us to in-fill our product portfolio and geographic footprint and to provide cutting-edge innovation.

What type of acquisitions is the Dentsu Group targeting and what are you looking to achieve in executing those acquisitions?

We are targeting acquisitions in emerging markets and digital across a diverse range of geographies and product offerings which, combined with our proven track record of integration, will help to support us in delivering on our strategic objectives. We have a particular focus on the United States and China, given they are the world's top two largest advertising markets. From a commercial perspective, we target acquisitions which provide top line growth, margin enhancement and clear synergies with our existing businesses. Acquisitions also allow us to bring top talent into our business.

How is the Dentsu Group structured to ensure acquisitions are properly targeted, executed and integrated?

We have a strong track record in executing and integrating acquisitions, supported by a well-managed global structure and a number of established processes. We have a specialized in-house central execution team in place, based in London, with regional M&A teams in our three key regions, EMEA, APAC and the Americas, running the rule over a pipeline of around 50–60 potential acquisitions, at any given time.

What is the process for targeting and signing acquisitions?

Acquisition targets are identified by our local management teams, who understand the needs and requirements of their businesses locally. They are supported by the central and regional M&A teams, with a monthly review by an Acquisition Committee, chaired by Jerry Buhlmann, CEO of Dentsu Aegis Network.

What are the Dentsu Group's criteria for acquisitions?

Acquisitions also need to have strong strategic rationale—in particular, we aim to ensure they easily fit into, and work within, our operating model. We also need to ensure the right fit in terms of the key people we are bringing in. From a financial perspective, across our portfolio of targets, we measure acquisitions against strict investment criteria, including the delivery of a return on invested capital of 30% above our post-tax WACC, in the first full year of acquisition. There are various other financial criteria, including profit enhancement, payback and internal rate of return, which can vary on an acquisition-by-acquisition basis.

How does the Dentsu Group structure deals, from a financial perspective?

We aim to de-risk as much as possible our financial involvement in every acquisition we make. This is done by limiting the amount of initial consideration paid up-front. Generally, 30%–40% of the total consideration we pay is up-front. In certain situations, we also leave a minority stake with the vendors to ensure they have some skin in the game after earn-outs have expired.

“Accelerating our drive to develop our talent”

Valerie Scoular

Group HR Director
Dentsu Aegis Network

1977 Joined British Airways
1997 Appointed Advisor to The New Deal Task Force
2001 Joined Barclays Bank
2006 Joined Aegis Group plc as Group HR Director
2013 Appointed Group HR Director of Dentsu Aegis Network

Ms. Scoular's illustrious career spans almost two decades in senior HR roles, at British Airways and Barclays Bank and in non-executive directorships.



Our people are at the center of everything we do. Our Global HR strategy is therefore focused on ensuring we:

- Attract the right talent;
- Nurture and motivate our talent; and
- Develop their careers with care and rigor.

In 2014, we made great progress in accelerating this strategy, through a number of key success stories and important initiatives in the following areas:

1. Design and implementation of a new vision and values for Dentsu Aegis Network
2. Ongoing drive to embed a high performance culture within the organization
3. Continued focus on leadership development
4. Further emphasis on talent development and exchange opportunities across the Group
5. Implementation and rollout of a global HR system

I. Design and implementation of a new vision and values for Dentsu Aegis Network

We believe that by focusing on a clear vision, Dentsu Aegis Network will deliver long-term success, guided by resonant values, which will help to define and shape the culture of our business. Our values are at the heart of Dentsu Aegis Network, as they show our people how to act and how to be consistent.

Following the establishment of Dentsu Aegis Network on January 1, 2014, we worked quickly to formulate and identify the organization's new vision and values, which were then launched and rolled out across the business by the end of the first quarter of the year.

As part of this process, we consulted our leadership teams across the business, during a number of management summits, to ensure their views were properly integrated into the final output. In addition, we incorporated the vision and values of the legacy Aegis Media business into the new vision and values, which were also fully aligned with Dentsu Inc.'s 10 principles and vision of “Good Innovation.”

Ultimately, Dentsu Aegis Network's new vision of “Innovating the Way Brands Are Built,” supported by our new values of Agile, Pioneering, Ambitious, Responsible and Collaborative, will help to build our culture and to guide our future success.

2. Ongoing drive to embed a high performance culture within the organization

At the end of every year, we conduct an extensive staff feedback survey, named “Global Check-in.” Historically, this was carried out by Aegis Media, and in 2014, we produced the first survey as Dentsu Aegis Network. The survey includes a number of questions across important areas like learning and development, diversity, innovation, communication, leadership and management, collaboration and reward, and recognition. In 2014, the survey produced a record response rate of 88% and the results showed particular success in embedding our new vision and values, which received high engagement scores across the business.

Another key finding from the survey’s results was that Dentsu Aegis Network is powered by a high performance culture. As evidence of this, engagement scores in most categories were well ahead of the industry norm, and against the previous year, with scores in many categories above the “high performance” benchmark. Furthermore, the results showed that 89% of our people feel empowered to do their jobs—another signal of a high performance culture, as well as a strong alignment with our new values.

3. Continued focus on leadership development

To drive this high performance culture throughout the organization, we are focused on energizing our leadership talent through unique experiences to help them deliver a commercial edge for the future success of the business.

Our most significant leadership development program is Route 500. This annual program has a rigorous process in candidate selection, with a detailed self-nomination procedure, followed by a series of panel interviews with senior leadership.

Once candidates attain Route 500 membership, they have access to senior Dentsu Aegis Network leaders, as mentors, sounding boards and guides, an accelerated career development plan, with opportunities for additional local, regional and global experience within the organization, supported by a structured training and e-learning program.

Importantly, Route 500 members are able to build important, long-term internal networks with their colleagues from other agencies, functions and geographies. This enables the fostering of collaboration and has already precipitated a number of important commercial projects within the organization. By the end of 2015, there will

be over 1,000 people on the Route 500 program.

Route 500 also has resonance with our clients and, during 2014, an outline of the program and its benefits was included in a number of major pitches and client presentations, as evidence of how Dentsu Aegis Network develops the best industry talent.

In addition, in March 2015, Dentsu Aegis Network held its annual Global Conference in Tokyo, for the first time, with the theme of “Leading Through Innovation.” At the event, there were significant opportunities for the sharing of our vision, strategic objectives and key business successes of 2014.

There were also sessions which enabled the development of important collaboration projects across our key leadership teams from around the Group.

4. Further emphasis on talent development and exchange opportunities across the Group

As we continue to grow and develop as a Group, we are placing an increasing focus on talent development and exchange. More specifically, we are looking at significant opportunities in these areas between Dentsu Inc. and Dentsu Aegis Network. The objective here is to improve the Group’s HR infrastructure to promote collaborative working, with a view to nurturing future leaders and creating business synergies.

In talent development, our immediate focus is on the expansion of existing programs across the entire Group. As an example of this, we are aiming to extend the Route 500 program to Dentsu Inc. employees who are currently working in international markets. In addition, there are many cases of Dentsu Inc. and Dentsu Aegis Network employees working jointly on international business assignments. This includes collaboration on short-term assignments, like new business pitches, to longer-term projects, like embedding talent within agencies.

Another major program in talent development is Dentsu Inc.’s Dentsu Management Institute, which takes place in Tokyo every year. Around 50 of our key talent from across the Group are selected and invited to a week of presentations from senior leadership and external business experts, as well as a number of working sessions based on key opportunities for the Group. The rationale of this program is to promote a mutual understanding and education across the Group, in particular, around our business strategies,

and to trigger potential business synergy ideas, as well as to build a network of top talent for future leadership roles.

We made great progress in our talent exchange program across the Group in 2014. A number of Dentsu Aegis Network's agency brands invited relevant Dentsu Inc. employees to spend a period of time working with, and learning about, these agencies, to create a mutual understanding and a culture of collaboration. These structured talent exchange programs included formal training sessions, collaboration in pitches, the sharing of tools and capabilities, and in some cases, a longer-term exchange program. Also in 2014, we seconded a number of senior Dentsu Aegis Network employees to Tokyo and, in addition, there are now many Dentsu Inc. secondees in a number of our international markets.

5. Implementation and rollout of a global HR system

To support the various initiatives we are implementing to drive our Global HR strategy, we rolled out a global HR system in 2014, driving a technology-enabled transformation and enabling a single, consistent global HR organization.

This global system was launched to drive increased automation and efficiency in HR and will provide greater insights on our talent as well as enabling our people to be more effective and efficient in their roles. The system includes real-time access for our people to day-to-day activities, like the management of expenses and annual leave, as well as elements like training programs and e-learning. In 2014, the system was launched in five major markets, covering 3,600 employees, with rollouts in more markets planned for 2015.

In summary, we had great success in 2014 in driving our Global HR strategy, supported by our efforts in continuing to embed a high performance culture, through an ongoing focus on leadership and talent development, supported by a new global HR system. We will continue to drive our global HR strategy in 2015 and beyond, as we look to support the organization in "Innovating the Way Brands Are Built."

Current Status

CFO Message



Shoichi Nakamoto
Director
Senior Executive Vice President & CFO

Consolidated Financial Highlights

Regional Information

Financial Position

Cash Flows

Fiscal 2015 Forecast (Proforma)

Capital Management Strategy and Return to Shareholders

Consolidated Financial Highlights

In fiscal 2014 (April 1, 2014 to March 31, 2015), the Group adopted the International Financial Reporting Standards (IFRS) in place of the previously used Japanese GAAP with the intent of improving international comparability, and the statements are based on disclosure items in accordance with IFRS. For the purpose of year-on-year comparison, the results for fiscal 2013 (April 1, 2013 to March 31, 2014) are also shown in accordance with IFRS.

For fiscal 2014, the Group posted 728.6 billion yen in revenue (a 10.4% increase year on year), 676.9 billion yen in gross profit (a 10.1% increase), 131.9 billion yen in underlying operating profit (a 5.1% increase), 132.3 billion yen in operating profit (a 23.3% increase), and 79.8 billion yen in profit for the year attributable to owners of the parent (a 20.1% increase).

In applying IFRS, we have set “underlying operating profit,” a recurring profit indicator, as a KPI. “Underlying operating profit” is calculated by eliminating from operating profit certain one-off items, including amortization of M&A-related intangible assets, impairment loss, gain/loss on sales of non-current assets, and acquisition costs. Accordingly, operating margin is calculated utilizing “underlying operating profit” instead of “adjusted operating income (operating income before amortization of goodwill and other intangible assets).”

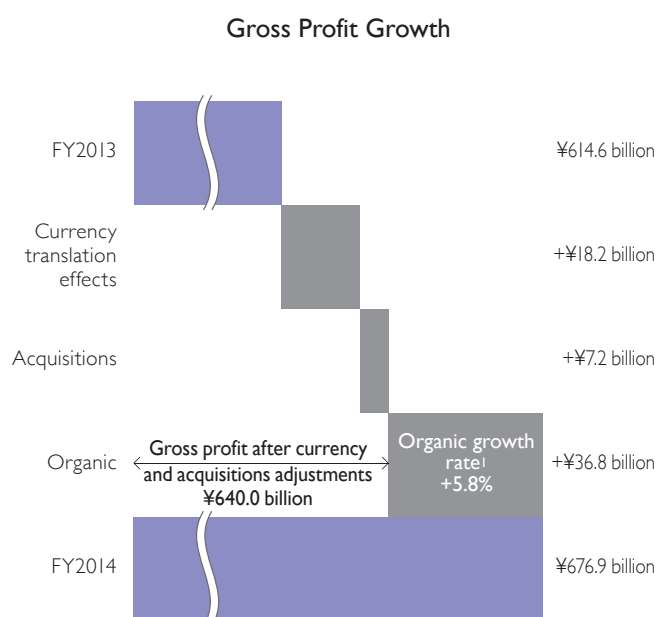
With regard to profit for the year, we calculate “underlying net profit” as a KPI to measure recurring profit for the year attributable to owners of the parent. “Underlying net profit attributable to owners of the parent” is profit for the year attributable to owners of the parent added with adjustment items related to operating profit, revaluation of earnout liabilities/M&A-related put-option liabilities, and tax-related and other one-off items.

Gross profit in fiscal 2014 increased 62.3 billion yen from the previous fiscal year, to 676.9 billion yen, of which the currency translation effect accounted for 18.2 billion yen and acquisition effects accounted for 7.2 billion yen. Actual growth, excluding the effects of currency translation and acquisitions, was 36.8 billion yen, and the gross profit organic growth rate¹ for the entire Group was 5.8%.

¹ Organic growth rate: Internal growth rate factoring out acquisitions and the effect of exchange rates

Consolidated Financial Highlights			(Millions of yen)
	FY2014	FY2013	YoY
Turnover	4,642,390	4,177,278	+11.1%
Revenue	728,626	659,772	+10.4%
Gross profit	676,925	614,654	+10.1%
Operating profit	132,305	107,283	+23.3%
Profit for the year ²	79,846	66,507	+20.1%
Basic EPS ²	276.9 yen	241.5 yen	+14.7%
Underlying operating profit	131,937	125,593	+5.1%
Operating margin	19.5%	20.4%	-0.9 ppt
Underlying net profit ²	92,875	84,395	+10.0%
Underlying basic EPS ²	322.1 yen	306.4 yen	+5.1%
EBITDA	174,520	142,623	+22.4%
ROE	8.1%	9.1%	-1.0 ppt
Currency			
JPY/USD (Jan–Dec average)	105.8 yen	97.6 yen	+8.4%
JPY/GBP (Jan–Dec average)	174.2 yen	152.7 yen	+14.1%

² Profit for the year, Basic EPS, Underlying net profit and Underlying basic EPS: Attributable to owners of the parent



Regional Information

Gross profit from the Group's Japan business operations increased 1.7% from the previous fiscal year, to 333.9 billion yen, marking a record high level of gross profit on a non-consolidated basis. Underlying operating profit increased 2.8%, to 79.7 billion yen, and the operating margin based on underlying operating profit was 23.9%, up 0.2 percentage points (ppt) year on year.

As for the Group's international business operations, Europe, the Middle East and Africa (EMEA) outperformed market growth significantly, with gross profit rising 21.4% over the previous fiscal year, to 136.1 billion yen. In the Americas, gross profit increased 19.5%, to 111.8 billion yen, with a significant contribution from the effect of M&A; and in Asia Pacific, excluding Japan (APAC), gross profit rose 16.9%, to 95.2 billion yen, mainly due to favorable results in the Chinese market. As a result, total gross profit from our international business operations showed robust growth, increasing 19.6% to 343.2 billion yen, and the gross profit international ratio reached 50.7%, exceeding that of our Japan business for the first time.

Meanwhile, although underlying operating profit from our international business operations grew 9.6% from the previous fiscal year, to 52.6 billion yen, an increase in platform investments to strengthen management at Dentsu Aegis Network resulted in an operating margin of 15.3%, down 1.4 ppt.

As a result, the consolidated operating margin for the Dentsu Group in fiscal 2014 was 19.5%.

FY2014	Regional Information				(Millions of yen)
	Gross profit	YoY	Underlying operating profit	YoY	Organic growth rate
Japan	333,995	+1.7%	79,735	+2.8%	+2.2%
Operating margin			23.9%	+0.2 ppt	
EMEA	136,158	+21.4%	—	—	+9.7%
Americas	111,852	+19.5%	—	—	+7.9%
APAC	95,221	+16.9%	—	—	+14.4%
International total	343,232	+19.6%	52,618	+9.6%	+10.3%
Operating margin			15.3%	-1.4 ppt	
Consolidation adjustments	(303)	—	(416)	—	—
Dentsu consolidated total	676,925	+10.1%	131,937	+5.1%	+5.8%
Operating margin			19.5%	-0.9 ppt	

Financial Position

Current assets in the statement of financial position as of March 31, 2015, were 1,681.8 billion yen, up 21.3% from the end of the previous fiscal year. Factors behind the increase were a rise in trade receivables associated with growth in results, proceeds from sale of property, plant and equipment, intangible assets and investment property, and an increase in cash and cash equivalents associated with improvement in the turnover between receivables and payments. Non-current assets amounted to 1,477.6 billion yen, up 13.8%, reflecting valuation gains on the market value of investment securities held. As a result, total assets increased 17.6%, to 3,159.5 billion yen.

Meanwhile, current liabilities rose 17.7%, to 1,511.2 billion yen, due to an increase in trade payables. Non-current liabilities were up 12.9%, to 537.2 billion yen, primarily owing to an increase in borrowings at Dentsu Aegis Network.

As for equity, total equity attributable to owners of the parent increased 19.9%, to 1,080.3 billion yen, mainly due to an increase in unrealized gain on available-for-sale securities. Non-controlling interests were up 24.2%, to 30.6 billion yen.

Total debt stood at 409.6 billion yen as of March 31, 2015, but with 365.3 billion yen in cash and cash equivalents, net debt was 44.2 billion yen. Applying EBITDA of 174.5 billion yen, the net debt/EBITDA ratio was 0.25, and the net debt (LTM average)/EBITDA ratio was 0.69.

	Financial Position		(Millions of yen)	
	2015 End of Mar	2014 End of Mar	YoY	YoY
Current assets	1,681,861	1,386,946	+294,914	+21.3%
Non-current assets	1,477,673	1,298,986	+178,686	+13.8%
Total assets	3,159,534	2,685,933	+473,601	+17.6%
Current liabilities	1,511,256	1,284,477	+226,779	+17.7%
Non-current liabilities	537,214	475,734	+61,480	+12.9%
Total liabilities	2,048,470	1,760,211	+288,259	+16.4%
Total equity attributable to owners of the parent	1,080,364	901,012	+179,351	+19.9%
Non-controlling interests	30,699	24,709	+5,989	+24.2%
Total equity	1,111,063	925,722	+185,341	+20.0%
Total liabilities and equity	3,159,534	2,685,933	+473,601	+17.6%
JPY/USD	120.6 yen	105.4 yen	-	+14.4%
JPY/GBP	187.0 yen	173.8 yen	-	+7.6%

	Debt		(Millions of yen)	
	2015 End of Mar	2014 End of Mar	YoY	
Debt	409,618	364,966	+44,651	
Cash and cash equivalents	365,379	253,354	+112,025	
Net debt	44,238	111,612	-67,373	
Total debt (LTM average)	367,484	-	-	
Cash and cash equivalents (LTM average)	247,886	-	-	
Net debt (LTM average)	119,598	-	-	
EBITDA	174,520	142,623	+31,896	
Net debt/EBITDA	0.25 times	0.78 times		
Net debt (LTM average)/EBITDA	0.69 times	-		

Note: LTM = Last twelve months

Cash Flows

In fiscal 2014, net cash provided by operating activities amounted to 112.3 billion yen, an increase of 20.4 billion yen from the previous fiscal year, due mainly to an increase in profit before tax. Meanwhile, net cash used in investing activities amounted to 25.6 billion yen, owing mainly to 36.1 billion yen in M&A-related payments. This significant decrease of 285.6 billion yen was due to the absence of payments made in fiscal 2013 related to the acquisition of Aegis. Net cash provided by financing activities amounted to 8.3 billion yen, a decrease of 209.1 billion yen, due mainly to a decline in proceeds from long-term borrowings. As a result, cash and cash equivalents as of March 31, 2015 increased 112.0 billion yen from the end of the previous fiscal year, to 365.3 billion yen.

Consolidated Statement of Cash Flows		(Millions of yen)	
	FY2014	FY2013	
Net cash provided by operating activities	112,388	91,986	
Net cash used in investing activities	(25,610)	(311,248)	
Net cash provided by financing activities	8,391	217,536	
Effect of exchange rate changes on cash and cash equivalents	16,856	20,604	
Net increase (decrease) in cash and cash equivalents	112,025	18,879	
Cash and cash equivalents at beginning of period	253,354	234,475	
Cash and cash equivalents at end of period	365,379	253,354	

Fiscal 2015 Forecast (Proforma)

Dentsu Inc. and its subsidiaries with closing dates other than December 31 will change their closing dates to December 31 from fiscal 2015. Accordingly, fiscal 2015 will correspond to the fiscal period for the nine months from April 1, 2015 to December 31, 2015, based on an adjusted year-end.³

Therefore, the consolidated performance forecast for fiscal 2015 also shows the performance forecast on a proforma basis, which covers the period from January to December.

³ For Dentsu Inc. and its subsidiaries with closing dates other than December 31, the fiscal year ending December 31, 2015 will correspond to the fiscal period for the nine months from April 1, 2015 to December 31, 2015, and for its subsidiaries with closing dates of December 31, the fiscal year ending December 31, 2015 will correspond to the fiscal period for the twelve months from January 1, 2015 to December 31, 2015, as before. Please see To Our Shareholders on page 16 for the consolidated performance forecast for fiscal 2015 on a financial reporting basis.

FY2015 Forecast (Proforma)		(Millions of yen)	
	2015 Jan–Dec	2014 Jan–Dec	YoY
Revenue	776,400	725,886	+7.0%
Gross profit	735,100	676,882	+8.6%
Operating profit	120,300	137,558	–12.5%
Profit for the year ⁴	76,400	81,409	–6.2%
Underlying operating profit	148,800	133,402	+11.5%
Operating margin	20.2%	19.7%	+0.5 ppt
Underlying net profit ⁴	99,000	89,179	+11.0%
Underlying basic EPS ⁴	343.3 yen	309.3 yen	+11.0%

Note: FY2015 forecast uses the average exchange rate for the period January–February 2015; FY2014 actual uses the average exchange rate for the period January–December 2014.

⁴ Profit for the year, Underlying net profit and Underlying basic EPS: Attributable to owners of the parent

Capital Management Strategy and Return to Shareholders

The Dentsu Group's capital management strategy is aimed at driving value for our shareholders. Investment in growth domains in Japan and globally is therefore our top priority, underpinned by the efficient deployment of capital, and we are pursuing sustainable profit growth centered on these domains. We will adhere to an acquisition strategy based on the following three fundamental guidelines: 1) scale (expanding local and regional coverage); 2) in-fill (adding to our portfolio of capabilities and geographies); and 3) innovation (acquiring cutting-edge capabilities). Furthermore, we will steadily improve return to shareholders by combining ongoing dividend payments and flexible share repurchases, as we strive to increase capital efficiency and improve our ROE in the medium term, in order to meet the expectations of our shareholders.

With regard to returning profits to shareholders, we raised the year-end dividend for fiscal 2014 from our initial forecast of 20 yen to 35 yen (an annual dividend of 55 yen including the interim dividend, compared with an annual dividend of 33 yen for the previous fiscal year). This resulted in a payout ratio of 19.9% (on an IFRS basis) for fiscal 2014. Also, we will pay an annual dividend of 70 yen for fiscal 2015 and have authorized a share repurchase up to a maximum value of 20.0 billion yen. Accordingly, we forecast a total payout ratio of 52.6% for fiscal 2015 on a calendar year proforma basis.

Capital Management Strategy

Objective: To deliver an improvement in shareholder value over time



Growth of the Business—Priority for Capital Deployment

- Investing in growth in Japan and globally
- Deliver value-enhancing acquisitions—scale, in-fill & innovation



Focus on Capital Returns and Dividends

- Improve capital efficiency
- Increase ROE over time

Return to Shareholders (Dividend and share repurchase)

	2015 Jan–Dec Forecast	FY2015 Forecast	FY2014 Actual	FY2013 Actual
Annual dividend per share	70.00 yen	70.00 yen	55.00 yen	33.00 yen
(Interim dividend)	(35.00 yen)	(35.00 yen)	(20.00 yen)	(16.00 yen)
Payout ratio	26.4%	31.8%	19.9%	13.7%
Share repurchase	¥20.0 billion			
Total payout ratio	52.6%			

Operating Highlights (Consolidated)

Dentsu Inc. and Consolidated Subsidiaries

Years ended March 31

Millions of yen
except
per share data

	(JGAAP)			(IFRS)	
	2013/3	2014/3	2015/3	2014/3	2015/3
For the year:					
Net sales/Revenue	1,941,223	2,309,359	2,419,278	659,772	728,626
Gross profit	345,940	594,072	656,454	614,654	676,925
Organic gross profit growth rate (%) ⁽¹⁾	—	7.7	5.9	—	5.8
Japan (%)	—	9.2	1.9	—	2.2
International (%)	—	5.9	10.3	—	10.3
Operating income/Operating profit	58,466	71,490	72,695	107,283	132,305
Ordinary income	59,027	82,538	82,578	—	—
Income before income taxes and minority interests/Profit before tax	63,310	81,172	98,549	110,797	134,295
Net income/Profit for the year attributable to owners of the parent	36,336	38,800	45,818	66,507	79,846
Underlying KPIs:					
Adjusted operating income ⁽²⁾ /Underlying operating profit ⁽³⁾	62,841	114,186	124,343	125,593	131,937
Underlying net profit (attributable to owners of the parent) ⁽⁴⁾	—	—	—	84,395	92,875
Net cash from operating activities	83,295	97,540	114,751	91,986	112,388
Net cash from investing activities	(51,236)	(318,087)	(28,494)	(311,248)	(25,610)
Net cash from financing activities	(5,349)	226,526	12,197	217,536	8,391
Cash and cash equivalents at end of period	207,578	227,128	340,678	253,354	365,379
At year-end:					
Total assets	2,205,569	2,638,319	3,075,028	2,685,933	3,159,534
Total equity/Total equity attributable to owners of the parent	584,495	883,118	1,026,147	901,012	1,080,364
Per share data (yen):					
Net income per share/Basic earnings per share	145.84	140.89	158.89	241.49	276.89
Underlying profit per share	—	—	—	306.38	322.08
Cash dividend per share	32	33	55	33	55
Ratios (%):					
Operating margin ⁽⁵⁾	18.2	19.2	18.9	20.4	19.5
Japan	19.0	23.3	24.2	23.6	23.9
International	13.8	14.6	14.0	16.7	15.3
Return on equity ⁽⁶⁾⁽⁷⁾ (ROE)	6.5	5.3	4.8	9.1	8.1
Return on assets (ROA) ⁽⁸⁾⁽⁹⁾	3.5	3.4	2.9	4.5	4.6
Equity ratio ⁽¹⁰⁾					
Ratio of equity attributable to owners of the parent ⁽¹¹⁾	26.5	33.5	33.4	33.5	34.2
Dividend payout ratio ⁽¹²⁾	21.9	23.4	34.6	13.7	19.9

Dentsu has adopted International Financial Reporting Standards (IFRS) in place of Accounting Principles Generally Accepted in Japan (JGAAP) used to date for its consolidated financial statements, starting from the fiscal year ended March 31, 2015. In the table, certain line items differ depending on which reporting standards are applied and are shown separated by a slash (/). To the left of the slash is the line item used under JGAAP and to the right, that under IFRS.

Notes: (1) 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.

(2) Adjusted operating income (JGAAP): Operating profit before amortization of goodwill and M&A-related intangible assets

(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, impairment loss, gain/loss on sales of non-current assets, acquisition costs and other one-off items

(4) 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

(5) Operating margin = Operating income before amortization of goodwill and other intangible assets or Underlying operating profit ÷ Gross profit × 100

(6) ROE (JGAAP) = Net income ÷ Average equity based on equity at the beginning and end of the fiscal year × 100

(7) 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

(8) ROA (JGAAP) = Ordinary income ÷ Average total assets based on total assets at the beginning and end of the fiscal year × 100

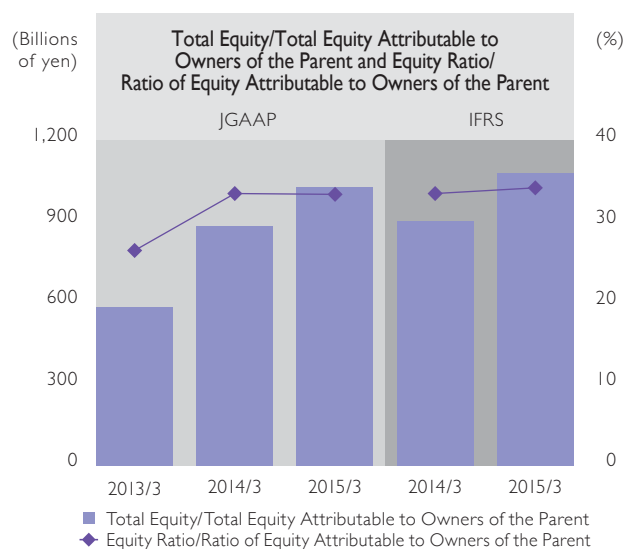
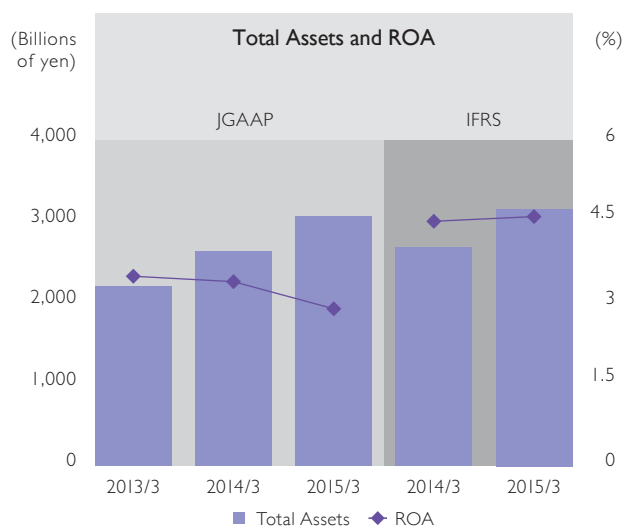
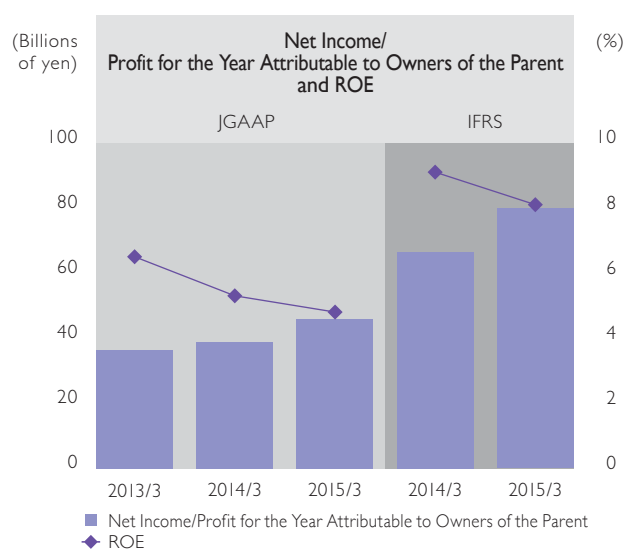
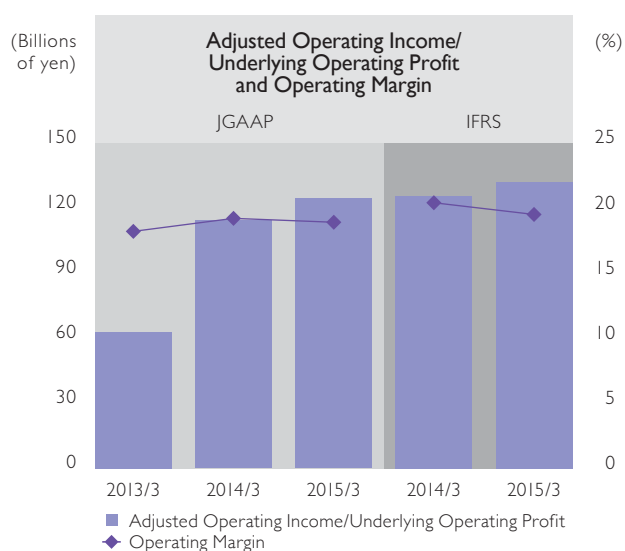
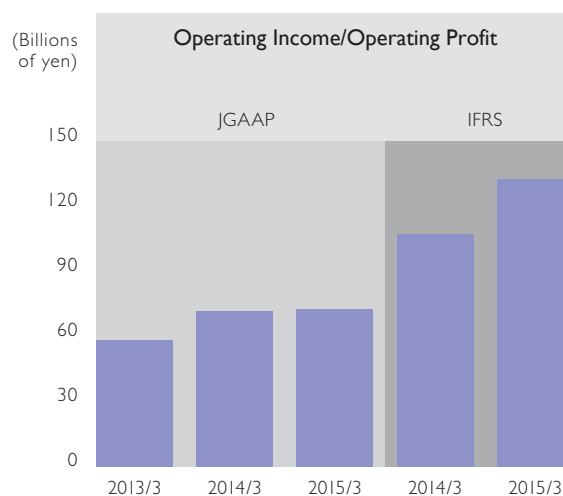
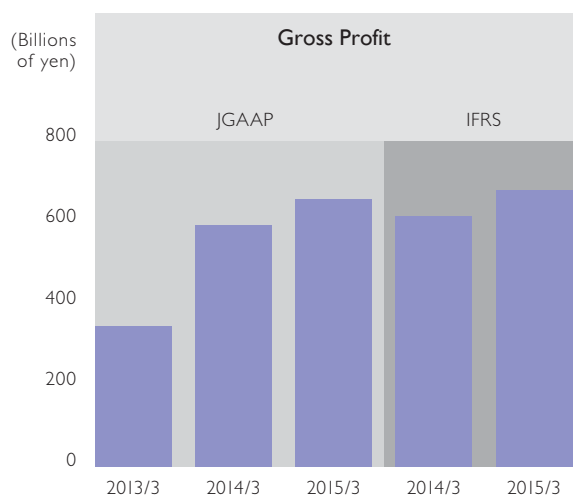
(9) ROA (IFRS) = Profit before tax ÷ Average total assets based on total assets at the beginning and end of the fiscal year × 100

(10) Equity ratio = Equity ÷ Total assets × 100

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

(12) Dividend payout ratio = Cash dividend per share ÷ Net income per share or Basic earnings per share × 100

(Years ended March 31)



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

Dentsu Inc. and Consolidated Subsidiaries
As of June 26, 2015

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 March 31, 2015 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, 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 and intangible assets with indefinite useful lives are not subject to amortization, and are 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.

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.

Reporting Period of Dentsu Aegis Network Ltd. and Its Subsidiaries

The fiscal year-end date of Dentsu Aegis Network Ltd. and the subsidiaries under its control (hereinafter collectively referred to as "Dentsu Aegis Network"), which operate the Group's international advertising business, is December 31;

hence the Group consolidates the financial results of Dentsu Aegis Network for the period from January 1, 2014 to December 31, 2014 into the consolidated financial results for the fiscal year under review.

While there is a three-month difference between the fiscal year-end of Dentsu Aegis Network and that of the Company, the impact from such difference in the reporting periods on the Consolidated Statement of Financial Position and the Consolidated Statement of Income is limited. With respect to significant transactions or events occurring during the time gap, the Group makes necessary adjustments and appropriate arrangements in order to assist the users of financial statements to properly understand and assess the Consolidated Statement of Financial Position and the Consolidated Statement of Income of the Group.

From fiscal 2015, the year-end of the Company and its subsidiaries whose closing date does not fall on December 31 will be changed to December 31. The change resolves the difference in reporting periods. However, for the fiscal year ending December 31, 2015, the reporting period of the Company and its major subsidiaries engaging in the Japan business covers nine months, from April 1, 2015 to December 31, 2015. The reporting period of subsidiaries engaging in the international business covers 12 months, from January 1, 2015 to December 31, 2015.

Operating Results for the Fiscal Year under Review

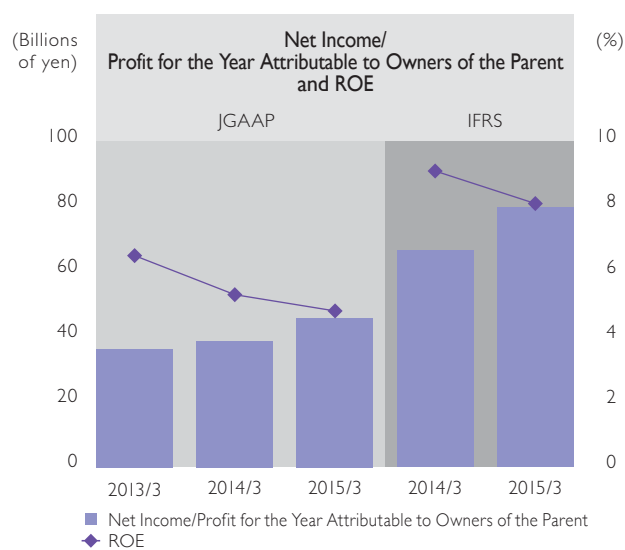
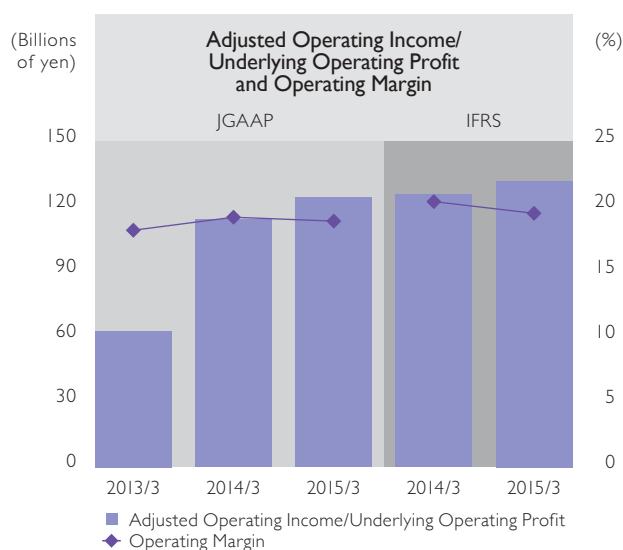
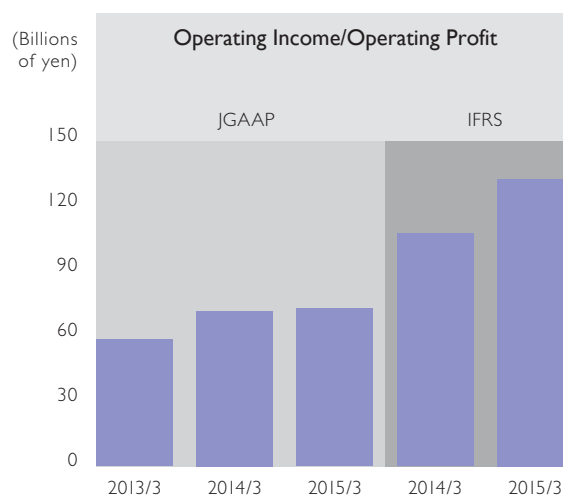
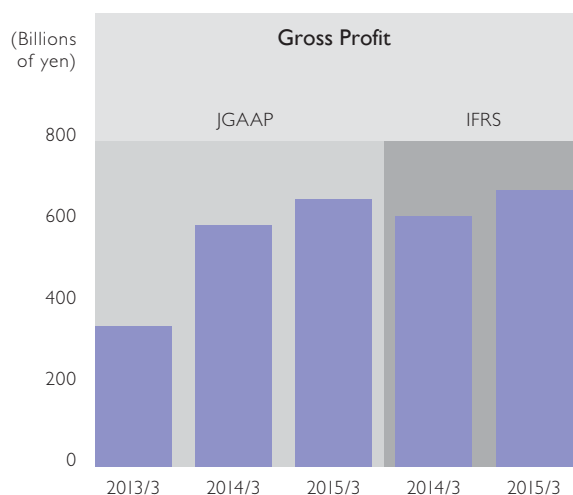
Revenue and Gross Profit

Consolidated revenue for the fiscal year under review reached 728.6 billion yen (up 10.4% from the previous fiscal year), and gross profit totaled 676.9 billion yen (up 10.1%).

Of the gross profit, 333.9 billion yen (up 1.7%) was generated from the Japan business. This amount was higher than in the previous fiscal year, largely due to the contribution of sponsorship sales including the 2014 FIFA World Cup Brazil™ and the Tokyo 2020 Olympic and Paralympic Games, despite the effects of a consumption tax hike in April.

Gross profit from the international business was 343.2 billion yen (up 19.6%). The organic gross profit growth rate in the international business rose 10.3% year on year, marking a double-digit expansion, mainly from new clients. Growth rates by region show that all recorded higher growth than in the previous fiscal year, with EMEA up 9.7%; the Americas, 7.9%; and APAC, 14.4%.

(Years ended March 31)



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

Consolidated selling, general and administrative (SG&A) expenses for the fiscal year under review came to 572.0 billion yen (up 11.9% from the previous fiscal year), primarily due to increases in staff costs and operating expenses in the international business.

Other income was 39.1 billion yen (up 243.8%), and other expenses came to 11.6 billion yen (up 56.0%). Major factors behind the increases in other income and other

expenses are related to the sale of property, plant and equipment, intangible assets and investment property during the fiscal year under review.

As a result, operating profit for the fiscal year under review reached 132.3 billion yen (up 23.3%).

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

Share of results of associates for the fiscal year under review was 7.1 billion yen (up 51.3% from the previous

fiscal year), and the net difference between finance income and finance costs came to 5.1 billion yen in costs. As a result, profit before tax came to 134.2 billion yen (up 21.2%).

Of the profit for the year, derived by deducting income tax expense from profit before tax, profit attributable to owners of the parent reached 79.8 billion yen (up 20.1%).

Factors Affecting Operating Results

Consolidated revenue is derived primarily from advertising services in the four traditional mass media formats and other advertising services, mainly interactive media and out-of-home, or OOH, media (billboard, transit and other), as well as related creative services. Commissions from media companies on the sale of media time and/or space represent the largest contribution to revenue, with the key revenue source being commissions for advertising time and/or space through the four traditional mass media formats.

The main factors affecting revenue from advertising in these traditional mass media formats are described below:

- Overall advertising expenditures, which fluctuate with changing industry conditions such as general economic conditions, technological innovations, deregulation and heightened competition;
- The Group's competitive position vis-à-vis other advertising companies;
- Rates charged by media companies for advertising time and/or space; and
- Changing advertiser needs for advertising across different media.

With increasing popularity in recent years, the Internet is firmly in second place, behind television, as the medium garnering the most contact time in homes across Japan. As the media environment evolves, the needs of advertisers become increasingly sophisticated. Advertisers are particularly interested in effective and efficient media planning that integrates the Internet, mobile phone and other interactive media with the

traditional mass media formats. Increasingly, they seek verification of advertising effectiveness. To accurately address these client needs, the Dentsu Group strives to provide high value-added cross-media campaigns.

Recent trends indicate heightened appreciation for integrated services that cover a broad spectrum of media domains as well as tools that verify cost efficiency and advertising effectiveness. The Group believes this will result in an increase in the number of transactions between advertisers and full-service advertising companies.

The Group frequently provides promotional services and other advertising services in combination with advertising in the four traditional mass media. For example, in promotional services, clients typically combine advertising campaigns in traditional mass media with point-of-purchase, or POP, displays, promotional events and other approaches to encourage consumers to buy the client company's products or subscribe to its services. Demand for traditional mass media advertising may fluctuate independently of demand for combined services, but the factors that influence one type of advertising will impact the other types as well.

The Group also secures revenue from services related to entertainment and sports marketing. These services include the production, marketing and establishment of marketing tie-ins for, and the selling or brokering of, sponsorship, broadcasting and other rights to such content as movies, sports events, music and other forms of entertainment. A breakdown of revenue from such services shows net proceeds or commissions on the purchase and sale of content-related rights, returns on rights or interests in content owned as well as consideration for services. Revenue may vary depending on such factors as the location and timing of the entertainment and sports events, the terms under which the Group companies acquire the rights, the level of consumer demand for, or interest in, the associated content, and the level of demand for these rights, especially by advertisers and broadcasters.

In addition, the Group earns revenue from solutions services, including customer relationship management (CRM), e-marketing and system configuration. Revenue from these services is not only affected by factors that

impact advertising services but also investment trends pertaining to system development.

As the factors that influence revenue, trends in revenue may differ among the countries in which the Group operates, based on such factors as the business climate in each country, developments in specific industries, the competitive position of the Group vis-à-vis other advertising companies, as well as market practices regarding remuneration for services and shifts in demand among clients for advertising in different media. Exchange rate fluctuations between the yen, the reporting currency for the Company's consolidated results, and the currencies of other countries in which the Group operates also have an effect on revenue.

Current Status of Management Strategies and Outlook

(1) Basic Management Policies

With the completion of the acquisition of Aegis Group plc (hereinafter "Aegis"; its name was changed to Dentsu Aegis Network Ltd. on March 26, 2013; hereinafter "Dentsu Aegis Network" when referring to this company after the acquisition) in March 2013, the Dentsu Group has evolved into a truly global network. Taking this opportunity, Dentsu formulated the medium-term management plan "Dentsu 2017 and Beyond," implemented in the fiscal year ended March 31, 2014.

In recent years, various advancements in technology have been made, and as the behavior of consumers changes, it has become difficult for many companies to achieve satisfactory results from marketing activities in the absence of coordination between initiatives. As such marketing convergence advances, the Group strives to evolve into the world's leading global network to contribute to raising corporate value for every type of client.

Under this policy, the current medium-term management plan has defined the following four points as its framework:

- Diversifying the portfolio on a global basis;
- Evolving and expanding in the digital domain;
- Re-engineering business processes and improving profitability; and
- Further reinforcing the business platform in the core Japanese market.

(2) Targeted Management Indicators

Targets for the fiscal year ending December 31, 2017 were set as follows:

- Gross profit compound annual growth rate (CAGR): 3%–5%;
- Ratio of gross profit generated from markets outside of Japan: 55% or higher;
- Ratio of gross profit generated from digital businesses: 35% or higher; and
- Underlying operating margin: 20% or higher.

Note: Underlying operating margin is the underlying operating profit divided by gross profit.

Furthermore, from the fiscal year under review, the Group has applied IFRS in addition to Japanese GAAP. In line with this change, operating margin is now calculated utilizing "underlying operating profit" instead of "operating profit before amortization of goodwill and other intangible assets." There has been no change to target figures.

The Company and its subsidiaries with closing dates other than December 31 are scheduled to change their closing dates to December 31 from the fiscal year ending December 31, 2015. Therefore, for the Company and its subsidiaries with closing dates other than December 31, the fiscal year ending December 31, 2015 will correspond to the fiscal period for the nine months from April 1, 2015 to December 31, 2015, and for its subsidiaries with closing dates of December 31, the fiscal year ending December 31, 2015 will correspond to the fiscal period for the twelve months from January 1, 2015 to December 31, 2015, as before.

(3) Tasks to Be Addressed by the Group and Its Management Strategy

1) Diversifying the portfolio on a global basis

The gross profit organic growth rate in the Group's international business operations for the fiscal year under review was 10.3%, achieving a rate higher than those of its competitors in consecutive years. As a result, the gross profit international ratio increased 4.0 percentage points (ppt) year on year, to 50.7%.

The Group believes the reasons for such robust growth include:

- Through the Group's unique "One P&L" business model for its international business operations, each Group company sets shared business targets, realizes seamless cooperation, and provides superior comprehensive client services; and
- Based on the above, each Group company provides one-stop solutions to meet client needs by cooperating and coordinating, leveraging their unique strengths, and creating expanded business from existing clients, in addition to solid acquisition of new accounts.

Moving forward, utilizing the client bases that the Company and Aegis have built up to this point, the Group will work to globally expand its strengths in the digital domain as well as in the areas of sports marketing and content creation, while making use of M&As to establish and expand a globally competitive global network.

2) Evolving and expanding in the digital domain

Gross profit in the Japanese digital domain for the fiscal year under review increased 12% year on year, continuing to achieve double-digit growth.

Outside of Japan, the Group implemented M&As in various digital domain sectors in the fiscal year under review as well. Of the M&As conducted over the course of the year, 11 were in the digital domain, which is approximately half of the total. In recent years, programmatic trading is accelerating growth in the digital sector. Programmatic trading is a transaction method that automatically purchases advertising space in various media based on a variety of data, in order to meet client needs and match degrees of interest from users. Within the Group, Amnet is responsible for business in this domain

worldwide, and its turnover in the fiscal year under review has doubled compared with the previous fiscal year. Due to growth via M&As and internal growth, the composition of digital in the Group's international business operations grew 2 ppt year on year, to 43%.

As a result, the share of digital across the entire Group was up 3 ppt, to 30% for the fiscal year under review, making progress toward the goal of 35% for the fiscal year ending December 31, 2017.

In the digital domain, the Group will continue to utilize aggressive M&As and work to improve its capabilities and quality of service.

3) Re-engineering business processes and improving profitability

Plans for the underlying operating margin for the fiscal year under review called for lower results than in the previous fiscal year. This was in order to conduct forward investment in the Group's international business to strengthen infrastructure and implement shared services to improve services in the IT and finance sectors. These investments in the Group's international business to strengthen infrastructure did not significantly exceed budgeted amounts, and made steady progress in line with initial schedules.

Additionally, in the Group's Japan business, steady progress was made regarding measures to reduce costs, and, aided by the effects of continued cost controls, the underlying operating margin in the Japan business was 23.9%, an improvement of 0.2 ppt year on year.

While aiming for growth in the top line in both its Japan and international businesses, the Group will continue to improve operational efficiency and cost controls to increase profitability across the entire Group, toward achieving the goal of "underlying operating margin of 20% or higher," as set forth as one of the objectives of the medium-term management plan.

4) Further reinforcing the business platform in the core Japanese market

The Group's greatest strength is its strong business platform in Japan, and this has not changed. In its business in this key market for the fiscal year under review, despite concerns over a pullback in demand in the wake of the

consumption tax increase in April following the rush in demand leading up to the increase, positive growth was achieved, notwithstanding the strong growth demonstrated in the previous fiscal year.

In Japan as well, the speed of marketing convergence is advancing. In light of such changes to the environment, the Group has already begun to strengthen capabilities in domains such as CRM, business intelligence and e-commerce.

By expanding business in such domains, further improving service quality in the promotion and creative domains, and adding an additional layer of strength to competitiveness in the mass media business, the Company will work to increase its problem-solving abilities and capability to create profits in a greater number of domains, in its efforts to evolve into a partner who can support the success of its clients from a variety of angles.

Additionally, the Company was designated as the exclusive marketing agency for the Tokyo Organising Committee of the Olympic and Paralympic Games. As a result, the Company will provide support for creating marketing plans and sponsorship sales. Concerning sponsorship sales, nine Gold Sponsors were finalized during the fiscal year under review, and progress has been steady. The Company will continue to fulfill its role to serve the Tokyo Organising Committee as a marketing partner.

In Japan, small signs of a recovery in personal consumption were beginning to be seen against a backdrop of strong corporate earnings, higher wages and improvements in the employment market. Using the economic environment as a springboard, the Company will aim to achieve growth that outpaces the market.

5) Promotion of CSR activities as a global network

Using the ISO 26000 international CSR standard as a base, in 2013 the Group updated the “Dentsu Group Code of Conduct” basic CSR principles, which dictate action guidelines for management and employees of the Dentsu Group across the world to fulfill their social responsibilities. Under this code, the following seven core themes are used as a basic framework for 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 development of the community.

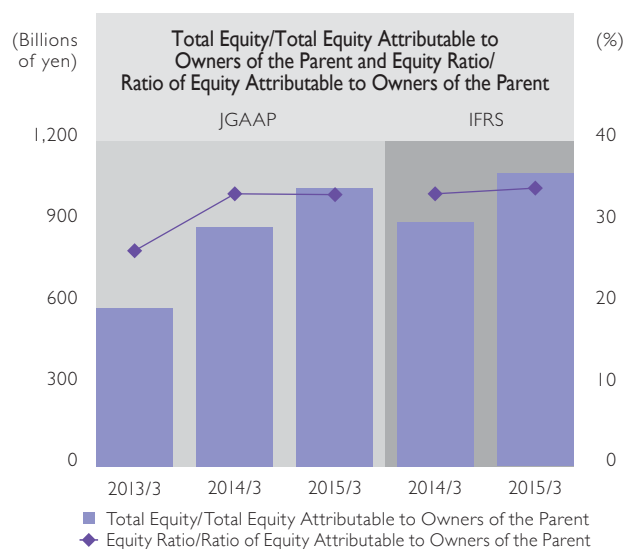
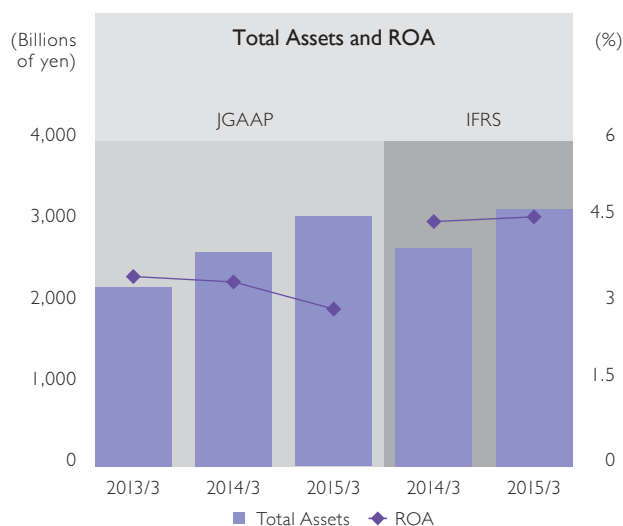
In addition, with a view to conducting activities on an international scale, the Group has been involved in the United Nations Global Compact since 2009, and in its role as one of the leading companies of the Japan Network, the Group has been advancing activities to identify and consider social issues from a global perspective in cooperation with other member companies.

During the fiscal year under review, the Group deepened cooperation with Dentsu Aegis Network, which has been operating under the medium-term CSR plan, “Future Proof,” since 2010, as announced by Aegis. Under the above, joint activities such as charity programs and measures to reduce environmental burdens were conducted.

Moving forward, while seeking to heighten awareness of CSR issues across the entire global network, a shared medium-term CSR plan will be defined, and as a leading global group in the communications domain, the Group will work to realize a sustainable society, and increase participation in CSR activities in both business domains and independent activities.

For details on individual activities, please see the Dentsu CSR Report (<http://www.dentsu.com/csr/index.html>).

(Years ended March 31)



Analysis of Capital Resources and Cash Liquidity

Assets, Liabilities and Equity

Total assets as of March 31, 2015 rose 473.6 billion yen from March 31, 2014, due to increases in cash and cash equivalents and trade and other receivables. Meanwhile, total liabilities rose 288.2 billion yen, due to higher trade and other payables and long-term borrowings. Total equity increased 185.3 billion yen, mainly due to the posting of profit for the year.

Cash Flows

As of March 31, 2015, cash and cash equivalents (hereinafter "cash") amounted to 365.3 billion yen from the 253.3 billion yen posted at the end of the previous fiscal year. As net cash provided by operating activities and financing activities exceeded net cash used in investing activities, cash at the end of the fiscal year under review increased 112.0 billion yen from the end of the previous fiscal year.

Net cash provided by operating activities amounted to 112.3 billion yen, an increase of 20.4 billion yen from the previous fiscal year, primarily due to the increase in profit before tax.

Net cash used in investing activities amounted to 25.6 billion yen, a decrease of 285.6 billion yen, primarily due to the decrease in purchase of investments in subsidiaries.

Net cash provided by financing activities amounted to 8.3 billion yen, a decrease of 209.1 billion yen from the previous fiscal year, primarily due to the decrease in proceeds from long-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 advertising opportunities.

Financial Policy

The Group's primary source of funds is cash generated from internal reserves, 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 102.4 billion yen and 170.6 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 and its subsidiaries established a bank credit line of 500 million pounds (approximately 89.0 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.

Management Issues and Future Policies

See Current Status of Management Strategies and Outlook on page 44.

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.

In April 2017, Japan's consumption tax rate is scheduled to be raised from 8% to 10%. Such a tax increase may adversely affect the Japanese economy in general, and in particular, curb consumer spending, which could in turn reduce the demand for the Group's services and negatively impact its results of operations.

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 50.7%, in fiscal 2014. 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 *2014 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 shortfalls in financial targets and other goals

Pursuant to the Dentsu Group's new medium-term management plan—Dentsu 2017 and Beyond—the Group has set financial targets and other goals to be achieved by the fiscal year ending December 31, 2017. For example, the Group intends to continue to increase the proportion of its revenue from business outside of Japan by enhancing and extending its new global network formed with the acquisition of Aegis. However, the Group's ability to achieve

its financial targets and other goals is based on a number of underlying assumptions, including assumptions regarding factors beyond its control such as growth in advertising expenditures globally, foreign currency exchange rates and interest rates, as well as general economic growth rates of countries in which the Group operates. If any of these assumptions proves to be inaccurate, the Group may be unable to achieve its financial targets and other goals. In addition, there is no assurance that management will be able to successfully implement the medium-term management plan.

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 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 Global Businesses

Risk related to the acquisition of Aegis

On March 26, 2013, the Dentsu Group completed the acquisition of Aegis for approximately 3,164 million pounds. The acquisition of Aegis, with its leading position in Europe and a strong position in other global markets, is an integral part of the Group's strategy to grow beyond the Japanese market. However, there can be no assurance that the Group will be able to recoup this substantial investment through successfully integrating Aegis's business. Specifically, the anticipated benefits and synergies resulting from the acquisition are subject to, among other things, the following uncertainties:

- The Group may face significant challenges in combining Aegis's infrastructure, management and information technology systems with Dentsu's;
- Management's focus on the integration could result in distraction from other operating objectives;
- There may be difficulties in conforming standards, controls, procedures and accounting and other policies, as well as business cultures and compensation structures;
- The Group may not be able to retain key clients of Aegis;
- The Group may not be able to retain key personnel at Aegis; and
- The Group may not be able to successfully leverage Aegis's networks in Europe, the United States and emerging markets to increase its share of the global advertising market.

The Group continues to pursue strategic business acquisitions globally as a part of its ongoing growth strategy. However, if it is not able to achieve the anticipated benefits of these acquisitions in full or in a timely manner, the Group could be required to recognize impairment losses; it may

not be able to recoup its investment; and its business, financial position and results of operations could be materially and adversely affected.

Additional risks related to international business development

With the acquisition of Aegis, the Dentsu Group's global operations have expanded to over 120 countries. 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 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. Under Japanese GAAP, the Group is required to examine such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be 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.

Consolidated Financial Statements

Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
March 31, 2015

ASSETS	Notes	Millions of Yen		
		Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
CURRENT ASSETS:				
Cash and cash equivalents	7	234,475	253,354	365,379
Trade and other receivables	8, 31	836,253	1,054,225	1,224,190
Inventories	9	13,561	14,253	25,982
Other financial assets	10, 18, 31	18,412	15,571	22,732
Other current assets	11	38,530	49,542	43,575
Total current assets		1,141,233	1,386,946	1,681,861
NON-CURRENT ASSETS:				
Property, plant and equipment	12	202,484	201,900	199,037
Goodwill	13	431,732	577,015	656,565
Intangible assets	13	219,898	259,506	274,745
Investment property	15	45,913	45,655	42,160
Investments accounted for using the equity method	6, 16	51,072	56,554	53,042
Other financial assets	10, 18, 31	114,728	107,241	214,393
Other non-current assets		6,981	7,839	22,134
Deferred tax assets	17	50,371	43,274	15,594
Total non-current assets		1,123,182	1,298,986	1,477,673
TOTAL ASSETS	6	2,264,415	2,685,933	3,159,534

Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
March 31, 2015

		Millions of Yen		
LIABILITIES AND EQUITY	Notes	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
LIABILITIES:				
CURRENT LIABILITIES:				
Trade and other payables	18, 31	840,795	1,047,796	1,231,220
Bonds and borrowings	19, 31	59,097	62,566	73,653
Other financial liabilities	19, 31	341,161	38,147	54,082
Income tax payables		21,175	28,571	21,520
Provisions	20	5,151	213	208
Other current liabilities		73,504	107,181	130,571
Total current liabilities		1,340,886	1,284,477	1,511,256
NON-CURRENT LIABILITIES:				
Bonds and borrowings	19, 31	180,212	302,399	335,965
Other financial liabilities	19, 31	52,032	62,766	69,765
Liability for retirement benefits	21	57,169	53,185	43,674
Provisions	20	896	852	4,627
Other non-current liabilities		4,335	6,330	8,849
Deferred tax liabilities	17	42,642	50,198	74,331
Total non-current liabilities		337,289	475,734	537,214
Total liabilities		1,678,175	1,760,211	2,048,470
EQUITY:				
Share capital	22	58,967	74,609	74,609
Share premium account	22	60,899	99,906	99,906
Treasury shares	22	(65,077)	(104)	(131)
Other components of equity		5,810	172,711	292,652
Retained earnings	22	501,963	553,889	613,327
Total equity attributable to owners of the parent	31	562,562	901,012	1,080,364
Non-controlling interests		23,677	24,709	30,699
Total equity		586,240	925,722	1,111,063
TOTAL LIABILITIES AND EQUITY		2,264,415	2,685,933	3,159,534

Consolidated Statement of Income

Dentsu Inc. and Consolidated Subsidiaries
Year ended March 31, 2015

	Notes	FY2013 (Year ended March 31, 2014)	Millions of Yen FY2014 (Year ended March 31, 2015)
(Turnover (Note 1))	6	4,177,278	4,642,390
Revenue	6	659,772	728,626
Cost	12, 13, 21, 25	45,117	51,701
Gross profit	6	614,654	676,925
Selling, general and administrative expenses	12, 13, 21, 24, 25	511,287	572,084
Other income	26	11,375	39,102
Other expenses	12, 13, 27	7,459	11,638
Operating profit	6	107,283	132,305
Share of results of associates	16	4,745	7,178
Profit before interest and tax		112,028	139,483
Finance income	28	7,115	7,067
Finance costs	21, 25, 28	8,345	12,255
Profit before tax		110,797	134,295
Income tax expense	17	41,864	49,649
Profit for the year		68,933	84,645
Profit attributable to:			
Owners of the parent		66,507	79,846
Non-controlling interests		2,426	4,799
Earnings per share			
Basic earnings per share (in Yen)	30	241.49	276.89
Diluted earnings per share (in Yen)	30	241.43	276.84

Reconciliation from operating profit to underlying operating profit

	Notes	FY2013 (Year ended March 31, 2014)	Millions of Yen FY2014 (Year ended March 31, 2015)
Operating profit		107,283	132,305
Amortization of intangible assets incurred in acquisitions		15,666	19,784
Other adjusting items (selling, general and administrative expenses)		2,910	4,972
Other adjusting items (other income)		(3,992)	(33,275)
Other adjusting items (other expenses)		3,726	8,151
Underlying operating profit (Note 2)	6	125,593	131,937

(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 (20) Underlying Operating Profit."

Consolidated Statement of Comprehensive Income

Dentsu Inc. and Consolidated Subsidiaries
Year ended March 31, 2015

	Notes	FY2013 (Year ended March 31, 2014)	Millions of Yen FY2014 (Year ended March 31, 2015)
PROFIT FOR THE YEAR		68,933	84,645
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	29, 31	(326)	66,704
Remeasurements of defined benefit plans	21, 29	2,916	7,542
Share of other comprehensive income of investments accounted for using the equity method	16, 29	918	152
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:			
Exchange differences on translation of foreign operations	29	161,106	46,061
Effective portion of the change in the fair value of cash flow hedges	29	2,973	1,036
Share of other comprehensive income of investments accounted for using the equity method	16, 29	1,053	221
Other comprehensive income, net of tax		168,641	121,717
COMPREHENSIVE INCOME FOR THE YEAR		237,575	206,363
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent		234,392	200,471
Non-controlling interests		3,182	5,891

Consolidated Statement of Changes in Equity

Dentsu Inc. and Consolidated Subsidiaries
Year ended March 31, 2015

	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 April 1, 2013		58,967	60,899	(65,077)	—	—	8,126	15,118
Profit for the year								
Other comprehensive income						160,772	3,001	1,132
Comprehensive income for the year		—	—	—	—	160,772	3,001	1,132
Issue of share capital	22	15,642	15,642					
Share issue costs			(200)					
Repurchase of treasury shares				(29)				
Disposal of treasury shares			23,564	65,002				
Dividends	23							
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control								
Transfer from other components of equity to retained earnings								(983)
Other changes								
Transactions with owners—total		15,642	39,006	64,973	—	—	—	(983)
As of March 31, 2014		74,609	99,906	(104)	—	160,772	11,127	15,267
Profit for the year						45,129	1,004	66,847
Other comprehensive income						45,129	1,004	66,847
Comprehensive income for the year		—	—	—	—	45,129	1,004	66,847
Repurchase of treasury shares				(27)				
Disposal of treasury shares			0	0				
Issue of share options					48			
Dividends	23							
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control								
Transfer from other components of equity to retained earnings								(732)
Transactions with owners—total		—	0	(27)	48	—	—	(732)
As of March 31, 2015		74,609	99,906	(131)	48	205,902	12,131	81,382

	Notes	Millions of Yen					
		Total equity attributable to owners of the parent			Other components of equity		
		Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of April 1, 2013		(17,435)	5,810	501,963	562,562	23,677	586,240
Profit for the year			—	66,507	66,507	2,426	68,933
Other comprehensive income		2,978	167,884		167,884	756	168,641
Comprehensive income for the year		2,978	167,884	66,507	234,392	3,182	237,575
Issue of share capital	22		—		31,285		31,285
Share issue costs			—		(200)		(200)
Repurchase of treasury shares			—		(29)		(29)
Disposal of treasury shares			—		88,567		88,567
Dividends	23		—	(8,600)	(8,600)	(2,397)	(10,997)
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control			—	(6,979)	(6,979)	728	(6,251)
Transfer from other components of equity to retained earnings			(983)	983	—		—
Other changes			—	14	14	(481)	(467)
Transactions with owners—total		—	(983)	(14,581)	104,057	(2,150)	101,906
As of March 31, 2014		(14,456)	172,711	553,889	901,012	24,709	925,722
Profit for the year			—	79,846	79,846	4,799	84,645
Other comprehensive income		7,643	120,625		120,625	1,092	121,717
Comprehensive income for the year		7,643	120,625	79,846	200,471	5,891	206,363
Repurchase of treasury shares			—		(27)		(27)
Disposal of treasury shares			—		0		0
Issue of share options			48		48		48
Dividends	23		—	(10,669)	(10,669)	(2,498)	(13,167)
Transactions with non-controlling interests in subsidiaries that do not result in a loss of control			—	(10,471)	(10,471)	2,596	(7,875)
Transfer from other components of equity to retained earnings			(732)	732	—		—
Transactions with owners—total		—	(684)	(20,408)	(21,119)	97	(21,021)
As of March 31, 2015		(6,813)	292,652	613,327	1,080,364	30,699	1,111,063

Consolidated Statement of Cash Flows

Dentsu Inc. and Consolidated Subsidiaries
Year ended March 31, 2015

	Notes	FY2013 (Year ended March 31, 2014)	Millions of Yen FY2014 (Year ended March 31, 2015)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		110,797	134,295
ADJUSTMENTS FOR:			
Depreciation and amortization		33,334	40,390
Impairment loss		2,005	1,824
Interest and dividend income		(4,668)	(4,275)
Interest expense		6,690	7,112
Share of results of associates		(4,745)	(7,178)
Increase (decrease) in liability for retirement benefits		1,070	(215)
Other—net		(9,413)	(38,339)
Cash flows from operating activities before adjusting changes in working capital and others		135,071	133,614
CHANGES IN WORKING CAPITAL:			
(Increase) decrease in trade and other receivables		(96,904)	(114,985)
(Increase) decrease in inventories		738	(12,201)
(Increase) decrease in other current assets		(328)	10,114
Increase (decrease) in trade and other payables		72,376	101,835
Increase (decrease) in other current liabilities		16,597	41,163
Change in working capital		(7,519)	25,927
Subtotal		127,552	159,542
Interest received		1,622	2,046
Dividends received		7,065	6,895
Interest paid		(6,304)	(6,564)
Income taxes paid		(37,948)	(49,531)
Net cash flow from operating activities		91,986	112,388
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment, intangible assets and investment property		(19,201)	(21,669)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		2,492	36,074
Net cash (paid) received on acquisition of subsidiaries		(319,380)	(35,528)
Net cash (paid) received on disposal of subsidiaries		16,487	—
Payments for purchases of securities		(3,788)	(4,536)
Proceeds from sales of securities		12,038	2,235
Other—net		103	(2,184)
Net cash flow from investing activities		(311,248)	(25,610)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in short-term borrowings		10,014	(4,055)
Proceeds from long-term borrowings		212,103	52,134
Repayment of long-term borrowings		(32,083)	(16,375)
Repayments of bonds		(77,688)	(8,008)
Proceeds from issue of share capital		31,285	—
Payment for acquisition of interest in a subsidiary from non-controlling interests		(2,348)	(580)
Proceeds from sales of interest in a subsidiary to non-controlling interests		11	59
Payments for purchase of treasury shares		(29)	(27)
Proceeds from disposal of treasury shares		88,723	0
Dividends paid	23	(8,600)	(10,669)
Dividends paid to non-controlling interests		(2,195)	(2,527)
Other—net		(1,656)	(1,558)
Net cash flow from financing activities		217,536	8,391
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		20,604	16,856
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		18,879	112,025
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	234,475	253,354
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7	253,354	365,379

Notes to Consolidated Financial Statements

Dentsu Inc. and Consolidated Subsidiaries
Year ended March 31, 2015

I. 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 March 31, 2015 were approved by Tadashi Ishii, Representative Director and President & CEO, and Shoichi Nakamoto, Director and Senior Executive Vice President & CFO, on June 26, 2015.

2. BASIS OF PREPARATION

(1) Compliance with the International Financial Reporting Standards (hereinafter referred to as "IFRS") and its First-time Adoption

The Company's consolidated financial statements meet all requirements of Article 1-2 "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.

The Group first adopted IFRS for the year ended March 31, 2015, and its date of transition to IFRS (hereinafter referred to as the "Date of Transition") was April 1, 2013. For the Date of Transition and comparative years, the impact of the transition to IFRS on the statements of financial position, income and cash flows are presented in "35. FIRST-TIME ADOPTION."

The Group's accounting policies are in compliance with IFRS effective March 31, 2015 with the exception of IFRS provisions that have not been early adopted and exemptions granted in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" (hereinafter referred to as "IFRS 1"). The exemptions adopted are presented in "3. SIGNIFICANT ACCOUNTING POLICIES."

(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. The units are in millions of yen, and figures less than one million yen are rounded down to the nearest million yen.

(4) Early Adoption of New Standards

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

(5) Reporting Period of Dentsu Aegis Network Ltd. and its Subsidiaries

The fiscal year end date of Dentsu Aegis Network Ltd. and its subsidiaries under control (hereinafter collectively referred to as "Dentsu Aegis Network"), which operate the Group's international advertising business, is December 31, hence the Group consolidates financial results of Dentsu Aegis Network for the period from January 1, 2014 to December 31, 2014 into the consolidated financial results for the year ended March 31, 2015.

Under the consolidation process of the Group, consolidation for Dentsu Aegis Network (sub-consolidation closing) is conducted first, and then the process of consolidation for the whole Group is performed.

Dentsu Aegis Network is a unified business operation unit that operates the Group's international advertising business, and manages budgets and actual results on a sub-consolidation basis; and as a unified financial reporting unit, takes a major role in ensuring the accuracy and quality of the Group's financial reporting.

Under such a consolidation process, in order to unify the financial reporting periods across the whole Group, while maintaining the same level of quality of the Group's consolidated financial reporting as well as satisfying the statutory schedule prescribed under the Companies Act of Japan, it is required to further shorten the current closing schedule across the Group.

To achieve this objective, the Company has reviewed and improved the closing processes and systems for the consolidation, and changed the structure across the Group, through measures such as accelerating the sub-consolidation process at Dentsu Aegis Network and changing its reporting process to the Company, restructuring the processes of consolidation and preparation of consolidated financial statements and notes, carrying out proper assignment of personnel resources and talent development, and reviewing the approval process for financial reporting. However, the management of the Company has concluded that it is difficult and impracticable to unify the reporting period this year.

Currently, under the unified accounting standards in line with IFRS, the entire Group strives to enhance and improve the efficiency of the closing and management systems, and as a result of the Group-wide effort, the Company and its subsidiaries with fiscal year ends other than December 31 will change and unify the fiscal year end to December 31 starting from the year 2015.

As a consequence, this accounting period difference will no longer exist.

While there is currently a three-month difference between the fiscal year end of the Dentsu Aegis Network and that of the Company, the impact from such mismatch of the reporting periods on the consolidated financial position and results of operations is limited.

With respect to significant transactions or events occurring during the time gap, the Group makes necessary adjustments and appropriate arrangements in order to assist the users of financial statements to properly understand and assess the consolidated financial position and results of operations of the Group.

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.

The financial statements of subsidiaries with closing dates other than the Company's closing date are included in the consolidated financial statements since it is impractical to unify such subsidiaries' closing dates with the Company's closing date. The difference between the fiscal year end of the subsidiaries' financial statements and that of the Company's is not more than three months. When the fiscal year end of a subsidiary's financial statements used in the preparation of consolidated financial statements differs from that of the Company, adjustments are made for the significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

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 and attributed to the 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.

Investments in associates and joint ventures with closing dates other than the Company's closing date are included in the consolidated financial statements since it is impractical to unify such entities' closing dates with the Company's closing date. Adjustments are made for the significant transactions or events that occur between the fiscal year end of associates and joint ventures, and the fiscal year end of the Company.

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 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 subtracted from investments, with the Company's share in an investee company as its upper limit.

(2) Business Combinations

The Group has adopted the exemption in IFRS 1 and elected not to adopt IFRS 3 "Business Combinations" retrospectively to business combinations that occurred before the Date of Transition.

Goodwill arising from business combinations that occurred before the Date of Transition is recorded at its carrying amount under the previous accounting standards (Japanese Generally Accepted Accounting Principles, hereinafter referred to as "Japanese GAAP") as of the Date of Transition after performing an impairment test on the Date of Transition.

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 the contingent consideration when appropriate.

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

- (a) 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.
- (b) 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 the 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 fiscal year 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 change in fair value of contingent consideration after the acquisition is adjusted to the acquisition-related costs in case the change occurs during the above measurement period, otherwise the change is recognized in profit or loss.

The Group elects to measure non-controlling interest 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 effect 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 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 the 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 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 at the 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.

Exchange rates used in translation for the Group's subsidiaries, including Dentsu Aegis Network Ltd., which have a fiscal year end of December 31, are based on the fiscal year end of the subsidiaries.

The Group has adopted the exemption in IFRS 1 and transferred cumulative translation differences at the Date of Transition to retained earnings.

(4) Financial Instruments

A. Non-derivative Financial Assets

(a) Initial Recognition and Measurement

The Group initially recognizes trade and other receivables at the date of occurrence. All other financial assets are initially recognized at the date of transaction 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, 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.

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. The Group has adopted the exemption in IFRS 1 and, based on facts

and circumstances existing at the Date of Transition, designated equity financial assets not held-for-sale as financial assets measured at fair value through other comprehensive income.

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

(b) Subsequent Measurement

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

(i) Financial Assets Measured at Amortized Cost

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

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

Subsequent to initial recognition, financial assets are remeasured at fair value at each fiscal year end. Changes in fair value and dividends are recognized in profit or loss.

(iii) 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 declines significantly. Dividends derived from these financial assets are recognized in profit or loss.

(c) 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 at 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, 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 receivable is directly reduced by an offset against the allowance for doubtful accounts when it is considered uncollectible.

C. Non-derivative Financial Liabilities

(a) Initial Recognition and Measurement

The Group initially recognizes debt securities on the date of issue. All other financial liabilities are initially recognized at the date of transaction when the Group became 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.

(b) Subsequent Measurements

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

(i) 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.

(ii) 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 fiscal year end and changes in fair value are recognized in profit or loss.

(c) 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 an assessment of the hedging instrument's 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 whether they have actually 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 the 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, 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.

E. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is recorded 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 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.

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

Property, plant and equipment is measured at acquisition cost using the cost model subsequent to initial recognition less accumulated depreciation and accumulated impairment losses. For a portion of property, plant and equipment, the Group has adopted the exemption in IFRS 1 and elected to use the fair value at the Date of Transition as the deemed cost.

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.

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

- Buildings and structures: 3 to 100 years

Depreciation methods, useful lives and residual values are reviewed at the end of each fiscal year 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)

Intangible assets are measured 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 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.

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

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

Amortization methods and useful lives of intangible assets with finite useful lives are reviewed at the end of each fiscal year 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 the lease terms.

(10) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is measured at acquisition cost using the cost model subsequent to initial recognition less accumulated depreciation and accumulated impairment losses. For a portion of investment property, the Group has adopted the exemption in IFRS 1 and elected to use the fair value at the Date of Transition as the deemed cost.

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.

The depreciation methods, useful lives and residual values of investment property are reviewed at the end of each fiscal year 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 fiscal year 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 and intangible assets with indefinite useful lives are not amortized. Impairment tests for such assets 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 "13. 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 fiscal year 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 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 discount period which is set for the projected period until the expected date of benefit payments 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.

(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 also recorded based on a fixed fee or another 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 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 required under IFRS.

(16) Finance Income and Finance Costs

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 receive payment is established.

Finance costs 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 fiscal year.

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 fiscal year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the fiscal year 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 dilutive potential ordinary shares.

(20) Underlying Operating Profit

The underlying operating profit is calculated by eliminating from operating profit certain temporary adjusting items such as amortization of intangible assets incurred in acquisition, impairment losses, gain or loss on sale of property, plant and equipment, intangible assets and investment property and costs incurred due to acquisition 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 JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgments, 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 estimates and underlying assumptions are continuously reviewed. The effects of a change in estimates are recognized in the period of the change and future periods.

Information relating to judgments carried out in the process for 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 (I) 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 ("12. PROPERTY, PLANT AND EQUIPMENT," "13. GOODWILL AND INTANGIBLE ASSETS," and "15. INVESTMENT PROPERTY")
- Valuation of financial instruments ("31. FINANCIAL INSTRUMENTS")
- Valuation of defined benefit obligations ("21. POST-EMPLOYMENT BENEFITS")
- Provisions ("20. PROVISIONS")
- Recoverability of deferred tax assets ("17. INCOME TAXES")

5. NEW ACCOUNTING STANDARDS NOT YET ADOPTED BY THE GROUP

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

The implications from adoption of these standards and interpretations are 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
IAS 19	Employee Benefits	July 1, 2014	Fiscal year ending December 2015	Amendments for contributions from employees or third parties to defined benefit plans
IAS 1	Presentation of Financial Statements	January 1, 2016	Fiscal year ending December 2016	Clarifying the application of materiality in determining what information to disclose
IAS 16	Property, Plant and Equipment	January 1, 2016	Fiscal year ending December 2016	Clarifying acceptable methods of depreciation and amortization
IAS 38	Intangible Assets	January 1, 2016	Fiscal year ending December 2016	Clarifying acceptable methods of depreciation and amortization
IFRS 11	Joint Arrangements	January 1, 2016	Fiscal year ending December 2016	Clarifying accounting treatment for acquisitions of interests in joint operations
IFRS 15	Revenue from Contracts with Customers	January 1, 2017	Fiscal year ending December 2017	Amendments for accounting treatment for recognizing revenue
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending December 2018	Amendments for financial instrument classification and measurement, impairment requirements and hedge accounting

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 communications-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 net of "Amortization of intangible assets incurred in acquisitions" and "Other adjusting items."

Intersegment revenues are based on the prevailing market price.

Date of Transition: As of April 1, 2013

	Millions of Yen				
	Japan business	International business	Total	Reconciliations	Consolidated
Segment assets (Note 4)	1,027,124	1,240,282	2,267,407	(2,991)	2,264,415
(Other asset items)					
Investments accounted for using the equity method	43,146	7,926	51,072	—	51,072

FY2013: Year ended March 31, 2014

	Millions of Yen				
	Japan business	International business	Total	Reconciliations	Consolidated
Turnover (Note 1)	1,764,018	2,426,584	4,190,603	(13,324)	4,177,278
Revenue (Note 2)	381,749	291,347	673,097	(13,324)	659,772
Gross profit (Note 3)	328,305	287,097	615,402	(748)	614,654
Segment profit (underlying operating profit) (Note 3)	77,573	48,011	125,585	8	125,593
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(15,666)
Other adjusting items (selling, general and administrative expenses) (Note 5)	—	—	—	—	(2,910)
Other adjusting items (other income) (Note 5)	—	—	—	—	3,992
Other adjusting items (other expenses) (Note 5)	—	—	—	—	(3,726)
Operating profit	—	—	—	—	107,283
Share of results of associates	—	—	—	—	4,745
Finance income	—	—	—	—	7,115
Finance costs	—	—	—	—	8,345
Profit before tax	—	—	—	—	110,797
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	11,324	6,343	17,668	—	17,668
Segment assets (Note 4)	1,045,410	1,686,339	2,731,750	(45,816)	2,685,933
(Other asset items)					
Investments accounted for using the equity method	45,490	11,064	56,554	—	56,554
Capital expenditures	9,443	9,758	19,201	—	19,201

FY2014: Year ended March 31, 2015

	Millions of Yen				
	Japan business	International business	Total	Reconciliations	Consolidated
Turnover (Note 1)	1,798,523	2,869,699	4,668,222	(25,832)	4,642,390
Revenue (Note 2)	397,637	356,821	754,459	(25,832)	728,626
Gross profit (Note 3)	333,995	343,232	677,228	(303)	676,925
Segment profit (underlying operating profit) (Note 3)	79,735	52,618	132,353	(416)	131,937
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(19,784)
Other adjusting items (selling, general and administrative expenses) (Note 5)	—	—	—	—	(4,972)
Other adjusting items (other income) (Note 5)	—	—	—	—	33,275
Other adjusting items (other expenses) (Note 5)	—	—	—	—	(8,151)
Operating profit	—	—	—	—	132,305
Share of results of associates	—	—	—	—	7,178
Finance income	—	—	—	—	7,067
Finance costs	—	—	—	—	12,255
Profit before tax	—	—	—	—	134,295
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	12,855	7,750	20,606	—	20,606
Segment assets (Note 4)	1,273,922	1,995,777	3,269,699	(110,164)	3,159,534
(Other asset items)					
Investments accounted for using the equity method	43,705	9,337	53,042	—	53,042
Capital expenditures	8,845	12,824	21,669	—	21,669

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

(Note 3) Reconciliations for gross profit and segment profit (underlying operating profit) are due to eliminations of intersegment transactions.

(Note 4) Reconciliations 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:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Other adjusting items (selling, general and administrative expenses)		
Early retirement benefits	1,908	3,947
Costs associated with merger and acquisitions	809	967
Other	193	56
Total	2,910	4,972
Other adjusting items (other income)		
Gain on sale of property, plant and equipment, intangible assets and investment property	1,963	32,194
Gain on sale of subsidiaries and associates shares	1,939	306
Other	90	775
Total	3,992	33,275
Other adjusting items (other expenses)		
Loss on sale of property, plant and equipment, intangible assets and investment property	182	4,261
Impairment losses (Note)	2,005	1,824
Other	1,537	2,065
Total	3,726	8,151

(Note) Impairment losses by segment are ¥1,830 million (Japan business) and ¥175 million (International business) for the year ended March 31, 2014 and ¥1,588 million (Japan business) and ¥235 million (International business) for the year ended March 31, 2015.

(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, outdoor events, 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 services such as information services and information-related products.

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	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Advertising Services	596,519	658,657
Information Services	57,221	63,498
Other Services	6,030	6,470
Total	659,772	728,626

(4) Geographical information for non-current assets (property, plant and equipment, goodwill, intangible assets and investment property)

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Japan	245,597	243,042	230,612
Overseas (mainly the United Kingdom)	654,430	841,034	941,895
Total	900,028	1,084,076	1,172,508

Non-current assets are allocated according to the location of each group entity.

(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. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Cash and time deposits due within three months	234,475	253,354	365,379

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

8. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Notes and accounts receivable—trade	816,251	1,033,955	1,196,242
Other	21,809	22,010	29,210
Allowance for doubtful accounts	(1,806)	(1,740)	(1,262)
Total	836,253	1,054,225	1,224,190

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.

9. INVENTORIES

The breakdown of inventories as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Work-in-process	12,483	13,395	25,126
Other	1,077	857	856
Total	13,561	14,253	25,982

10. OTHER FINANCIAL ASSETS

(1) The breakdown of other financial assets as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Derivative assets	16,850	14,875	21,515
Equity securities	90,265	83,754	188,996
Debt securities	752	705	705
Other	39,883	40,729	44,720
Allowance for doubtful accounts	(14,611)	(17,252)	(18,811)
Total	133,140	122,812	237,126
Current assets	18,412	15,571	22,732
Non-current assets	114,728	107,241	214,393
Total	133,140	122,812	237,126

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

Derivative assets are classified as financial assets measured at fair value through profit or loss excluding those accounted for under hedge accounting, 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. "Other" includes financial assets measured at fair value through profit or loss of ¥3,747 million, ¥3,626 million and ¥3,110 million as of the Date of Transition, March 31, 2014 and 2015, respectively.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of the Date of Transition, March 31, 2014 and 2015 are as follows:

Investees	Millions of Yen	
	Date of Transition (As of April 1, 2013)	
Recruit Holdings Co., Ltd.	28,500	
TOHO CO., LTD.	7,408	
Digital Garage, Inc.	5,024	
Bit-isle Inc.	4,394	

Investees	Millions of Yen	
	FY2013 (As of March 31, 2014)	
Recruit Holdings Co., Ltd.	28,500	
Digital Garage, Inc.	5,801	

Investees	Millions of Yen	
	FY2014 (As of March 31, 2015)	
Recruit Holdings Co., Ltd.	112,500	
Digital Garage, Inc.	6,078	

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 pursue the efficiency of assets held and to use them effectively, sales of financial assets (derecognition) measured at fair value through other comprehensive income have been carried out.

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

FY2013: Year ended March 31, 2014

Millions of Yen	
Fair value	Cumulative gain or loss recognized in equity as other components of equity
10,833	5,116

FY2014: Year ended March 31, 2015

Millions of Yen	
Fair value	Cumulative gain or loss recognized in equity as other components of equity
2,520	766

The cumulative gain or loss recognized in equity as other components of equity is transferred to retained earnings when an equity instrument is sold or the decline in its fair value compared to its cost is significant.

II. OTHER CURRENT ASSETS

Advanced payments included in other current assets which are expected to be recognized in profit or loss after more than 12 months as of the Date of Transition, March 31, 2014 and 2015 are as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Advanced payments which are expected to be recognized in profit and loss after more than 12 months	15,234	3,306	10,674

12. PROPERTY, PLANT AND EQUIPMENT

(1) Schedule of property, plant and equipment

The schedule of the carrying amount at the beginning and end of each fiscal year is as follows:

FY2013: Year ended March 31, 2014

				Millions of Yen
	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	72,644	117,490	12,349	202,484
Additions	2,614	—	6,458	9,073
Acquisitions through business combinations	308	—	258	567
Sales or disposals	(341)	(155)	(233)	(730)
Depreciation	(6,088)	—	(4,702)	(10,791)
Impairment losses	(892)	(16)	(171)	(1,080)
Exchange differences on translation of foreign operations	1,903	117	1,307	3,328
Other	(408)	(165)	(377)	(951)
Balance at the end of the year	69,739	117,271	14,889	201,900

FY2014: Year ended March 31, 2015

				Millions of Yen
	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	69,739	117,271	14,889	201,900
Additions	6,417	—	6,857	13,275
Acquisitions through business combinations	510	—	352	862
Sales or disposals	(1,265)	(388)	(334)	(1,987)
Depreciation	(6,225)	—	(5,080)	(11,306)
Impairment losses	(263)	(791)	(20)	(1,075)
Exchange differences on translation of foreign operations	1,305	49	578	1,933
Other	(1,672)	(2,106)	(785)	(4,564)
Balance at the end of the year	68,546	114,034	16,456	199,037

The acquisition cost, accumulated depreciation and impairment losses, and carrying amount of property, plant and equipment as of the Date of Transition, March 31, 2014 and 2015 are as follows:

				Millions of Yen
	Buildings and structures	Land	Other	Total
Date of Transition (As of April 1, 2013)				
Acquisition cost	146,555	117,493	43,164	307,212
Accumulated depreciation and impairment losses	73,910	2	30,814	104,728
Carrying amount	72,644	117,490	12,349	202,484
FY2013 (As of March 31, 2014)				
Acquisition cost	149,866	117,274	49,077	316,217
Accumulated depreciation and impairment losses	80,126	2	34,188	114,317
Carrying amount	69,739	117,271	14,889	201,900
FY2014 (As of March 31, 2015)				
Acquisition cost	140,097	114,828	52,378	307,304
Accumulated depreciation and impairment losses	71,550	794	35,922	108,267
Carrying amount	68,546	114,034	16,456	199,037

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

Leased assets	Millions of Yen		
	Buildings and structures	Other	Total
Date of Transition (As of April 1, 2013)	—	2,472	2,472
FY2013 (As of March 31, 2014)	25	2,423	2,449
FY2014 (As of March 31, 2015)	23	2,424	2,448

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

(2) Impairment Losses

Property, plant and equipment is grouped by the smallest cash-generating unit that generates cash inflows that are largely independent according to each reportable segment.

The Group recognized impairment losses of ¥1,080 million and ¥1,075 million for the years ended March 31, 2014 and March 31, 2015, respectively, in the Consolidated Statement of Income as “Other expenses.”

Impairment losses for the year ended March 31, 2014, represent the losses incurred to reduce the carrying amounts of buildings, structures, land and others to their recoverable amounts due to a decline in profitability or the assets becoming idle.

Impairment losses for the year ended March 31, 2015 represent the losses incurred to reduce the carrying amounts of buildings, structures, land and others to their recoverable amounts due to a decline in profitability.

13. GOODWILL AND INTANGIBLE ASSETS

(1) Schedule of goodwill and intangible assets

The schedule of the carrying amount at the beginning and end of each fiscal year is as follows:

FY2013: Year ended March 31, 2014

	Millions of Yen				
	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	431,732	155,285	17,696	46,915	651,630
Additions	—	—	11,569	211	11,781
Acquisitions through business combinations	19,429	8,078	11	1,806	29,325
Sales or disposals	(13,220)	(5,886)	(635)	(727)	(20,469)
Amortization	—	(10,187)	(5,964)	(5,500)	(21,652)
Impairment losses	—	(123)	(284)	—	(407)
Exchange differences on translation of foreign operations	139,481	36,494	1,236	10,651	187,864
Other	(406)	(216)	(404)	(524)	(1,551)
Balance at the end of the year	577,015	183,446	23,226	52,833	836,521

FY2014: Year ended March 31, 2015

	Millions of Yen				
	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	577,015	183,446	23,226	52,833	836,521
Additions	—	—	9,704	847	10,552
Acquisitions through business combinations	31,100	13,853	144	1,740	46,839
Sales or disposals	—	—	(137)	(12)	(149)
Amortization	—	(14,228)	(8,220)	(5,566)	(28,015)
Impairment losses	—	—	(509)	(234)	(744)
Exchange differences on translation of foreign operations	48,769	13,516	250	3,776	66,314
Other	(320)	279	—	32	(7)
Balance at the end of the year	656,565	196,867	24,459	53,417	931,310

The acquisition cost, accumulated amortization and impairment losses, and carrying amount of goodwill and intangible assets as of the Date of Transition, March 31, 2014 and 2015 are as follows:

	Millions of Yen				
	Goodwill	Customer relationships	Software	Other	Total
Date of Transition (As of April 1, 2013)					
Acquisition cost	431,732	157,418	94,847	53,386	737,385
Accumulated amortization and impairment losses	—	2,133	77,151	6,470	85,754
Carrying amount	431,732	155,285	17,696	46,915	651,630
FY2013 (As of March 31, 2014)					
Acquisition cost	577,015	197,930	102,224	64,495	941,665
Accumulated amortization and impairment losses	—	14,484	78,998	11,662	105,144
Carrying amount	577,015	183,446	23,226	52,833	836,521
FY2014 (As of March 31, 2015)					
Acquisition cost	656,565	227,439	107,630	72,170	1,063,805
Accumulated amortization and impairment losses	—	30,572	83,170	18,752	132,495
Carrying amount	656,565	196,867	24,459	53,417	931,310

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

Leased assets	Millions of Yen
	Software
Date of Transition (As of April 1, 2013)	800
FY2013 (As of March 31, 2014)	903
FY2014 (As of March 31, 2015)	562

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 the Date of Transition, March 31, 2014 and March 31, 2015, arose from the international business segment which forms a cash generating unit, and amounted to ¥431,668 million, ¥576,977 million and ¥656,552 million as of the Date of Transition, March 31, 2014 and March 31, 2015, respectively.

Significant intangible assets other than goodwill as of the Date of Transition, March 31, 2014 and March 31, 2015, consist of customer relationships in the international business segment, which amounted to ¥155,285 million, ¥183,446 million and ¥196,867 million as of the Date of Transition, March 31, 2014 and March 31, 2015, respectively.

(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 3.2% is set for cash flows beyond the four year period.

The pre-tax discount rates used for determining value in use are 9.1% and 8.9% as of March 31, 2014 and March 31, 2015, respectively.

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

(4) Impairment losses

Intangible assets are grouped by the smallest cash-generating unit that generates cash inflows that are largely independent according to each reportable segment.

The Group recognized impairment losses of ¥407 million and ¥744 million for the years ended March 31, 2014 and March 31, 2015, respectively, in the Consolidated Statement of Income as "Other expenses."

Impairment losses for the year ended March 31, 2014, represent the losses incurred to reduce the carrying amounts of software and customer relationships to their recoverable amounts due to a decline in profitability.

Impairment losses for the year ended March 31, 2015, represent the losses incurred to reduce the carrying amounts of software and other intangible assets to their recoverable amounts due to a decline in profitability.

14. 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 as of the Date of Transition, March 31, 2014 and 2015 are as follows:

	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	Millions of Yen FY2014 (As of March 31, 2015)
Not later than 1 year			
Total of future minimum lease payments	1,305	1,379	1,263
Future finance costs	31	30	27
Present value	1,273	1,348	1,236
Later than 1 year and not later than 5 years			
Total of future minimum lease payments	2,186	2,212	2,030
Future finance costs	29	28	26
Present value	2,156	2,183	2,004
Later than 5 years			
Total of future minimum lease payments	8	6	5
Future finance costs	0	0	0
Present value	7	5	5
Total			
Total of future minimum lease payments	3,500	3,597	3,300
Future finance costs	61	60	54
Present value	3,438	3,537	3,245

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

The total of future minimum lease payments under non-cancellable operating leases as of the Date of Transition, March 31, 2014 and 2015 are as follows:

	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	Millions of Yen FY2014 (As of March 31, 2015)
Not later than 1 year	12,580	14,983	17,041
Later than 1 year and not later than 5 years	34,001	39,229	52,077
Later than 5 years	29,439	29,127	32,964
Total	76,021	83,341	102,083

(3) Total of minimum lease payments

The total of minimum lease payments of operating lease contracts recognized as expenses for the years ended March 31, 2014 and March 31, 2015 are ¥20,729 million and ¥21,916 million, respectively.

15. INVESTMENT PROPERTY

(1) Schedule of investment property

The schedule of the carrying amount of investment property at the beginning and end of each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Balance at the beginning of the year	45,913	45,655
Additions	85	24
Transfers from property, plant and equipment	472	3,769
Depreciation	(802)	(1,004)
Sales or disposals	(11)	(6,285)
Other	(2)	—
Balance at the end of the year	45,655	42,160
Acquisition cost (balance at the beginning of the year)	57,638	59,047
Accumulated depreciation and impairment losses (balance at the beginning of the year)	11,724	13,392
Acquisition cost (balance at the end of the year)	59,047	53,854
Accumulated depreciation and impairment losses (balance at the end of the year)	13,392	11,694

(2) Fair value

The carrying amount and fair value of investment property as of the Date of Transition, March 31, 2014 and 2015 are as follows:

	Millions of Yen					
	Date of Transition (As of April 1, 2013)		FY2013 (As of March 31, 2014)		FY2014 (As of March 31, 2015)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property (Level 3)	45,913	47,055	45,655	48,552	42,160	47,715

The fair value of investment property is mainly based on a real estate appraisal value. The valuation techniques are based on the 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 for each fiscal year are as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Rental income	2,903	2,647
Direct operating expenses	1,935	2,516

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of investments in associates and joint ventures as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Total of carrying amount	51,072	56,554	53,042

The financial information of associates and joint ventures for each fiscal year is as follows. The amounts below have taken into account the Group's ownership ratio.

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Profit for the year	4,745	7,178
Other comprehensive income	1,971	373
Comprehensive income for the year	6,716	7,551

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	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Unrecognized losses	—	76

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Cumulative unrecognized losses	107	123	207

17. INCOME TAXES

(I) Deferred tax assets and deferred tax liabilities

The breakdown of deferred tax assets and deferred tax liabilities by major causes of their occurrence as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Deferred tax assets			
Liability for retirement benefits	47,785	46,716	33,830
Accrued expenses	12,757	14,266	12,704
Carryforwards of tax losses	7,406	6,650	6,603
Other	16,945	11,360	8,719
Total of deferred tax assets	84,894	78,995	61,858
Deferred tax liabilities			
Gain on establishment of retirement benefit trust	(16,556)	(16,539)	(14,701)
Unrealized gain on securities	(8,599)	(8,672)	(38,364)
Valuation differences on intangible assets	(40,180)	(45,822)	(55,269)
Other	(11,830)	(14,885)	(12,260)
Total of deferred tax liabilities	(77,166)	(85,919)	(120,596)
Net deferred tax assets (liabilities)	7,728	(6,923)	(58,737)

Changes in net deferred tax assets (liabilities) for each fiscal year are as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Net deferred tax assets		
Balance at the beginning of the year	7,728	(6,923)
Deferred income taxes	2,561	(8,235)
Deferred taxes related to components of other comprehensive income		
Exchange differences on translation of foreign operations	—	23
Effective portion of the change in the fair value of cash flow hedges	20	(743)
Net change in financial assets measured at fair value through other comprehensive income	(893)	(30,845)
Remeasurements of defined benefit plans	(1,795)	(5,088)
Changes in deferred tax assets (liabilities) arising from business combinations, and others	(14,544)	(6,924)
Balance at the end of the year	(6,923)	(58,737)

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 as of the Date of Transition, March 31, 2014 and 2015, for which deferred tax assets are not recognized in the Consolidated Statement of Financial Position, is as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Deductible temporary differences	10,247	13,920	12,210
Carryforwards of tax losses	53,188	62,045	70,440

The breakdown of carryforwards of tax losses by expiry date as of the Date of Transition, March 31, 2014 and 2015, for which deferred tax assets are not recognized in the Consolidated Statement of Financial Position, is as follows:

	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	Millions of Yen
			FY2014 (As of March 31, 2015)
1st year	774	2,705	53
2nd year	5	233	16,634
3rd year	2	14,325	558
4th year	12,192	484	564
5th year	1,058	615	1,131
After the 5th year	1,965	7,129	4,291
No definite term for expiry	37,189	36,551	47,206
Total	53,188	62,045	70,440

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 ¥92,665 million, ¥139,637 million and ¥140,079 million as of the Date of Transition (April 1, 2013), and for the years ended March 31, 2014 and March 31, 2015, 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 for each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Current income taxes	44,425	41,414
Deferred income taxes	(2,561)	8,235

Deferred income tax expense increased due to changes in the domestic tax rates by ¥695 million and ¥3,847 million for the years ended March 31, 2014 and 2015, respectively.

(3) Reconciliation of effective tax rate

The breakdown of major items that caused differences between the effective statutory tax rate and income tax rate following the adoption of deferred tax accounting for each fiscal year is as follows:

The Company is subject mainly to corporate tax, inhabitant tax and enterprise tax. The effective statutory tax rates calculated based on these taxes are 38.0% and 36.0% for the years ended March 31, 2014 and 2015, respectively. Special Corporation Tax for Reconstruction has been abolished in this fiscal year. Foreign subsidiaries are subject to income taxes at their locations.

	%	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Effective statutory tax rate	38.0	36.0
(Reconciliation items)		
Permanently non-deductible items, including entertainment expenses	1.8	2.9
Permanently non-taxable items, including dividend income	(1.1)	(1.0)
Share of results of associates	(1.6)	(1.9)
Reduction of deferred tax assets at fiscal year end due to tax rate changes	0.6	2.9
Other	0.1	(1.9)
Income tax rate following the adoption of deferred tax accounting	37.8	37.0

18. TRADE AND OTHER PAYABLES

(1) The breakdown of trade and other payables as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Notes and accounts payable—trade	785,377	989,805	1,161,112
Other	55,417	57,991	70,107
Total	840,795	1,047,796	1,231,220

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 as of the Date of Transition, March 31, 2014 and 2015 are as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Assets pledged as collateral			
Other financial assets (current assets)	132	126	72
Other financial assets (non-current assets)	0	0	—
Total	132	126	72

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Corresponding liabilities			
Notes and accounts payable	325	315	634

Other than the above corresponding liabilities, the assets are pledged as collateral for guarantee transactions that are released in the "Official Gazette" (*Kanpou*) and for opening checking accounts.

19. BONDS AND BORROWINGS (INCLUDING OTHER FINANCIAL LIABILITIES)

Breakdown of financial liabilities

The breakdown of bonds and borrowings (including other financial liabilities) as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)	Date of maturity
Derivative liabilities	3,242	12,244	27,848	—
Current portion of bonds (Note)	—	8,050	4,413	—
Bonds (Note)	96,420	10,536	7,955	—
Short-term borrowings	31,797	49,410	39,214	—
Current portion of long-term borrowings	27,300	5,106	30,026	—
Long-term borrowings	83,792	291,863	328,009	2016–2023
Other payables due to the purchase of Aegis Group plc shares	295,401	—	—	—
Other	94,550	88,669	95,999	—
Total	632,504	465,880	533,466	—
Current liabilities	400,259	100,714	127,735	
Non-current liabilities	232,245	365,166	405,730	
Total	632,504	465,880	533,466	

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those accounted for under hedge accounting.

Bonds and borrowings are classified as financial liabilities measured at amortized cost. The average interest rates of short-term borrowings and long-term borrowings (including current portion of long-term borrowings) for the year ended March 31, 2015 are 3.12% and 1.45%, respectively.

"Other" includes financial liabilities measured at fair value through profit or loss of ¥56,108 million, ¥63,619 million and ¥64,790 million as of the Date of Transition, March 31, 2014 and 2015, respectively.

There are no financial covenants on bonds and borrowings that have a significant effect on the Group's financial activities.

(Note) The summary of issuing term of each bond is as follows:

Company	Name of bond	Date of issuance	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)	Interest rate %	Collateral	Date of maturity
Dentsu Aegis Network Ltd.	Senior Unsecured Notes Series B	July 28, 2005	10,749 (USD 118 million)	3,687 (USD 35 million)	4,413 (USD 35 million)	5.50	Unsecured bonds	July 28, 2015 (Note 2)
Dentsu Aegis Network Ltd.	Senior Unsecured Notes Series C	July 28, 2005	5,921 (USD 65 million)	—	—	5.65	Unsecured bonds	July 28, 2017 (Note 3)
Dentsu Aegis Network Ltd.	Senior Unsecured Notes Series A	September 17, 2007	6,832 (USD 75 million)	8,050 (USD 75 million)	—	6.06	Unsecured bonds	September 17, 2014
Dentsu Aegis Network Ltd.	Senior Unsecured Notes Series B	September 17, 2007	4,554 (USD 50 million)	5,268 (USD 50 million)	6,001 (USD 50 million)	6.29	Unsecured bonds	September 17, 2017
Dentsu Aegis Network Ltd.	Senior Unsecured Notes Series A	December 17, 2009	5,484 (GBP 25 million)	—	—	6.39	Unsecured bonds	December 17, 2017 (Note 3)
Dentsu Aegis Network Ltd.	Senior Unsecured Notes Series B	December 17, 2009	1,639 (USD 18 million)	—	—	6.07	Unsecured bonds	December 17, 2017 (Note 3)
Dentsu Aegis Network Ltd.	Senior Unsecured Notes Series C	December 17, 2009	15,030 (USD 165 million)	1,580 (USD 15 million)	1,953 (USD 15 million)	6.50	Unsecured bonds	December 17, 2019 (Note 2)
Aegis Group Capital (Jersey) Ltd.	AEGIS GROUP CAPITAL (JERSEY) LIMITED 2.50 PER CENT GUARANTEED CONVERTIBLE BOND DUE 2015	April 20, 2010	46,207 (GBP 331 million)	—	—	2.50	Unsecured bonds	April 20, 2015 (Note 4)
Total	—	—	96,420 (USD 491 million and GBP 356 million)	18,587 (USD 175 million)	12,368 (USD 100 million)	—	—	—

(Note 1) Since bonds have been issued overseas, the amount denominated in foreign currency is noted within () as of the Date of Transition, March 31, 2014 and 2015.

(Note 2) Due to changes of the controlling shareholder, on April 25, 2013, the Company called for early redemption of USD 233 million, which forms a part of the balance on the Date of Transition.

(Note 3) Due to changes of the controlling shareholder, the Company called for early redemption in the full amount on April 25, 2013.

(Note 4) Due to changes of the controlling shareholder, the Company purchased the full amount on April 17, 2013.

20. PROVISIONS

The breakdown and schedule of provisions for each fiscal year are as follows:

FY2013: Year ended March 31, 2014

	Millions of Yen				
	Provisions for asset retirement obligations	Provisions for loss on litigation	Provisions for loss from business restructuring	Other provisions	Total
Balance at the beginning of the year	905	2,577	2,270	294	6,047
Additional provisions in the year	25	—	—	108	134
Interest expense incurred over the discount period	14	—	—	—	14
Provisions used	(7)	(2,577)	(2,417)	(237)	(5,240)
Provisions reversed	(38)	—	(61)	—	(99)
Exchange differences on translation of foreign operations	—	—	208	—	208
Balance at the end of the year	900	—	—	165	1,065
Current liabilities	47	—	—	165	213
Non-current liabilities	852	—	—	—	852
Total	900	—	—	165	1,065

FY2014: Year ended March 31, 2015

	Millions of Yen				
	Provisions for asset retirement obligations	Provisions for loss on litigation	Provisions for loss from business restructuring	Other provisions	Total
Balance at the beginning of the year	900	—	—	165	1,065
Additional provisions in the year	255	—	—	3,768	4,024
Interest expense incurred over the discount period	15	—	—	—	15
Provisions used	(56)	—	—	(229)	(286)
Provisions reversed	(3)	—	—	(17)	(21)
Exchange differences on translation of foreign operations	—	—	—	38	38
Balance at the end of the year	1,110	—	—	3,725	4,836
Current liabilities	76	—	—	132	208
Non-current liabilities	1,034	—	—	3,593	4,627
Total	1,110	—	—	3,725	4,836

1. Provisions for asset retirement obligations

The probable amount to be paid in the future is recognized based on past performances 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 or more, subject to possible changes due to future events such as business plan changes.

2. Provisions for loss on litigation

Provisions are associated with litigation.

3. Provisions for loss from business restructuring

Provisions are for losses which are expected to arise due to restructuring of a portion of businesses mainly related to the international segment.

21. POST-EMPLOYMENT BENEFITS

The Group operates defined benefit plans that include corporate pension fund plans, tax-qualified pension plans, defined benefit corporate pension plans and retirement lump-sum payment plans.

The corporate pension fund plans, tax-qualified pension plans and defined benefit corporate pension plans are administrated by a pension fund that is legally separated from the Group in accordance with statutory requirements.

The Group, or the board of pension funds and asset managers, is 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 Group is obligated to pay contributions to the corporate pension fund, which grants pension benefits, in accordance with laws and regulations.

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

In addition, some domestic consolidated subsidiaries operate defined contribution pension plans while some overseas consolidated subsidiaries operate defined contribution retirement benefit plans.

The Company partially shifted its defined benefit corporate pension plan to a defined contribution pension plan on April 1, 2015.

(1) Schedule of defined benefit obligations and plan assets

The schedule of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	Millions of Yen FY2014 (As of March 31, 2015)
Funded defined benefit obligations	149,759	155,438	164,439
Plan assets	(105,354)	(115,329)	(149,463)
Subtotal	44,404	40,108	14,976
Unfunded defined benefit obligations	12,375	13,077	14,110
Total	56,780	53,185	29,086
Balance recognized in the Consolidated Statement of Financial Position			
Liabilities for retirement benefits	57,169	53,185	43,674
Assets for retirement benefits	(389)	—	(14,588)
Net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position	56,780	53,185	29,086

(2) Schedule of defined benefit obligations

The schedule of defined benefit obligations for each fiscal year is as follows:

	FY2013 (Year ended March 31, 2014)	Millions of Yen FY2014 (Year ended March 31, 2015)
Balance at the beginning of the year	162,134	168,515
Current service cost	8,585	8,342
Interest expense	2,013	2,144
Actuarial gains and losses (Note)	4,076	6,972
Benefits paid	(7,371)	(8,235)
Past service cost	—	516
Exchange differences on translation of foreign operations	521	74
Effects of business combinations and disposals	(1,071)	17
Other	(372)	202
Balance at the end of the year	168,515	178,550

(Note) Actuarial gains and losses arise mainly from changes in financial assumptions.

The weighted average duration of defined benefit obligations as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	Years FY2014 (As of March 31, 2015)
Weighted average duration	12.5	12.4	9.1

(3) Schedule of plan assets

The schedule of plan assets for each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Balance at the beginning of the year	105,354	115,329
Interest income	1,362	1,562
Return on plan assets (excluding amounts included in interest income)	8,761	19,575
Contributions by the employer	3,424	6,891
Contributions associated with the shift to defined contribution pension plan	—	8,872
Benefits paid	(3,133)	(3,102)
Exchange differences on translation of foreign operations	227	111
Effects of business combinations and disposals	(746)	10
Other	79	213
Balance at the end of the year	115,329	149,463

The Group plans to pay contributions of ¥606 million in the year ending December 31, 2015.

(4) Major breakdown of plan assets

The major breakdown of the total of plan assets as of the Date of Transition, March 31, 2014 and 2015 is as follows:

	Millions of Yen								
	Date of Transition (As of April 1, 2013)			FY2013 (As of March 31, 2014)			FY2014 (As of March 31, 2015)		
	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	58,442	5	58,448	65,965	7	65,972	85,053	5	85,059
Debt instruments	11,962	3,773	15,736	14,033	2,968	17,001	16,770	2,928	19,699
General account of life insurance companies	—	19,804	19,804	—	20,073	20,073	—	20,481	20,481
Other	—	11,365	11,365	—	12,282	12,282	—	24,224	24,224
Total	70,405	34,949	105,354	79,999	35,330	115,329	101,824	47,639	149,463

(Note) Plan assets above include retirement benefit trusts established for corporate pension fund plans and retirement lump-sum payment plans of ¥50,448 million, ¥56,102 million and ¥71,328 million, as of the Date of Transition, March 31, 2014 and March 31, 2015, respectively. Also, most of the equity and debt instruments are issued in Japan.

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 fund 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 as of the Date of Transition, March 31, 2014 and 2015 are as follows:

	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Discount rate	1.3	1.4	1.1

(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	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Discount rate	Increase by 0.5%	(9,013)	(9,652)
	Decrease by 0.5%	9,930	10,663

(6) Defined contribution plans

Expenses recognized due to contributions to defined contribution plans by consolidated subsidiaries amounted to ¥3,581 million and ¥4,263 million for the years ended March 31, 2014 and 2015, respectively.

22. EQUITY AND OTHER EQUITY ITEMS

(1) Share capital

A. Authorized shares

The number of authorized shares as of the Date of Transition, March 31, 2014 and 2015 is 1,100,000,000 ordinary shares.

B. Fully paid issued shares

The changes in the number of issued shares as of each fiscal year are as follows:

	Number of ordinary issued shares (Shares)
Date of Transition (As of April 1, 2013)	278,184,000
Increase (decrease)	10,226,000
FY2013 (As of March 31, 2014)	288,410,000
Increase (decrease)	—
FY2014 (As of March 31, 2015)	288,410,000

The increase in issued shares for the year ended March 31, 2014 is due to the newly issued 8,000,000 shares through a public offering and the third party allotment of 2,226,000 shares through over-allotments.

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

The number of treasury shares as of the Date of Transition and the end of each fiscal year is as follows:

	Number of shares (Shares)
Date of Transition (As of April 1, 2013)	29,035,042
FY2013 (As of March 31, 2014)	42,703
FY2014 (As of March 31, 2015)	48,602

(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 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.

23. DIVIDENDS

(1) Dividends paid

FY2013: Year ended March 31, 2014

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 27, 2013)	Ordinary shares	3,986	16.00	March 31, 2013	June 28, 2013
Board of Directors (November 13, 2013)	Ordinary shares	4,613	16.00	September 30, 2013	December 5, 2013

FY2014: Year ended March 31, 2015

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 27, 2014)	Ordinary shares	4,902	17.00	March 31, 2014	June 30, 2014
Board of Directors (November 12, 2014)	Ordinary shares	5,767	20.00	September 30, 2014	December 5, 2014

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

FY2013: Year ended March 31, 2014

Resolution	Class of shares	Dividends resource	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 27, 2014)	Ordinary shares	Retained earnings	4,902	17.00	March 31, 2014	June 30, 2014

FY2014: Year ended March 31, 2015

Resolution	Class of shares	Dividends resource	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 26, 2015)	Ordinary shares	Retained earnings	10,092	35.00	March 31, 2015	June 29, 2015

24. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of selling, general and administrative expenses for each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Staff costs	344,839	385,258
Depreciation and amortization	30,447	36,249
Other	135,999	150,575
Total	511,287	572,084

"Other" includes research and development costs of ¥1,073 million and ¥938 million for the years ended March 31, 2014 and 2015, respectively.

25. STAFF COSTS

The breakdown of staff costs for each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Salaries, bonuses and allowances	303,216	336,331
Welfare expenses	46,007	50,952
Post-employment benefits costs	12,682	13,653
Other	1,980	3,947
Total	363,886	404,884

Staff costs are recorded in "Cost," "Selling, general and administrative expenses" and "Finance costs" in the Consolidated Statement of Income.

26. OTHER INCOME

The breakdown of other income for each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Profit distributions	4,585	4,612
Foreign exchange gains	811	225
Gain on sale of property, plant and equipment, intangible assets and investment property	1,963	32,194
Gain on sale of subsidiaries and associates shares	1,939	306
Other	2,075	1,763
Total	11,375	39,102

27. OTHER EXPENSES

The breakdown of other expenses for each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Amortization of long-term prepaid expenses	2,594	2,603
Loss on sale of property, plant and equipment, intangible assets and investment property	182	4,261
Impairment losses	2,005	1,824
Other	2,675	2,948
Total	7,459	11,638

28. FINANCE INCOME AND FINANCE COSTS

(1) The breakdown of finance income for each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Interest income		
Financial assets measured at amortized cost	1,618	1,980
Financial instruments measured at fair value through profit or loss	7	19
Dividend income		
Financial assets measured at fair value through other comprehensive income	3,043	2,276
Changes in fair value of contingent consideration	—	1,071
Foreign exchange gains (Note 1)	458	1,119
Other (Note 2)	1,988	600
Total	7,115	7,067

(Note 1) Valuation gain on foreign currency derivatives is included in the foreign exchange gains.

(Note 2) "Other" includes finance income arising from financial instruments measured at fair value through profit or loss of ¥696 million and ¥5 million for the years ended March 31, 2014 and 2015, respectively.

The breakdown of dividend income is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Financial assets derecognized during the fiscal year	1,534	785
Financial assets held at the end of the fiscal year	1,509	1,490

(2) The breakdown of finance costs for each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Interest expense		
Financial liabilities measured at amortized cost	6,690	7,112
Other	686	564
Valuation loss on derivatives (stock purchase-related)	—	4,057
Other (Note)	969	520
Total	8,345	12,255

(Note) "Other" includes finance costs arising from financial instruments measured at fair value through profit or loss of ¥727 million and ¥305 million for the years ended March 31, 2014 and 2015, respectively.

29. 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:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Exchange differences on translation of foreign operations		
Amount arising during the year	161,063	46,040
Reclassification adjustments	42	(3)
Before tax effects	161,106	46,037
Tax effects	—	23
Exchange differences on translation of foreign operations	161,106	46,061
Effective portion of the change in the fair value of cash flow hedges		
Amount arising during the year	4,084	4,959
Reclassification adjustments	(1,131)	(3,180)
Before tax effects	2,953	1,779
Tax effects	20	(743)
Effective portion of the change in the fair value of cash flow hedges	2,973	1,036
Net change in financial assets measured at fair value through other comprehensive income		
Amount arising during the year	567	97,550
Before tax effects	567	97,550
Tax effects	(893)	(30,845)
Net change in financial assets measured at fair value through other comprehensive income	(326)	66,704
Remeasurements of defined benefit plans		
Amount arising during the year	4,712	12,630
Before tax effects	4,712	12,630
Tax effects	(1,795)	(5,088)
Remeasurements of defined benefit plans	2,916	7,542
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the year	1,971	373
Share of other comprehensive income of investments accounted for using the equity method	1,971	373

30. EARNINGS PER SHARE

(1) Basic earnings per share and diluted earnings per share

	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Basic earnings per share (Yen)	241.49	276.89
Diluted earnings per share (Yen)	241.43	276.84

(2) Basis of calculating basic earnings per share and diluted earnings per share

	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
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 (Millions of Yen)	66,507	79,846
Amounts not attributable to ordinary equity holders of the parent (Millions of Yen)	—	—
Profit for the year used for calculation of basic earnings per share (Millions of Yen)	66,507	79,846
Adjustment		
Share-based payment held by associates (Millions of Yen)	(17)	(14)
Profit for the year used for calculation of diluted earnings per share (Millions of Yen)	66,490	79,832
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)	275,405	288,364
Effect of dilutive potential ordinary shares (Thousands of shares)	—	—
The weighted average number of ordinary shares outstanding used for the calculation of diluted earnings per share (Thousands of shares)	275,405	288,364

31. 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 ROE (ratio of net profit to total equity attributable to owners of the parent).

The balances as of the Date of Transition, March 31, 2014 and 2015 are as follows:

	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	Millions of Yen
			FY2014 (As of March 31, 2015)
Total equity attributable to owners of the parent	562,562	901,012	1,080,364
ROE (%)	—	9.1	8.1

(2) Basic policy on risk management associated with financial instruments

The Group is exposed to financial risks in the process of its business activities; and it manages risks based on a specific policy in order to avoid or reduce these risks.

Derivative transactions for speculation purposes or short-term trading purposes are prohibited and limited to transactions based on the actual demands.

(3) Credit risk**A. Credit risk management**

Trade receivables, such as notes and accounts receivable, are exposed to customer 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 financial assets in the Consolidated Statement of Financial Position.

Maximum exposure to credit risk associated with guarantee obligations amounted to ¥1,855 million, ¥1,671 million and ¥1,761 million as of the Date of Transition, and March 31, 2014 and 2015, respectively.

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 the Date of Transition, March 31, 2014 and 2015 is as follows:

	Millions of Yen		
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
Within 30 days	63,043	80,049	102,218
Over 30 days, within 60 days	16,042	22,596	38,029
Over 60 days, within 90 days	5,594	7,685	18,994
Over 90 days	11,173	13,285	18,951
Total	95,853	123,617	178,194

D. Schedule of allowance for doubtful accounts

The schedule of allowance for doubtful account for each fiscal year is as follows:

	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Balance at the beginning of the year	16,418	18,992
Addition	1,578	3,596
Decrease (intended use)	(2,134)	(2,978)
Decrease (reversal)	(1,538)	(707)
Other	4,669	1,169
Balance at the end of the year	18,992	20,073

(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 section 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.

B. Financial liability balance (including derivative financial instruments) by maturity

The financial liability balance (including derivative financial instruments) by maturity as of the Date of Transition, March 31, 2014 and 2015 is as follows:

Date of Transition: As of April 1, 2013

	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	840,795	840,795	840,795	—	—	—	—	—
Other payables due to the purchase of Aegis Group plc shares	295,401	295,401	295,401	—	—	—	—	—
Contingent consideration on acquisition and others	56,108	56,108	14,779	13,272	10,377	9,068	8,504	105
Bonds and borrowings	239,310	256,325	147,583	23,356	26,574	4,588	8,285	45,937
Subtotal	1,431,616	1,448,631	1,298,560	36,629	36,952	13,657	16,789	46,043
Derivative liabilities	3,242	3,242	644	44	1,308	828	59	357
Total	1,434,858	1,451,873	1,299,204	36,673	38,260	14,485	16,848	46,400

FY2013: As of March 31, 2014

	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	1,047,796	1,047,796	1,047,796	—	—	—	—	—
Contingent consideration on acquisition and others	63,619	63,619	20,803	17,016	11,653	8,987	5,138	20
Bonds and borrowings	364,966	381,411	67,073	46,877	35,118	9,765	43,608	178,967
Subtotal	1,476,382	1,492,827	1,135,673	63,894	46,772	18,752	48,746	178,987
Derivative liabilities	12,244	12,244	527	694	1,773	759	4,758	3,731
Total	1,488,626	1,505,072	1,136,200	64,589	48,545	19,512	53,504	182,719

FY2014: As of March 31, 2015

	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	1,231,220	1,231,220	1,231,220	—	—	—	—	—
Contingent consideration on acquisition and others	64,790	64,790	28,058	15,669	10,816	6,850	3,207	189
Bonds and borrowings	409,618	428,100	79,538	40,533	11,577	53,063	63,209	180,178
Subtotal	1,705,629	1,724,111	1,338,816	56,203	22,393	59,913	66,416	180,367
Derivative liabilities	27,848	27,848	3,214	3,065	2,476	4,582	4,252	10,258
Total	1,733,477	1,751,959	1,342,030	59,268	24,869	64,496	70,669	190,626

C. Undrawn committed facilities

Undrawn committed facilities amounted to ¥584,857 million, ¥290,462 million and ¥310,423 million as of the Date of Transition, March 31, 2014 and 2015, 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 the Date of Transition, March 31, 2014 and 2015 are as follows:

	Millions of Yen								
	Date of Transition (As of April 1, 2013)			FY2013 (As of March 31, 2014)			FY2014 (As of March 31, 2015)		
	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
Foreign exchange contracts	93,261	39,414	13,106	40,115	31,072	12,805	43,077	27,558	19,196
Option contracts	2,125	—	135	3,428	—	16	2,371	—	112
Swap contracts	4,329	4,329	456	—	—	—	—	—	—

The 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 ¥1,132 million (deduction) and ¥2,928 million (deduction) for the years ended March 31, 2014 and March 31, 2015, 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 each fiscal year end is as follows:

The impact from the translation of functional currency-denominated financial assets as well as assets and liabilities of foreign operations into yen is not included.

	Millions of Yen	
	FY2013 (As of March 31, 2014)	FY2014 (As of March 31, 2015)
US Dollars	92	278
Euros	185	(9)

(6) Interest rate risk

A. Interest rate risk management

A portion of the Group's borrowings is issued with floating interest rates and is exposed to interest rate fluctuations risk. For interest rate fluctuations risks associated with borrowings, interest expenses are fixed using interest rate swap contracts.

B. Interest rate derivatives to which hedge accounting is applied

The details of interest rate derivatives to which hedge accounting is applied as of the Date of Transition, March 31, 2014 and 2015 are as follows:

	Millions of Yen								
	Date of Transition (As of April 1, 2013)			FY2013 (As of March 31, 2014)			FY2014 (As of March 31, 2015)		
	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	15,750	—	(76)	175,892	175,892	(1,954)	236,751	236,751	(1,840)

The interest rate swap contracts above are designated as fair value hedges or cash flow hedges.

The gains or losses on hedging instruments designated as fair value hedges amounted to ¥128 million and ¥272 million for the years ended March 31, 2014 and March 31, 2015, respectively. The gains or losses associated with hedged items are approximately the same as the gains or losses associated with hedging instruments.

(7) The carrying amount and fair value of financial instruments

The breakdown of the carrying amount and fair value of financial instruments as of the Date of Transition, March 31, 2014 and 2015 is as follows:

The fair value of financial assets and financial liabilities measured at amortized cost approximates their carrying amount, except for bonds and long-term borrowings.

	Date of Transition (As of April 1, 2013)		FY2013 (As of March 31, 2014)		FY2014 (As of March 31, 2015)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	96,420	96,420	18,587	19,989	12,368	13,376
Long-term borrowings	111,092	114,299	296,969	300,229	358,035	362,682

(Note) Current portion that is scheduled for repayment and redemption within one year is included.

The fair value of bonds as of the Date of Transition was based on the repurchase price and redemption amounts since repurchases and redemptions were scheduled, and the fair values as of March 31, 2014 and 2015 are determined by discounting the total of the principal and interest using an interest rate for which the period remaining until the maturity date and credit risks are taken into account.

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 bonds and long-term borrowings is categorized within 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 are no transfers between Level 1 and Level 2 for the years ended March 31, 2014 and March 31, 2015.

Date of Transition: As of April 1, 2013

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	—	16,850	—	16,850
Equity securities	45,607	—	44,658	90,265
Other	517	2,892	1,686	5,096
Total	46,124	19,743	46,345	112,213
Financial liabilities				
Derivative liabilities	—	350	2,892	3,242
Other	—	—	56,108	56,108
Total	—	350	59,000	59,351

FY2013: As of March 31, 2014

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	—	14,875	—	14,875
Equity securities	41,783	—	41,970	83,754
Other	512	3,114	2,049	5,675
Total	42,295	17,989	44,020	104,306
Financial liabilities				
Derivative liabilities	—	3,653	8,590	12,244
Other	—	—	63,619	63,619
Total	—	3,653	72,209	75,863

FY2014: As of March 31, 2015

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	—	21,515	—	21,515
Equity securities	174,871	—	14,124	188,996
Other	500	2,608	4,153	7,262
Total	175,371	24,124	18,278	217,774
Financial liabilities				
Derivative liabilities	—	4,539	23,308	27,848
Other	—	—	64,790	64,790
Total	—	4,539	88,099	92,638

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.

In addition, the fair values for some of the derivative financial instruments included in derivative liabilities are categorized within Level 3 as they are valued based on the discounted cash flow method using unobservable inputs.

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 valued using observable market data are categorized within Level 2, while stocks valued based mainly on market approaches 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 the Date of Transition, March 31, 2014 and 2015, are 0.55 to 1.45, 0.55 and 0.73, respectively.

The fair values of other (financial liabilities) are categorized within Level 3 as they are valued based on the discounted cash flow method using unobservable inputs.

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.

The schedule of financial instruments categorized within Level 3 for each fiscal year is as follows:

Financial assets	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Balance at the beginning of the year	46,345	44,020
Other comprehensive income (Note 1)	(3,112)	660
Purchases	2,088	4,865
Sales or settlements	(2,445)	(2,192)
Transfers out of Level 3 (Note 2)	(27)	(29,313)
Other	1,172	238
Balance at the end of the year	44,020	18,278

Financial liabilities	Millions of Yen	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Balance at the beginning of the year	59,000	72,209
Profit or loss (Note 3)	713	2,986
Purchases	18,764	30,915
Sales or settlements	(18,829)	(22,355)
Other	12,559	4,342
Balance at the end of the year	72,209	88,099

(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 years ended March 31, 2014 and 2015 are due to investees listed on exchanges.

(Note 3) "Profit or loss" is associated with financial liabilities at fair value through profit or loss and included in finance costs. Profit or loss arising from financial instruments held at fiscal year end amounted to ¥713 million and ¥2,986 million for the years ended March 31, 2014 and 2015, respectively.

32. 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	
	FY2013 (Year ended March 31, 2014)	FY2014 (Year ended March 31, 2015)
Remuneration and bonuses	724	711

(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
Dentsu Ad-Gear Inc.	Tokyo, Japan	66.7
Dentsu Young & Rubicam Inc.	Tokyo, Japan	51.0
Cyber Communications Inc.	Tokyo, Japan	100.0
DA search & link Inc.	Tokyo, Japan	55.0
Dentsu Tec Inc.	Tokyo, Japan	100.0
Dentsu Casting and Entertainment Inc.	Tokyo, Japan	100.0
Information Services International-Dentsu, Ltd.	Tokyo, Japan	61.9
Dentsu Works Inc.	Tokyo, Japan	100.0
Dentsu Aegis Network Ltd.	London, the United Kingdom	100.0
Dentsu Aegis UK Ltd.	London, the United Kingdom	100.0
Dentsu Aegis Network France SAS	Paris, France	100.0
Dentsu McGarry Bowen, LLC	New York, the United States	100.0
Carat USA, Inc.	New York, the United States	100.0
360i LLC	Atlanta, the United States	100.0
Beijing Dentsu Advertising Co., Ltd.	Beijing, China	70.0
Mitchell Communication Group Ltd.	Melbourne, Australia	100.0

33. CONTINGENT LIABILITIES

The contingent liabilities as of the Date of Transition, March 31, 2014 and 2015 are as follows:

Date of Transition: As of April 1, 2013

(1) Guarantees of loans and other liabilities	Millions of Yen
	Amount
Liabilities on guarantees resulting from a loan scheme for housing funds for employees	1,188
Liabilities for guarantees of bank loans and others	666
Total	1,855

(2) Lawsuits

Lawsuits in connection with a business partnership with the objective of operating a live music club were filed against the Company by the following 3 companies who are claiming a payment of outsourcing and lease fees they paid to fictitious orders made by a former employee of the Company who falsely used the name of the Company or said partnership.

With respect to one of the lawsuits in which Planning and Publicity Cooperative is the plaintiff, it is currently pending before the District Court (court of first instance). However, the Company estimated the amount deemed necessary based on such factors as the status of the progress of the lawsuit, and has posted this amount as provisions for loss on litigation (provisions under current liabilities).

Except for the lawsuit mentioned above, the Company's appeal is currently pending before the court. Although there is a possibility that the Company may incur damages based on the results of the lawsuits, it is not possible to make a reasonable estimate of these damages at this point in time.

Plaintiff	Defendant	Lawsuit amount (Millions of Yen)	Status
Planning and Publicity Cooperative	Shibuya Entertainment Review 21 Joint Partnership, and its 3 partners including Dentsu Inc.	4,553	Lawsuit pertaining to outsourcing fees; although this lawsuit is currently pending before the District Court (court of first instance), the Company estimated the amount deemed necessary based on such factors as the status of the progress of the lawsuit, and has posted ¥2,577 million as provisions for loss on litigation (provisions under current liabilities).
Mode2 inc.	Dentsu Inc.	197	Lawsuit pertaining to outsourcing fees; this lawsuit is currently pending before the District Court (court of first instance).
I leasing company	Dentsu Inc.	93	Lawsuit pertaining to lease payments; this lawsuit is currently pending before the District Court (court of first instance).
Total		4,843	

FY2013: As of March 31, 2014

(1) Guarantees of loans and other liabilities

	Millions of Yen
	Amount
Liabilities on guarantees resulting from a loan scheme for housing funds for employees	864
Liabilities for guarantees of bank loans and others	807
Total	1,671

(2) Lawsuits

Lawsuits in connection with a business partnership with the objective of operating a live music club were filed against the Company by the companies who are claiming a payment of outsourcing and lease payments they paid to fictitious orders made by a former employee of the Company who falsely used the name of the Company or said partnership.

With respect to the lawsuits, the Company has reached a conciliatory agreement with the plaintiffs. Accordingly, the relevant contingent liabilities have been extinguished.

FY2014: As of March 31, 2015

	Millions of Yen
	Amount
Liabilities on guarantees resulting from a loan scheme for housing funds for employees	657
Liabilities for guarantees of bank loans and others	1,104
Total	1,761

34. SUBSEQUENT EVENTS

Purchase of treasury shares

The Company resolved at a meeting of its Board of Directors held on May 14, 2015 to authorize a share repurchase pursuant to the Company's Articles of Incorporation in accordance with Article 156 of the Companies Act, as applied mutatis mutandis pursuant to the provisions of Article 165, Paragraph 3 of the Act.

(1) Reason for share repurchase

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

(2) Details of matters related to the share repurchase

A. Class of shares to be repurchased	Ordinary shares of the Company
B. Total number of shares to be repurchased	4,000,000 shares (maximum)
C. Total repurchase cost	20 billion yen (maximum)
D. Repurchase period	From May 18 to July 31, 2015
E. Method of repurchase	Open market purchase on the Tokyo Stock Exchange

35. FIRST-TIME ADOPTION

The Group first adopted IFRS for the year ended March 31, 2015. The most recent consolidated financial statements prepared in accordance with Japanese GAAP are those for the year ended March 31, 2014. The Date of Transition is April 1, 2013.

IFRS 1, in principle, requires first-time adopters to apply IFRS retrospectively. However, as exceptions, the retrospective application of some aspects of IFRS is prohibited, and they shall be applied prospectively from the Date of Transition to IFRS.

In accordance with the exceptions for those aspects of IFRS applicable to the Group, the Group prospectively applies "Estimate," "Derecognition of financial assets and financial liabilities," "Hedge accounting," "Non-controlling interests" and "Measurement of financial assets."

Reconciliations that are required to be disclosed under the first-time adoption of IFRS are as follows:

Items that do not influence retained earnings and comprehensive income are included in "Reclassification" of the reconciliation, and items that influence retained earnings and comprehensive income are included in "Differences in recognition and measurement."

Reconciliation of equity as of April 1, 2013 (the Date of Transition)

Millions of Yen							
Accounts under Japanese GAAP	Japanese GAAP	Notes	Reclassification (Note)	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets				Assets			
Current assets				Current assets			
Cash and deposits	208,356		(777)	26,896	234,475	2. (2) (xii)	Cash and cash equivalents
Notes and accounts receivable—trade	816,251		20,002	—	836,253		Trade and other receivables
Inventories	13,561		—	—	13,561		Inventories
Marketable securities	116		18,295	—	18,412		Other financial assets
Deferred tax assets	9,280	I.	(9,280)	—	—		—
Other	76,266		(39,327)	1,591	38,530		Other current assets
Allowance for doubtful accounts	(1,806)		1,806	—	—		—
Total current assets	1,122,025		(9,280)	28,488	1,141,233		Total current assets
Non-current assets				Non-current assets			
Property, plant and equipment				Non-current assets			
Buildings and structures, net	77,313		130,019	(4,849)	202,484	2. (2) (i), (ii), (iii), (x)	Property, plant and equipment
Land	160,820		(160,820)	—	—		—
Other, net	12,419		(12,419)	—	—		—
Intangible assets				Intangible assets			
Goodwill	438,968	I.	—	(7,235)	431,732	2. (2) (iv)	Goodwill
Software	17,696		202,201	—	219,898		Intangible assets
Other	202,201	I.	(202,201)	—	—		—
			43,219	2,693	45,913	2. (2) (i), (ii), (iii), (x)	Investment property
Investments and other assets				Investments and other assets			
			50,414	658	51,072		Investments accounted for using the equity method
Investment securities	135,138		(24,238)	3,829	114,728		Other financial assets
Long-term loans receivable	917		(917)	—	—		—
Other	54,364		(39,869)	(7,513)	6,981	2. (2) (vii)	Other non-current assets
Deferred tax assets	28,654	I.	9,280	12,436	50,371	2. (2) (i), (v), (vi), (vii)	Deferred tax assets
Allowance for doubtful accounts	(14,611)		14,611	—	—		—
Total non-current assets	1,113,883		9,280	19	1,123,182		Total non-current assets
Total assets	2,235,908		—	28,507	2,264,415		Total assets

Millions of Yen

Accounts under Japanese GAAP	Japanese GAAP	Notes	Reclassification (Note)	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
							Liabilities and equity
							Liabilities
							Current liabilities
Notes and accounts payable—trade	785,377		53,295	2,122	840,795		Trade and other payables
Short-term borrowings	21,268		25,869	11,959	59,097	2. (2) (xii)	Bonds and borrowings
Current portion of long-term borrowings	25,869		(25,869)				
Lease obligations	1,273		335,730	4,157	341,161	2. (2) (viii)	Other financial liabilities
Other payables	331,486		(331,486)				
Income tax payables	21,175		—	—	21,175		Income tax payables
Deferred tax liabilities	87		(87)				
Provision for directors' bonuses	399		(399)				
Provision for loss on order received	294		4,857	—	5,151		Provisions
Provision for loss on litigation	2,577		(2,577)				
Provision for loss from business restructuring	2,270		(2,270)				
Asset retirement obligations	9		(9)				
Other	122,840	1.	(57,139)	7,804	73,504	2. (2) (vi)	Other current liabilities
Total current liabilities	1,314,930		(87)	26,043	1,340,886		Total current liabilities
							Non-current liabilities
Bonds	93,931		71,344	14,937	180,212	2. (2) (xii)	Bonds and borrowings
Long-term borrowings	71,344		(71,344)				
Lease obligations	2,164		45,857	4,009	52,032	2. (2) (viii)	Other financial liabilities
Provision for retirement benefits	42,316		—	14,853	57,169	2. (2) (vii)	Liability for retirement benefits
Provision for directors' retirement benefits	378		(378)				
Asset retirement obligations	896		—	—	896		Provisions
Other	49,815		(45,479)	—	4,335		Other non-current liabilities
Deferred tax liabilities	42,455	1.	9,126	(8,939)	42,642	2. (2) (x)	Deferred tax liabilities
Deferred tax liabilities on land revaluation difference	9,038		(9,038)				
Total non-current liabilities	312,340		87	24,860	337,289		Total non-current liabilities
Total liabilities	1,627,270		—	50,904	1,678,175		Total liabilities
							Equity
							Share capital
Common stock	58,967		—	—	58,967		Share capital
Capital surplus	60,899		—	—	60,899		Share premium account
Treasury stock	(65,077)		—	—	(65,077)		Treasury shares
Accumulated other comprehensive income	14,076		—	(8,266)	5,810	2. (2) (v), (vii), (ix), (x), (xi)	Other components of equity
Retained earnings	515,630		—	(13,667)	501,963	2. (2) (xiii)	Retained earnings
					562,562		Total equity attributable to owners of the parent
Minority interests	24,141		—	(463)	23,677		Non-controlling interests
Total net assets	608,637		—	(22,397)	586,240		Total equity
Total liabilities and net assets	2,235,908		—	28,507	2,264,415		Total liabilities and equity

(Note) Refer to Notes on Reconciliations 2. (1).

Reconciliation of equity as of March 31, 2014 (FY2013)

						Millions of Yen
Accounts under Japanese GAAP	Japanese GAAP	Reclassification (Note)	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	228,129	(1,001)	26,226	253,354	2. (2) (xii)	Cash and cash equivalents
Notes and accounts receivable—trade	1,033,955	20,269	—	1,054,225		Trade and other receivables
Inventories	14,253	—	—	14,253		Inventories
Marketable securities	512	15,059	—	15,571		Other financial assets
Deferred tax assets	9,247	(9,247)	—	—		
Other	84,028	(36,068)	1,582	49,542		Other current assets
Allowance for doubtful accounts	(1,740)	1,740	—	—		
Total current assets	1,368,385	(9,247)	27,808	1,386,946		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment						Property, plant and equipment
Buildings and structures, net	75,162	131,276	(4,539)	201,900	2. (2) (i), (ii), (iii), (x)	Property, plant and equipment
Land	159,272	(159,272)	—	—		
Other, net	14,885	(14,885)	—	—		
Intangible assets						Intangible assets
Goodwill	558,834	—	18,181	577,015	2. (2) (iv)	Goodwill
Software	23,226	236,279	0	259,506		Intangible assets
Customer relationships	183,446	(183,446)	—	—		
Other	52,833	(52,833)	—	—		
		42,881	2,773	45,655	2. (2) (i), (ii), (iii), (x)	Investment property
Investment and other assets						Investments accounted for using the equity method
		54,956	1,597	56,554		Other financial assets
Investment securities	133,981	(30,503)	3,762	107,241		Other financial assets
Long-term loans receivable	412	(412)	—	—		
Asset for retirement benefits	5,841	(5,841)	—	—	2. (2) (vii)	
Other	49,132	(35,451)	(5,841)	7,839		Other non-current assets
Deferred tax assets	30,157	9,247	3,870	43,274	2. (2) (i), (v), (vi), (vii)	Deferred tax assets
Allowance for doubtful accounts	(17,252)	17,252	—	—		
Total non-current assets	1,269,933	9,247	19,805	1,298,986		Total non-current assets
Total assets	2,638,319	—	47,613	2,685,933		Total assets

Millions of Yen						
Accounts under Japanese GAAP	Japanese GAAP	Reclassification (Note)	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
						Liabilities and equity
						Liabilities
						Current liabilities
Notes and accounts payable—trade	989,805	55,881	2,109	1,047,796		Trade and other payables
Short-term borrowings	30,328	13,156	19,081	62,566	2. (2) (xii)	Bonds and borrowings
Current portion of long-term bonds	8,050	(8,050)				
Current portion of long-term borrowings	5,106	(5,106)				
Lease obligations	1,348	34,204	2,594	38,147	2. (2) (viii)	Other financial liabilities
Income tax payables	28,571	—	—	28,571		Income tax payables
Deferred tax liabilities	122	(122)				
Provision for directors' bonuses	501	(501)				
Provision for loss on order received	165	47	—	213		Provisions
Asset retirement obligations	47	(47)				
Other	189,216	(89,584)	7,549	107,181	2. (2) (vi)	Other current liabilities
Total current liabilities	1,253,263	(122)	31,335	1,284,477		Total current liabilities
						Non-current liabilities
Bonds	10,536	284,943	6,919	302,399	2. (2) (xii)	Bonds and borrowings
Long-term borrowings	284,943	(284,943)				
Lease obligations	2,189	56,828	3,748	62,766	2. (2) (viii)	Other financial liabilities
Liability for retirement benefits	56,301	—	(3,115)	53,185	2. (2) (vii)	Liability for retirement benefits
Provision for directors' retirement benefits	272	(272)				
Asset retirement obligations	852	—	—	852		Provisions
Other	62,886	(56,555)	—	6,330		Other non-current liabilities
Deferred tax liabilities	50,076	8,624	(8,501)	50,198	2. (2) (x)	Deferred tax liabilities
Deferred tax liabilities on land revaluation difference	8,501	(8,501)				
Total non-current liabilities	476,560	122	(948)	475,734		Total non-current liabilities
Total liabilities	1,729,824	—	30,387	1,760,211		Total liabilities
						Equity
						Net assets
Common stock	74,609	—	—	74,609		Share capital
Capital surplus	100,106	—	(200)	99,906		Share premium account
Treasury stock	(104)	—	—	(104)		Treasury shares
Accumulated other comprehensive income	167,289	—	5,421	172,711	2. (2) (v), (vi), (ix), (x), (xi)	Other components of equity
Retained earnings	541,216	—	12,673	<u>553,889</u>	2. (2) (xiii)	Retained earnings
				901,012		Total equity attributable to owners of the parent
Minority interests	25,377	—	(667)	24,709		Non-controlling interests
Total net assets	908,495	—	17,226	925,722		Total equity
Total liabilities and net assets	2,638,319	—	47,613	2,685,933		Total liabilities and equity

(Note) Refer to Notes on Reconciliations 2. (1).

Reconciliation of profit or loss and comprehensive income for the year ended March 31, 2014 (FY2013)

Items related to the Consolidated Statement of Income

Millions of Yen						
Accounts under Japanese GAAP	Japanese GAAP	Reclassification (Note)	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net sales	2,309,359	(1,649,587)	—	659,772		Revenue
Cost of sales	1,715,287	(1,670,315)	145	45,117	2. (2) (ii), (iii)	Cost
Gross profit	594,072	20,728	(145)	614,654		Gross profit
Selling, general and administrative expenses	522,581	15,859	(27,153)	511,287	2. (2) (ii), (iii), (iv), (vi), (vii)	Selling, general and administrative expenses
	—	10,461	913	11,375	2. (2) (ii), (iv)	Other income
	—	8,429	(970)	7,459	2. (2) (ii)	Other expenses
Operating income	71,490	6,899	28,892	107,283		Operating profit
Non-operating income	22,593	(22,593)				
Non-operating expenses	11,545	(11,545)				
Extraordinary income	7,795	(7,795)				
Extraordinary loss	9,161	(9,161)				
	—	3,764	980	4,745	2. (2) (iv)	Share of results of associates
	—	11,817	(4,701)	7,115	2. (2) (xi)	Profit before interest and tax
	—	12,799	(4,454)	8,345	2. (2) (vii), (viii), (xi)	Finance income
						Finance costs
Income before income taxes and minority interests	81,172	—	29,625	110,797		Profit before tax
Income taxes—current	43,395	(3,653)	2,122	41,864		Income tax expense
Income taxes—deferred	(3,653)	3,653				
Net income before minority interests	41,430	—	27,503	68,933		Profit for the year
	—	38,800	27,706	66,507		Profit for the year attributable to owners of the parent
Minority interests in net income	2,629	—	(203)	2,426		Profit for the year attributable to non-controlling interests
Net income	38,800	(38,800)				

Items related to the Consolidated Statement of Comprehensive Income

						Millions of Yen
Accounts under Japanese GAAP	Japanese GAAP	Reclassification (Note)	Differences in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net income before minority interests	41,430	—	27,503	68,933		Profit for the year
Other comprehensive income						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
Unrealized gain (loss) on available-for-sale securities	(445)	—	118	(326)	2. (2) (xi)	
	—	—	2,916	2,916	2. (2) (vii)	Remeasurements of defined benefit plans
	—	930	(11)	918		Share of other comprehensive income of investments accounted for using the equity method
						Items that may be reclassified to profit or loss
Foreign currency translation adjustments	158,056	—	3,049	161,106	2. (2) (ix)	Exchange differences on translation of foreign operations
Deferred gain (loss) on derivatives under hedge accounting	3,682	—	(708)	2,973		Effective portion of the change in the fair value of cash flow hedges
Share of other comprehensive income in associates	1,970	(930)	12	1,053		Share of other comprehensive income of investments accounted for using the equity method
Total other comprehensive income	163,263	—	5,377	168,641		Other comprehensive income, net of tax
Comprehensive income	204,694	—	32,880	237,575		Comprehensive income for the year

(Note) Refer to Notes on Reconciliations 2. (1).

Notes on Reconciliations

I. Revising the purchase price allocation

The Japanese GAAP amounts in the reconciliations above are based on the Consolidated Balance Sheet (Japanese GAAP) as of March 31, 2013. However, the allocation of the purchase price for Dentsu Aegis Network Ltd. associated with business combinations in the Consolidated Balance Sheet was not complete, as provisional accounting was used based on available and reasonable information at the time of preparing the Consolidated Financial Statements.

Under Japanese GAAP, as the purchase price allocation was completed in the following fiscal year, the results are now reflected in the Japanese GAAP amounts in the reconciliations above.

As a result, deferred tax assets in current assets decreased by ¥577 million, goodwill decreased by ¥137,041 million, deferred tax assets in investments and other assets decreased by ¥707 million, and other in current liabilities decreased by ¥2,624 million, while other in intangible assets increased by ¥168,666 million and deferred tax liabilities in non-current liabilities increased by ¥32,963 million under Japanese GAAP in the reconciliations above compared with the Consolidated Balance Sheet as of March 31, 2013.

2. Reconciliation of differences between Japanese GAAP and IFRS

The details of the reconciliation of differences between Japanese GAAP and IFRS in the reconciliation tables above are mainly as follows:

(1) Reclassification

The major reclassifications are as follows:

- All deferred tax assets and deferred tax liabilities are reclassified to non-current assets and non-current liabilities.
- All non-current assets falling within the definition of investment property under IFRS are reclassified to investment property.
- Based on IFRS presentation requirements, financial assets and financial liabilities are presented separately.
- Revenue from transactions related to advertising services is presented on a net basis, while revenue and costs related to business transactions other than advertising services are presented on a gross basis.

(2) Differences in recognition and measurement

(i) Deemed cost

For some items of property, plant and equipment and investment property, the Group has elected to use their fair value as of the Date of Transition as deemed cost for such items in accordance with IFRS 1.

The fair value as of the Date of Transition of items of property, plant and equipment and investment property for which deemed costs are used and the carrying amount under Japanese GAAP amounts to ¥135,508 million and ¥124,228 million, respectively.

The fair value is measured based on either independent third party appraisals or prevailing market price, whichever is considered to be appropriate by the management, and the resulting measurement is categorized within Level 3.

(ii) Depreciation

Under Japanese GAAP, the Group mainly adopted the declining-balance method as the depreciation method for property, plant and equipment (excluding lease assets). Under IFRS, the Group adopts the straight-line method.

(iii) Purchase taxes on property, plant and equipment and investment property

Under Japanese GAAP, the Group recognized purchase taxes on property, plant and equipment as expenses in the year in which they are incurred. Under IFRS, such purchase taxes are included in the acquisition cost.

(iv) Goodwill

Under Japanese GAAP, the Group determined whether an asset may be impaired only when there was an indication of impairment. Under IFRS, the Group performs impairment tests annually.

Impairment losses of ¥7,235 million were recognized for goodwill as of the Date of Transition due to the differences between Japanese GAAP and IFRS. The goodwill belongs to Japan business.

Under Japanese GAAP, goodwill was systematically amortized over the periods in which economic benefits from goodwill were reasonably expected to be realized. Under IFRS, since goodwill is no longer amortized on and after the Date of Transition, adjustments are made to retained earnings.

(v) Deferred tax assets

Under Japanese GAAP, the Group recognized deferred tax assets based on company classification stipulated in the "Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets" (Report No. 66, the audit committee of the Japanese Institute of Certified Public Accountants). Under IFRS, deferred tax assets are recognized to the extent that management determines it is probable that taxable profits will be available for tax losses and deductible temporary differences to be utilized.

(vi) Unused paid vacations

Under Japanese GAAP, the Group was not required to account for unused paid vacations. Under IFRS, they are recognized as liabilities.

(vii) Retirement benefit obligations associated with defined benefit plans

Under Japanese GAAP, actuarial gains and losses were allocated using the straight-line method over a certain number of years, within the average remaining service period of employees at the time of occurrence, and recognized as expense starting from the following year onward, while past service costs were expensed using the straight-line method over a certain number of years within the average remaining service period of employees at the time of occurrence. Under IFRS, actuarial gains and losses are recognized in other comprehensive income at the time of occurrence and past service costs are recognized in profit or loss at the time of occurrence.

Under Japanese GAAP, the application of "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan Statement No. 26; May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan Guidance No. 25; issued on May 17, 2012) from the year ended March 31, 2014 resulted in recognition of liabilities for retirement benefits at the amount of retirement benefit obligations less plan assets. Unrealized actuarial gains and losses and unrealized past service costs are recognized as liabilities for retirement benefits.

Under IFRS, retirement benefit obligations are recomputed in accordance with IFRS, and adjustments are made to retained earnings for differences arising from the periodic allocation method of the retirement benefit obligations.

(viii) Contingent consideration associated with business combinations

Under Japanese GAAP, the Company did not recognize contingent consideration until criteria, such as certainty of issue or delivery of such contingent consideration after a business combination, were met. Under IFRS, contingent consideration is recognized as a liability.

(ix) Exchange differences on translation of foreign operations

The Group has elected to apply the exemption in IFRS 1 and transferred the entire balance of cumulative translation differences associated with overseas subsidiaries at the Date of Transition to retained earnings.

(x) Land revaluation differences

Under Japanese GAAP, the Group revaluated land in business in accordance with the Act on Revaluation of Land (Act No. 34 of March 31, 1998). Under IFRS, the revaluations have been reversed.

(xi) Equity instruments

Under Japanese GAAP, the Group recognized gains and losses on sales of equity instruments and impairment losses in profit or loss. Under IFRS, with regard to financial assets measured at fair value through other comprehensive income, changes in fair value are recognized in other comprehensive income and reclassified to retained earnings if the financial assets are derecognized or the fair value declines significantly.

(xii) Subsidiaries with closing dates other than the Company's closing date

When the fiscal year end of a subsidiary's financial statements used in the preparation of consolidated financial statements differs from that of the Company, adjustments are made for the significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

(xiii) Retained earnings

	Millions of Yen	
	Date of Transition (As of April 1, 2013)	FY2013 (As of March 31, 2014)
Deemed cost	(6,704)	(6,704)
Depreciation	5,257	4,597
Purchase taxes on property, plant and equipment and investment property	2,056	2,011
Goodwill	(7,235)	20,027
Deferred tax assets	4,369	2,897
Unused paid vacations	(4,718)	(4,560)
Retirement benefit obligations associated with defined benefit plans	3,120	4,434
Contingent consideration associated with business combinations	(8,091)	(9,111)
Exchange differences on translation of foreign operations	(1,775)	(1,775)
Other	56	856
Total adjustment to retained earnings	(13,667)	12,673

(3) Reconciliation of cash flow

The Consolidated Statement of Cash Flows disclosed in accordance with Japanese GAAP is not materially different from the Consolidated Statement of Cash Flows disclosed in accordance with IFRS.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Dentsu Inc.:

We have audited the accompanying consolidated statement of financial position of Dentsu Inc. and its consolidated subsidiaries as of March 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and 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 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 the auditor's 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, the auditor considers 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, but 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 referred to above present fairly, in all material respects, the consolidated financial position of Dentsu Inc. and its consolidated subsidiaries as of March 31, 2015, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu LLC

June 26, 2015

Member of
 Deloitte Touche Tohmatsu Limited

Non-Consolidated Financial Summary (JGAAP)

Dentsu Inc.
Years ended March 31

Millions of yen
except
per share data

	2011/3	2012/3	2013/3	2014/3	2015/3
For the year:					
Net sales	1,396,798	1,404,663	1,412,376	1,515,062	1,535,105
Cost of sales	1,203,669	1,210,027	1,214,508	1,295,669	1,311,939
Gross profit	193,129	194,636	197,867	219,393	223,165
Selling, general and administrative expenses	159,329	162,942	162,101	168,813	170,743
Operating income	33,799	31,693	35,766	50,579	52,421
Ordinary income	40,312	40,654	39,091	69,667	76,458
Income before income taxes	26,551	61,642	42,489	68,361	88,424
Net income	17,471	42,212	28,189	46,953	63,950
At year-end:					
Total assets	1,011,538	1,065,664	1,409,387	1,482,661	1,649,418
Total shareholders' equity	415,206	463,098	492,505	651,629	776,525
Per share data (yen):					
Net income	70.12	169.42	113.14	170.49	221.77
Cash dividends	29.5	31	32	33	55
Ratios (%):					
Operating margin ⁽¹⁾	17.5	16.3	18.1	23.1	23.5
Return on equity (ROE) ⁽²⁾	4.3	9.6	5.9	8.2	9.0
Return on assets (ROA) ⁽³⁾	4.0	3.9	3.2	4.8	4.9
Equity ratio ⁽⁴⁾	41.0	43.5	34.9	44.0	47.1
Dividend payout ratio ⁽⁵⁾	42.1	18.3	28.3	19.4	24.8

Notes: (1) Operating margin = Operating income ÷ Gross profit × 100

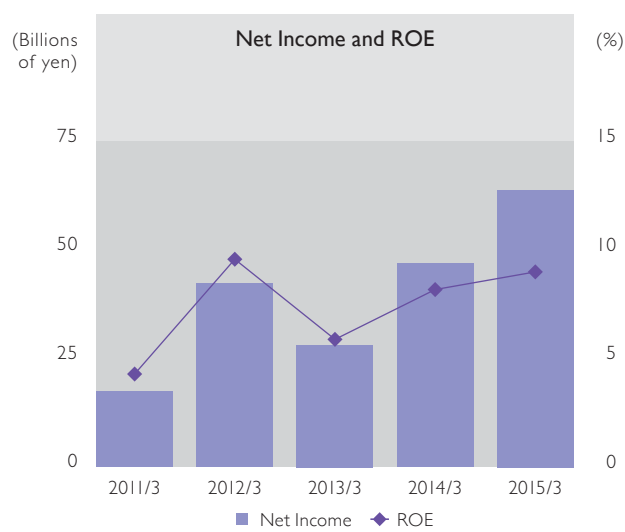
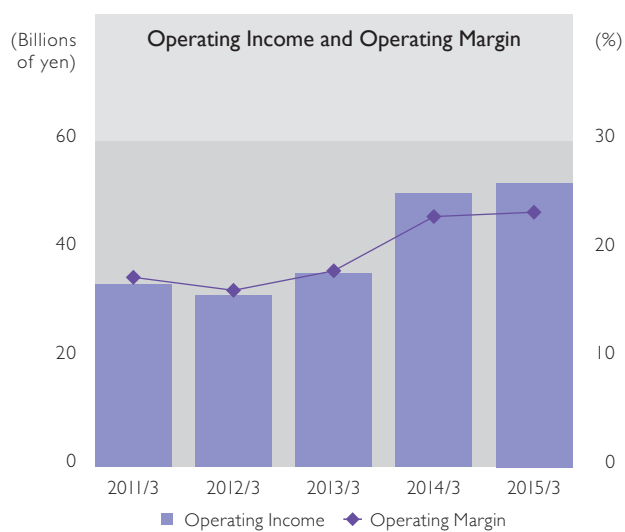
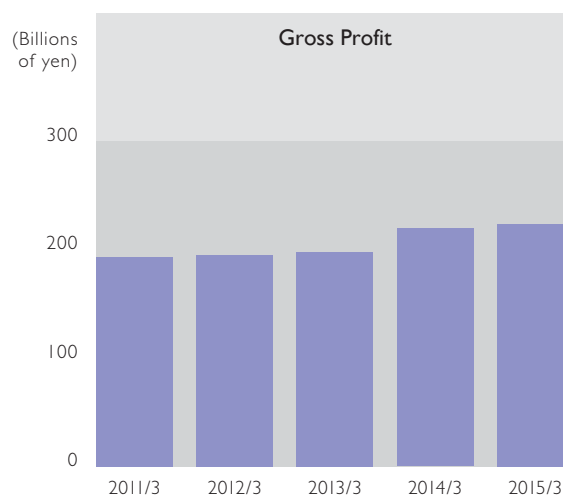
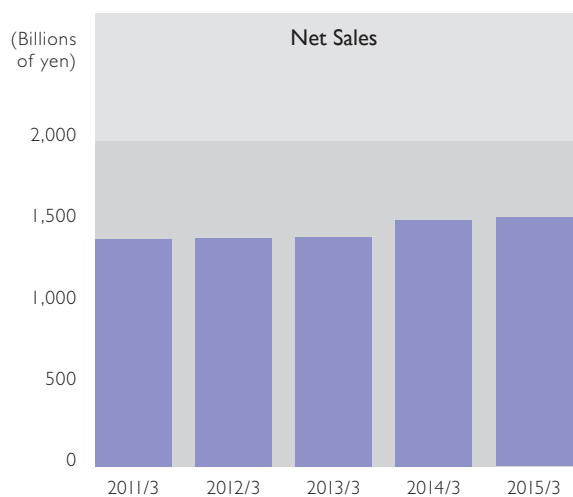
(2) ROE = Net income ÷ Average total shareholders' equity based on total shareholders' equity at the beginning and end of the fiscal year × 100

(3) ROA = Ordinary income ÷ Average total assets based on total assets at the beginning and end of the fiscal year × 100

(4) Equity ratio = Total shareholders' equity ÷ Total assets × 100

(5) Dividend payout ratio = Cash dividend per share ÷ Net income per share × 100

(Years ended March 31)



Net Sales (Non-Consolidated)

Net Sales by Business Category

		Millions of yen									
Years ended March 31	2011/3		2012/3		2013/3		2014/3		2015/3		
Television	658,056	47.1%	658,179	46.9%	666,480	47.2%	700,039	46.2%	690,700	45.0%	
Time	285,668	20.5	286,724	20.4	302,164	21.4	304,266	20.1	300,313	19.6	
Spot	372,387	26.7	371,454	26.4	364,315	25.8	395,773	26.1	390,387	25.4	
Newspapers	119,643	8.6	115,502	8.2	110,553	7.8	116,870	7.7	107,916	7.0	
Magazines	39,159	2.8	36,500	2.6	35,896	2.5	34,669	2.3	33,643	2.2	
Radio	18,580	1.3	17,420	1.2	16,027	1.1	15,055	1.0	14,112	0.9	
Interactive Media ⁽¹⁾	45,392	3.2	48,984	3.5	54,808	3.9	67,865	4.5	78,036	5.1	
OOH Media ⁽²⁾	43,911	3.1	48,396	3.4	49,780	3.5	54,597	3.6	52,550	3.4	
Creative	178,959	12.8	187,981	13.4	187,804	13.3	203,845	13.5	201,801	13.1	
Marketing/Promotion	181,381	13.0	179,120	12.8	166,068	11.8	190,668	12.6	186,238	12.1	
Content Services ⁽³⁾	89,721	6.4	83,904	6.0	89,358	6.3	90,480	6.0	128,656	8.4	
Others	21,992	1.6	28,672	2.0	35,598	2.5	40,970	2.7	41,448	2.7	
Total	1,396,798	100.0%	1,404,663	100.0%	1,412,376	100.0%	1,515,062	100.0%	1,535,105	100.0%	

Notes: (1) Interactive Media refers to Internet and mobile-related media.

(2) OOH Media stands for out-of-home media and comprises transportation and outdoor billboard advertising.

(3) Content Services refers to rights sales, planning and production as well as other content-related services in the sports and entertainment fields.

Net Sales by Industry

		Millions of yen									
Years ended March 31	2011/3		2012/3		2013/3		2014/3		2015/3		
Information/Communications	191,217	13.7%	186,341	13.3%	191,816	13.6%	198,551	13.1%	238,242	15.5%	
Beverages/Cigarettes	141,725	10.1	142,894	10.2	143,452	10.2	146,672	9.7	153,629	10.0	
Finance/Insurance	95,771	6.9	95,158	6.8	99,696	7.1	120,083	7.9	122,396	8.0	
Cosmetics/Toiletries	114,359	8.2	122,568	8.7	120,431	8.5	117,830	7.8	113,080	7.4	
Automobiles/Related Products	69,266	5.0	73,197	5.2	86,549	6.1	108,864	7.2	109,619	7.1	
Foodstuffs	84,466	6.0	85,875	6.1	89,776	6.4	95,657	6.3	97,249	6.3	
Distribution/Retailing	71,773	5.1	88,809	6.3	96,708	6.8	97,350	6.4	95,920	6.2	
Food Services/Other Services	84,595	6.1	79,070	5.6	77,133	5.5	85,893	5.7	84,695	5.5	
Pharmaceuticals/Medical Supplies	82,541	5.9	75,485	5.4	73,672	5.2	76,569	5.1	72,546	4.7	
Transportation/Leisure	56,988	4.1	58,033	4.1	60,379	4.3	64,927	4.3	60,934	4.0	
Government/Organizations	70,528	5.0	66,193	4.7	54,864	3.9	58,838	3.9	59,046	3.8	
Hobbies/Sporting Goods	60,511	4.3	57,916	4.1	56,783	4.0	66,055	4.4	57,492	3.7	
Home Electric Appliances/ AV Equipment	74,913	5.4	68,528	4.9	56,200	4.0	56,337	3.7	49,673	3.2	
Real Estate/Housing Facilities	37,853	2.7	44,021	3.1	42,304	3.0	46,892	3.1	44,875	2.9	
Apparel/Fashion, Accessories/ Personal Items	38,425	2.8	43,132	3.1	44,997	3.2	43,331	2.9	40,013	2.6	
Others	121,861	8.7	117,436	8.4	117,609	8.3	131,204	8.7	135,689	8.8	
Total	1,396,798	100.0%	1,404,663	100.0%	1,412,376	100.0%	1,515,062	100.0%	1,535,105	100.0%	

Note: The above ranking is based on data for the fiscal year ended March 31, 2015. Dentsu reviews the criteria for each industry category frequently for the purposes of its own accounts. Accordingly, these categories may differ qualitatively from those used in *Advertising Expenditures in Japan* for the respective years. Figures for previous years have been recalculated to reflect the current industry breakdown as of March 31, 2015.

Market Data

Global Advertising Expenditures

		Millions of U.S. dollars at current prices									
Calendar year	2010		2011		2012		2013		2014		
North America	170,352.6	38.4%	172,524.7	37.7%	179,445.2	37.8%	186,984.8	37.9%	195,387.8	37.8%	
U.S.A.	162,905.0	36.7	164,901.0	36.0	171,432.0	36.1	178,824.4	36.2	186,955.6	36.2	
Canada	7,447.6	1.7	7,623.7	1.7	8,013.2	1.7	8,160.4	1.7	8,432.2	1.6	
Western Europe	87,697.0	19.8	89,664.3	19.6	90,285.2	19.0	89,737.5	18.2	91,807.5	17.8	
U.K.	19,182.2	4.3	20,403.6	4.5	21,320.7	4.5	22,661.4	4.6	24,199.5	4.7	
Germany	13,702.8	3.1	13,767.4	3.0	16,308.1	3.4	16,252.4	3.3	16,485.0	3.2	
France	11,505.3	2.6	12,187.6	2.7	11,808.8	2.5	11,490.4	2.3	11,387.0	2.2	
Italy	10,690.6	2.4	10,400.8	2.3	9,158.7	1.9	8,235.5	1.7	8,073.9	1.6	
Spain	6,662.9	1.5	6,219.6	1.4	5,219.0	1.1	4,777.4	1.0	5,054.6	1.0	
Central & Eastern Europe	10,888.5	2.5	11,778.3	2.6	12,317.3	2.6	12,529.5	2.5	12,843.5	2.5	
Russia	4,011.9	0.9	4,837.9	1.1	5,460.4	1.1	5,991.6	1.2	6,221.1	1.2	
Asia Pacific	143,314.9	32.3	153,057.8	33.5	160,890.4	33.9	169,177.4	34.3	178,073.2	34.5	
China	54,164.5	12.2	62,392.7	13.6	66,181.7	13.9	71,098.8	14.4	76,480.4	14.8	
Japan	49,294.2	11.1	48,171.2	10.5	49,704.2	10.5	50,420.5	10.2	51,905.4	10.0	
Australia	10,850.5	2.4	10,695.0	2.3	10,528.4	2.2	10,611.7	2.1	10,647.4	2.1	
South Korea	7,018.8	1.6	7,654.3	1.7	7,992.7	1.7	8,165.2	1.7	8,286.8	1.6	
Indonesia	4,178.9	0.9	4,943.8	1.1	6,086.1	1.3	7,223.2	1.5	8,030.5	1.6	
India	3,493.1	0.8	3,810.1	0.8	4,099.2	0.9	4,430.0	0.9	4,815.4	0.9	
Latin America	13,080.5	2.9	14,354.7	3.1	18,214.1	3.8	20,289.4	4.1	22,596.9	4.4	
Brazil	7,602.0	1.7	8,229.6	1.8	9,674.4	2.0	10,668.4	2.2	11,680.6	2.3	
Other Area	18,211.3	4.1	16,176.4	3.5	14,073.3	3.0	15,204.8	3.1	15,843.3	3.1	
Total	443,544.9	100.0%	457,556.2	100.0%	475,225.4	100.0%	493,923.4	100.0%	516,552.3	100.0%	

Source: Carat, Global Advertising Expenditure Forecasts—March 2015

Global Advertising Expenditures by Medium

		Millions of U.S. dollars at current prices									
Calendar year	2010		2011		2012		2013		2014		
Television	187,715.5	43.9%	192,374.8	43.5%	197,867.1	43.1%	205,205.0	42.8%	214,213.9	42.7%	
Newspapers	85,459.6	20.0	81,755.2	18.5	76,241.2	16.6	74,077.9	15.5	69,714.1	13.9	
Magazines	40,008.0	9.4	39,456.1	8.9	39,052.0	8.5	38,106.9	8.0	36,760.3	7.3	
Radio	29,896.1	7.0	31,006.3	7.0	31,440.3	6.8	32,744.3	6.8	34,174.4	6.8	
Cinema	2,326.6	0.5	2,403.7	0.5	2,703.6	0.6	2,645.5	0.6	2,710.8	0.5	
Outdoor	28,296.2	6.6	30,328.7	6.9	32,751.9	7.1	33,778.8	7.0	35,474.6	7.1	
Digital	53,893.5	12.6	64,732.2	14.6	79,531.8	17.3	92,703.8	19.3	108,869.1	21.7	

Source: Carat, Global Advertising Expenditure Forecasts—March 2015

Advertising Expenditures in Japan and as a Percentage of Nominal GDP

		Billions of yen				
Calendar year	2010	2011	2012	2013	2014	
Advertising expenditures in Japan	5,842.7	5,709.6	5,891.3	5,976.2	6,152.2	
Nominal GDP	482,384.4	471,310.8	475,110.4	480,128.0	488,215.5	
Advertising expenditures in Japan as a percentage of nominal GDP	1.21%	1.21%	1.24%	1.24%	1.26%	

Note: Advertising expenditures include expenditures on terrestrial television, newspapers, magazines and radio advertising, expenditures on marketing flyers inserted in newspapers, exhibitions and screen displays, direct mailings, outdoor advertisements, transit advertisements, advertisements in telephone directories, point-of-purchase (POP) advertisements, satellite media-related and Internet advertisements.

Source: Dentsu, 2014 Advertising Expenditures in Japan

Advertising Expenditures in Japan by Medium

Billions of yen

Calendar year	2010		2011		2012		2013		2014	
Television	—		—		1,877.0	31.9%	1,902.3	31.8%	1,956.4	31.8%
Terrestrial Television	1,732.1	29.6%	1,723.7	30.2%	1,775.7	30.2	1,791.3	30.0	1,834.7	29.8
Satellite Media-Related	78.4	1.3	89.1	1.6	101.3	1.7	111.0	1.8	121.7	2.0
Newspapers	639.6	11.0	599.0	10.5	624.2	10.6	617.0	10.3	605.7	9.8
Magazines	273.3	4.7	254.2	4.4	255.1	4.3	249.9	4.2	250.0	4.1
Radio	129.9	2.2	124.7	2.2	124.6	2.1	124.3	2.1	127.2	2.1
Internet	774.7	13.3	806.2	14.1	868.0	14.7	938.1	15.7	1,051.9	17.1
Promotional Media	2,214.7	37.9	2,112.7	37.0	2,142.4	36.4	2,144.6	35.9	2,161.0	35.1
Total	5,842.7	100.0%	5,709.6	100.0%	5,891.3	100.0%	5,976.2	100.0%	6,152.2	100.0%

Note: Advertising expenditures in television were redefined in 2014, retroactive to 2012, to include expenditures in both terrestrial television and satellite media-related advertising.

Source: Dentsu, 2014 Advertising Expenditures in Japan

Advertising Expenditures in the Four Traditional Mass Media in Japan by Industry

Billions of yen

Calendar year	2010		2011		2012		2013		2014	
Energy/Materials/Machinery	34.2	1.2%	27.2	1.0%	26.2	1.0%	24.9	0.9%	25.6	0.9%
Foodstuffs	288.0	10.4	266.1	9.9	283.2	10.2	272.0	9.8	263.5	9.4
Beverages/Cigarettes	217.8	7.9	196.2	7.3	209.8	7.6	206.8	7.4	210.9	7.5
Pharmaceuticals/Medical Supplies	145.9	5.3	143.5	5.3	148.4	5.3	147.4	5.3	149.9	5.3
Cosmetics/Toiletries	287.9	10.4	276.8	10.2	287.8	10.4	279.8	10.1	295.5	10.5
Apparel/Fashion, Accessories/ Personal Items	101.2	3.7	108.1	4.0	116.4	4.2	117.3	4.2	113.8	4.0
Precision Instruments/Office Supplies	29.4	1.1	26.3	1.0	28.8	1.0	28.3	1.0	30.5	1.1
Home Electric Appliances/ AV Equipment	73.3	2.6	54.4	2.0	54.1	2.0	55.3	2.0	59.2	2.1
Automobiles/Related Products	131.6	4.7	129.8	4.8	164.7	5.9	167.1	6.0	172.7	6.1
Household Products	65.0	2.3	64.2	2.4	64.9	2.3	68.5	2.5	72.4	2.6
Hobbies/Sporting Goods	123.1	4.4	110.6	4.1	108.5	3.9	102.2	3.7	94.1	3.3
Real Estate/Housing Facilities	102.9	3.7	104.4	3.9	108.6	3.9	115.0	4.1	118.0	4.2
Publications	92.6	3.3	89.4	3.3	92.1	3.3	89.8	3.2	87.6	3.1
Information/Communications	220.9	8.0	222.0	8.2	245.2	8.8	243.3	8.8	260.9	9.3
Distribution/Retailing	182.2	6.6	186.9	6.9	202.9	7.3	192.7	6.9	193.7	6.9
Finance/Insurance	153.8	5.5	141.2	5.2	144.9	5.2	167.6	6.0	164.3	5.8
Transportation/Leisure	211.1	7.6	195.2	7.2	211.2	7.6	209.7	7.6	211.7	7.5
Food Services/Other Services	138.6	5.0	123.5	4.6	128.9	4.6	142.2	5.1	145.0	5.2
Government/Organizations	40.8	1.5	108.7	4.0	33.2	1.2	31.4	1.1	33.8	1.2
Education/Medical Services/Religion	81.7	2.9	75.7	2.8	78.2	2.8	80.6	2.9	77.1	2.7
Classified Ads/Others	51.8	1.9	50.5	1.9	40.5	1.5	39.6	1.4	36.7	1.3
Total	2,774.9	100.0%	2,701.6	100.0%	2,779.6	100.0%	2,782.5	100.0%	2,817.6	100.0%

Note: Expenditures include expenditures on terrestrial television, newspapers, magazines and radio advertising, including related creative production costs.

Source: Dentsu, 2014 Advertising Expenditures in Japan

Business Lineup Overview



Marketing Design

The marketing environment for enterprises is undergoing major changes. The popularity of digital and social media, changes in consumer behavior patterns, and advances in technology including infrastructures for processing Big Data are steadily altering the relationships between enterprises and consumers.

Given these changes, it has become difficult for a company to achieve adequate results from its marketing efforts without organically linking each of the processes and each of the measures making up those activities. Dentsu refers to this major change as Marketing Convergence, and is developing and providing integrated solutions to the issues faced directly by clients today.

Providing integrated marketing solutions to lead the age of Marketing Convergence. Helping to design the mechanisms for creating long-sellers. Our wish is to become a partner in confronting head-on the issues faced by clients, through marketing design.

Marketing design includes the following business activities:

- Integrated marketing
- PDCA management
- Marketing system design
- Business and brand consulting/CI and VI
- Business design

Communication Design

Consumer contact points are diversifying and corporate messages are not reaching the intended recipients as easily as they once did. Consequently, communication design is taking on greater importance. Its goal goes beyond general communication activities to the design of an optimum environment in which consumers can receive the advertisers' information.

To this end, efforts are directed toward accurately identifying consumer preferences and prevailing conditions and to designing communication processes, opportunities and other measures. Dentsu enables the execution of such communication activities that encompass various information channels in addition to conventional advertising. In shaping desirable communication environments, effective measures such as strategic public relations (PR) and word-of-mouth (WOM)/"Buzz" marketing are considered. Dentsu then implements media-neutral planning, often incorporating content-based communication including branded entertainment and branded utility. In addition, Dentsu extends its sphere of activity to corporate, business and product developments, and designs and delivers solutions to the challenges clients face by utilizing all types of communication opportunities.

Communication design includes the following business activities:

- Cross-media communications planning
- Strategic PR design

Creative Sphere

Dentsu, oriented toward "innovative creativity," draws on a wealth of talent including art directors, copywriters, television commercial planners and communication strategists. By combining their expertise and diverse approaches unrestricted by existing concepts and methods, Dentsu successfully delivers flexible and original creative solutions. Dentsu's high level of creativity is substantiated by tangible results. "Creator of the Year," an annual award established by the Japan Advertising Agencies Association to recognize an outstanding creator from any of the association's member companies, has been given to a Dentsu creator 24 out of the 26 times it has been presented.

Promotions

Promotions from Dentsu are not limited to conventional sales promotion flyers and in-store activities such as giveaway samples, or direct mailings. Dentsu has three dedicated formats: in-store/shopper marketing, which is derived through discerning studies of sales methods from a marketplace perspective; digital promotions, which puts the latest digital technology to work; and space branding, which guides consumers to a deeper understanding of the target services or products. These formats and the personnel network underpin Dentsu's promotional activities which are aimed at influencing consumer behavior by shaping brand perception, prompting consumers to visit stores and encouraging them to make in-store purchases. Essentially, Dentsu creates mechanisms to motivate consumers to take action in selecting and purchasing the targeted brands.

Promotions include the following business activities:

- In-store/shopper marketing
- Digital promotions
- Space branding

Digital/Social Media

Advertising business in the digital domain is progressing to a new stage, as devices and media diversify and advance, Big Data gains the spotlight, and the use of ad technology grows rapidly. The emergence of social media demands that new kinds of relationships be formed between consumers and enterprises.

The strengths of the Dentsu Group include the creative and planning know-how built up as a comprehensive advertising company, the ability to plan and execute unified ad campaigns, and our relationships with a variety of enterprises. By bringing new ideas and technologies to the digital/social domain, we have been ahead of the curve in seizing on the increasing importance of business intelligence, and have continued to develop and provide original intelligence methods on the foundation of Big Data and technology.

In addition, through Dentsu Digital Holdings (DDH) we manage the Dentsu Digital Fund totaling 10 billion yen, aimed at creating a global digital business market and

expanding the business of the Dentsu Group in the digital communications domain.

The Dentsu Group fully leverages the high level of expertise possessed by each Group company in and outside Japan. We create platforms that help clients solve their business issues and achieve their campaign goals, and, as a marketing partner, provide total solutions covering all aspects from data analysis to benefits verification and system operation.

Digital/social media includes the following business activities:

- Interactive media
- Digital solutions
- Platform development
- Social media marketing

Data Solutions

As technology advances in an increasingly digital world, the data that can be gathered and analyzed is growing exponentially in volume and diversity. It goes well beyond survey data and sales data to include website log data, posts in social media, GPS and other position data, and sensor data, for example. All these different types of data are being accumulated in real time, and can be exploited as important information sources for marketing activities.

Today the use of such data has become a key to business growth and innovation in a variety of marketing areas and issues. These include deciding marketing strategy, optimizing investments, devising new marketing insight and consumer understanding methods, as well as evolving campaign management, digital marketing optimization, direct business and CRM.

Dentsu is developing many different data solutions that integrate data, technology and ideas (data × technology × ideas) in order to discover in all this data the knowledge that will be of use in business and marketing, and for optimizing action. Drawing on our wealth of experience and know-how acquired over the years, we provide a range of solutions supporting client business growth.

Data solutions include the following business activities:

- Marketing insight
- Marketing ROI
- Campaign management
- Digital marketing optimization

Media Content

Dentsu applies unique planning methodologies and a wealth of proven results to execute problem-solving media planning and effective media buying. The Company also develops original media plans and excellent content assets. In addition, Dentsu is setting the stage for utilizing excellent content in ad campaigns through such means as developing new businesses, investing in feature film production and acquiring broadcasting rights to major sports content by leveraging long-standing bonds of trust with media companies.

Media content includes the following business activities:

- Media planning
- Media buying
- Sports marketing
- Entertainment content marketing
- New business development with media companies
- Audience insight

Social Solutions

Social concerns may start with issues that have been embraced on a global scale, such as environmental protection, the efficient use of energy and the conservation of natural resources. However, they also extend to other themes, such as food, medical treatment and nursing care, as well as poverty and income disparity. Solutions to such concerns demand active participation and cooperation not only among government agencies but also within the private sector and non-profit organizations. Such responsibility extends even to the man in the street. Within the Dentsu Group, specialized teams are set up for each phase of a project, namely, consulting, planning and execution. Various issues are addressed and solutions are designed to realize a better society. These solutions include identifying social themes and formulating communication strategies as well as

developing campaign promotion schemes and defining specific support activities.

Social solutions include the following business activities:

- Environmental strategy
- Energy and smart grid business development
- Food and agriculture business development
- CSR consulting
- Sustainability marketing
- Social design engine (visualization of social themes)
- Other projects (life innovation, BOP, national tourism)

March 30, 2006. Revisions to the system have been made as appropriate at subsequent Board of Directors' meetings.

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 and subsidiaries have chosen the Dentsu Group Code of Conduct to define the parameters of acceptable behavior, which ensures that Directors, Executive Officers and employees 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 maintaining and further enhancing the Internal Control System.

- I) Compliance System for Directors, Executive Officers and Employees
 - i. Directors and Executive Officers must perform their duties appropriately, in accordance with various rules and regulations, including the Rules for the Board of Directors and the Rules for the Executive Management Committee as well as the Rules for Directors and Audit & Supervisory Board Members and the Rules for Executive Officers.
 - ii. 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 report it without delay to the Board of Directors as well as the Executive Management Committee. Audit & Supervisory Board Members must also be immediately advised of the circumstances.
 - iii. The departments reporting to the CSR Committee create internal policies and manuals and conduct training to maintain and further enhance the compliance system for employees. The Internal Audit Office, which reports directly to the Representative Director, conducts internal audits.
 - iv. The Company has set up an internal hotline and has also established internal and external contact points for insider reporting to respond appropriately in the event a law is broken or some other internal compliance issue arises.

- v. If Audit & Supervisory Board Members state opinions on the compliance system or require steps to improve the system, Directors and Executive Officers must respond without delay and make the recommended improvements.

- vi. The Company has 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

- i. To support the efficient execution of duties by Directors and Executive Officers, the Board of Directors and the Executive Management Committee, and the Business Supervision Committee, all principal committees and specialized committees hold meetings where important matters pertaining to management policy and strategy are determined in an appropriate and flexible manner.
- ii. Items resolved at these meetings are conveyed through the corporate structure, with urgent items transmitted to all employees via the internal electronic bulletin board to expedite implementation.

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 rules.

4) Risk Management System

- i. To maintain and enhance the structure that prevents risks from occurring and minimizes damage caused in the event such risks become a reality, Dentsu has put Risk management rules in place and also prioritizes key risks and formulates concrete measures appropriate for such risks that can be put into effect should a response be required.

- ii. Responsibility for monitoring the status of risk management efforts falls primarily on internal control divisions, under the CSR Committee. Efforts are directed toward self-inspection and approaches to maintain and further enhance the risk management system.
- 5) Internal Structure to Support Audit & Supervisory Board Members and Their Independent Status, etc.
- The Company maintains an Audit & Supervisory Board Office, which consists of employees who assist Audit & Supervisory Board Members in their duties. The office reports directly to the Audit & Supervisory Board, thereby preserving its independence from Directors and Executive Officers and the effectiveness of instructions given by the Audit & Supervisory Board Members.
- 6) System for Reporting to Audit & Supervisory Board Members and Improving Audit Effectiveness
- i. Rules are in place to identify issues that Directors, Executive Officers and employees of the Company and its subsidiaries (hereinafter "executives and employees") are required to report to Audit & Supervisory Board Members of the Company. In addition, the Company ensures that a report on any significant matter that might impact the operations or the operating performance of the Company shall be made or transmitted by executives and employees to Audit & Supervisory Board Members of the Company in a reliable and swift manner.
 - ii. In the event that Audit & Supervisory Board Members of the Company request information other than that described in the preceding item, executives and employees of the Company and its subsidiaries are still required to respond without delay.
 - iii. It shall be ensured that anyone who makes a report in accordance with each of the preceding items will not receive any disadvantageous treatment as a result of such reporting.
 - iv. Pursuant to laws and regulations, a policy shall be defined to process expenses, etc., incurred in the course of execution of duties by Audit & Supervisory Board Members, and related parties shall be thoroughly informed thereof.
- v. To enhance audit effectiveness, the Internal Audit Office and the Independent Auditors closely collaborate to handle requests from the Audit & Supervisory Board Members.
- 7) Internal Control System for the Dentsu Group, Including Subsidiaries
- The Company promotes the development, operation and improvement of the Dentsu Group's internal control system by stipulating internal control issues, including the following items. Subsidiaries must address these issues as members of the Dentsu Group.
- i. The Dentsu Group Code of Conduct was drafted as the standard for acceptable corporate behavior and embraces the entire Group, including subsidiaries. Each subsidiary resolves the adoption of the Code.
 - ii. The Company requests its subsidiaries to report on their operations, operating performance, and other material issues on a regular basis. The Company also ensures that subsidiaries seek prior approval for certain matters that might significantly impact the operations or the operating performance of the Company, or report these matters to the Company.
 - iii. Decision-making and business execution in our international operations shall be efficiently carried out through Dentsu Aegis Network Ltd., which controls Dentsu Group companies outside of Japan.
 - iv. Subsidiaries shall ensure compliance and risk management as members of the Dentsu Group by establishing rules in accordance with the Dentsu Group Code of Conduct as appropriate, or through resolutions of the Board of Directors, etc.
- 8) System to Ensure Appropriateness of Financial Reporting
- i. Through the CSR Committee, Dentsu continually supports and improves the system that ensures appropriateness in financial reporting by the Group.
 - ii. Subsidiaries and departments involved in business activities perform self-checks through the course of day-to-day operations to determine if existing internal controls are functioning properly.

iii. 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.

3. Status of Internal Audits, Audits by Audit & Supervisory Board Members and Independent Audits, and Their Connection to Internal Control Divisions

1) Structure, Staff and Procedures for Internal Audits

The Internal Audit Office, with a staff of 23, undertakes internal audits in accordance with an annual auditing plan and targets each division within the Company as well as affiliated companies in Japan and overseas. The Internal Audit Office, reporting to the Representative Director, monitors the establishment and application of internal controls from an individual perspective, and in the event of an insufficiency, will inform the internal control divisions and recommend improvements.

2) Structure, Staff and Procedures for Audits by Audit & Supervisory Board Members

- i. In principle, the Audit & Supervisory Board meets once a month to establish auditing policies and to allocate responsibilities. During these monthly meetings, the five Audit & Supervisory Board Members, two of whom are full-time Audit & Supervisory Board Members from Dentsu and three of whom are Outside Audit & Supervisory Board Members, audit the execution of duties by Directors, based on an auditing plan, and focus primarily on the status of Groupwide internal controls, compliance and risk management systems.
- ii. As part of their audits on the execution of duties by Directors, Audit & Supervisory Board Members supervise and verify the establishment and implementation of internal controls from an independent perspective and receive reports from the internal control divisions if the auditing process so requires.

iii. One of the Outside Audit & Supervisory Board Members, Kentaro Koga, has a doctorate in accounting and has been involved in accounting research and education as an associate professor at a graduate school for many years. He brings a great deal of expertise in finance and accounting to the Company.

iv. One of the full-time Audit & Supervisory Board Members serves as chairman of the Audit & Supervisory Board, and both full-time members attend important committee sessions and meetings of principal committees, including Board of Directors' meetings, and supervise the execution of business activities.

v. The Audit & Supervisory Board Office was established to assist Audit & Supervisory Board Members in their duties, and the Audit & Supervisory Board Staff Department has a staff of five. In addition to this department, the Group Audit & Supervisory Board Members Department has been established separately, with a staff of 12, who, as Audit & Supervisory Board Members of affiliated companies, conduct operational audits and accounting audits.

3) Independent Audits

- i. Dentsu has contracted the accounting firm Deloitte Touche Tohmatsu LLC to perform accounting audits of the Company's books. The Independent Auditors receive internal control reports from the Representative Director, execute internal control audits, supervise and verify the establishment of internal controls and implementation status thereof, and receive reports from the internal control divisions if the auditing process so requires. No special-interest relationships exist between Dentsu and the accounting firm nor between Dentsu and the managing partners at the accounting firm who undertake accounting audits of the Company.
- ii. The four certified public accountants who performed accounting audits during the fiscal year under review were Tsutomu Hirose, Tokio Suzuki, Hirotosugu Mizuno and Masanori Toyozumi with Deloitte Touche Tohmatsu LLC. In addition, 11 certified public accountants and 17 others were involved as assistants to the four main certified public accountants in the execution of these audits.

4. Cooperation on Internal Audits, Audits by Audit & Supervisory Board Members and Independent Audits

The auditing system at Dentsu involves three types of audits: audits by Audit & Supervisory Board Members; book audits, mainly accounting audits from the specialized perspective of Independent Auditors; and internal audits by the Internal Audit Office. Audits by Audit & Supervisory Board Members and audits by Independent Auditors are required by law. Internal audits, conducted at the discretion of the Representative Director, are voluntary audits principally intended to facilitate an independent evaluation of the Internal Control System as well as to prevent inappropriate behavior within the Company. Cooperation among the Internal Audit Office, Audit & Supervisory Board Members and Independent Auditors may require the Audit & Supervisory Board to request reports from the Independent Auditors and the Internal Audit Office on auditing methods and results of audits, as appropriate. In addition, it is mainly full-time Audit & Supervisory Board Members who meet with other auditors on a regular and individual basis to exchange information. The Internal Audit Office also exchanges information and reports, as appropriate, in response to requests from Audit & Supervisory Board Members or the Audit & Supervisory Board, and participates in a separate exchange of information with the Independent Auditors. The respective relationships between the internal control divisions and the Internal Audit Office, Audit & Supervisory Board Members and Independent Auditors are presented in Section 3 above.

5. Limited Liability Agreements with Outside Directors and Outside Audit & Supervisory Board Members

Dentsu enters into agreements with its Outside Directors and Outside Audit & Supervisory Board Members that limit their legal liability under Article 423, Paragraph 1 of the Companies Act. The liability amount pursuant to such agreements shall be limited to the minimum stated by laws and regulations or 10 million yen, whichever is higher.

6. Function of and Selection Criteria for Outside Directors and Outside Audit & Supervisory Board Members

Outside Directors are expected to perform management oversight and check functions, and each Outside Director is expected to contribute to enhanced corporate value at Dentsu by taking a bird's-eye view of the Company's business and offering advice, based on an understanding of the Company's business activities and experience in management positions. Since the business domains of the Company are extensive, the selection of Outside Directors gives priority to individuals who have a sophisticated understanding of the Company's activities in these domains. As a result, both Outside Directors are representatives at companies that are not only shareholders but are also business associates of Dentsu. Nevertheless, Dentsu carefully selects Outside Directors who present a thorough understanding of the Company's business activities, and management believes the appointed individuals are suitably fulfilling the function and role expected of them as Outside Directors of the Company. As appropriate, Outside Directors are provided with reports from the Internal Audit Office, Audit & Supervisory Board Members and Independent Auditors as well as from the internal control divisions to the Board of Directors, and pursue open lines of communication with all.

Outside Audit & Supervisory Board Members are expected to apply the wealth of experience they have accumulated in their respective fields of expertise to the function of supervising the Board of Directors and the execution of duties by the Directors on the Board. The Company's three Outside Audit & Supervisory Board Members—Atsuko Toyama, Toshiaki Hasegawa and Kentaro Koga—are designated Independent Auditors, according to the listing rules of the Tokyo Stock Exchange. In the selection of Outside Audit & Supervisory Board Members, Dentsu prioritizes individuals who will utilize experience in various fields to perform their supervisory duties and individuals who are knowledgeable about finance and accounting. Dentsu carefully selects Outside Audit & Supervisory Board Members who are impartial and present a

thorough understanding of the Company's business activities, and management believes the appointed individuals are suitably fulfilling the function and role expected of them as Outside Audit & Supervisory Board Members of the Company. At meetings of the Audit & Supervisory Board, Outside Audit & Supervisory Board Members will request reports, as appropriate, on auditing methods and results of audits conducted by Audit & Supervisory Board Members, Independent Auditors and the Internal Audit Office. Outside Audit & Supervisory Board Members also exchange information separately, as necessary, and strive to ensure reciprocal communication with other Auditors. In addition, Outside Audit & Supervisory Board Members utilize their external perspective in supervising and verifying the establishment and implementation of internal controls. They also receive reports from the internal control divisions if the auditing process so requires.

Dentsu does not have any clear-cut standards or policies regarding impartiality in appointing Outside Directors and Outside Audit & Supervisory Board Members, but management appoints individuals under the guidance of such benchmarks as the listing rules of the Tokyo Stock Exchange.

7. Relationships with Outside Directors and Outside Audit & Supervisory Board Members

Dentsu's executive team includes Outside Directors and Outside Audit & Supervisory Board Members. As of June 26, 2015, two of the Company's 11 Directors and three of the Company's five Audit & Supervisory Board Members were appointed from outside the Company.

Any personal, capital or business relationships or other interests that may exist between the Company and these five individuals are described below.

1) Outside Director Yutaka Nishizawa is President of Jiji Press Ltd., a shareholder and business associate of the Company. Mr. Nishizawa is also Representative Director of Central Research Services, Inc. and Chairman of Naigai Josei Chosakai, a foreign policy think tank, which are both business associates of the

Company. Transactions between Dentsu and each of these three organizations comprise very small portions of the Company's aggregate net sales.

2) Outside Director Masaki Fukuyama is President of the nonprofit cooperative news service Kyodo News, a shareholder and business associate of the Company. Transaction between Dentsu and the organization comprises a very small portion of the Company's aggregate net sales.

3) Outside Audit & Supervisory Board Member Atsuko Toyama is Chief Director of NPO National Council on Mt. Fuji World Heritage. Although Dentsu is a corporate supporter, the amount that the Company contributes is extremely small and does not affect Ms. Toyama's impartiality as an Outside Audit & Supervisory Board Member at Dentsu.

4) Outside Audit & Supervisory Board Member Toshiaki Hasegawa is an Outside Audit & Supervisory Board Member at Mizuho Bank, Ltd. and Mitsui Fudosan Co., Ltd. Although a business relationship exists between Dentsu and these companies, neither the nature of Mr. Hasegawa's concurrent roles nor the transactions between Dentsu and the companies hinder his ability to remain impartial.

5) Outside Audit & Supervisory Board Member Kentaro Koga is an Outside Audit & Supervisory Board Member at Resona Bank, Ltd. Although a business relationship exists between Dentsu and the bank, neither the nature of Mr. Koga's concurrent roles nor the transactions between Dentsu and the bank hinder his ability to remain impartial.

None of the Outside Directors or Outside Audit & Supervisory Board Members has been affiliated with Dentsu or the Dentsu Group.

8. Executive Remuneration

1) Total Remuneration by Position, Total Amount by Type of Remuneration, and Number of Executives Receiving Remuneration (Please refer to the table below.)

Category of Director/Auditor	Total Remuneration	Breakdown of Remuneration by Category	
		Fixed Monthly Remuneration (Number of Directors or Audit & Supervisory Board Members)	Bonuses (Number of Directors or Audit & Supervisory Board Members)
Directors (Excluding Outside Directors)	¥698 million	¥380 million (11)	¥317 million (10)
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	¥72 million	¥72 million (3)	—
Outside Directors	¥13 million	¥13 million (3)	—
Outside Audit & Supervisory Board Members	¥28 million	¥28 million (3)	—

Notes: 1. Remuneration for Directors was approved by shareholders at the General Meeting of Shareholders held on June 27, 2013. The resolution limits the amount to 1.2 billion yen per year, of which 18 million yen is applied to annual remuneration for Outside Directors.

2. Fixed monthly remuneration for Audit & Supervisory Board Members was approved by shareholders at the General Meeting of Shareholders held on June 27, 2013. The resolution limits the amount to 132 million yen per year.

3. The totals for fixed monthly remuneration include amounts for two Directors, who retired, and one Audit & Supervisory Board Member, who resigned at the conclusion of the General Meeting of Shareholders on June 27, 2014.

4. "Bonuses" in the above table shows the amount approved at the Board of Directors' meeting held in May 2015 within the amount approved as remuneration for Directors in Note 1 above. The Company does not pay bonuses to Outside Directors and Audit & Supervisory Board Members.

2) Breakdown of Total Consolidated Remuneration and Executives of Parent Company Receiving Remuneration

Name	Position	Company	Breakdown of Consolidated Remuneration				Total Consolidated Remuneration
			Basic Fixed Remuneration	Bonuses	Retirement Benefits	Stock Options	
Tadashi Ishii	Representative Director	Parent Company	¥89 million	¥59 million	—	—	¥148 million
Timothy Andree	Director	Parent Company	¥12 million	¥11 million	—	—	¥497 million
	President & CEO	Dentsu Holdings USA, Inc.	¥160 million	¥237 million	¥73 million	—	
	Executive Chairman	Dentsu Aegis Network Ltd.	¥1 million	—	—	—	

Notes: 1. Information is given exclusively for executives whose total consolidated remuneration exceeds 100 million yen.

2. The period used as the basis for the calculation of the amount of remuneration from Dentsu Holdings USA, LLC. and Dentsu Aegis Network Ltd. to Director Timothy Andree, irrespective of the fiscal years of the two companies, is the fiscal year of the Company, which is from April 1, 2014 to March 31, 2015.

3. Bonuses paid from Dentsu Holdings USA, LLC. to Director Timothy Andree, stated above, include bonuses corresponding to the current fiscal year, which will be paid after the current fiscal year, and among such bonuses, the amount corresponding to the period from January 1, 2015 to March 31, 2015 is the estimated amount to be paid by Dentsu Holdings USA, LLC.

4. Retirement benefits paid from Dentsu Holdings USA, LLC. to Director Timothy Andree, stated above, represent the estimated amount to be paid corresponding to the period from April 1, 2014 to March 31, 2015.

5. Payments in foreign currencies have been translated into Japanese yen using the average dollar/yen and pound/yen exchange rates for January to December 2014 of approximately USD 1 = JPY 105.8 and GBP 1 = JPY 174.2, respectively.

3) Summary of Policy on Determining Remuneration for Directors and Audit & Supervisory Board Members

With respect to remuneration for Directors, the Company has introduced a performance-linked system that takes into account incentives toward the achievement of the medium-term management plan. If operating performance is as expected, the performance-linked bonus shall account for 40 percent of overall remuneration. Consolidated operating profit is used as the index to determine the performance-linked portion of the remuneration, and total bonuses shall reflect the degree to which the budget is achieved. The total of fixed monthly remuneration and performance-linked bonuses shall be within the limit for remuneration (1.2 billion yen

per year, of which 18 million yen is applied to annual remuneration for Outside Directors) approved at the 164th Ordinary General Meeting of Shareholders. Remuneration to Outside Directors, however, will consist solely of fixed monthly remuneration in exchange for the execution of their duties. Remuneration amounts for each Director, including Outside Directors, will be determined by resolution of the Board of Directors.

Remuneration to Audit & Supervisory Board Members will consist solely of fixed monthly remuneration in exchange for the execution of their duties, and the total amount of monthly remuneration shall be within the limit for remuneration (132 million yen per year) approved at the 164th Ordinary General Meeting of Shareholders. Remuneration to each Audit & Supervisory Board Member shall be determined after deliberation by the Audit & Supervisory Board Members.

9. Agenda Items for the General Meeting of Shareholders That May Be Resolved by the Board of Directors

The Company sets forth in its Articles of Incorporation provisions that allow the Board of Directors to approve the following items that would otherwise be put before the General Meeting of Shareholders for resolution.

1) Decisions on the Purchase of Treasury Stock

To ensure a flexible capital policy, Dentsu maintains a provision in its Articles of Incorporation, in accordance with Article 165, Paragraph 2 of the Companies Act, that allows the Board of Directors to approve the purchase of treasury stock from the market.

2) Interim Dividends

To promote the flexible return of profits to shareholders, Dentsu maintains a provision in its Articles of Incorporation, in accordance with Article 454, Paragraph 5 of the Companies Act, which allows the Board of Directors to grant interim dividends to registered shareholders as of June 30 of each year (provided, however, that the record date for the 167th fiscal year shall be September 30, 2015).

3) Exemption from Liability

To enable Directors and Audit & Supervisory Board Members to satisfactorily fulfill the roles expected of them by the Company, Dentsu maintains a provision in its Articles of Incorporation that allows the Board of Directors to exempt Directors (including former Directors) and Audit & Supervisory Board Members (including former Audit & Supervisory Board Members) from liability for damages, as set forth in Article 423, Paragraph 1 of the Companies Act, to the extent of the amount obtained by subtracting the minimum liability amount from the amount for which they are liable, provided that the requirements set by laws or regulations have been satisfied.

10. Approval Criteria for Election of Directors

In its Articles of Incorporation, the Company sets forth a provision whereby the appointment of a candidate to the Board of Directors must be approved by a majority vote of shareholders in attendance at a General Meeting of Shareholders and whose combined shareholdings represent more than one-third of total voting rights held by shareholders with the ability to exercise such rights. The Articles of Incorporation include a provision to preclude cumulative voting in obtaining approval for the appointment of Director candidates.

11. Approval Criteria for Special Resolutions at the General Meeting of Shareholders

Special resolutions described under Article 309, Paragraph 2 of the Companies Act that are put before the General Meeting of Shareholders must be passed with a number of votes corresponding to more than two-thirds of voting rights held by shareholders in attendance whose combined shareholdings represent no less than one-third of total voting rights held by shareholders with the power to exercise such rights. Management believes that this reduced quorum for special resolutions facilitates the efficient execution of the General Meeting of Shareholders.

12. Status of Equity Holdings

1) Investment Stock Held for Reasons Other Than Pure Investment

Number of companies: 269
Aggregate balance sheet amount: 169,405 million yen

2) Holding Category, Company, Number of Shares, Balance Sheet Amounts and Purpose of Investment Shares Held for Reasons Other Than Pure Investment

The following pages show the status of equity holdings for the previous fiscal year and the fiscal year under review.

Previous Fiscal Year
Investment Stock Held for Reasons Other Than Pure Investment

Company	Number of Shares	Balance Sheet Amount (Millions of yen)	Purpose of Holding
Digital Garage, Inc.	3,300,000	5,801	To maintain and strengthen business relationship
Asahi Group Holdings, Ltd.	918,400	2,653	To maintain and strengthen business relationship
TV Asahi Corporation	1,200,000	2,244	To maintain and strengthen business relationship
SKY Perfect JSAT Holdings Inc.	4,059,400	2,240	To maintain and strengthen business relationship
Toho Co., Ltd.	808,900	1,673	To maintain and strengthen business relationship
Yakult Honsha Co., Ltd.	258,600	1,339	To maintain and strengthen business relationship
Lion Corporation	1,794,000	1,096	To maintain and strengthen business relationship
euglena Co., Ltd.	937,500	952	To maintain and strengthen business relationship
ROHTO Pharmaceutical Co., Ltd.	520,000	947	To maintain and strengthen business relationship
Shochiku Co., Ltd.	1,000,000	882	To maintain and strengthen business relationship
IG Port, Inc.	498,000	866	To maintain and strengthen business relationship
Toei Company, Ltd.	1,300,000	806	To maintain and strengthen business relationship
TV TOKYO Holdings Corporation	390,000	681	To maintain and strengthen business relationship
Ezaki Glico Co., Ltd.	498,389	681	To maintain and strengthen business relationship
Mitsubishi UFJ Financial Group, Inc.	1,125,900	638	To maintain and strengthen business relationship
Central Japan Railway Company	50,000	603	To maintain and strengthen business relationship
Nomura Holdings, Inc.	827,300	547	To maintain and strengthen business relationship
Toyo Suisan Kaisha, Ltd.	143,000	492	To maintain and strengthen business relationship
Hisamitsu Pharmaceutical Co., Inc.	102,769	479	To maintain and strengthen business relationship
Ajinomoto Co., Inc.	299,000	441	To maintain and strengthen business relationship

Stocks Held in Trust or Other Legal Entity While Retaining Voting Rights or Voting Instruction Rights

Company	Number of Shares	Balance Sheet Amount (Millions of yen)	Purpose of Holding
Tokyo Broadcasting System Holdings, Inc.	9,310,500	11,107	To instruct exercise of voting rights
Fuji Media Holdings, Inc.	4,650,000	8,811	To instruct exercise of voting rights
Kao Corporation	2,328,000	8,513	To instruct exercise of voting rights
KDDI Corporation	975,800	5,831	To instruct exercise of voting rights
WOWOW INC.	700,400	2,577	To instruct exercise of voting rights
TV Asahi Corporation	1,271,000	2,376	To instruct exercise of voting rights
Yamato Holdings Co., Ltd.	627,000	1,394	To instruct exercise of voting rights
Seven & i Holdings Co., Ltd.	324,000	1,277	To instruct exercise of voting rights
Shiseido Co., Ltd.	682,000	1,238	To instruct exercise of voting rights
Mizuho Financial Group, Inc.	3,914,000	798	To instruct exercise of voting rights

Note: Investment stock held for reasons other than pure investment and stocks held in trust or other legal entity while retaining voting rights or voting instruction rights are not added together when selecting stocks with the largest amounts as recorded in the balance sheet.

Fiscal Year under Review
Investment Stock Held for Reasons Other Than Pure Investment

Company	Number of Shares	Balance Sheet Amount (Millions of yen)	Purpose of Holding
Recruit Holdings Co., Ltd.	30,000,000	112,500	To maintain and strengthen business relationship
Digital Garage, Inc.	3,300,000	6,078	To maintain and strengthen business relationship
Asahi Group Holdings, Ltd.	918,400	3,502	To maintain and strengthen business relationship
SKY Perfect JSAT Holdings Inc.	4,059,400	3,028	To maintain and strengthen business relationship
TV Asahi Holdings Corporation	1,434,000	2,875	To maintain and strengthen business relationship
Toho Co., Ltd.	808,900	2,376	To maintain and strengthen business relationship
Yakult Honsha Co., Ltd.	258,600	2,164	To maintain and strengthen business relationship
euglena Co., Ltd.	937,500	1,852	To maintain and strengthen business relationship
Seibu Holdings Inc.	544,000	1,689	To maintain and strengthen business relationship
Lion Corporation	1,794,000	1,313	To maintain and strengthen business relationship
Ezaki Glico Co., Ltd.	249,932	1,214	To maintain and strengthen business relationship
Toei Company, Ltd.	1,300,000	1,160	To maintain and strengthen business relationship
Shochiku Co., Ltd.	1,000,000	1,128	To maintain and strengthen business relationship
Central Japan Railway Company	50,000	1,087	To maintain and strengthen business relationship
ROHTO Pharmaceutical Co., Ltd.	520,000	888	To maintain and strengthen business relationship
TV TOKYO Holdings Corporation	390,000	861	To maintain and strengthen business relationship
Mitsubishi UFJ Financial Group, Inc.	1,125,900	837	To maintain and strengthen business relationship
MORINAGA & CO., LTD.	1,901,000	802	To maintain and strengthen business relationship
Ajinomoto Co., Inc.	299,000	787	To maintain and strengthen business relationship
Meiji Holdings Co., Ltd.	51,200	750	To maintain and strengthen business relationship

Stocks Held in Trust or Other Legal Entity While Retaining Voting Rights or Voting Instruction Rights

Company	Number of Shares	Balance Sheet Amount (Millions of yen)	Purpose of Holding
Tokyo Broadcasting System Holdings, Inc.	9,310,500	14,114	To instruct exercise of voting rights
Kao Corporation	2,328,000	13,968	To instruct exercise of voting rights
KDDI Corporation	2,927,400	7,963	To instruct exercise of voting rights
Fuji Media Holdings, Inc.	4,650,000	7,923	To instruct exercise of voting rights
WOWOW INC.	1,400,800	5,379	To instruct exercise of voting rights
TV Asahi Holdings Corporation	1,271,000	2,548	To instruct exercise of voting rights
Yamato Holdings Co., Ltd.	627,000	1,738	To instruct exercise of voting rights
Seven & i Holdings Co., Ltd.	324,000	1,637	To instruct exercise of voting rights
Shiseido Co., Ltd.	682,000	1,454	To instruct exercise of voting rights
Mizuho Financial Group, Inc.	3,914,000	826	To instruct exercise of voting rights

Note: Investment stock held for reasons other than pure investment and stocks held in trust or other legal entity while retaining voting rights or voting instruction rights are not added together when selecting stocks with the largest amounts as recorded in the balance sheet.

3) Investment Stock Held for Pure Investment
No items to report

Remuneration Policy

I. Remuneration to Independent Auditors (Certified Public Accountants)

(Millions of yen)

Category	Previous Fiscal Year		Fiscal Year under Review	
	Remuneration for Independent Auditing Services	Remuneration for Non-Auditing Services	Remuneration for Independent Auditing Services	Remuneration for Non-Auditing Services
Parent Company	250	20	203	9
Consolidated Subsidiaries	151	—	121	13
Total	401	20	324	22

2. Other Significant Details Regarding Remuneration

Previous fiscal year (April 1, 2013–March 31, 2014)

For the financial statements of consolidated subsidiaries outside of Japan, remuneration of 64 million yen for services regarded as equivalent to independent auditing services was paid to accountants belonging to the same corporate network as the Company's independent auditing firm, Deloitte Touche Tohmatsu LLC.

Fiscal year under review (April 1, 2014–March 31, 2015)

For the financial statements of consolidated subsidiaries outside of Japan, remuneration of 8 million yen for services regarded as equivalent to independent auditing services was paid to accountants belonging to the same corporate network as the Company's independent auditing firm, Deloitte Touche Tohmatsu LLC.

3. Details of Non-Auditing Services Provided to Dentsu Inc. by Independent Auditors

Previous fiscal year (April 1, 2013–March 31, 2014)

Dentsu paid for services relating to the preparation of a letter of comfort associated with the issuance of new shares and the disposal of treasury stock.

Fiscal year under review (April 1, 2014–March 31, 2015)

Dentsu paid for consultation and advisory services in connection with the individual systems to control risks associated with business operations.

4. Policy for Determining Remuneration to Independent Auditors

Remuneration for audits performed by the Company's Independent Auditors is based on overall consideration of such factors as the content of the audits performed in previous fiscal years and the content of the auditing schedule presented by the Independent Auditors for the fiscal year under review.

History



Board Members, Audit & Supervisory Board Members and Executive Officers

(As of June 26, 2015)

Board Members

Representative Director

Tadashi Ishii

Directors

Shoichi Nakamoto

Yuzuru Kato

Timothy Andree

Kunihiro Matsushima

Yoshio Takada

Akira Tonouchi

Kazufumi Hattori

Toshihiro Yamamoto

Outside Directors

Yutaka Nishizawa

Masaki Fukuyama

Audit & Supervisory Board Members

Audit & Supervisory Board Members

Kaoru Shimura

Kenichi Kato

Outside Audit & Supervisory Board Members

Atsuko Toyama

Toshiaki Hasegawa

Kentaro Koga

Executive Officers

President & CEO

Tadashi Ishii*

Senior Executive Vice President & CFO

Shoichi Nakamoto*

Executive Vice Presidents

Yuzuru Kato*

Timothy Andree*

Senior Vice Presidents

Kunihiro Matsushima*

Yoshio Takada*

Naoki Tani

Executive Officers

Akira Tonouchi*

Fumiharu Kobayashi

Toshihiro Yamamoto*

Tsuneo Ogasawara

Kazufumi Hattori*

Nobuyuki Tohya

Tsuyoshi Iwashita

Seiji Ito

Yasuo Motoi

Yuichi Ohkubo

Yoshiaki Suzuki

Wataru Mochizuki

Keiichi Maeda

Kiyoshi Nakamura

Jerry Buhlmann

Hiroaki Sano

Yoshiharu Sengoku

Takaki Hibino

Toshiya Ohyama

Norio Kamijo

Takashi Yagi

Masahiko Hibi

* Simultaneously serving as Board member

Information for Shareholders

(As of August 1, 2015)

Corporate Headquarters

1-8-1, Higashi-shimbashi, Minato-ku, Tokyo 105-7001, Japan
Phone: +81-3-6216-5111

Investor Relations

Investor Relations Department,
Corporate Strategy Division
1-8-1, Higashi-shimbashi, Minato-ku, Tokyo 105-7001, Japan
Phone: +81-3-6216-8015
E-mail: irmail@dentsu.co.jp

Stock Exchange Listing

Tokyo Stock Exchange, First Section
Securities code: 4324

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
7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081, Japan

Internet Address

<http://www.dentsu.com>

Share Information

(As of March 31, 2015)

Breakdown of Shareholders by Type

	Number of Shareholders	Number of Shares Held	Percentage of Total Number of Shares Issued
Japanese financial institutions	74	82,227,860	28.51
Japanese securities firms	36	5,471,423	1.90
Other Japanese corporations	594	77,285,982	26.80
Japanese individuals and others (Including treasury stock)	32,459	40,727,007	14.12
Foreign institutions and individuals	525	82,697,728	28.67
Total	33,688	288,410,000	100.00

Major Shareholders

	Number of Shares Held	Percentage of Total Number of Shares Issued
The Master Trust Bank of Japan, Ltd. (Trust accounts)	25,780,700	8.94
Kyodo News	18,988,800	6.58
Japan Trustee Services Bank, Ltd. (Trust accounts)	18,691,900	6.48
Jiji Press, Ltd.	17,228,680	5.97
State Street Bank and Trust Company	12,088,090	4.19
Group Employees' Stockholding Association	6,612,579	2.29
Mizuho Bank, Ltd.	5,000,000	1.73
Yoshida Hideo Memorial Foundation	4,984,808	1.73
Recruit Holdings Co., Ltd.	4,929,900	1.71
Tokyo Broadcasting System Television, Inc.	4,000,000	1.39

Note: The shares held are calculated as a percentage of the total number of shares issued.