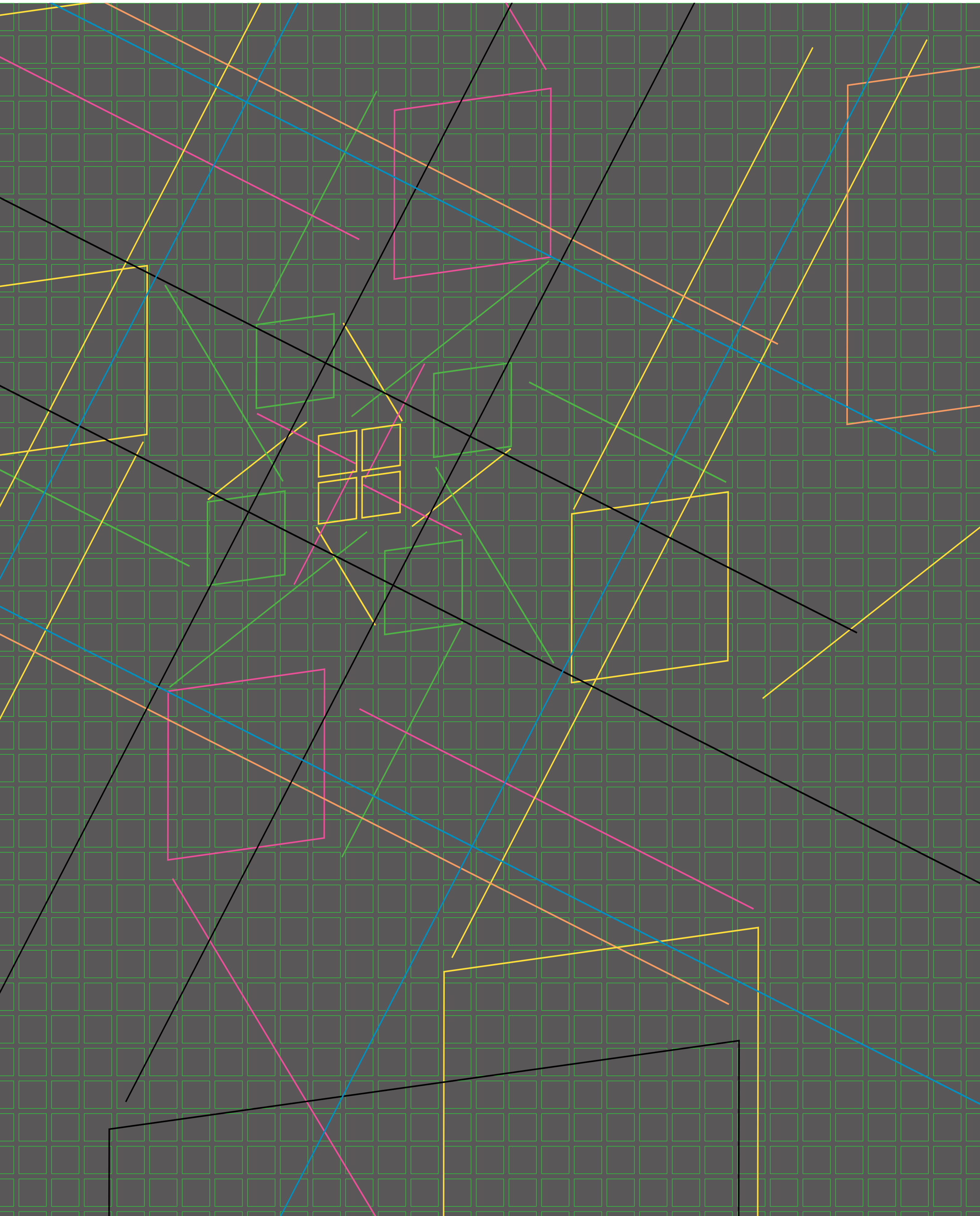
# Dentsu Integrated Report 2017



# Who We Are

The Dentsu Group is a marketing communications enterprise. Its business involves determining the essence of a client's issues and designs, before proposing and implementing an integrated communications plan that realizes true solutions.

Our corporate philosophy, "Good Innovation," encapsulates the Group's drive to create new value and lead the way to transformation, emphasizing our commitment to support the innovations of companies and organizations.

As a solutions partner responding to the challenges faced by its clients, the Group provides a diverse range of services. With the communications domain at its core, it is engaged in a wide range of business activities, from corporate management and operating solutions to the implementation of marketing and communications strategies.
Moreover, to meet the changing needs of society, the environment, and consumer lifestyles, the Group's service sphere is expanding to cover an array of solutions that address societal issues.

To this end, we are rolling out operations in a growing number of countries and regions. With the acquisition of Aegis in March 2013 and establishment of Dentsu Aegis Network (DAN), the Group has become a truly global network, with around 56,000 professionals in more than 140 countries (as of the end of December 2016). The Group offers the best integrated solutions for clients, not only in Japan, but also in the global market.

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

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

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

Period covered by the report
Centered on activities during fiscal 2016 (January 1, 2016 through December 31, 2016), but also describes some activities from preceding or more recent periods.

Organizations covered
Dentsu Inc. and Dentsu Group companies

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# What's in this Report

# Top Message

## Making a Fresh Start

Toshihiro Yamamoto

Representative Director
President & CEO

### The Company Environment

2016 has been an important year for the Dentsu Group, where we have strengthened both our business and client offer in a fast-changing market.

The Group continued to make progress against its digital and data ambitions and achieved good new business momentum in challenging market conditions. We have a strong leadership team, a progressive talent agenda and we continue to invest for long-term growth. As a result, Dentsu Group is in a good position to deliver increased value for our clients.

We continued to make improvements to our working practises following the labour management issues in Japan. In November 2016, we launched the Dentsu Working Environment Reforms Commission. The Commission has been carrying out major reforms to improve our work environment and discourage long working hours.

The independent advisory committee, established in February 2017, will conduct ongoing monitoring of these reforms to ensure their progress and effectiveness. In addition, we are appointing outside directors to the Board directors as part of our Group corporate governance.

As Chief Executive Officer, I take these reforms very seriously and aim to complete all associated structural changes by the end of 2018.

## Business Changing to Reflect Society

We believe that the Group's business must also continue to evolve to keep pace with the changing business environment. Technological innovation, centred around digital technology, continues to accelerate. Client companies and business partners are responding to the changes by looking to new ways of doing business. This change provides an opportunity for Dentsu Group to ensure its clients' benefit from its market-leading products, services and capabilities to help navigate the complexity of the digital economy.

Against this backdrop, in the international business, we have made the M1™ platform, by Merkle Group Inc. (Merkle) —acquired by Dentsu Aegis Network (DAN) in 2016—the global data platform for all of DAN. Over 20 client companies of DAN have started testing M1™'s capabilities, and in 2018 we plan to link data through M1™ for all media planning and activation in the US. We will strengthen our global competitive network through our leadership in digital technology and media content.

In addition, in Japan, we will respond to the rapid changes in consumer behaviour by showcasing new ways of engaging consumers. In September 2017, we set up People Driven Marketing™ using our wealth of online and offline consumer behaviour data. This is an integrated marketing framework that visualizes targets, using some of the best and largest domestic audience data. It allows a comprehensive management of all stages - from awareness to purchase, to repurchase - through funnel-analysis modelling (which narrows down potential target customers). The Dentsu Group is working to further strengthen its systems and develop our digital solution capabilities, including marketing intelligence.

## Group Beating Stakeholder Expectations

Companies are increasingly expected to carry out their social mission and increase corporate value through the lens of environmental, social and governance (ESG) issues. In the area of governance, a particularly important aspect of ESG, we switched to being a company with an Audit and Supervisory Committee in 2016, and are working to strengthen the auditing functions of executive officers, while enabling swift decision-making and agile business execution. We are also engaging proactively in the Sustainable Development Goals (SDGs) formulated by the United Nations, which aim to address some of the most pressing societal challenges by 2030.

The Dentsu Group will continue working to create corporate and shareholder value and I look forward to building on this momentum going forward.

# Responses to Labor Issues in Japan

## Eight Steps to Improve Work Environment

To improve our Japan work environment, we were taking steps recommended by a labor standards inspection office when, in December 2015, one of our promising young employees, the 24-year-old Ms. Matsuri Takahashi, took her own life.

The Group has been charged with violating the Labor Standards Law. On October 6, 2017, the Tokyo Summary Court pronounced a guilty verdict and imposed a ¥500,000 fine.

We recognize the significance of the responsibility and feel deep regret. Thus, we are implementing Group-wide reforms in Japan to improve the work environment.

To prevent excessive overtime, Dentsu reaffirms that employees are its most important resources and recognizes the importance of looking after each and every employee. Management is currently giving top priority to employee working environment reforms in Japan.

Providing a work environment that ensures the mental and physical health of employees is our social responsibility, as is their personal development as they follow career tracks and work styles reflecting their values.

In November 2016, we launched the Dentsu Working Environment Reforms Commission to promote work environment reform and enforce compliance. Immediately after, we launched initiatives to deal with the most urgent issues, such as preventing long working hours and the recurrence of labor issues.

We considered concrete steps to optimize workloads, reviewed each system, assessed management appropriateness, and redefined our corporate culture.

In December 2016 we moved to reform the work environment based on eight pillars.

### 1. Reinforce regulatory knowledge and insights

(1) Train executives and all employees in Japan in labor laws and regulations.
(2) Reduce actual working hours by reducing overtime work to the maximum agreed with employees under Article 36* of the Labor Standards Act and ensuring strict compliance with these requirements.
(3) Conducting regular assessments to confirm progress.

* Article 36: An agreement in the Labor Standards Act between the labor union or other such organization and management regarding work outside normal working hours or working days. Under Article 36, in the case that the company requires work outside the required hours (8 hours a day, 40 hours a week) or on days off, the company shall enter a written agreement with the labor union or other organization, and notify the relevant labor standards agency.

### 2. Equalize workloads and reassign personnel within Dentsu Inc.

(1) Reassign 650 employees in January 2017.
(2) Urgently hire 60 mid-career people as full-time employees.
(3) Appoint human resources management heads in all divisions.
(4) Audit operations and identify those suitable for outsourcing.
(5) Organize a committee for the revision of operations in which we have collaborated with subsidiaries and vendors.

### 3. Maintain and increase employee motivation

(1) Fully compensate for a reduction in overtime pay in 2017 through bonus payments.

### 4. Bolster employee health management and care

(1) Have mental health professionals on-site all times at the in-house health management center to counsel employees as needed.
(2) Establishment of the Family Line to offer mental and physical health advice to employees with family assistance.
(3) For new employees who are still learning operations, bolster work and career path consultations and mental health checkup program.

5. Offer more diverse working style alternatives
   (1) Expand number of business units offering flextime. Flextime workers are prohibited from working 10:00 p.m. and 5:00 a.m.
   (2) To activate communication among employees we will renovate work spaces.
   (3) Swiftly deploy an infrastructure to enhance work mobility.
   (4) In 2017, partially institute work-at-home program for employees who need to care for their children or other family members.

6. Improve and reinforce labor management (asterisks indicate measures implemented in October 2016).
   (1) In principle, maintain the prohibition on employees remaining on the premises for personal reasons.**
   (2) Check on individual employees whose overtime work has neared the maximum agreed under Article 36 of the Labor Standards Act for several consecutive months.
   (3) Maintain the policy of switching off all office lights, in principle, from 10:00 p.m. through 5:00 a.m. and prohibit employees from working overtime at home. **
   (4) Continue to reject applications for overtime work under the special provisions of Article 36 of the Labor Standards Act for new employees who are learning and reduce work load to within legal requirements.
   (5) All employees must take five days off in both the first and second halves of the business year.

7. Overhaul the manager evaluation system
   (1) Deploy 360-degree evaluations for line managers.
   (2) Reduce management evaluations to once annually to emphasize focus on mid-term contributions.
   (3) Reflect personnel and labor management skills as well as results contributions in evaluations.
   (4) Roll out aptitude screenings for line managers.

8. Help employees to pursue self-development
   (1) Establish medium-term growth and career development objectives for evaluations of non-managerial personnel.
   (2) Help eliminate work and personnel mismatches by deploying an in-house free agent recruiting program.
   (3) Set up program offering certain period of unpaid sabbatical leave for every five years of service to help employees broaden their knowledge and experience.
   (4) We will help employees improve their capabilities by providing up to 50,000 yen per person annually to supplement the cost of education and training courses.

### Structural Reforms Ensure Implementation of Work Environment Reforms

We have implemented various structural reforms to promote Company-wide work environment refroms in Japan.

In December 2016, we placed HRM managers in each division, and created a system to ensure the time and health management of employees, the prevention of harassment, and optimized work assignments.

In February 2017, we set up an Independent Advisory Committee for Labor Environmental Reform Activities, comprising outside experts. Committee members have been asked for advice on, and to monitor, work environment reforms, to supervise and verify the progress of these initiatives.

A new outside director appointed at the Ordinary General Meeting of Shareholders in March 2017 was added to the Board of Directors. We plan to strengthen discussions regarding the work environment reforms.

Meanwhile, the Dentsu Working Environment Reforms Commission has been steadily implementing reforms based on the eight pillars, as well as creating new initiatives. These reforms are expected to bring fundamental changes to the nation's long-standing work culture. We have held dialogues to emphasize transparency, so that each employee might have a voice and an understanding of work conditions. We collected about 25,000 opinions through surveys and internal dialogues.

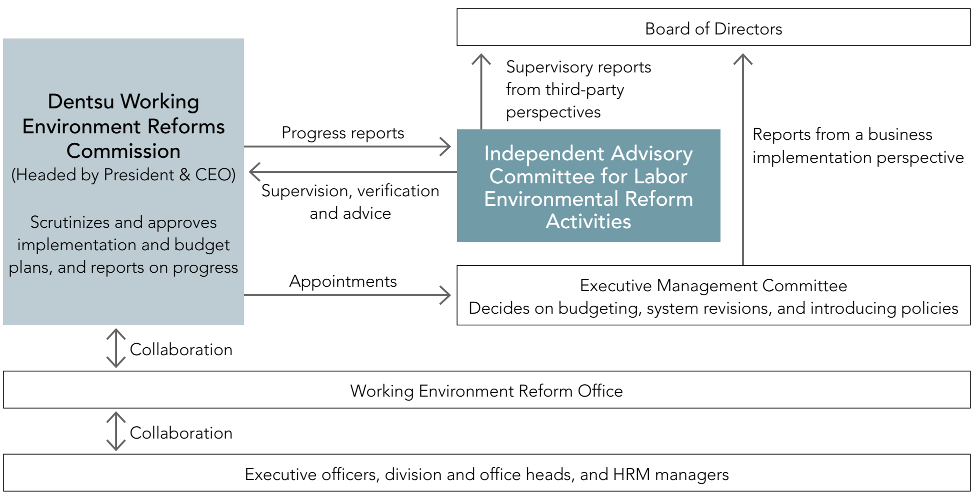
Based on employee input and talks with outside experts and Independent Advisory Committee members, in July 2017 we devised our Working Environment Reform Plan.

## Medium-term Work Environment Reform Plan

The Work Environment Reform Plan to create a New Dentsu has four stages: Commitment, Target, Challenge, and Goal. This medium- to long-term action plan includes steps to reach the final stage.

The first stage, Commitment, embodies our commitment to ensure that we fully comply with laws and regulations to prevent the reoccurrence of labor issues. We vow to reach zero violations of Article 36 of the Labor Standards Act, zero harassment, and zero overwork. Included are concrete initiatives such as the ongoing prohibition of late night work as stipulated in the eight pillars of the work environment reform, the introduction of a work efficiency metric to the evaluation criteria, and the strengthening of reporting and advising systems for harassment.

Work Environment Reform: Implementation, Monitoring Framework




### Meetings Stress Transparency, Dialogue

- Dedicated glass office
- Fully transparent discussion of issues
- Reform proposals fielded from employees

### Promotion of Management–Staff Dialogue

25,000+ opinions gathered

- Company-wide questionnaires (3, over 6 months)
- Fielding of suggestions from employees
- Sessions with divisional personnel managers (HRM managers candidates)
- Employee opinion-exchange sessions ➡ Total of 2,125 attendees across 105 sessions
- Employee recommendation/opinion box

Receive outside opinions in addition to in-house sessions

- Gain insights from outside experts
- Gain insights from the Independent Advisory Committee

The Target stage aims for a 20% reduction in the total number of hours worked per employee while maintaining 100% of the output. In terms of the work environment and workflow reforms, we are already promoting the hiring of full-time employees and the review of workflows. We plan to implement many measures such as satellite offices and work-from-home systems.

Through the Commitment and Target stages, we aim to prepare for reform, and achieve the objectives of these two stages by the end of 2018.

The Challenge and Goal stages involve further maintenance and expansion of reforms. In the Challenge stage, following the 80% cut in total working hours achieved in the Target stage, the aim is to support staff personal growth by using the 20% additional time to improve the mental and physical health of employees and enrich their daily lives through experiences and learning opportunities. We plan to strengthen support systems and create new systems, such as increasing the number of vacation days that can be taken consecutively and strengthening support systems for nursing care, childcare, and volunteering.

The last stage, Goal, refers to our goal of creating a New Dentsu by enabling growth of our employees and the Group by switching to new work styles.

We will continue Company-wide efforts to promote these work environment reforms in order to reach our goal even one day sooner.

### Work Environment Reform Plan

| Commitment | Target | Challenge | Goal |
|---|---|---|---|
| 0 | 80 | 20 | 100 + NEW |
| Violations of Article 36: Zero<br>Harassment: Zero<br>Overwork: Zero | Achieve full output while reducing work time to 80% via changes to work environment and operations | Dedicate newly released 20% of time to improved employee wellbeing, self-enrichment & QOL, as well as career development | Shift to new working style to contribute to new path of employee and Company growth to create a new Dentsu |
| 2 Years of Working Environment Reform | | Evolution of Dentsu | |

### Work Environment Reform Process

| | Overhaul in-house environment and infrastructure | | Maintain and expand reforms | |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | Beyond |
| Commitment 0 | Commitment to 0 • Maintain thorough enforcement of compliance | Completion of environmental /infrastructural overhaul | | GOAL 100 + NEW |
| Target 80 | • Increase staff, improve allocation of human resources<br>• Streamline work<br>• Develop and roll out systems<br>• Improve business processes | | • Roll out new personnel system | Realization of 80 |
| Challenge 20 | • Plan employee support measures<br>• Introduce employee support measures | | • Roll out new leave-taking programs | Reinvestment of 20 |

# Responses to Inappropriate Business Practices in Domestic Digital Advertising Services

In September 2016, the Company presented its findings after investigating digital advertising services provided by the Company and some Group companies in Japan for instances of inappropriate or potentially inappropriate practices.

An in-house committee that the Company formed on August 15, 2016, evaluated around 214,000 invoices issued for digital advertising services in Japan between November 1, 2012 and July 31, 2016. The committee, chaired by Shoichi Nakamoto, the senior executive vice president and CFO at the time, and external attorneys, drew on advice from third-party professionals (certified fraud examiners and accountants) to identify issues and their causes, and to formulate measures to prevent their recurrence.

The investigation concluded in January 2017, and we have reported individually to advertisers on any projects involving unsuitable practices.

The following includes an outline of the investigation, an overview of inappropriate business practices, investigation findings, causes of inappropriate practices, measures to prevent recurrence, and the impact on Dentsu's operating results.

Dentsu offers sincere apologies for the great concern and trouble that this matter has caused its advertisers, shareholders and other stakeholders.

## 1. Outline of the investigation

- Committee composition: A four-person in-house committee chaired by Shoichi Nakamoto and including external attorneys
- Transactions covered: Digital advertising services that Dentsu and some domestic Group companies provided in Japan to advertisers
- Companies covered: Dentsu in Japan and 17 domestic Group companies providing digital advertising services
- Investigation term: August 15, 2016 to January 16, 2017
- Period under investigation: Digital advertising services from November 1, 2012 to July 31, 2016 for which detailed accounting data exists
- Advertisers covered: 2,263 companies
- Investigation methodology
  - (a) Conducted hearings with related Dentsu Group company officers and employees in Japan, and reviewed reported details and results
  - (b) Analyzed and verified data for all 214,000 invoices that Dentsu and Group companies in Japan lodged
  - (c) Assessed related evidence, including vouchers and digital data
  - (d) Conducted one-on-one hearings regarding the organization and the business flows with Dentsu, Group company employees and officers in Japan

## 2. Four categories of issues

Our investigation identified four categories of unsuitable business practice.

Category 1: Reports presenting incorrect total posting volumes

Reports to advertisers stated that the total number of digital postings requested were fulfilled despite this not being the case.

Category 2: Reports with incorrect posting details

While total numbers of digital postings in reports to advertisers were as requested, daily details were not in line with advertiser instructions or expectations, with some placement result details being incorrect, albeit without any impact on total digital posting numbers.

Category 3: Non-presentation of daily reports

While total digital posting numbers were as advertisers requested, the operational reports posted that advertisers requested were on a weekly or monthly basis, and as reporting was not done on a daily basis, reports wrongly indicated advertisement postings for all of the days required.

Category 4: Omissions causing invoicing inaccuracies

Invoice amounts that were not fixed until the month subsequent to the posting month owing to the nature of digital advertising placement were recorded as estimates in months in which advertisements were posted and invoiced in following months, without making any adjustments. Here, total digital posting volumes and breakdowns were as advertisers requested, and operational reports were accurately produced and submitted.

## 3. Investigation findings

In the preliminary investigation findings announced last September, estimated transactions involving concerns of business impropriety were reported as encompassing 111 advertisers, 633 cases and transactions totaling ¥0.23 billion. However, a full investigation clarified the number of transactions involving concerns of business impropriety as encompassing 96 advertisers and 997 cases*.

There were 40 cases of overcharging based on incorrect volumes (Category 1) to 10 advertisers, the amount totaling ¥3.38 million. After confirming the details of the abovementioned categories, transactions with 96 companies were determined to involve improprieties, with a total transaction amount of ¥114,82 million*.

* In the preliminary investigation findings announced on September 23, 2016, cases were counted according to the number of campaigns. As the current investigation places importance on verifying inappropriate billings, after detailed investigation the counting for the number of cases has been revised and counted uniformly according to billing units.

## 4. Causes of unsuitable practices

Digital advertising services entail undertaking PDCA cycles that modify the details of digital posting plans to help address emerging consumer needs in real time, and thus require expertise and ability to efficiently handle large volumes of cumbersome work.
The investigation identified issues within the domestic digital Group structure that failed to sufficiently match such requirements.

(a) Business process issues

- Dentsu did not build and operate an adequate structure for standardizing work, separating duties, and conducting checks.
- At the same time, Dentsu did not provide advertisers with clear definitions of services scope or disclaimers.

(b) Risk management issues

- Dentsu did not fully recognize operational risks relating to business errors or other shortcomings.
- Dentsu did not sufficiently standardize flows for following up on errors.

(c) Human resources management issues

- Although the rapid growth of digital advertising has greatly changed the skillset and workload requirements at business sites, Dentsu did not adequately assign or train human resources in qualitative or quantitative terms.

(d) Inadequate coordination with the Group's domestic digital companies

- With progress in digital advertising rapidly changing the business structure, Dentsu expanded its business with the cooperation of domestic digital companies within the Group. Coordination was inadequate, however, as communication gaps arose in the course of business amid a rapidly increased diversity of human resources.

## 5. Measures to prevent recurrence

In early September 2016, Dentsu took the interim step of rolling out an internal framework in Japan to launch a unit that would check on digital advertising orders, placements, and invoicing independently from the operations handling such work. The goal is to reinforce measures to prevent a recurrence of unsuitable business practices.

In light of issues that the investigation identified, Dentsu has launched the following additional industry-leading measures in Japan to prevent such issues from recurring by eradicating the causes of inappropriate practices.

(a) Addressing business process issues

- Objectively confirm digital advertisement postings and check on operations to ensure no overbilling, by making the Operation Management Office independent while setting up the Digital Confirmation Section within it and start checking postings and voucher issues for work after August, 2016.
- Reform posting reporting flows and build a framework for automating posting reports. (Task was completed in April 2017)
- Plan to introduce Internet Advertising Services Agreement that clarifies service scope and disclaimers, as well as Internet Advertising Placement Application Form that clarifies application details. (Task was completed in April 2017)
- Plan to construct a system for online applications to prevent errors in posting information from Internet Advertising Placement Application Forms. (Task was completed in December 2016)
- Roll out an internal drive at all business sites that focuses on reforming programmatic advertising and improving operational collaboration, providing separate training in-house for around 1,000 people. Through this process Dentsu will reconfirm business processes and associated tasks and collaboration between relevant in-house departments. (Task was completed by December 2016)

(b) Addressing risk management issues

- Deploy an internal drive and in-house training to reform programmatic advertising and improve operational collaboration to share operational errors and operational risks.
- Build a structure to increase the number of managers in programmatic advertising-related departments and make management units more focused and follow up on errors.

(c) Overcome human resource management issues

- Urgently increase the number of people handling programmatic advertising (by 30 for Dentsu headquarters and 90 in total among group companies), prioritizing those with experience. (Task completed by December 2016)
- Verify the optimal personnel makeup and required skillsets for Dentsu's domestic programmatic advertising services unit and Group companies and further increase personnel numbers through in-house transfers and mid-career hiring. (Task will be completed during fiscal 2017)
- Conduct in-house training on programmatic advertising reforms and improve operational collaboration.
- Plan to increase the number of managers in units related to programmatic advertising and reinforce operational management and quality oversight.

(d) Enhance collaboration with the Group's domestic digital companies

- Promote understanding among executives of the domestic digital advertising business and situation.
- Convene regular digital group liaison meetings.
- Review the structure for providing services and reconsider key benchmarks.
- Introduce a mechanism across Dentsu and its domestic Group companies in Japan that enables workers to share issues and solutions.
- Strengthen digital personnel training and information sharing.

The Company will work to provide better quality, higher value-added digital advertising services by improving the accuracy of its domestic digital advertising operations.

### 6. Impact of errors on results

Dentsu believes that this issue will not materially affect the company's financial results for previous fiscal years.

### 7. Internal disciplinary action

We will clarify responsibility for these issues by taking disciplinary actions against executive officers and have taken appropriate disciplinary actions against other employees in line with in-house rules.

# Overview of the Dentsu Group

The Dentsu Group is creating a robust network that spans Japan, North America, Europe, and other parts of Asia. We are doing so by maintaining long-term ties with a number of client companies, including key domestic and foreign companies in Japan, while creating a unique structure to provide services in overseas markets.
Our business in Japan is spearheaded by Dentsu, while the Dentsu Aegis Network leads the international business.

## Management Structure

dentsu

Toshihiro Yamamoto
Representative Director,
President & CEO

Shoichi Nakamoto
Representative Director,
Senior EVP, CFO

dentsu

Yoshio Takada
Representative Director,
Executive Vice President,
Dentsu Inc.

dentsu AEGIS network

Tim Andree
Director,
Executive Vice President,
Dentsu Inc.
Executive Chairman,
Dentsu Aegis Network

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

**Japan business**

dentsu | dentsu DENTSU TEC INC. | DENTSU DIGITAL | CCI | iSiD IT Solution Innovator

**International business**

CARAT | dentsu | dentsu X | iProspect | isobar | mcgarrybowen | MERKLE | MKTG | Posterscope | Vizeum

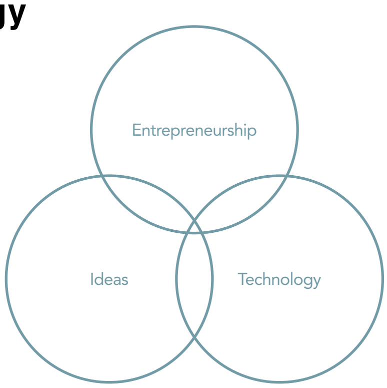
## Dentsu Group Corporate Philosophy

Slogan

# Good Innovation.

The three elements of innovation

**Entrepreneurship**
**+ Ideas**
**+ Technology**




By "innovation," we mean much more than just technological innovation.
We mean generating new value for people and society through a wide variety of changes.

Statement

*Ideas that reach beyond the imaginable.*
*Technology that crosses the bounds of possibilities.*
*Entrepreneurship that surpasses the expected.*
*Three sources of strength, driving our innovation,*
*bringing positive change to people and society.*

## Gross profit

¥789.0 billion

January to December 2016

## Underlying Operating Margin

21.1 %

January to December 2016

## Ranking of Advertising Holding Company Groups

Top 5 Worldwide

Source: *Advertising Age*, May 1, 2017 (*Advertising Age* estimates)

## Share of the Japanese Advertising Market

25.4 %

Note: Under JGAAP, net sales are calculated in calendar 2016.
Sources: *Advertising and Economy*; *Current Situation of Japanese Advertising Agencies*; and *2016 Advertising Expenditures in Japan* (Dentsu)

## Operating Area

over 140 countries and territories around the world

January to December 2016

## Number of Employees

55,843

As of December 31, 2016

# How We Create and Share Value

## The Value Creation Process

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

| Megatrend | Global issue |
| --- | --- |
| Redistribution of wealth | Wealth disparity<br>Rising income polarization |
| Demographic changes | Minorities<br>Super aging societies |
| Digitization | Digital dependence |
| Climate change | Global warming<br>Extreme weather conditions |

Dentsu Group Involvement with the SDGs ▶P. 059

### Corporate Philosophy

# Good Innovation.

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

### Business Domain

**Integrated Communication Design**

Demonstrate integrated capabilities by combining services in various business domains


### Strategy

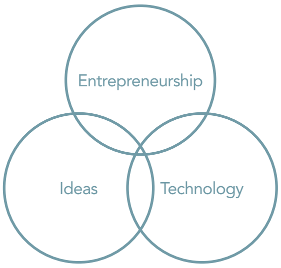
**Japan Business** ▶ P. 025

- Robust business foundations
- Digital
- Creative planning
- Sports marketing
- Communication design

Medium-term management plan, Dentsu 2017 and Beyond ▶ P. 019

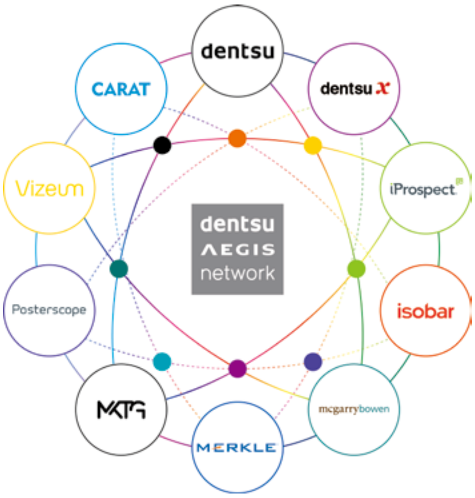
The three elements of Innovation

**Entrepreneurship**
**+ Ideas**
**+ Technology**




## One P&L

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




## Value Creation

The success of our clients' businesses

Contributing to an affluent life through communication

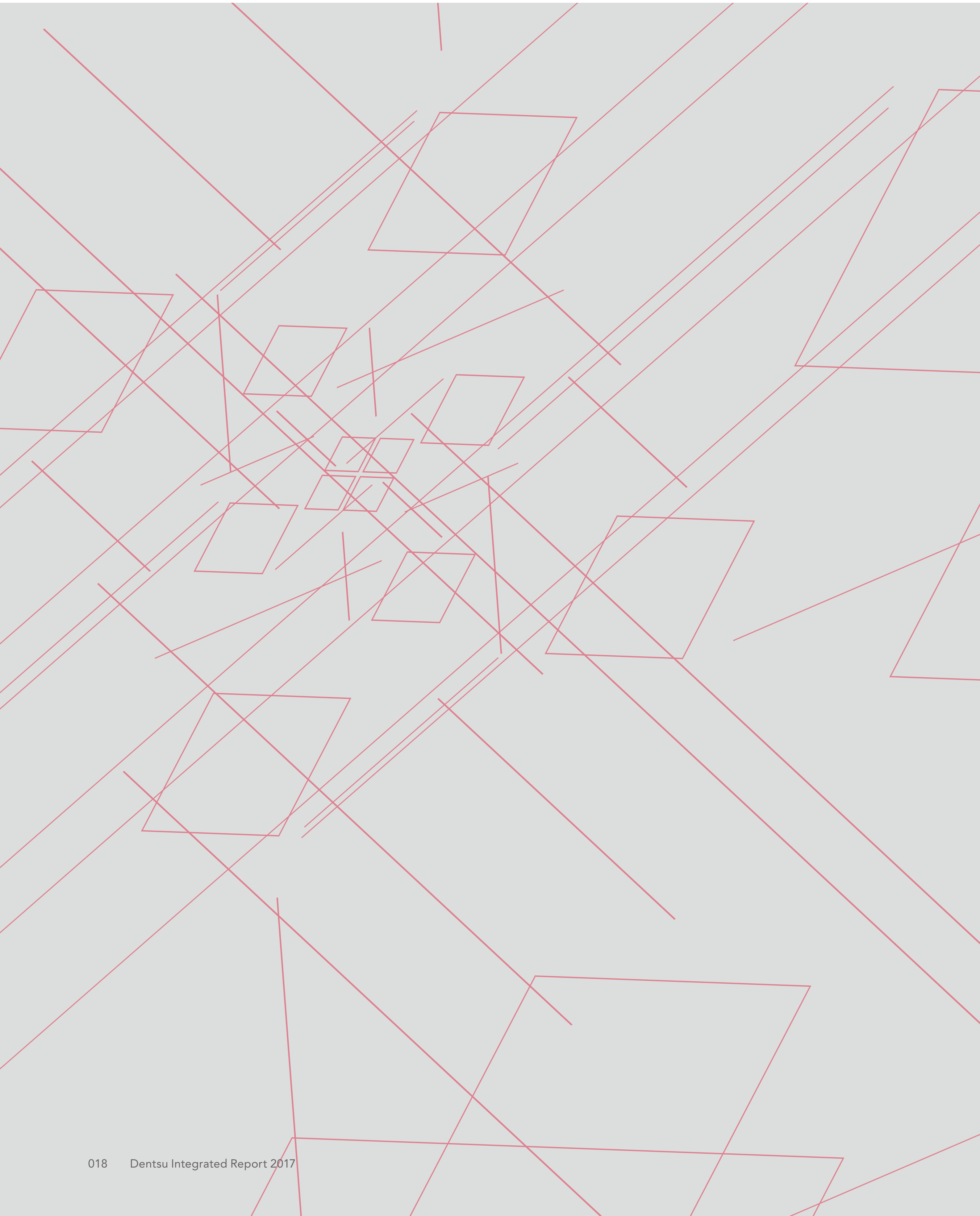
Realization of a sustainable society

International Business P. 031

- Global network
- Progress of the digital economy
- M&A strategy
- Business expansion

Medium-term CSR Strategy 2020 P. 060

# Strategy



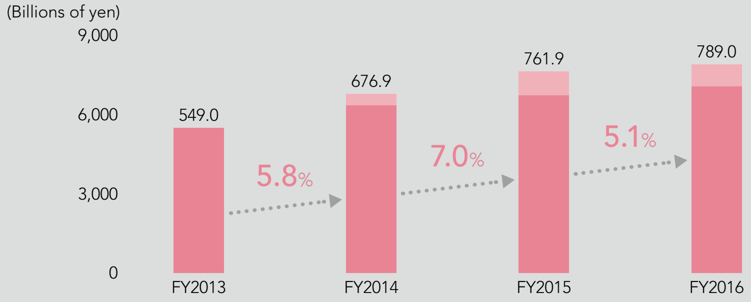
# Our Strategy

## Medium-term Management Plan

| Overview | |
|---|---|
| Diversifying the portfolio on a global basis | We aim to expand our customer base in terms of both region and service domain, leveraging customer assets cultivated by both Dentsu and Aegis. We will work to win new accounts in all markets, offering a unique global network with an established business base in Japan. |
| Evolving and expanding in the digital domain | As marketing activities shift toward digital marketing, the Dentsu Group is using M&As to increase our capabilities in the digital sphere. We will provide a one-stop service encompassing various areas of digital marketing. |
| Re-engineering business processes and improving profitability | We will work to streamline all business processes through cost controls and flexible resource management on a global scale. Especially in Japan, we will steadily review and reduce assets and increase the profitability and business efficiency of the Group. |
| Further reinforcing the business platform in the core Japanese market | We will work to advance our digital solution capabilities and structure in order to reinforce our established business platform in Japan, where the Group's main strength lies. In addition, we will work to increase our competitiveness in the mass media business and sports marketing area. |

## Progress in Fiscal 2016

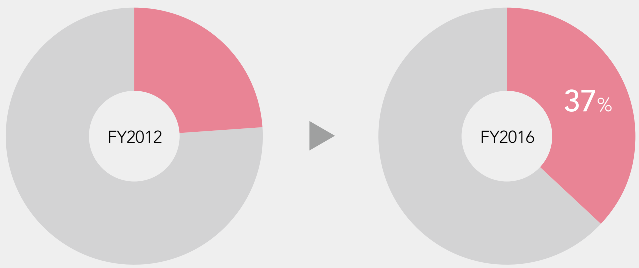
International business grew rapidly, due to increased business from existing clients, progress in winning new accounts, and steady growth of digital networks. As a result, international business accounted for 54% of our gross profit. With this figure, we achieved our medium-term management plan target one year early. Organic growth, including in Japan business, exceeded the plan's target figure of sustained 3–5% growth. We also conducted multiple mergers and acquisitions (M&As) to acquire resources and help increase our competitiveness.




Gross Profit/ Organic Growth Rate

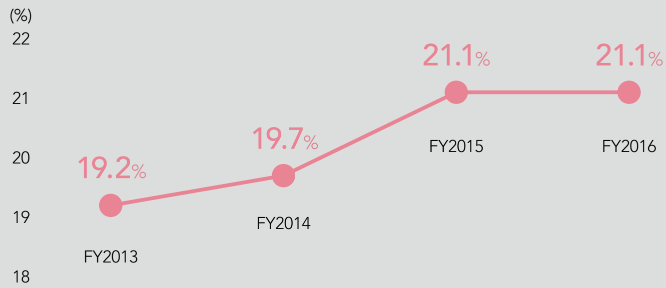
Gross profit in the digital domain grew both for our domestic and international businesses, and we reached our medium-term management plan targets (digital domain making up 35% or more of gross profit) one year ahead of schedule.

Overseas, we acquired various resources—particularly through large-scale M&A activity—that are expected to contribute to growth in the digital domain.




Gross Profit Digital Domain Ratio

Despite a rise in expenses in line with technology investments in international business, ongoing cost controls in our Japan business led to a consolidated underlying operating margin of 21.1% in fiscal 2016. We therefore met the targets of our medium-term management plan, as in fiscal 2015.




Underlying Operating Margin

To increase competitiveness, we started increasing our expertise through reorganizing the Group, including Dentsu, mainly in the key areas of digital and promotion. We also worked to increase profitability. As a result, the Japan business saw growth in gross profit and underlying operating profit operating margin.

- In January 2017, we established Dentsu Live Inc. by integrating Dentsu's Event & Space and Design departments with Dentsu Tec's Event & Space related department. The promotion business was taken over by a new company, which adopted the existing name Dentsu Tec Inc.
- Under the new structure, we plan to provide services that meet the diverse digital marketing demand of our customers.

Reinforcing the Promotion Domain

# Consolidated Operating Highlights (IFRS)

(Millions of Yen)

| Dentsu Inc. and Consolidated Subsidiaries | Consolidated (Financial reporting basis) IFRS | | Consolidated (Calendar year basis (pro forma)) IFRS | | |
|---|---|---|---|---|---|
| | 2015/3 | 2015/12 | 2014 | 2015 | 2016 |
| Turnover | 4,642,390 | 4,513,955 | 4,642,901 | 4,990,854 | 4,924,933 |
| Revenue | 728,626 | 706,469 | 725,886 | 818,566 | 838,359 |
| Gross profit | 676,925 | 669,489 | 676,882 | 761,996 | 789,043 |
| Organic gross profit growth rate(1) Consolidated | 5.8% | – | – | 7.0% | 5.1% |
| Organic gross profit growth rate Japan | 2.2% | – | – | 3.9% | 4.5% |
| Organic gross profit growth rate International | 10.3% | 9.4% | 10.3% | 9.4% | 5.7% |
| Operating profit | 132,305 | 107,265 | 137,558 | 128,212 | 137,681 |
| Underlying operating profit(2) | 131,937 | 133,328 | 133,402 | 160,438 | 166,565 |
| Operating margin(3) Consolidated | 19.5% | 19.9% | 19.7% | 21.1% | 21.1% |
| Operating margin Japan | 23.9% | 24.7% | 24.2% | 26.0% | 26.8% |
| Operating margin International | 15.3% | 16.9% | 15.3% | 16.9% | 16.2% |
| Profit for the year attributable to owners of the parent | 79,846 | 72,653 | 81,409 | 83,090 | 83,501 |
| Underlying net profit(4) | 92,875 | 94,368 | 89,179 | 113,388 | 112,972 |
| Basic earnings per share | ¥276.89 | ¥254.05 | ¥282.31 | ¥289.95 | ¥292.85 |
| Basic underlying net profit per share | ¥322.08 | ¥329.98 | ¥309.26 | ¥395.67 | ¥396.20 |
| Return on equity (ROE)(5) | 8.1% | 6.8% | 8.2% | 7.7% | 8.3% |
| Underlying ROE | 9.4% | 8.8% | 9.0% | 10.6% | 11.3% |
| ROA(6) | 4.6% | 3.4% | – | – | 4.4% |
| Ratio of equity attributable to owners of the parent(7) | 34.2% | 34.8% | – | 34.8% | 29.6% |
| Cash dividend per share | ¥55 | ¥75 | ¥55 | ¥75 | ¥85 |
| Dividend payout ratio(8) | 19.9% | 29.5% | 19.5% | 25.9% | 29.0% |
| Underlying dividend payout ratio | 17.1% | 22.7% | 17.8% | 19.0% | 21.5% |

(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) Underlying operating profit is a KPI to measure recurring business performance which is calculated as operating profit added with amortization of M&A related intangible assets, acquisition costs and one-off items such as impairment loss and gain/loss on sales of non-current assets.
(3) Underlying operating profit ÷ Gross profit × 100
(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 oneoff items
(5) 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
(6) ROA (IFRS) = Profit before tax ÷ Average total assets based on total assets at the beginning and end of the fiscal year × 100
(7) Ratio of equity attributable to owners of the parent = Equity attributable to owners of the parent÷Total assets
(8) Dividend payout ratio = Cash dividend per share ÷ Basic earnings per share × 100

## Change in fiscal period

Effective from fiscal 2015, the Company and its subsidiaries with fiscal year-ends other than December 31 have changed their fiscal year-ends to December 31. As a result of this change, the Group's consolidated fiscal year-end date has been changed from March 31 to December 31, and fiscal 2015 is the nine-month period from April 1, 2015 to December 31, 2015. However, since the fiscal year-end date of Dentsu Aegis Network Ltd. and its subsidiaries, which operate the Group's international business, was already December 31, the financial results of these companies for the twelve-month period from January 1, 2015 to December 31, 2015 have been consolidated into the Group's consolidated financial results. [On a financial reporting basis for 2015/12]

As reference figures for the purpose of making comparisons, figures calculated on the assumption that the Group's accounting periods for both fiscal 2014 and fiscal 2015 covered January 1 to December 31 are provided. [On a calendar year basis]

Figures for fiscal 2016 from the period covering January 1 to December 31 are provided on a financial reporting basis.

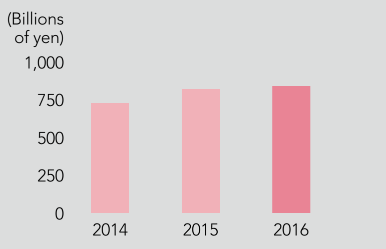
Financial reporting basis (fiscal 2014 and 2015)
2015/3: Japan business Apr.–Mar. (twelve months) + International business Jan.–Dec. (twelve months)
2015/12: Japan business Apr.–Dec. (nine months) + International business Jan.–Dec. (twelve months)
Note: Financial report for fiscal 2016 is provided on a calendar year basis.

| | 2014 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Jan.-Mar. | Apr.–Jun. | Jul.–Sep. | Oct.–Dec | Jan.-Mar. | Apr.–Jun. | Jul.–Sep. | Oct.–Dec |
| Japan business | | 2015/3 (Financial reporting basis) | | | | 2015/12 (Financial reporting basis) | | |
| International business | | | | | | | | |

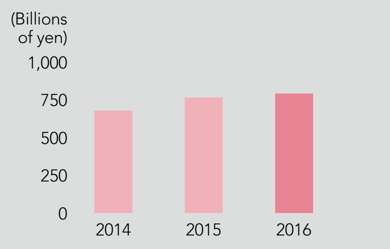
Calendar year basis (pro forma)
2014: Japan business Jan.–Dec. (twelve months) + International business Jan.–Dec. (twelve months)
2015: Japan business Jan.–Dec. (twelve months) + International business Jan.–Dec. (twelve months)
2016/12: Japan business Jan.–Dec. (twelve months) + International business Jan.–Dec. (twelve months)
Note: 2014 and 2015 are reported on a pro forma basis, and 2016/12 is reported on a financial reporting basis.

| | 2014 and 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Jan.-Mar. | Apr.–Jun. | Jul.–Sep. | Oct.–Dec | Jan.-Mar. | Apr.–Jun. | Jul.–Sep. | Oct.–Dec |
| Japan business | 2014 & 2015 (Pro forma basis) | | | | 2016/12 (Financial reporting basis) | | | |
| International business | | | | | | | | |

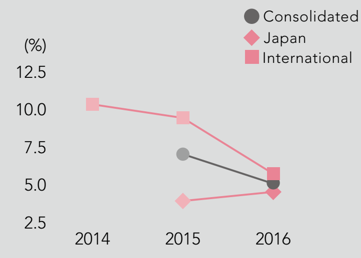
## Revenue



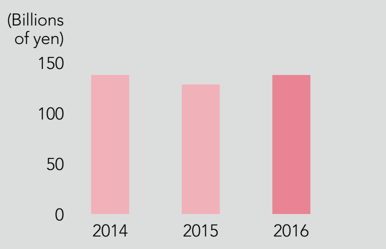

## Gross Profit



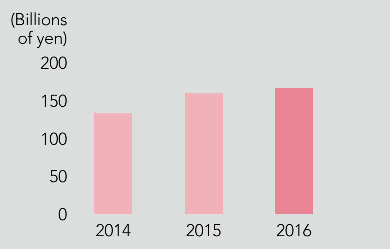

## Organic Gross Profit Growth Rate



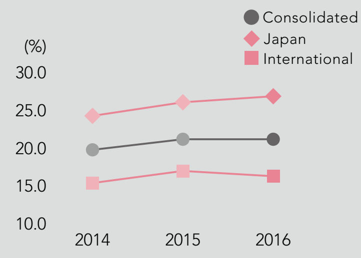

## Operating Profit



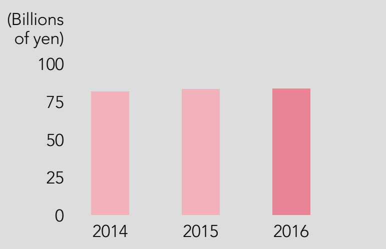

## Underlying Operating Profit



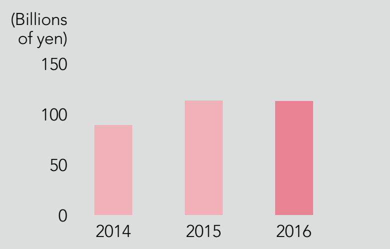

## Operating Margin



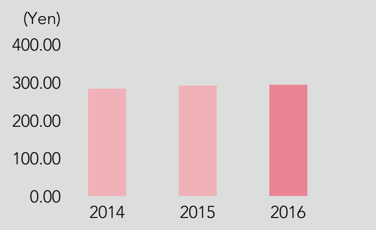

## Profit for the Year Attributable to Owners of the Parent



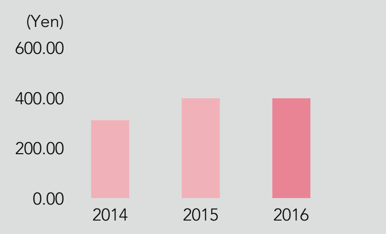

## Underlying Net Profit



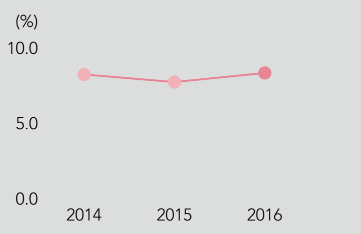

## Basic Earnings per Share



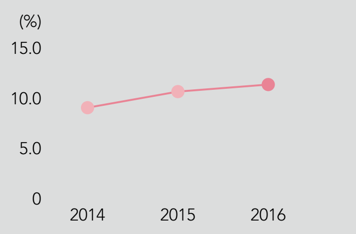

## Basic Underlying Net Profit per Share



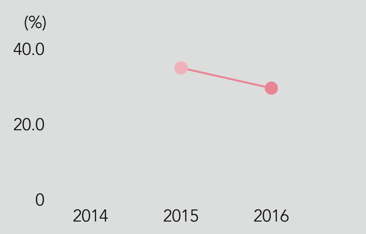

## Return on Equity (ROE)



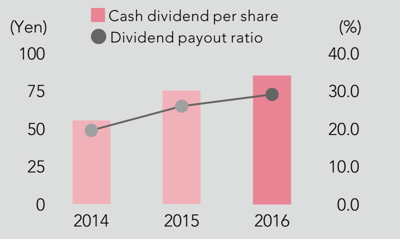

## Underlying ROE



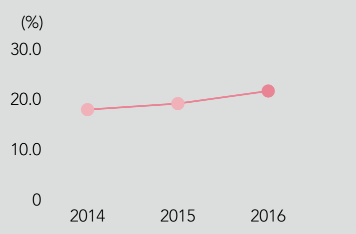

## Ratio of Equity Attributable to Owners of the Parent




## Cash Dividend per Share/Dividend Payout Ratio




## Underlying Dividend Payout Ratio



# Performance 2016

Message from the CFO: Fiscal 2016 Results and Fiscal 2017 Outlook

International business is growing rapidly. Japanese business is aiming for new growth through reforms.

Shoichi Nakamoto

Representative Director and
Senior Executive Vice President & CFO

## Fiscal 2016 Results

**Core Japan business progressed steadily, while international business grew rapidly and outpaced market growth and competitors.**

In fiscal 2016, consolidated earnings were robust in our Japan business, while the Dentsu Group's international business grew at a rate that substantially outpaced that of competitors.

Japan business saw a gross profit of ¥363.2 billion (up 4.3% year on year,* with organic growth up 4.5%). This was due to an improved gross profit margin at the parent, as well as contributions from domestic Group companies. The underlying operating profit** in Japan was ¥97.3 billion, up 7.7% year on year.

In international business, dealings involving existing clients expanded, and we steadily won new accounts. In addition, we conducted mergers and acquisitions to help increase competitiveness and acquire the resources necessary to create a platform for future growth, such as the acquisition of the Merkle Group Inc. (Merkle), based in the US. As a result, the gross profit of our international business concerns in fiscal 2016 was ¥426.0 billion (up 2.9% year on year, with organic growth up 5.7%) despite the effects of currency translation. The growth rate excluding currency translation effects was 18.1%. By region, the Americas grew 28.9% year on year, EMEA (Europe, the Middle East and Africa) rose 12.6%, and APAC (Asia Pacific, excluding Japan) rose 12.2%. All regions maintained strong momentum and outperformed market growth. The underlying operating profit for our international business was ¥69.0 billion (down 1.6% year on year), but up 11.2% excluding currency translation effects.

## Key Measures for Fiscal 2017

### We will establish a platform for sustainable growth through drastic reforms of our Japan business. We will accelerate growth through strengthening and expanding the competitive base of our international business.

The Dentsu Group has implemented various measures to achieve its medium-term management plan. As a result, even given the recent effects of currency translation, at the end of fiscal 2016, earnings on the whole reached levels initially targeted for fiscal 2017.

Meanwhile, we are still developing working environment reforms in our Japan business, to resolve structural issues such as long work hours (please see page 5 for details).

In fiscal 2017 we plan to focus on resolving structural issues, the root cause of many of our concerns, and reforming our Japan-based business as quickly as possible.

In fiscal 2017, we plan to invest a total of ¥7.0 billion, comprising about ¥2.5 billion in human resource reinforcement at the parent company; some ¥3.0 billion in digitalization and IT to reduce and streamline labor; and ¥1.5 billion in office facilities. We consider these investments necessary to improve productivity over the medium term, and are working to evolve our Japan business and become a leader that establishes new work styles.

In our international business, while keeping an eye on changes in the macro environment and appropriately identifying various risks, we plan to maintain and increase the growth momentum. In 2016, the Dentsu Group acquired Merkle, one of the largest independent CRM service companies in the US.

We will continue to promote strategic and proactive mergers and acquisitions (M&As), which can lead to growth opportunities. We will combine these moves with our established ability to identify changes in business activities and consumer behavior. In addition, we aim to uncover business opportunities at existing clients and win new clients by proposing creative and unique solutions that integrate newly acquired capabilities with our established competencies in consumer insights, creativity, and technology.

### Capital policy and dividends

Our top priority is to continue investing in growth domains in the pursuit of sustainable profit growth. Further, we plan to steadily enhance capital efficiency in order to provide our shareholders with comprehensive returns and improve ROE over the medium term. We will achieve this by combining long-term improvement in shareholder value through business growth, together with ongoing and stable dividend payments, as well as flexible share repurchases.

For the fiscal 2016 dividend, we decided to pay out ¥85 per share, with an interim dividend of ¥40 and a year-end dividend of ¥45. The decision was made after careful consideration of the current fiscal year's operating results; the medium- and long-term performance forecast; and our financial status, bearing in mind future investment plans and our financial soundness.

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

* Year-on-year refers to comparisons between the current consolidated accounting year (January 1, 2016 – December 31, 2016) and the same period of the previous year (January 1, 2015 – December 31, 2015).
For the Company and consolidated subsidiaries with fiscal years ending in March, the period included for consolidation is between January 1, 2015, and December 31, 2015.
For consolidated subsidiaries with fiscal year-ends in December, the consolidation is also January 1, 2015, through December 31, 2015.

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

# Japan Business (I)

Robust Business Foundations

## Competitive Advantage in the Japanese Market

The Dentsu Group has acquired a leading position in the Japanese market by virtue of its creativity, ability to execute and innovative solutions. In addition to helping its mainstay clients—prominent Japanese corporations—develop their operations overseas, the Dentsu Group helps DAN's core clients—leading global companies—develop their business in Japan. In these ways, we are further cementing the Dentsu Group's business foundations in Japan.

In the lead-up to the Tokyo 2020 Olympic and Paralympic Games, we are doing our best to address digitization and other societal changes. In doing so, we aim to help invigorate Japan and help the country grow as we roll out the Dentsu Group's unique solutions in spheres including sports, content and digital domains. This will allow the Group's Japan business to leverage growth opportunities for the Group.

Future movements, actions, and sports events taking place around Japan

| | | 2017 | 2018 | 2019 | 2020 | 2021 and Beyond |
|---|---|---|---|---|---|---|
| Movements and actions related to TOKYO 2020 and digital society | | Sophistication of various services toward 2020 brought by accelerated advancement of intelligence in ICT in future society | | | | |
| | | Social infrastructure improvement toward the Tokyo 2020 Olympic and Paralympic Games | | | | |
| | | Expansion of content distribution on the Internet (sports and entertainment, etc.) | | | | |
| World Sports Events | Olympic and Paralympic Games | | Pyeonchang (winter) | | Tokyo (summer) | Beijing (winter 2022) |
| | Asian Games | Sapporo (winter) | Jakarta (summer) | | | Hangzhou (summer 2022) |
| | FIFA World Cup™ | | Russia | France (Women's) | | Qatar (2022) |
| | FIFA Club World Cup | UAE | UAE | | | |
| | World Championships in Athletics | London | | Doha | | Oregon (2021) |
| | World Aquatics Championships | Budapest | | Gwangju | | Fukuoka (2021) |
| | FIVB Volleyball World Championship | | Japan (Women's) | | | |
| | Rugby World Cup | | | Japan | | |
| Other major events inside and outside Japan | | EXPO Astana 2017 (Kazakhstan) | Commencement of practical broadcasting for 4K/8K ultra-high-definition televisions | | EXPO 2020 Dubai | World Masters Games Kansai (2021) |

The Dentsu Group's Japan business has a distinctive global business model, since we are neither a branding nor a media agency. Rather, we offer Dentsu-specific solutions to issues our clients face.

The Group's Japan business is being called on to innovate in order to address the myriad issues that are arising, such as problems in the work environment and inappropriate digital operations. At the same time, the Group must maintain its strength in resolving the various issues that clients face.

Amid these innovations, below are some examples of the solutions the Dentsu Group is creating to provide significant value by leveraging media, digital solutions, and technology.

- We are significantly increasing the effectiveness of all solutions by making consumer behavior visible, both through digital and non-digital data.
- We are providing consumers instantly with optimal content and solutions by linking to real-time weather, time and positioning data.
- By leveraging artificial intelligence and ultrahigh-definition image (4K and 8K) technologies, we are making sports and other content more enjoyable.

In the lead-up to the Tokyo 2020 Olympic and Paralympic Games, we are launching full-fledged initiatives throughout Japan in such areas as sports, culture, urban development and technology. As Japan's leading solutions company, the Dentsu Group is committed to helping clients in business activities related to these categories.

Furthermore, we aim to enhance the global value of the Dentsu Group by extending across the globe the Dentsu-specific solutions we have created in Japan.

At the same time, in Japan we will create new value and communicate it worldwide.

## While pursuing reforms, we will further hone our unique strengths to promote Dentsu-specific solutions.

Yoshio Takada

Representative Director and Executive Vice President

# Japan Business (Ⅱ)

Sports Marketing

## Supporting Sports and Connecting People

Sports marketing covers a range of operations, but at its core involves supporting athletes and creating an environment where they can perform at their best. This involves providing support for the bidding to host sports events, in addition to the other services we provide, which include the creation of marketing schemes and the recruitment of sponsor companies. We feel that these persistent efforts help nurture athletes and lead to decisions to hold sports events. As one example, our efforts led to the selection of Tokyo as host of the 2019 World Judo Championships in 2016.

Over the past few years, we have also been pushing initiatives to connect athletes with their sponsors and supporters. We want to create opportunities for athletes to directly thank their sponsor companies, visit regions not hosting events or disaster-stricken areas and interact with the local children. These activities help cultivate long-term sports fans, while at the same time increasing the motivation of athletes.

## Partnering with Stakeholders: Key to Success

Sports marketing requires various rights related to broadcasting, marketing, and industry promotion. On the basis of its highly regarded track record, Dentsu has acquired many of these rights. But, of course, we cannot do everything on our own. Bidding to host world championships, for example, involves thorough communication and teamwork with companies and various relevant organizations, such as broadcasting stations, international sports federations, and domestic sports governing bodies, starting from several years prior to the event.

If the bid is won, the next step is to partner with the venue and sponsor companies, as well as with many other organizations and individuals, including the athletes themselves. Our role is to continue to build relationships with various stakeholders.

During the 2016–17 season, we began live broadcasts of all V League matches (Japan’s premier volleyball league in Japan) through Perform Group, which is based in the UK.

We expect that enabling viewers to watch matches wherever they are and whenever they wish will help cultivate more young fans. For overseas sports marketing, we are considering partnering with DAN.

## Toward 2020

In many of our divisions, Dentsu is pushing initiatives in preparation for the Tokyo 2020 Olympic and Paralympic Games. We will do everything in our power to provide athletes the optimal environment and conditions, so that in 2020 they can perform at their best. Even after 2020, we plan to continue working with various stakeholders to help sports generate additional value for society.

Yukako Akabane

Director, Sports Department 1
Sports Division

# Japan Business (Ⅲ)

Digital

Norihiro Kuretani

Executive Officers, Dentsu Inc.
Representative Director & CEO, Dentsu Digital Inc.

## Digital Underpins All Our Strategies

It may seem that for the Dentsu Group, "digital" is a specific business area or service name. Yet we are already living in a digital world, and the Dentsu Group places digital compatibility at the heart of all businesses and strategies.

However, it does not mean that we are limited to solutions only using digital technologies. Without a doubt, digital technology is deeply engrained in every aspect of our daily lives and our clients' activities, and marketing is rapidly undergoing a widespread digital transformation.

Yet the Dentsu Group is media-neutral when it comes to solving clients' challenges, and it uses a comprehensive and integrated approach to generate the best solutions. I believe that the source of our strength lies in creativity.

## Reinforce Ability to Execute Digital Strategies

The creativity offered by the Dentsu Group is unique, because we go beyond mere concepts to put ideas into action and provide meaningful solutions.

Within the Group, Dentsu Digital contributes solutions based on digital technology.

Dentsu Digital offers a wide service lineup that encompasses all aspects of digital marketing. It also can go beyond planning and execution to provide one-stop services that include consulting, development and implementation, and operation. In addition, it has personnel with experience and knowledge of both digital technology and overall marketing based on the partnership with the Dentsu Group.

Dentsu Digital is solidifying and improving its cutting-edge capabilities, while rapidly securing and training specialized personnel. In addition, it plans to expand and deepen synergies with the capabilities of the Dentsu Group that include content, media, creativity, and marketing, as well as pursue alliances and collaboration with external partners.

The partnership with DAN will become even more important. Aiming to be 100% digital economy business by 2020, DAN is developing and deploying methods and tools that incorporate its extensive digital knowledge on a global scale.

Dentsu Digital aims for further growth by bringing these tools to Japan, as well as by providing DAN with advanced solutions and methods that it has developed in Japan.

# Japan Business (Ⅳ)

Communication Design

## Entering the Solutions Industry

The challenges faced by companies and brands are becoming increasingly complicated, and cannot be solved by marketing alone. In fact, the key to solving many of the challenges lies in uncovering and addressing overarching social issues. As such, Dentsu's role has expanded from advertising communication to the larger area of solutions.

The solutions industry is one of the fastest growing industries. The world is full of problems, with few who can solve them. I believe that Dentsu has a large advantage in this field for the following three reasons.

The first is that Dentsu has experience. Japan is one of the first countries to experience many of the social issues that the world is, or will be, coming up against. Dentsu has over 20 years of experience helping its roughly 6,000 clients respond to many of these challenges, and can apply this experience globally.

Keiichi Higuchi

Managing Director/
Executive Creative Director
Communication Design Center

## Discovering Opportunities

The second reason is our approach. Many companies, and even countries and regions, are not leveraging their full potential. In other words, potential assets are often treated as liabilities.

While many merely shrink from criticism, Dentsu takes the opposite approach. We fully respect true potential and create conditions to uncover that potential. Instead of taking a negative approach and focusing on the problem, we look for opportunities.

People want to participate in positive solutions, so we create a space where such people gather. Emotional involvement—that maintains and increases the motivation of groups of companies, employees and consumers that want to participate—is the key to ensuring the sustainability of an activity. I believe that this will become even more important in the future.

## Deeper Insight Leads to Good Ideas

The third reason Dentsu has an advantage in the solutions industry is its ideas. Good ideas are one's drill down into the depths of human consciousness and behavior to generate true solutions. Dentsu leverages the insights it has cultivated in the advertising industry to create real solutions that look at the issue on a deeper level. For example, what may look like problems due to education or sluggish business activities may actually be due to a lack of community, and involvement in sports is one effective way to address the issue. If the approach to every problem is one-dimensional, then the solution will be limited.

We work to come to grips with an issue's underlying essence, and never stop thinking about how to unleash its true potential. As a result, the target of our brainstorming may change, as one issue aligns with other issues or as we are able to see more deeply into a problem. I believe this is a substantial opportunity for Dentsu.

# Japan Business (V)

Creative Planning

## Areas Where We Can Demonstrate Creativity Are Rapidly Expanding.

Recently, Dentsu has been receiving requests from clients that go beyond the creation of advertisement slogans. We are being asked to identify problems, build businesses and products, and provide comprehensive business support. Dentsu's creativity lies in its ability to manifest comprehensive capabilities in many areas, from identifying the essence of a problem and proposing end goals to generating new value that leads to rapid growth or transformation. The role of our creative planning department is to maximize these capabilities of Dentsu in the rapidly growing target areas.

## Insights Reveal Essence of Problems

The key to discovering challenges lies in finding the essence of the problem. One of the reasons Dentsu excels in this area is because each employee is constantly polishing their insights on people and society. I believe that another reason lies in the specialization and diversity of Dentsu's employees.

For many challenges, the essence can be found by taking a birds' eye view. Even for a product, the key is looking at it from the perspective of a business, corporate management and even society. It is crucial to take a multifaceted approach.

At Dentsu, the parent company alone has about 7,000 employees with specializations in a diverse range of fields. Dentsu has many employees who act as role models both in terms of skills and compassion. I believe that this is one of our key strengths.

These employees become team leaders, and by creating teams of employees with various areas of expertise and perspectives, we can create value through innovation. Recently, we have seen a shift from a proposal-based model to a co-creation-based one, where clients also become part of the team.

In addition, marketing is increasingly requiring personnel with more than one specialization. In recent years, Dentsu has been encouraging employees to experience working in multiple departments. As a result, I believe we have secured a way to further expand our abilities and diversity.

Chieko Ohuchi

Managing Director/
Executive Planning Director
Creative Planning Division 3

## Responsible Output

We realize that our work, which entails constant output, has a large impact on society. Thus, we believe that not only is there a need to properly check the quality of our output, but also to ask whether we are solving societal issues and fulfilling our social responsibility. This is the role of the Creative Planning Division.

Are we capturing global trends and understanding social contexts? Together with our clients, what messages and products are we sending into society? The department's personnel, myself included, are continually asking these questions while we conduct our daily work.

# International Business (I)

Tim Andree

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

## The Arts of Disruption and Synergy in a Shifting Global Landscape

In the context of the global economy, our industry, and Dentsu's own business, the pot stirred and stirred in 2016—creating changes in significant and unexpected ways for 2017. Geopolitical instability and uncertainty have manifested themselves in many ways through the many markets we call home. Emotionally, politically, and economically, we are witnessing a turning inward; globalization is in retreat; we have seen a rise in nationalism, protectionism, and bilateral trade agreements.

Global GDP expectations remain positive, but uncertainty, insecurity, cross-cultural tensions have real and tangible impact on the commerce we aim to stimulate through our efforts. In times like these, the Dentsu Aegis Network takes every opportunity to reinforce with our people the importance, the opportunity, and the privilege we have of working across borders, of working in a human business that touches real people—clients and consumers—in virtually every corner of the globe.

At Dentsu Aegis Network, we are great believers in the incredible dynamic that comes from connecting our people from diverse markets and specializations. As with a chemical reaction, it invariably produces great energy and enthusiasm, and consistently reconfirms for us that we are in a business of building bridges.

In 2017, our industry is adapting to the new realities of a consumer-led economy that is transparent and interdependent. Walls, siloes, and barriers cannot work in this environment. Convergence, addressability and real-time—as driven by data—are the new currency of competitive advantage. As the digital economy scales with the further advancement of AI, IoT, Robotics, neuro-sensor technologies, augmented and virtual reality, and other new platforms, we are witnessing and experiencing a clear and conspicuous cycle of disruption and bridge building, repeating itself ad infinitum.

As disruption continues to occur at a faster and faster pace, so increases the need for us to bridge the new specializations that necessarily arise. Similarly, as we continue to broaden and deepen our capabilities in more markets around the globe—through organic evolution as well as acquisition—so increases the need for us to build bridges and mutual synergies between all of our markets.

In the course of my eleven years with Dentsu, we have pursued globalization and digitalization with great success, which can be measured in our overall growth, our expansion of digital revenues and the percentage of our business that is derived from outside of Japan. Since the acquisition of Aegis Media and the formation of Dentsu Aegis Network in 2013, we have delivered consistent outperformance of the market and our competitors, in organic growth, top-line growth, and operating profit margin.

That growth continues to be accelerated by strategic acquisitions. With 45 acquisitions in 2016, totaling an anticipated consideration of £2.6 billion (GBP), we led the industry in M&A in FY2016. For Dentsu, these acquisitions are the accelerant—not the strategy—and they have performed as such. Acquisitions have allowed us to scale in key markets and in faster growing segments of the business. Further, our strategic intent to build the leading data and CRM capabilities we have today, would not have been possible organically.

As we proceed, it is not only our responsibility, but our imminent opportunity, to build more bridges and drive more mutual benefit between all of our operations, and specifically to connect our strength in Japan with our best-in-class capabilities throughout our global network. This opportunity lies in two key areas, ripe with potential for synergy.

### CLIENT SYNERGY: Building bridges through clients

Delivering more value to our clients in more ways, across more geographies, and through more relevant aspects of their business is our ultimate aspiration as a solutions network, because multi-dimensional value for clients is the primary indicator of an evolved, indispensable, global offering. There remains unrealized potential in extending numerous relationships with global marketers that reside with Dentsu Inc. to the global markets and offerings of Dentsu Aegis Network (including overseas Dentsu offices). To this end, we look to extend synergies already realized and to put a major emphasis on identifying and realizing significant new client synergies between Dentsu Inc. and Dentsu Aegis Network (in both directions).

### TALENT SYNERGY: Building bridges through talent

As always, the primary value to our clients is to understand, engage and move consumers to act, in every market in which our clients compete for share. Consequently, the quality, diversity, strength, and knowledge of our people—the human element—will remain at the core of our business.

One outsized strength of Dentsu's over the last several years has been the performance of our acquisitions in every respect. We have been extremely successful identifying the right organizations, attracting them, aligning motivations and stimulating post-transaction synergy and growth. We've also retained key talent post acquisition at a rate, which remains at a level higher than the industry average. This is an under-reported and inestimable advantage for this network. And an ongoing testament to the people in it.

Another critical opportunity moving forward is to combine the world-leading specialist capabilities of the Japan-based business (Dentsu Inc.) with the global experience and platform of the overseas network (Dentsu Aegis Network). We are currently five years into a talent agenda designed to stir the pot by moving talent more regularly and fluidly around the network. In particular, this agenda stimulates positively disruptive additions to the overseas network from Japan HQ, and vice versa.

### Potential provided for shareholders : Building bridges into value

Talent and client synergies do not merely result in a more truly global network, but more fully realized potential for shareholders. This is because talent and client synergies are the cornerstones of organic growth, a metric on which Dentsu has outperformed the industry; they are integral components of our M&A deals, which tend to favor strategic and revenue synergies over mere cost-cutting rationale; they are a core driver of how we achieved our targets and consistently outperform the peer group, such as Dentsu Aegis Network's around two times organic growth vs the peer average in four consecutive years after the acquisition.

Indeed, our distinct imperative as a global solutions network for our client partners is to play a leadership role in both the stirring of pots—i.e. disrupting the status quo, through innovation, new data, new insights, and new ways of moving consumers—and BUILDING BRIDGES to bring value.

# International Business (Ⅱ)

Jerry Buhlmann

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

## Transforming our client's brands to win in the Digital Economy

### Disruptive innovation is key in a rapidly changing digital economy

The digital economy remains the only growth certainty of the next five years, and the pace of change over the next five years will be faster than the last 15 years. This new economy is underpinned by technology development which is disrupting industry and the way we work—AI, IoT, blockchain, robotics, sensor tech and AR/VR. In fact, it is estimated that combined revenue from AR/VR will reach around $150bn by 2020, with AR accounting for the majority of this.

Within this context, traditional global brands are being disrupted by new, local, digitally enabled and data driven entrants and are challenged to respond faster, in new ways and with market relevance. This disruption to traditional business models will continue, where data is increasingly the source of competitive advantage. Data is central to delivering more personalised marketing and advertising services. Consumers will continue to drive demand and ever-increasing volumes of data mean that competitive advantage will lie in the ability to turn consumer data into actionable insight.

This evolving environment will require businesses to develop and integrate systems, platforms and transversal workings with their organisations, supported by a strong performance focused culture. Businesses need digital economy solutions—across-consumer insights, data, creativity, performance and accountability—to transform for the new economy.

### Our strategy - accelerated by acquisition and culture

Given the pace of change and growth of the digital economy, the Dentsu Group must maintain its positive momentum in operational and financial performance to stay well positioned to access high-growth segments, capabilities and geographies for our clients.

We achieve this at Dentsu Aegis Network by staying focused on our strategy to be a 100% digital economy business by 2020. Dentsu Aegis Network has consistently outperformed the peer group average on an organic revenue basis, by a factor of two to three times over the past five years. This outperformance has been achieved by 1) Leveraging our global scale and a consistent offering across our network. 2) Leveraging our unique operating model, with one P&L per market and key capability stacks (e.g. mobile/ video) that ensure we are truly differentiated. 3) Living our high performance culture everywhere – with one vision to innovate the way brands are built, underpinned by one set of values–collaborative, agile, pioneering, responsible, ambitious, with a clear focus on diversity to drive innovation, and 4) Ensuring efficient and optimal utilisation of capital–with a particular emphasis on acquisitions which are high growth, add strong capabilities and are integrated into our business to drive higher long-term growth. In 2016 we signed 45 deals making us the most acquisitive holding group. In fact, the acquisition of Merkle, announced in Q3 2016 was the largest in both the industry globally, as well as the biggest that the Dentsu Aegis Network has ever made. This acquisition marked a step-change for our Group providing immediate scale, talent and new capability in high quality data, analytics and CRM.

### Strategic Priorities

1. Grow revenue and scale in high-growth segments
2. Transform our proposition and service offering through innovation
3. Create a data platform and analytics suite
4. Grow new business and international clients
5. Drive new models in content and media value chain
6. Build scalable systems and platforms

By retaining our focus on these key strategic objectives, we will continue to build on our momentum and help our clients to optimise every aspect of marketing to drive value and results.

### Data is the source of competitive advantage/currency of business

The Dentsu Aegis Network recognizes data as a source of competitive advantage for our clients. The business is pivoting to people based marketing, targeting "real individuals" rather than audiences. This will be enabled by M1, a people-based audience insights planning and activation platform developed by Merkle. We will leverage data to deliver competitive advantage to our clients. To do that we have invested in innovation, data platforms and prime data capabilities. We are prioritizing data governance across our global operations with a robust approach to privacy and protection.

This focus on data driven solutions will enable our business to provide addressable solutions, delivered in real time driving better consumer engagement through to transaction. Ultimately enabling us to deliver different and better solutions for the digital economy to drive superior brand growth for our clients.

# International Business (Ⅲ)

Nick Priday

CFO, Dentsu Aegis Network

## Consistently strong financial performance

Following Dentsu's acquisition of Aegis in March 2013, the financial performance of Dentsu Aegis Network has been very strong. This is demonstrated by high levels of both revenue growth and profit growth over that period.

In the three years from 2013 to 2016, at constant exchange rates, revenue has grown by 55% and underlying operating profit has grown by 60%, or an average of 20% per year.

The growth in our revenue over this three-year period has been driven by sustained and consistent market-leading organic revenue growth, complemented by targeted acquisitions which add talent, leadership, best-in-class capabilities and scale to ensure we can continue to best meet the needs of our clients.

In fact, the contribution to our revenue growth from organic and inorganic means over the period it is split almost exactly 50:50. Organic growth exceeded acquisition growth in 2014 and 2015, with acquisition growth being higher in 2016, a year in which we continued to deliver market-leading organic revenue growth at 5.7%.

## Demonstrating strategic intent and effective capital utilization

We set out at the beginning of 2016 to show real strategic intent around our M&A strategy. This was because the market that we operate in, and the market that our clients operate in, is changing rapidly and we wanted to continue to show strong strategic leadership in that market context.

This requires the effective utilization of our capital. Dentsu Inc. and Dentsu Aegis Network each have robust balance sheets in their own right, but on a consolidated Group basis, we are in a position of strength from which to pursue our strategic priorities.

Consistent with our strategic intent, we signed 45 deals relating to acquisitions and investments in 2016, 35 of which were new acquisitions. The average deal size doubled, even excluding the Merkle deal, as we really focused on executing against key strategic priorities. We spent over £1.1 billion on these new acquisitions and investments, as well as on earn-out payments relating to prior period acquisitions. Our acquisitions clearly help us to accelerate progress against our strategic goals but they also deliver strong financial returns for our shareholders. We have a good track record on M&A over the longer term. Going back over the last ten years, acquisitions have averaged a post-tax return on invested capital of 13.7%, significantly above our post-tax weighted average cost of capital.

The acquisition of Merkle is the largest deal that the Dentsu Group has completed since the formation of Dentsu Aegis Network and provides many important strategic benefits that have been outlined above. The combined proposition is compelling and will become increasingly compelling as the digital economy grows. The broader integration of Merkle has progressed very well and in line with our plans.

## Importance of good cash and working capital management

In the context of a changing market and our intent to continue to show strategic leadership, it is important we continue to focus on ensuring consistently good cash and working capital management across our Group so that we can continue to invest with confidence – whether in M&A opportunities, colocating our client facing brands in common office space to promote collaboration and integration, or in technology, platforms and systems. We will certainly need to continue to invest in our business to deliver against our strategic goals for 2020 and beyond.

We reported a strong cash and working capital performance in 2016 with operating cash flows exceeding operating profits as a result of a modest working capital inflow in the year. Looking forward, we have introduced a cash metric to the financial performance element of the senior management bonus scheme from 2017, intended to incentivize and reward strong cash management practices across our businesses.

## Investment in common platforms and systems

The market continues to change and become increasingly complex. That complexity provides opportunities for us to grow our business but with complexity comes cost. We need to continue to address the cost of complexity by standardizing and improving our end-to-end processes and developing common platforms and systems from which to manage our business.

Just as we recognize that quality data is a source of competitive advantage for our clients, so it is too for us as a business. We will therefore continue to make investments in our finance and people systems and technology platforms more generally, which will provide consistent, timely and robust business information and data sets to enable us to better manage our business.

# International Business (Ⅳ)

Valerie Scoular

Global HR Director
Dentsu Aegis Network

## A high performance culture with richer experiences and the greatest opportunities

Since 2013 we have grown from 15,000 to over 38,000 diverse and talented individuals. We are a bigger, better business and we retain our ambitious, challenger mindset. Our high performance and continued success is fuelled by our culture – one vision and one set of values uniting our people across brands, markets, and functions. Our values of agile, collaborative, pioneering, responsible, and ambitious are at the heart of our culture. These values guide the behaviours, actions, and mindsets needed to deliver our vision of Innovating the way brands are built.

Every year we conduct an extensive employee engagement survey which is used to inform and guide our people and business strategy. It also provides a channel for employees to feed back and tell us how we are performing. The survey results are extremely positive with a response rate of 90% and an overall engagement score of 73%, with 80% of the results exceeding the external media norm.

Our people strategy is focussed on growing our leadership for 2020 and supporting and enabling them to succeed for our clients, people, business, and society. This is done in the context of the pace and speed of change in the digital economy and the increasing need to navigate complexity while embracing new and innovative ways of working. In this business environment, great leadership is more critical than ever.

## Leadership@DAN: re-defining leadership in the digital age

In this context, we reviewed what leadership means for 2020, the digital economy and as Dentsu Aegis Network continues to scale and grow. Our data and research showed that while 85% of people said leadership should retain much of the same qualities, it should be refined for the digital age.

The new framework is based on leadership mindsets and is shaped around our five values which provide a simple, effective, and differentiating way of defining what Leadership@DAN means for us. To support our people, we are now embedding and bringing this new framework to life across multiple employee touchpoints from hiring decisions, feedback tools and guidance.

The people strategy also focuses on supporting, growing and retaining our talented people. We do this by providing stretch careers and experiences enabling people to gain the knowledge and skills to deliver for our clients. By using the scale of our network, we facilitate career moves and development opportunities across the business, helping to develop global leaders.

The data from the employee survey and analysis of employee turnover tells us that career development is a key driver of engagement.

### Route 500 – accelerated careers at the forefront of the digital economy

Route 500 is our unique career accelerator programme, enabling the career moves of our high potential employees. It supports people to drive their career and move into critical leadership roles by providing access to new development opportunities; a network of people across the business; and resources to further develop leadership capabilities. It also creates a global pool of talent with the right skills and the relevant experiences for our clients and our business.

New trends in employee expectations about working practices were identified through our employee survey. The drivers of freedom, control, and responsibility were first highlighted through gender diversity and our female population, and they were also shared by our millennial employees.

### Agile working – empowering employees to perform to their best

Part of the success of Dentsu Aegis Network is our ability to be agile, fast, and flexible. Empowerment, collaboration, and agile working practices are key drivers of the success of our unique operating model which delivers integrated solutions to our clients.

In our employee engagement survey, empowerment scores highly with 86% of respondents saying they are able to make the decisions they need to perform in their role. This level of empowerment is also critically important as employees are increasingly wanting more choice in when and how they work. It also underpins our commitment to attracting new and diverse world-class talent into the organization.

To further bring this to life for our business, we define agile working as, empowering people to perform to their best; to deliver results with the freedom and responsibility to decide when and where they work.

While balancing commitments to our clients and maximizing the benefits of collaborating with colleagues in the office, agile working turbo boosts our unique operating model and empowers our people to deliver results with maximum flexibility and minimal constraints.

By attracting, developing, and retaining world-class talent we can continue to drive stronger performance and create different and better solutions for our clients.

# International Business (Ⅴ)

Business Expansion of the Dentsu Group

Acquisitions accelerate our strategy and are motivated by growing scale, geographic and capability in-fill, and innovation with focus on digital capability. They frequently originate in market and are supported by a central specialist M&A team who focus on value-enhancing acquisition that deliver strong financial returns.

Since Dentsu Aegis Network was established in 2013, more than 100 deals have been signed enabling the business to further support the digital needs of its clients by focusing on digital capabilities, CRM and data, brand commerce, customer experience, performance marketing, and social & mobile.

In 2016, acquisitions provided strong geographic and capability in-fill in 20 markets across the Americas, APAC and EMEA – with acquisitions evenly distributed across the three regions.

Our acquisition strategy ensures we are bringing in new capability and entrepreneurial talent to strengthen our service and offering to clients. The benefits for acquired businesses is that they join a one P&L led environment where they become part of a global operating model. This opens up access to and opportunity with new clients, people, and products. This contrasts with the peer group who are often siloed. For Dentsu Aegis Network, the benefit is talent and capability at scale and for our clients that means the best talent designing and delivering the best solutions for them.

### Merkle acquisition: game-changing for Dentsu Aegis Network and the largest in the industry

In 2016, Dentsu Group announced the acquisition of Merkle, the largest deal since the formation of Dentsu Aegis Network. This deal combined Dentsu Aegis Network, the fastest growing global Advertising and Media Group, with Merkle, the largest independent data analytics, CRM & performance marketing agency in the US. This was a unique opportunity, catapulting Dentsu Aegis Network and Merkle to the forefront of the rapidly growing digital economy by bringing together two businesses with strong complementary strategic, produce, cultural and geographic fits. For clients of both businesses, this has created a compelling offer as the digital economy grows, increasing the need for a powerful range of data-led, fully addressable and real-time capabilities. Dentsu Aegis Network's strategy, of becoming a 100% digital economy business by 2020, is further accelerated by this acquisition.

The following examples illustrate the companies that the Dentsu Group has acquired in the last year.

MERKLE

Merkle is a leading US-based data analytics, CRM, and marketing performance agency. This acquisition marked a step-change for our Group providing immediate scale, talent, and new capability in high quality data, analytics, and CRM. The acquisition of Merkle significantly increases our collective firepower to provide industry-leading, data driven solutions for our clients.

**David Williams** CEO, Merkle

Becoming a part of Dentsu Aegis Network further strengthens our position and allows us to accelerate our goal of being a world-class global performance marketing agency. Their vision, ambition, and perspective on the people-based marketing opportunity align with ours at Merkle. Ultimately, this is about doing great work for clients, and being part of Dentsu Aegis Network will enhance our ability to be true strategic partners to our clients.

gyro:

gyro is the largest independent global creative agency dedicated to B2B marketing. This acquisition positions Dentsu Aegis Network as the global leader of the growing B2B marketing sector. With the complementary and powerful combination of creative excellence, media expertise, top thought leadership, data, and analytics, as well as vast experience with emerging platforms, the combined gyro entity is now the largest in the world to specifically focus on the important growing B2B marketing sector.

**Christoph Becker** CEO and Chief Creative Officer

With Dentsu Aegis Network acquiring gyro, a major global strategic vision is coming together. Together, we are in the perfect position to lead and accelerate the much-needed reinvention of the B2B space through the total integration of creative, media, and technological power. This acquisition was an iconic moment for our clients and all our great talent around the world. It represents a before-and-after in the innovation journey to refresh, once and for all, the B2B space on the global stage. Together, Dentsu Aegis and gyro will reinvent the way we see, consume and feel advertising in the business-to-people space.

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iProspect. Driving Business Performance

Scorch is a leading performance marketing agency in Australia. The acquisition adds scale to the network's digital capabilities in the market, within search and more diversified areas of performance marketing including content, UX, data, web development, and social.

**Terence Hooi** CEO, iProspect Scorch Melbourne

This acquisition was a rare opportunity to join an organization which shares the same strategic vision and values of integrity and innovation that we hold dear. The digital-first strategic direction of Dentsu Aegis Network makes it a very natural partner for Scorch. We're very excited to embark on this new opportunity and the continued evolution of the business that the team and I built from the ground up over 10 years ago.

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COSIN consulting

Cosin is a leading Brazilian consulting firm. This acquisition builds on Isobar's strong consultative practice and support its ambition to transform businesses through brand commerce and creative use of digital technology.

**Alessandro Cosin** CEO, Cosin

Brand Commerce is about thinking of commerce not as a destination but as a path, and Isobar's vision aligns seamlessly with ours and how we advise and work with our clients already. Having worked with some of the largest companies in Brazil, we're excited to be part of such an impressive framework of competencies and scale quickly to service multinational clients around the globe.

# Network Brands

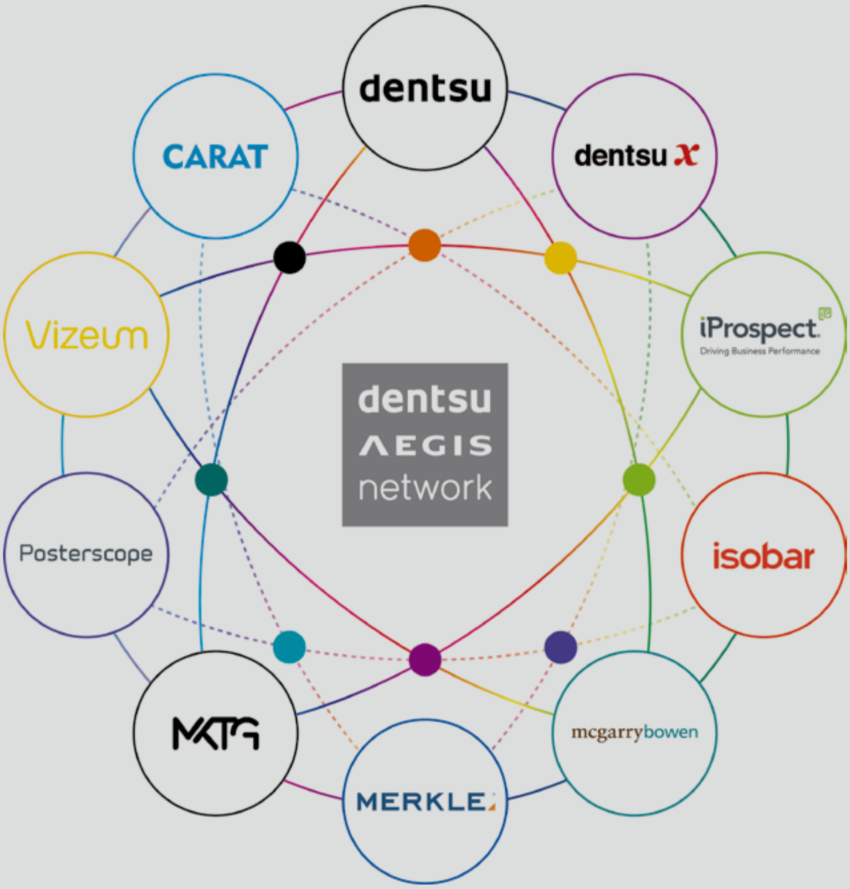
Network Brand

## Dentsu Group Brands That Enhance Our Capability

The Group has a unique operating model designed for marketing convergence and globalization, the major driving forces of the advertising world. This operating model is enabled by a one-P&L-per-country structure (outside of Japan), unique in the industry, which empowers our local teams to offer high, value-added and integrated services to clients at a local level, supported by a global infrastructure.

Key elements of this infrastructure are our ten global networks and five specialist/multimarket agency brands, which deliver our integrated, specialist approach, supported by local agency brands in certain countries.

Group companies collaborate seamlessly to achieve shared business goals, while our top-class professionals from various fields are incentivized to collaborate across agencies and countries, thus providing integrated, specialist client services.



## What we do for our clients

We offer a broad range of leading products & services across the marketing value chain, designed to help our client's brands win in the digital economy.

### Media and performance

**Media Ecosystem Development**
- Audience prioritization & insight
- Strategic communications planning
- Media planning and buying
- Programmatic execution
- Ecosystem evaluation & forecasting

**Performance Marketing**
- Tech-assisted digital optimization
- Conversion optimization
- Advanced analytics & attribution
- Data fusion & activation
- Econometrics & modelling

**Data, CRM & Direct Communications**
- Customer data consultancy
- Customer value strategy
- Data management & integration
- CRM & customer communications
- Intelligent content & editorial

**Media Innovation at Scale**
- Global media partnerships
- Mobile & social strategy
- Tools, systems & automation (M1)
- Machine learning & AI

### Content, creative and technology

**Customer Experience Design**
- User journey insight
- Omni-channel experience design
- Social & mobile customer service
- Physical & digital experience build
- Digital product development

**eCommerce & Service Design**
- Service & platform development
- Ecommerce consultancy & build
- Content management, portals, mobile, wearables, applications
- Web services, security & support

**Digital transformation**
- Brand commerce
- Digital marketing/ brand stories and immersive experiences
- Holistic digital ecosystems
- Digital product design
- Machine learning & AI

**Advertising Creation**
- Idea creation
- Omni-channel advertising creative
- Events management
- Social & content creation
- Data-driven creativity
- Entertainment Investment & Rights

**Brand & Digital Design**
- Brand communications strategy
- Web and app design
- Animation, graphic design & special effects
- Brand innovation—e.g., VR & AR design and production

## Global Network Brands

Ten agency specialist brands who work together to deliver leading marketing solutions for our clients.

| | | |
|---|---|---|
| CARAT | Carat | is the No.1 global media network, a market leader in digital and diversified media solutions. (RECMA, 2016) Carat was named Agency of the Year in ten countries in 2016. Carat's top clients include GM, Mondelēz, adidas, Diageo, Kellogg's and P&G. |
| dentsu | Dentsu Brand Agencies | is the world's largest and most awarded agency brand. Dentsu was named Agency of the Year Japan at the CLIO Awards 2016. |
| dentsu X | dentsu X | is an integrated agency network combining best-in-class communication and media planning services, content creation, technology, data and behavioral insights. dentsu X helps brands create integrated and personalized marketing solutions to cut through the noise of a saturated media market and meet rapidly changing consumer demands. |
| iProspect Driving Business Performance | iProspect | is a global, award-winning marketing agency driving digital performance for the world's largest brands. iProspect won 200+ awards globally in 2016, including being ranked No.1 Global Digital Performance Agency by RECMA. iProspect's top clients include Diageo, GM, Mondelēz , Estée Lauder, P&G and adidas. |
| isobar | Isobar | is a digital agency that transforms businesses and brands through the creative use of digital, delivering product and service design and brand commerce solutions. Isobar won 250+ awards in 2016, including the Campaign Asia Agency of the Year award. Isobar's top clients include GM, Mondelēz, P&G, Coca Cola, enterprise and Huawei. |

| | | |
|---|---|---|
| Merkle | is a data-driven, technology-enabled CRM and performance marketing agency. Merkle is the only agency recognised by Forrester as a Leader or Strong Performer in four WAVE™ studies around the customer journey. Merkle's top clients include Dell, Sanofi, AT&T, PNC Bank, HBO and Geico. |
| mcgarrybowen | is a creative agency network. mcgarrybowen has been named AdAge Agency of the Year three times, and was awarded AdAge's 2017 Comeback Agency of the Year. mcgarrybowen's top clients include JCPenney, United, intel, Kraft Heinz, The Clorox Company and Chevron. |
| MKTG | is a global lifestyle marketing agency that specialises in activating business-oriented marketing solutions through experiential, digital and social media. MKTG was named Field Marketing's Agency of the Year in 2016. MKTG's top clients include Diageo, Nike, AT&T, Coca-Cola, IBM and FedEx. |
| Posterscope | is the world's leading location marketing and out-of-home (OOH) media specialist. In 2016 the Posterscope network won more than 120 awards globally including being named as The Connected Agency of the Year by leading publication MediaTel. Posterscope's top clients include BT, Mondelēz, Crown Commercial Service, Diageo, Camelot and AB InBev. |
| Vizeum | is a strategic media agency, designing solutions to accelerate client's business growth by leveraging data, media and technology to understand and change people's behaviour. Vizeum had the greatest proportional increase in billings of the top ten global media agencies in 2016. Top clients include Shiseido, Burberry, 21st Century Fox, Total, AB InBev and IKEA. |

## Specialist/ Multimarket Brands and Platforms

| | |
|---|---|
| amnet | the Dentsu Aegis Network trading desk has a presence in 33 countries, and organically links all kinds of data to ensure more timely, perfectly targeted online advertising. |
| Amplifi | is a media investment platform which raises value across all media—from television to print, digital, and radio—on a global basis, seeking to reinvent the supply side of media through investments, partnerships, and real-time bidding. |
| Data2Decisions | is a consulting company which draws on all types of marketing data and analyzes what has worked and what has not to maximize clients' ROI. |
| Mitchell Communications Group | is a communications and PR company, Mitchell Communications Group boasts a diverse client portfolio that includes some of the world's top-tier corporations and high-profile brands. Covering a wide range of specialized fields, from consumer communications to corporate public relations, this company is known for delivering innovative ideas. |
| 360i | championing the fusion of search marketing and social marketing, and has earned top marks in the industry as a next-generation digital agency. |

# Governance

## Basic Perspective on Corporate Governance

Based on the Dentsu Group's corporate philosophy of Good Innovation, we are working to resolve issues stakeholders face by leveraging our core competencies in the marketing and communications domains. We thus aim to both create new value for society and contribute to the realization of a sustainable society.

Corporate Governance Policy ➡ http://www.dentsu.co.jp/vision/cgp.html

# Dentsu's Structure for Promoting Corporate Governance

In 2016, Dentsu transitioned to a company with an Audit and Supervisory Committee. We have transferred the authority to conduct some important business from the Board of Directors to the directors, in the interest of having a swift and effective business execution system.

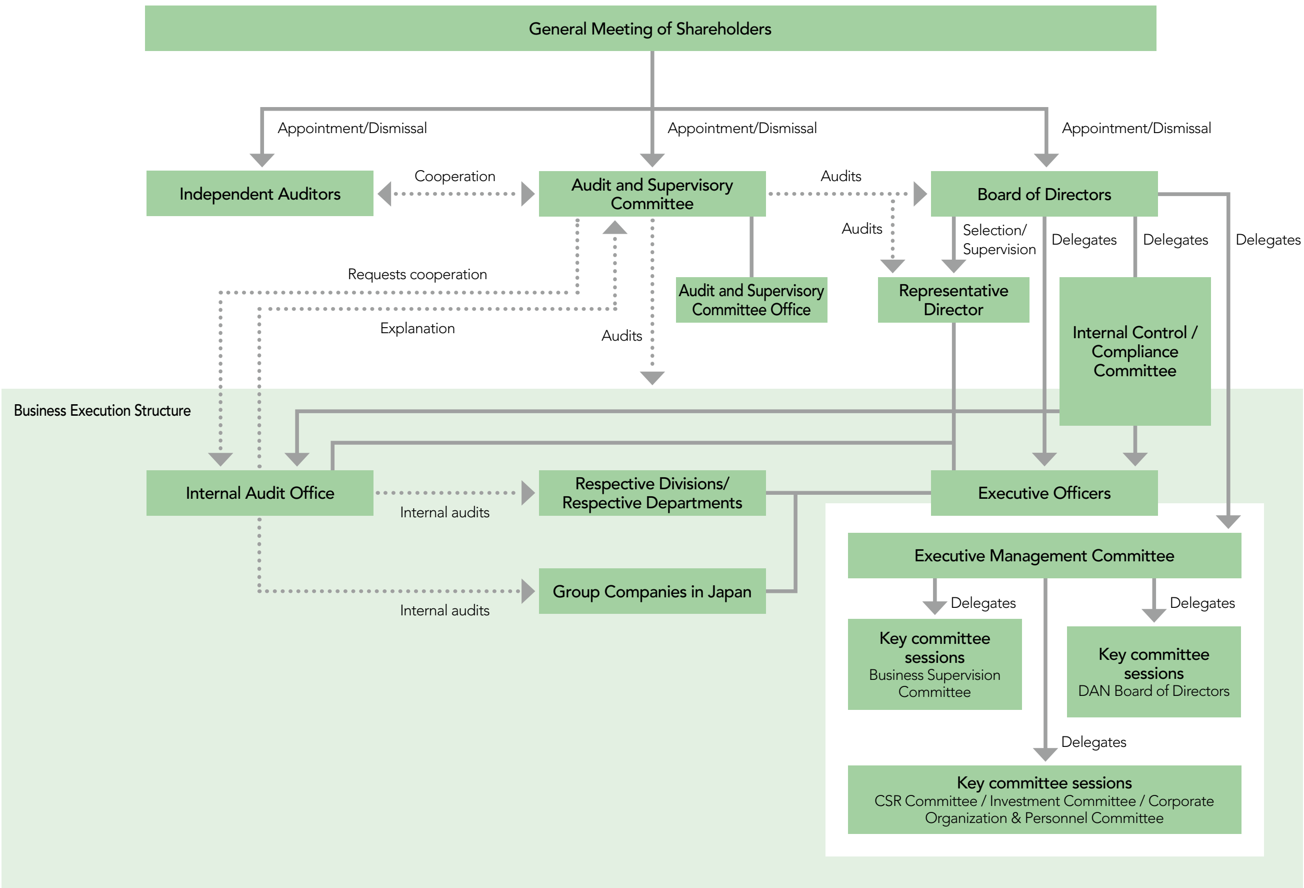
At the same time, we have reinforced the supervisory function of the Board of Directors over directors.

As of April 1, 2017, the Board of Directors comprises 12 directors (of whom four are independent outside directors). We have appointed four directors who are Audit and Supervisory Committee members (of whom three are outside directors).

Among the factors considered in nominating members of the Board of Directors are diversity in experience, insight and gender.

Under the Board of Directors is the Executive Management Committee, comprising executive officers, including the representative director and executive directors. This committee makes decisions on important matters relating to management and conducts preliminary deliberations on Board of Directors agenda items. The Executive Management Committee delegates decisions on important matters related to Japan business departments to the Business Supervision Committee, while decisions on important matters related to international business departments are delegated to the Dentsu Aegis Network Board of Directors. The Group uses this business execution structure for delegating revenue-related responsibility and authority for the Japan and international business departments.

Corporate Governance Structure



# Response to Implementation of the Corporate Governance Code

## Appointment of Senior Management; Nomination of Director Candidates

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

For the policies and procedures involved in nominating director candidates, please refer to the Corporate Governance Report.

Corporate Governance Report ➡ http://www.dentsu.co.jp/csr/pdf/governance_201703.pdf

## Formulation of the Independence Standards for Outside Directors

In order to ensure transparency of the Group's corporate governance structure, in November 2015, the Company formulated its Standards for the Independence of Outside Directors, as stated in part below.

The Company deems that any directors who fall into any of the following categories do not meet the standards required of independent outside directors.

1. **Persons who have certain relationships with the Company or its subsidiaries**
   a. Persons who perform executive roles (which means executive directors, statutory officers, executive officers, managers, employees, including advisors (the same applies hereafter), or such other persons as stipulated in Item 6 of Article 2, Section 3 of the Ministerial Order of Enforcement of the Companies Act; the same applies hereafter) in the Company or its subsidiaries
   b. Persons who were directors, executive officers, managers or employees of the Company or its subsidiaries during any period in the past 10 years
2. **Persons who hold the position of director or other executive of a corporation and who also perform an executive role in the Company**
   Persons who perform an executive role such as that of director, officer, or corporate auditor in a corporation and who also perform an executive role in the Company
3. **Principal business partners**
   Entities whose principal client is the Company[1] or persons who perform executive roles therein, or principal clients of the Company[2] or persons who perform executive roles therein
4. **Employees of an accounting firm of the Company**
   Those who belong to an accounting firm that conducts audits of the Company under the Companies Act or the Financial Instruments and Exchange Act
5. **Outside experts of the Company**
   Experts (including attorneys-at-law, accountants, tax accountants, patent attorneys, judicial scriveners and consultants) who receive a large amount[3] of money or other property (except for remuneration as a director, officer, corporate auditor and the like) from the Company (or if the entity receiving such property is an organization, such as a corporation and association, persons belonging to such entity)
6. **Persons who received donations from the Company**
   Persons who received a large amount[4] of donations from the Company (or if the entity receiving such donations is an organization, such as a corporation and association, persons who perform an executive role in such entity)
7. **Major shareholders**
   Entities that own 5% or more of the voting rights of the Company, or persons who perform an executive role therein
8. **Persons who have fallen under items 2 through 6 in the past**
   Those who have fallen under any of items 2 through 6 during any period in the past five years
9. **Close relatives**
   Close relatives of those who fall under any of items 1 through 8, except for persons who are deemed to be unimportant for the purpose hereof

1 "Entities whose principal client is the Company" are those who received payments from the Company equivalent to more than 2% of their annual sales in the latest business year.

2 "Principal clients of the Company" are those who made payments to the Company equivalent to more than 2% of the Company's annual sales in the latest business year or those who provided loans to the Company the outstanding amount of which was more than 2% of the total assets of the Company in the latest business year.
3 "Large amount" means, with respect to the amount of the property acquired by the relevant party in the latest business year, more than ¥10 million (in the case of a natural person) or more than 2% of its annual consolidated sales or gross revenue (in the case of an organization, such as a corporation or association).
4 "Large amount" means, with respect to the amount of the donations received by the relevant party in the latest business year, more than ¥10 million or more than 2% of its annual gross revenue.

The Independence Standards for Outside Directors ➡ http://www.dentsu.co.jp/vision/isod.html

## Self-evaluation of Board of Directors, Effectiveness

To consistently increase the effectiveness of the Board of Directors, Dentsu conducts a questionnaire survey of all directors. The questionnaire covers the Board of Directors' effectiveness and appropriateness in supervising management and self-evaluations of the directors regarding the status of their operations. The Company also interviews outside directors. The Board of Directors secretariat reports the results of these evaluations to the Board of Directors, thereby analyzing and evaluating the overall efficacy of the Board of Directors. In fiscal 2016, this analysis and evaluation indicated that the composition, operation and content of deliberations of the Board of Directors was generally appropriate. It noted that deliberations were conducted sufficiently through the spirited exchange of opinions and confirmed that the Board of Directors remained effective and appropriate in its supervision of operations. At the same time, this analysis and evaluation elicited certain issues with regard to putting in place measures to promote understanding of agenda items, regular reporting concerning the state of progress on important strategies, the enhancement of measures and monitoring to ensure thorough compliance with corporate ethics, and the feedback of questions and opinions from investors. The Company will strive to make improvements in these areas, further enhancing the effectiveness and appropriateness of management oversight by the Board of Directors.

### Questionnaire items

1. Board of Directors composition and operation
2. Management strategy and business strategy
3. Corporate ethics and risk management
4. Operating performance monitoring and evaluation; remuneration of the management team
5. Organizational and business restructuring
6. Dialogue with shareholders and other stakeholders
7. Self-evaluation of individual directors

## Training Directors and Executive Officers

Through ongoing training, opportunities will be made available for directors and executive officers to gain the knowledge necessary to properly carry out their work and responsibilities.

Currently, when directors (excluding outside directors) and executive officers assume their roles, the Company provides them with lectures, given by in-house and outside experts, with respect to the Company's strategies in areas including management, business, finance, laws, and regulations. This enables them to acquire and update the knowledge they require to fulfill their responsibilities. They also have opportunities to find, through discussions, issues to be addressed by the Company and their solutions. Moreover, after becoming directors or auditors, they have opportunities to hold monthly study seminars to obtain the latest information regarding best practices for megatrend issues, with emphasis on the positioning of the environmental, social, and governmental criteria in the Corporate Governance Code.

When new outside directors assume their offices, they are provided with an explanation of the business, organizational structure, and other related Company matters. Then, periodically, they are updated regarding issues currently being addressed by the Company.

## Remuneration

### Policies, Procedures for Senior Management; Directors' Remuneration

Internal directors who are not members of the Audit and Supervisory Committee have a performance-linked framework for remuneration.

It is designed to ensure that the medium-term management plan goals are achieved, the focus is on the mid- to long-term profit of shareholders, and the motivation to maximize the corporate value of the Company remains high.

The index used to evaluate business performance is the Company's consolidated operating profit, while the total amount of bonuses varies according to the degree to which budgetary goals have been achieved. Performance-linked bonuses, meanwhile, account for 40% of the Company's total remuneration.

Remuneration of outside directors who are not Audit and Supervisory Committee members consists solely of a fixed monthly amount that takes into account their duties.

The total amount of fixed monthly compensation and performance-linked bonuses for directors who are not Audit and Supervisory Committee members is within the scope of remuneration approved at the 167th Ordinary General Meeting of Shareholders (within ¥1.2 billion per year).

The amount of remuneration of each director who is not a member of the Audit and Supervisory Committee (as well as of each executive officer) is determined by a resolution of the Board of Directors within the above limit of remuneration, and must be approved at the same General Meeting of Shareholders. In order to ensure transparency, the suggested remuneration is explained to committee members, and the final decision is made by shareholders after they have taken into consideration the opinions of the Audit and Supervisory Committee members.

Remuneration for directors who are members of the Audit and Supervisory Committee consists solely of a fixed monthly salary. The gross amount is within the remuneration limit approved at the 167th Ordinary General Meeting of Shareholders (within ¥150 million per year).

The amount of remuneration for each director who is a member of the Audit and Supervisory Committee is determined through consultations conducted by the committee directors. The amount is within the above remuneration limit, as approved at the same Ordinary General Meeting of Shareholders.

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

| | Directors (excluding Audit and Supervisory Committee Members) (Of which are Outside Directors) | Directors (Audit and Supervisory Committee Members)(Of which are Outside Directors) | Audit & Supervisory Board Members (Of which are Outside Audit & Supervisory Board Members) | All Officers (of which are Outside Officers) |
|---|---|---|---|---|
| Monthly Remuneration | 246 million yen: 11 persons<br>(3 million yen) (2 persons) | 60 million yen: 4 persons<br>(33 million yen) (3 persons) | 25 million yen: 5 persons<br>(7 million yen) (3 persons) | 332 million yen: 16 persons<br>(44 million yen) (5 persons) |
| Bonuses | 111 million yen: 8 persons<br>(- yen) (- persons) | - yen: - persons<br>(- yen) (- persons) | - yen: - persons<br>(- yen) (- persons) | 111 million yen: 8 persons<br>(- yen) (- persons) |
| Total | 357 million yen: 11 persons<br>(3 million yen) (2 persons) | 60 million yen: 4 persons<br>(33 million yen) (3 persons) | 25 million yen: 5 persons<br>(7 million yen) (3 persons) | 443 million yen: 16 persons<br>(44 million yen) (5 persons) |

Notes:
1. On March 30, 2016, Dentsu transitioned from a company with a Board of Auditors to a company with an Audit and Supervisory Committee.
2. Prior to the transition to a company with an Audit and Supervisory Committee, the limit on total remuneration for directors was resolved at the Ordinary General Meeting of Shareholders held on June 27, 2013, at ¥1.2 billion per year (including an amount within ¥18 million per year for outside directors). At that same Ordinary General Meeting of Shareholders, a resolution was passed limiting the annual amount of fixed remuneration for Audit and Supervisory Committee members to ¥132 million.
3. Following the transition to a company with an Audit and Supervisory Committee, resolutions were passed at the Ordinary General Meeting of Shareholders held on March 30, 2016, limiting annual remuneration for directors who are not Audit and Supervisory Committee members to ¥1.2 billion per year and annual remuneration for directors who are Audit and Supervisory Committee members to ¥150 million per year.
4. The above table on "directors who are not Audit and Supervisory Committee members" includes directors prior to the transition to a company with an Audit and Supervisory Committee. Monthly remuneration amounts include the portion for six directors and five Audit and Supervisory Committee members who stepped down at the close of the Ordinary General Meeting of Shareholders held on March 30, 2016.
5. "Bonuses" in the above table are within the director remuneration limits outlined in note 3 above, and were resolved at a Board of Directors meeting held in February 2017. Bonuses are not paid to Audit and Supervisory Committee members and directors who are Audit and Supervisory Committee member.
6. The above items have been considered by the Audit and Supervisory Committee. There were no items of special note.

# Message from an Outside Director

## Corporate Governance at the Dentsu Group

Atsuko Toyama
Outside Director
(Audit and Supervisory Committee Member)

In line with the transition of Dentsu's corporate governance structure to one of a company with an Audit and Supervisory Committee, my position changed just over a year ago. No longer an outside Audit & Supervisory Board member, I became an outside director.

As during my time on the Audit & Supervisory Board, I believe the Company clarifies issues related to each meeting's agenda items and gathers materials from a fair perspective. Overall, the president and other executive officers take seriously my opinions and questions, and I sense the sincerity in their explanations and operating methods. This environment makes it easy for me to discharge my duties as an outside auditor.

The Dentsu Group's marketing communications business platform plays an important role as a bridge between companies and consumers, delivering to consumers information about products and services. By leveraging the DAN network in the rapidly growing field of digital, the Company is developing its services globally, thereby helping to invigorate both the Japanese and global economies. This role, however, comes with certain responsibilities.

Over the past few years, Dentsu has been working to construct a platform that will allow it to foresee the trends of the times and respond to the issues of digitalization and globalization. The moment of truth is coming.

To achieve further growth, it will be essential for the Dentsu Group to enhance its human resources management capabilities. I feel there is still substantial room for improvement, particularly with regard to the participation of women. This is the case not just for Dentsu, but for Japanese companies in general. I believe corporate management and middle management need to dramatically reform their ways of thinking and broaden their perspectives. Female employees also accumulate experience and deliver results. Provide them with the opportunity, and they will put all their energy into their work and gain greater confidence. As they do so, their capabilities will increase, creating a virtuous cycle.

The Dentsu Group is now facing hardships the likes of which it has never experienced before. But the path the Group has followed to date has been one of honing ideas and sparing no effort to continue learning; its history is an example of devotion to study. From the president on down, I believe each and every employee needs to reexamine their work styles and strike out on the road to reform. I am convinced that doing so will lead to the generation of new corporate value.

# Communication with Shareholders and Investors

The Company is working to enhance its mid- to long-term corporate value by disclosing to shareholders and investors such information as management strategies, financial figures, and nonfinancial information on a timely manner. The Company engages in an ongoing, constructive dialogue with shareholders and investors through its IR activities. In addition to holding earnings-related presentations twice a year, we aim to achieve wide-ranging, two-way communication with shareholders and investors through individual briefings for institutional investors and analysts held in Japan and other countries.

Policy on Constructive Dialogue with Shareholders ➡ http://www.dentsu.com/ir/stockandratings/constructivedialogue.html

## Capital Policy and Shareholder Return

The Company employs a capital policy aimed at improving its intrinsic corporate value. As a top priority for capital allocation, it pursues sustainable profit growth with aggressive M&As in growth areas across all markets. Further, through a combination of continued dividend stability and agile share repurchase, the Company aims to consistently improve shareholder returns, raise capital efficiency, and improve return on equity over the medium term.

The General Meeting of Shareholders

## Ordinary General Meeting of Shareholders

At the Company's Ordinary General Meeting of Shareholders, we make every effort to ensure the smooth exercise of shareholders' voting rights. This is done by such measures as the prompt delivery of notices of the Meetings and the introduction of Internet voting. The 168th Meeting, held on March 30, 2017, was attended by 531 shareholders. This information is disclosed on the Dentsu website, including results of the exercise of voting rights by shareholders who attended the meeting.

## Earnings Presentations

The Company places importance on its relationships with analysts and investors. We hold earnings presentations twice a year to explain our financial situation, provide a general overview, and explain management policies. The documents used at earnings presentations are posted on the Company's website and made available to general investors.

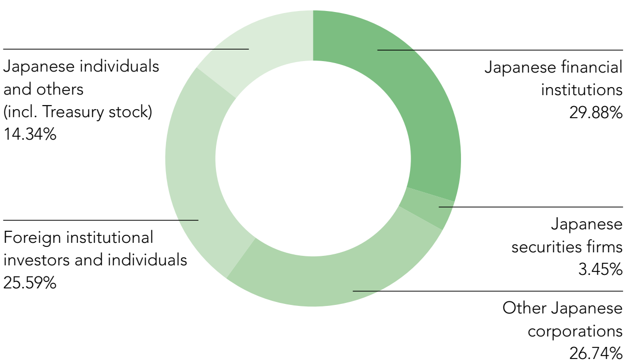
Earnings presentation materials ➡ http://www.dentsu.com/ir/library/conferencematerials/

## Shareholder Composition

As of the end of December 2016, there were 33,228 Dentsu shareholders.

Note: Including holders of shares of less than one trading unit, treasury stock, and in the name of the Japan Securities Depository Center, Inc.

Ownership and Distribution of Shares



## Dentsu Group Internal Controls

We believe that the Dentsu Group Internal Control System encourages compliance among directors, executive officers, and employees, while at the same time supporting continuous corporate development as Dentsu meets its social responsibilities. The Company has established the Dentsu Group Code of Conduct to ensure that the execution of duties by directors, executive officers, and employees of the Company and its subsidiaries conform to laws and regulations, and that business is conducted appropriately. The code is the foundation on which the internal control system rests. Based on the code, the Company familiarizes all employees with the relevant business procedures through regulations, manuals and training. Check items relating to risk management and compliance have been created, and inspections are carried out from various perspectives, allowing problems to be discovered and improvements to be developed.

A similar internal control structure is being applied in Group companies, to maintain and improve the corporate value of the entire Group.

Dentsu Group Code of Conduct ➡ http://www.dentsu.co.jp/csr/overview/codeofconduct.html

## Risk Management

To ensure the comprehensive management of the entire Group's risks, the members of the CSR Committee (chaired by the director and an executive officer) are drawn from the Group. The CSR Committee monitors the Group's risk management efforts and manages the plan-do-check-act (PDCA) cycle. This ensures that policies and the risk management process are developed, implemented, monitored, and improved in the interests of enabling enhancement to be continuous.

Dentsu sets up rules for the management of risk, in order to maintain and improve a structure that prevents the occurrence of risks and precludes the spread of damage or loss, while minimizing the impact of risk progression should risks materialize.

The Company prioritizes key risks and formulates concrete measures that can be employed should a response be required.

A department is assigned to be responsible for each key risk. These departments develop and implement the requisite measures to reduce risks; compile mid-term progress reports, year-end self-assessments, and guidelines for the succeeding year; and report to the CSR Committee.

Key risks and potential risks, thought likely to eventuate over the medium to long term, are reported by the CSR Committee to the Executive Management Committee. After confirming the status of any risk—whether it can be avoided, reduced, transferred, or retained—the CSR Committee develops and reviews response measures.

To prioritize key risks, the Dentsu Group conducts quantitative and qualitative analyses using a risk map. This data visualization tool takes into consideration the frequency and impact of each risk, and uses correlation analysis to identify key risks.

# Information Security

## Development of a Management System

The Company set up the Dentsu Group Basic Policy for Information Security and a very strict information security management system to protect the Group's important data, as well as personal and other information received from clients.

The Company has compiled information management and other rules. Company officers and employees are made aware of these and are expected to comply with them. The Company also provides training for new graduate employees and briefings for employees, distributing videos and pamphlets to raise awareness. Given the importance of managers in information management, the Company has also started a new manager training course to educate managers about their roles and responsibilities.

To enhance information security, a total of 49 Dentsu Group companies, including Dentsu, have obtained certification under ISO/IEC 27001:2005 and JISQ 27001:2006, international standards for information security management systems (ISMSs).

Dentsu strives to implement stringent information security management for the entire Dentsu Group, to flexibly respond to the ever-changing and increasingly sophisticated environment of information and communication technology.

## Information Security Management System

### Dentsu Group Information Security Basic Policy

Group member companies address information security in all business areas, by putting in place policies and procedures to systematically manage sensitive data. They recognize the role of information security management in protecting important information.

1. Compliance with Laws
Based on requests from our stakeholders, including clients and business partners, we properly address information security management to ensure compliance with relevant laws and regulations. In particular, personal information is strictly managed.

2. Strict Information Management
We will strictly manage information to prevent any leakage, loss, damage or misuse of information, such as confidential client information and personal information. We share such business information only among employees and Group companies with appropriate clearances. In selecting our subcontractors, we take into consideration how they are addressing information security.

3. Maintaining and Improving Achievement Levels
We intend to maintain our current security level and improve it through our PDCA cycle activities. We educate all of our employees, from executives down, regarding information security, so that they can acquire the appropriate knowledge and develop the necessary judgment.

4. Adaptation to Environmental Change
We will continue to update our information security management system and concomitant rules even as we take a flexible approach to environmental changes in our Group's business areas, the information assets handled by our Group, and developments in the area of information and communication technology (ICT).

# Compliance Promotion

## System Management

To ensure that internationally accepted standards are adopted our global business, the Company formulated the Dentsu Group Code of Conduct, based on the *OECD Guidelines for Multinational Enterprises*, published by the Organization for Economic Cooperation and Development.

According to Dentsu's compliance system, directors and executive officers who discover violations of prevailing laws or who encounter other serious compliance-related issues are required immediately to report their findings to the Board of Directors or the Executive Management Committee. The Audit and Supervisory Committee also must be advised of the circumstances without delay.

If the Audit and Supervisory Committee gives an opinion on the Company's compliance system, or requires that steps be taken to improve the system, directors and executive officers must respond at once and make the recommended changes.

The compliance department develops rules and manuals to maintain and improve the compliance system as it applies to employees. It conducts training programs, led by the CSR Committee, designed to ensure compliance awareness among employees.

A Compliance Line was set up as the designated contact point for the receipt of reports on inhouse legal violations. The line has an in-house and an external contact point, calls to the latter being handled by a law office. Operational and information management structures are in place to ensure that those seeking consultation or reporting violations are not penalized in any way. In FY2016, Dentsu Inc. and Dentsu Group employees submitted seven reports and proposals (FY2015: 15, FY2014: 10; FY2013: 13). All were dealt with by the Company.

Among the activities held by the Dentsu Head Office in its attempt to prevent illicit behavior and raise the level of employee awareness was the showing of an educational video. In addition, to promote understanding of the importance of compliance issues, a compliance website was set up on the Company intranet, and the *Compliance Digest* booklet was distributed to all Group companies. Each year, compliance training sessions for new and mid-career hires are held at the Company and Group companies.


ITALICS booklet

## Rejection of Antisocial Forces

The Company and all Group enterprises set up a Basic Policy on the Rejection of Organized Crime Groups and Other Antisocial Forces, thereby articulating their determination to take a firm stand against antisocial forces, as groups and individuals seeking economic profit through violence are known in Japan. Business partners have been asked to take the same action.

Basic Policy on the Rejection of Boryokudan (organized crime groups) and Other Antisocial Forces ➡
http://www.dentsu.co.jp/csr/compliance/compliance.html

## Bid to End Bribery by Group Companies Abroad

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

## Speak Up! Policy

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

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

**Incident of concern or suspicion of wrongdoing within the workplace**

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

# Message of the Chairperson of CSR Committee

## Sights Set on Greater Awareness of Social Responsibility

Yoshiharu Sengoku
Chair of the CSR Committee
Director and Executive Officer

Dentsu has faced severe social opprobrium with regard to our Japan business-related labor management issues that came to light in 2016, followed in October 2017 by a guilty verdict for violation of the Labor Standards Act. I offer my deepest apologies to our stakeholders for the substantial trouble and concern we have caused.

Taking to heart the severity of the situation, we have already begun dramatic reforms of the working environment in our domestic business departments. At the same time, we recognize the Company's CSR and compliance to be serious issues. Accordingly, in addition to our preexisting CSR Committee, in April 2017 we established the Internal Control and Compliance Committee, which reports directly to the Board of Directors. Through this committee, we will work to reinforce governance of our social responsibility in a multifaceted, ongoing manner.

Alongside our next medium-term management plan currently being formulated, we are reviewing and rushing to update our present medium-term CSR strategy. To this end, we are calling for opinions from a wide range of employees as we select priority CSR issues. In this way we hope to ensure that, in future, the Dentsu Group does a better job of fulfilling its social responsibilities through its business activities, as we enable the management team and each employee to redefine the relationship between work and society.

We are expanding the scope of our contribution to the realization of a sustainable society through a variety of activities involving the Group's business activities and each employee's work. Overall, that means the diverse range of competencies centered on marketing and communication.

The Dentsu Group is positioning the resolution of social issues and creation of new social value as core management issues. Further, we will energetically address these issues through both our own activities, and by proposing solutions to client companies.

As you are aware, institutional investors have begun emphasizing corporate value from the medium- to long-term perspective that focuses on environmental, social and governance (ESG) aspects. Recognizing that this perspective is an important driver of corporate value, we are working to improve our ESG indicators while, at the same time, focusing with renewed vigor on the dissemination of non-financial information.

I believe a management team that is keenly attuned to corporate social responsibility must take the first step in recovering stakeholders' trust. I ask for your ongoing support in this endeavor.

# Dentsu Group CSR

## Code of Conduct Philosophy

The Dentsu Group Code of Conduct, the Group's CSR philosophy, is based on Dentsu's seven key areas of CSR activity: corporate governance, respect for human rights, ensuring a safe and civilized working environment, environmental protection, fair business practices, addressing consumer issues, and contributing to the community. The code states what all Group managers and employees must do to fulfill their respective responsibilities to society.

The short publication, "Guidance on the Dentsu Group Code of Conduct," provides specific and detailed actions that management and employees can take to gain a deeper understanding of the seven key areas and voluntarily abide by the requirements.

The Group has stated that it shall comply with the laws and regulations of each market in which it does business, while respecting social norms that reflect a region's diversity. The publication serves as the Group-wide code of conduct.

### Dentsu Group Code of Conduct

All the following points regarding the code and governance may be found at http://www.dentsu.com/csr/overview/codeofconduct.html.

- The Dentsu Group of companies, its officers, and employees ('we' or 'us') are committed to protecting the interests of our stakeholders by conducting business to the highest ethical standards. To achieve this commitment, we have established the "Dentsu Group Code of Conduct" ('Code of Conduct') to serve as our basic principles for conducting business in a socially responsible manner.
- We will comply with the Code of Conduct in all respects. Outside of the Dentsu Group, we will encourage compliance with the Code of Conduct by our business partners.
- We will comply with all national, local, and international laws and regulations in all markets in which we conduct business.
- We will respect diversity and will not discriminate on any basis. We will also respect the diverse social and cultural standards of each region in which we conduct business.

1. Corporate governance
   We respect the interests of our stakeholders and will refrain from engaging in inappropriate activities or taking inappropriate risks that might harm these interests. Our officers will take responsibility for developing and maintaining appropriate corporate governance systems.
2. Respect for human rights
   We comply with internationally-recognized principles of human rights. We respect the human rights of all people connected with our business activities and will not discriminate on any basis.
3. Ensuring a safe and civilized working environment
   We will ensure that our workplaces are safe and create a civilized working environment.
4. Environmental protection
   We aim to minimize the impact of our business on the environment and contribute to making society sustainable.
5. Fair business practices
   In carrying out our business, we will compete fairly in all markets in which we operate. We will avoid or appropriately manage any conflicting interests. We will not knowingly take part in any form of corrupt business practice, including bribery and money laundering.
6. Addressing consumer issues
   We will strive to address consumer issues in all markets in which we operate, including by providing appropriate information to consumers and giving due attention to safety and security in all of our activities.
7. Contributing to the community
   We are committed to contributing to the development of all local and global communities in which we operate and to the resolution of social issues in each community.

Dentsu Group Code of Conduct and Associated Guidance ➡ http://www.dentsu.com/csr/pdf/dentsu_group_code_of_conduct_E1603.pdf

## Promotion of CSR

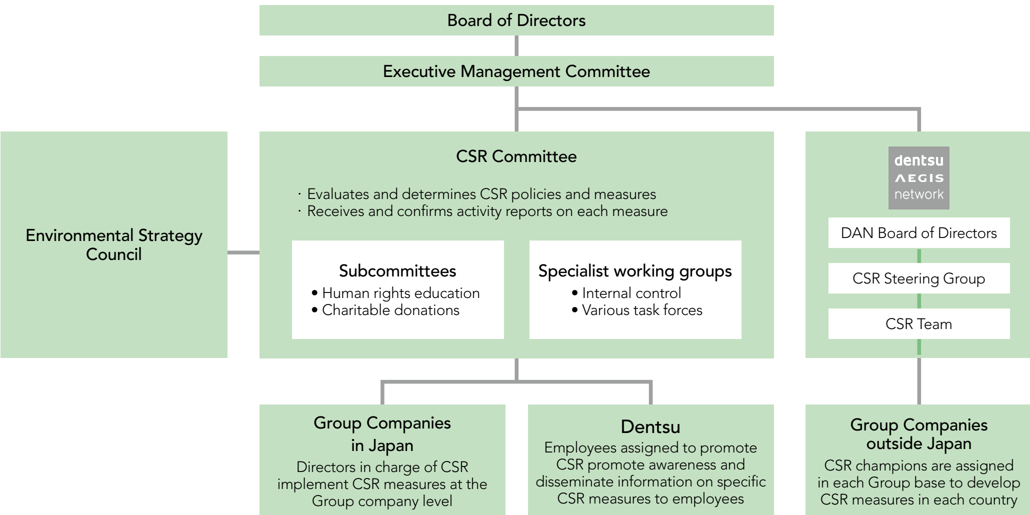
Dentsu has established three principal committees under its Executive Management Committee and Business Supervision Committee, which are responsible for all major management decisions. One of the committees established under the Executive Management Committee is the CSR Committee, comprising five board members and chaired by a director and executive officer. The committee, which met eight times (April to December) in fiscal 2015, makes decisions on all major CSR-related measures in accordance with the Dentsu Group Code of Conduct, which also serves as the Group's CSR philosophy.

Under the CSR Committee, Dentsu has established subcommittees for human rights education and charitable donations, as well as specialist working groups to deliberate on issues in various fields. On the key theme of the environment, the CSR Committee works closely with the Environmental Strategy Council, Dentsu's in-house body tasked with promoting environment-related programs to ensure greater Company-wide awareness concerning the environment.

For Group companies outside of Japan, a CSR action plan was developed at the DAN Board of Directors meeting. The progress of the plan is reported to and shared with the Executive Management and the CSR Committees.

We have also designated CSR promotion committee members in all Company departments to promote awareness, disseminate information on specific CSR measures, and ensure company-wide efforts. At Group companies outside of Japan, we have appointed CSR Champions, who promote CSR activities. Through such efforts, we are advancing CSR activities on a Group-wide level. Dentsu aims to ensure that its CSR measures are consistent across the Group, ensuring that member companies are able to express its characteristics.

Dentsu Group CSR Promotion System




## DAN CSR Promotion System

The Board sets the Network's CSR strategy and establishes the CSR Steering Group to oversee its implementation. The members for the CSR Steering Group are, in turn, appointed by the Executive. They regularly report on the progress and performance of the CSR Strategy to the Board. Also, the CSR Steering Group oversees the implementation of the CSR Strategy by the global CSR team and monitors its progress. The CSR Steering Group met five times last year.

## Participation in International Initiatives

Dentsu participates in international initiatives in order to contribute to global social development, and strives to address activities with a focus on environmental, social and governance (ESG) issues and to promote information sharing.

The Company joined the United Nations Global Compact in December 2009 and upholds its 10 principles on human rights, labor, the environment, and anti-corruption. It submits a CSR report every year to the UN Global Compact, and compiles an annual stand-alone activities report (Communication on Progress: COP) aimed at the realization of the 10 principles.

Dentsu also has become a member of CSR Asia, the largest CSR-related think tank in the Asia–Pacific region, which focuses on deliberation of ESG issues in Asia and the strengthening of alliances with companies in Asia.

UN GLOBAL COMPACT
Network Japan
WE SUPPORT

CSR ASIA

## Contributing to Sustainable Development Goals (SDGs)

At the United Nations Sustainable Development Summit held in September 2015, SDGs—consisting of an action plan comprising 17 goals and 169 targets—were announced for humanity, the Earth and prosperity. The entire world is working to achieve the SDGs and corporations are expected to make a proactive contribution. The Dentsu Group, which provides a diverse array of value in the communications field and always has the foresight to look to the future, will contribute to resolving global social issues.


### Common Ground

The Dentsu Group, along with the world's five largest advertising agencies (Havas, IPG, Omnicom, Publicis and WPP) is a participant in the groundbreaking global initiative, Common Ground.

It is an effort to cooperate to achieve specific themes in response to calls from the United Nations secretary-general regarding SDGs adopted at the September 2016 United Nations General Assembly.

The Dentsu Group is featuring Goal 3: Health, working with NGOs on malaria, tuberculosis and other infectious disease countermeasures.

Common Ground ➡ http://www.dentsu.co.jp/csr/commonground.html

COMMON GROUND
Zero Malaria 2030
malaria NO MORE japan
Stop TB Partnership JAPAN

## Dentsu Group Involvement with the SDGs

The Dentsu Group is focused on medium- to long-term megatrends, and is engaged in a variety of activities aimed at resolving global issues facing humanity. We will contribute to the achievement of SDGs through our core businesses in the fields of marketing and communications.

| | | | |
|---|---|---|---|
| Megatrend | Redistribution of wealth | Contributing to SDGs | Expanding business activities to develop communities on a global scale |
| Global issue | Wealth disparity/rising income polarization | | |

The Dentsu Group develops business in more than 140 countries and regions. In addition to conducting business, the Group recognizes that contributing to the development of communities around the world is one of its responsibilities. We engage in a variety of projects concerning poverty, income disparity, and numerous other issues at the regional level with aspiration and a strong aptitude for action. We deliver messages throughout the world pertaining to the eradication of problems including poverty and hunger, using advertisements that display creativity and contribute to the development of communities through local activities led by our more than 50,000 employees.

| | | | |
|---|---|---|---|
| Megatrend | Demographic changes | Contributing to SDGs | Changes in consumer behavior patterns, diversification of consumer needs |
| Global issue | Minorities/super aging societies | | |

Globally, populations are continuing to increase and changes are being seen in their composition. Diversity is coming to many countries as the ratio of minorities there increases. It is becoming important to create societies that accept immigrants, LGBT individuals, as well as a diverse array of cultures. In line with changes in consumer behavior patterns and the diversification of consumer needs, the Dentsu Group will leverage its marketing and communications capabilities focused on advertising, to raise consumer awareness and inspire action, significantly contributing to the creation of societies where everyone can live comfortably.

| | | | |
|---|---|---|---|
| Megatrend | Digitization | Contributing to SDGs | Digital shift within client marketing activities |
| Global issue | Digital dependence | | |

The advance of digital technologies has caused a remarkable change in the behavior of consumers. The Dentsu Group leverages its significant capabilities to provide optimal solutions for client marketing activities combining various ideas and technologies, including AI, big data analysis, and e-commerce support.

At the same time, dependence on social media and other digital content, mainly among young people, has become a prominent social issue. In response, the Dentsu Group, which plays a role in the promotion of digitization, is also working on resolving this problem through the framework of the responsible marketing and sustainable consumption target in our Medium-term CSR Strategy.

# Dentsu Group Medium-Term CSR Strategy 2020

Dentsu has formulated a five-year Dentsu Group Medium-Term CSR Strategy 2020, setting targets to be achieved by 2020. According to the Dentsu Group Code of Conduct, based on the medium-term CSR strategy—stipulating the four key areas and common goal—the Group will continue contributing to the realization of a sustainable society by steadily promoting CSR activities worldwide.

## CSR Planning: Realizing a Sustainable Society

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

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

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

Four Key Areas

**Environment**
To tackle climate change through reducing our environmental footprint across our operations

**Community**
To build a more effective civil society through a wide variety of community activities

**Supply Chain**
To develop a more resilient supply chain through developing sustainable procurement practices

**Responsible Marketing and Sustainable Consumption**
To promote a sustainable society through implementing responsible marketing practices as well as encouraging sustainable behavior

Quantitative Targets in Japan and Overseas Offices of the Group

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


# Respect for Human Rights

### Human Rights Policy and Systems

The Group aspires to enrich the human rights-related aspects of its advertising and business communication activities. To this end, it regularly conducts Group-wide employee training programs designed to provide employees with a sound understanding of human rights, which they can then apply to their work. We at Dentsu also consider the prevention of harassment and protection of employees' human rights to be important themes in ensuring that employees are able to showcase their individual capabilities.

The Group is well aware of the impact that communication activities have on society, and carries out human rights awareness promotion activities as part of its Group's Basic Policy on Human Rights Awareness program. As a global company, Dentsu supports the international norms on human rights, including the Universal Declaration of Human Rights and International Labour Organization's Declaration on Fundamental Principles and Rights at Work. We also develop due diligence processes to identify, prevent, mitigate, and address any negative impact our corporate activities may have on human rights, in accordance with the United Nations' Guiding Principles on Business and Human Rights.

Furthermore, the Dentsu Aegis Network released the Group's declaration with regard to "Slave Labor and Human Trafficking" based on the 54 articles of the UK Modern Slavery Act of 2015 enforced in the United Kingdom. In the future, we will make an effort to prevent human trafficking, slavery and forced labor by identifying and evaluating potential human rights impacts and risks within our business activities and supply chain.

Statement on UK Modern Slavery Act ➡ http://www.unesco.or.jp/terakoya/kakisonji2016/

## Basic Policy on Human Rights Awareness

1. In advertising communication activities, there shall be no discriminatory expression.
2. Respect for fundamental human rights is the foundation of our existence and the starting point of communication.

### Human Rights Promotion System

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

### Human Rights Awareness

To increase human rights awareness, the Group runs human rights awareness training programs based on both employee hierarchy and occupational field. The Dentsu Group Human Rights Education Conference is held twice a year for those in charge of human rights education at the Company, and for human rights education managers at Group companies.

There are also various opportunities to raise awareness of human rights. Textbooks with information on human rights and explanations of their connection to advertising are utilized by employees.

The Human Rights College, a site that collects past examples of advertising expressions related to human rights, is posted on the Company's intranet. This initiative enables continuous online learning that increases knowledge and realizes the pursuit of better communication.

Further, a newsletter dealing with timely human rights-related topics is distributed within the Group twice a month.

In the area of advertising and human rights, the Group has a permanent consulting contact, to ensure that expressions communicated to the world are appropriate, and to respond to Group-wide inquiries.

In addition to this, we cooperate with human rights-related seminars held at the Japan Advertising Agencies Association, and make efforts to raise awareness throughout the advertising industry.

Site screen of the Human Rights College

### Internal Reporting to Protect Human Rights

We established a contact desk that responds to inquiries from Group employees and allows the identification of possible human rights-related risks associated with the right of expression in advertising. During fiscal 2016, the desk received 144 inquiries. These were handled individually, in a bid both to prevent any recurrence of the issues and to increase human rights awareness.

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

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

In fiscal 2016, there were 68 consultations at the Harassment Counseling Section (FY2015 [April to December]: 49 consultations; FY2014: 53 consultations; FY2013: 50 consultations). These were individually handled so that improvements might be made to the working environment.

# Ensuring a Safe, Civilized Work Environment

## Development of Human Resources

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

## Diversity Promotion

### Promoting Female Participation

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

### Summary of the Action Plan

**Goals**

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

**Specific efforts**

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

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

In fiscal 2013, we launched the Female Employees Promotion Project, to create a working environment in which temporary leaves of absence will not jeopardize employees' careers. In addition, at an early stage of their careers, women are given ample opportunities to think about their careers at, for example, lunch meetings with senior female employees. This gives them the chance to hear about the experiences of others, and to attend career seminars held by lecturers invited from outside the Company.

### Employing People with Disabilities

As part of its efforts to promote the employment of people with disabilities, in April 2013 the Company established Dentsu Solari, a wholly owned Group company that was designated as a special-purpose subsidiary in November of that year. The employment rate of people with disabilities at three Group companies (Dentsu, Dentsu Works, and Dentsu Solari) is 2.07% (as of June 2017). The Company also employs people with disabilities in account management, as well as in creative and other areas. Along with Dentsu Solari, we are trying to expand their employment opportunities.

## Work-friendly Environment

### Promoting Work–Life Balance

The Company believes that a fulfilling personal life improves the quality of one's working life, and that satisfying work increases one's level of self-fulfillment in life. The object of Dentsu's work–life balance program, therefore, is to generate synergy between the two.

The most important factor in creating a work-friendly environment is health management. The starting point is the implementation of work-style reform, to increase productivity and efficiency in achieving results. Dentsu has established a special in-house Labor Administration Committee that is developing and implementing programs to reduce overtime and make it easier for employees to take holidays.

A Human Relations Management Department was set up to respond to employee concerns and build employee opinions into the system.

### Environmental Improvement through the Working Environment Reform Plan

In July 2017, we announced the Working Environmental Reform Plan comprising promises, targets, challenges and goals as reforms to create a new Dentsu. To ensure we never again repeat our past labor issues and fulfill our promise to fully comply with laws and regulations to reduce violations of Article 36, harassment and overwork to zero, we are currently engaged in or otherwise plan to launch the following measures going forward:

Commitment
0

Violations of Article 36: Zero
Harassment: Zero
Overwork: Zero

| | |
|---|---|
| Prevent nighttime work | • Prohibit work between 10 pm and 5 am |
| Establishment of HRM managers throughout the Company | • Implement placement of executive directors in charge of HRM in each division to be responsible for employee time and heath management and prevention of harassment |
| Imbue awareness & compliance with work regulations | • Enhance labor regulation training<br>• Evaluate the understanding of labor regulations |
| Revise employee evaluation metrics | • Introduce "compliance with legal and societal rules" metric to evaluate criteria<br>• Introduce "work efficiency" metric to evaluate criteria |
| Pay attention to & care for each employee | • Introduce healthcare program for new employees<br>• Enhance training programs to prevent excessive disciplinary code<br>• Introduce a leadership survey system to maintain awareness of subordinates' viewpoints and opinions<br>• Introduce a time management system that visualizes the current working situation |
| Counteract harassment & enhance mental health care | • Expand and disseminate different methods of reporting and consultation<br>• Enhance system that regularly reports information about individuals who are sick or on leave |
| Advance workplace reforms | • Establish "Work Style Review Week" every year during MHLW's Death from Overwork Awareness Month (November) for all employees to review their work environment<br>• Introduce special training program for newly promoted management |

•: Currently Underway
•: Currently in Development

Target

80

Achieve full output while reducing employee work time to 80% via reforming work environment and operations

Reduce total working hours per person to 80% in FY2019 compared to FY2014, completing working environment improvements and business reforms aimed achieving 100% new working style in the next two years.

| | Previous | | | Goal | | |
|---|---|---|---|---|---|---|
| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 |
| Total working hrs / person (Annual) | 2,252 hours | 2,187 hours | 2,166 hours | 2,100 hours | 1,950 hours | 1,800 hours |

| | |
|---|---|
| Increase staff | • Immediately increase personnel numbers, to reduce individual workload - Recruit full time mid-career employees (now 50) - Increase contract employees & temp staff (now 224)<br>•Increase number of full-time employees - 250 employees to be hired in FY2017 (about 1.5 times the previous year) |
| Streamline work | • Promote "Work-Diet" that reviews and implements visualization of workflows; boost streamlining - Complete creation of business list for all 65 departments including Kansai and Chubu. Business inventory scheduled to be completed throughout the entire Company by the end of August<br>• Realize Robotic Process Automation (RPA) - 300 processes by the end of December, 2017 - Streamline operations for 58,000 hours a month |
| Optimum allocation of human resources | • Reallocate personnel based on optimal departmental levels<br>• Introduce a system of "New Talent Management" considering every employees' career track |
| Reform work conditions through extensive IT investment | • Enhance "Smart-Work Style"; a teleworking system<br>• Introduce a satellite-office system - Testing operations in 20 location in Japan have been installed by September this year<br>• Introduce a working-from-home system |
| Improve business processes in unison with clients and industry organizations | • Request cooperation from clients<br>• Create rules based on industry organization practices |
| Review entire HRM system including recruitment, education & evaluation | • Review professional duties/grade system so that all employees can remain active regardless of age or employment status<br>• Establish a system of training and evaluation enabling individual growth in medium to long term<br>• Boost recruitment of recent graduates and utilize broader methods of recruitment<br>• Cultivate more supportive environment for female employees<br>• Examine support measures for management skills, know-how and burden reduction |

•: Currently Underway
•: Currently in Development

After that, we will enter a new growth stage, establishing the goal of creating a new Dentsu realizing new growth for the company and employees through the transition to a new workstyle where 20% of the newly available time will be used to improve mind and body, engage in daily enrichment and support a variety of experiences and learning.

Challenge

20

Reinvest the 20% of time newly released to improve employee physical & mental wellbeing and QOL through encouraging individual learning, life-enhancing experiences and career development

●: Currently Underway
●: Currently in Development

**Reform leave-taking programs**

- Increase the number of leave days that can be taken consecutively
- Consider one-month sabbatical leave system
- Consider 4-day work week system
- Consider incentives to promote taking leave

**Bolster employee health management and care**

- Validate a rest interval system to ensure adequate downtime between workdays
- Develop and Implement vitality score system, an original Dentsu data health measure

**Foster employee development**

- Support skills development and pursuit of certifications
- Support family care, child-rearing, and social contribution activities

Goal

100
+ NEW

**Shift to new working style to contribute to new path of employee and Company growth to create a new Dentsu**

### Ongoing Verification of the Progress and Effectiveness of the Basic Plan

Although the progress and effectiveness of the reforms need to be verified from a multifaceted perspective, we are currently focusing on "0" and "80" centering on the actual situation and verification.

**0**

Violations of Article 36: Zero Harassment: Zero Overwork: Zero

- The number of employee working over the time stipulated in Article 36 (daily / monthly)
- Participation rate of harassment prevention training
- Monthly out side permitted working hours per person
- Monthly number of days working on personal days per person

**80**

Achieve full output while reducing work time to 80% via changes to work environment and operations

- Total working hours per person
- Gross profit per person
- Operating profit per person

**20**

Dedicate newly released 20% of time to improved employee wellbeing, self-enrichment & QOL, as well as career development

- The number of paid holidays taken per person
- The number of people taking special leave

**100 + NEW**

Shift to new working style to contribute to new path of employee and Company growth to create a new Dentsu

- The rate of increase in employee-realized happiness/ respite/creativity

## Labor Management

The Group emphasizes the development of good labor–management relations, while striving to maintain and improve a relationship of trust between employees and management by creating regular opportunities for conversations between management and the union. As of January 1, 2017, the staff labor union participation rate is 46.9%.

# Contributing to the Community

| Social Issues | The Dentsu Group's Approach |
|---|---|
| • Solving the problems of the local communities<br>• Human resources development through improved power of communication<br>• Activities to tackle global social issues | The Company considers regional communities to be important stakeholders. It contributes to resolving issues and promoting development of regional communities and conducts numerous activities designed to contribute to society. We believe that, as a leader in the sphere of communications, it is our role to build relationships of trust with regional communities. |

## Group Community Activities

To engage in sustainable corporate activities, we require a social license to operate—in other words, we must be accepted by the community. To gain the confidence of society, we must continue to provide high-quality solutions.

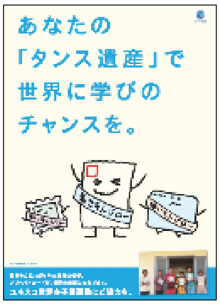
At the same time, we must never forget that irresponsible actions can have an adverse impact on the community and result in the loss of confidence. We aim to be socially accepted through a variety of community activities.

We will share the marketing communication skills accumulated through our business to give something back to society and promote a sustainable society with consumers.

### UNESCO's World Terakoya Movement Kakisonji-hagaki Project Dentsu Inc.

Supporting UNESCO's World Terakoya Movement Kakisonji-hagaki Project, an effort to increase venues (terakoya) to acquire literacy, is sponsored by the National Federation of UNESCO Associations in Japan and has been going on for more than 13 years. In order to encourage people to relate more to *kakisonji-hagaki* (unusable prepaid postcards) and have fun gathering them, Dentsu has been using its ideas and communication skills to raise awareness for the activity. In addition to creating the activity's support character Kakisonjiro, which made its debut last year, Dentsu created the characters Harisonjiro for unused stamps and Tsukaisonjiro for unused prepaid cards. The three characters made their debut as *Tansu Isan Sankyodai* (three legacy brothers from the drawers) representing the "legacies" forgotten in household drawers. This year, we collected ¥507.6 billion through *Tansu Isan* (approximately 1.1 million postcards) that was donated to help educate approximately 100,000 people in developing countries.

Kakisonji-Hagaki Project ➡ http://www.unesco.or.jp/terakoya/kakisonji2017/

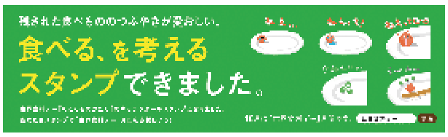



From the left
Unused stamp "Harisonjiro"
Unusable prepaid postcards "Kakisonjiro"
Unused prepaid cards "Tsukaisonjiro"

### Japanese NPOs, NGOs Tackling Global Food Issues Dentsu Inc.

During the month of October, when World Food Day (set by the United Nations as October 16 of each year) is commemorated, NGOs, NPOs and UN agencies take the lead in efforts to resolve starvation and food issues. Dentsu began supporting this effort in 2014. In 2016, we created Nokorimonogatari—Taberu o Kangaeru creator stamps. This activity is supported by numerous people who use a messaging app to share the adorable mutter character dressed in leftover food.

A special World Food Day month website features an archive of news related to food called *Taberu, o Kangaeru Tsushin*.




Nokorimonogatari—Taberu o Kangaeru creator stamps

World Food Day ➡
http://www.worldfoodday-japan.net/tabetsuu.php

### Advertising Elementary School
Dentsu Inc.

The Advertising Elementary School was started in 2006 as a project to foster children's communication skills. Dentsu developed program materials together with Tokyo Gakugei University over three years. In these classes, children express a theme in 15-second commercial skits. Through this process, the children learn skills such as creative thinking, decision-making, how to express ideas, and group problem-solving techniques while having fun. With the recognition of the importance of communication skills development becoming widespread in the education field, use of the program in classes taught by school teachers is increasing, and over 36,000 students at 281 schools have taken part in this activity as of March 30, 2017.

Further, since August 2016, Dentsu Solari, a special-purpose subsidiary where people with disabilities work, has conducted ongoing efforts to create commercial skits.

Advertising Elementary School ➡ http://www.dentsu.com/csr/contribution/advertisingelementaryschool.html

The merits of Dentsu Solari are illustrated by a classroom performance of skits.

### Program to Strengthen and Support NPO Organizations: Keys to Communicating
Dentsu Inc.

For NPOs, communications skills are fundamental and essential skills to lead an organization, increase the number of supporters and collaborators, and engage in activities. In cooperation with JAPAN NPO Center, Dentsu has been advancing the Keys to Communicating program in a manner that utilizes each organization's respective specialties, to provide support for the improvement of communications skills of NPOs. Dentsu employees and members of NPOs serve as presenters at seminars held throughout Japan. As of December 31, 2016, Dentsu has conducted seminars more than 125 times, with a cumulative total of around 5,000 participants. In 2016, we were awarded the Good Design Best 100 prize, in recognition of our social contribution activities that take advantage of collaborative efforts and expertise.

Keys to Communicating ➡ http://www.dentsu.com/csr/contribution/programfornpo.html


Recipients of the Good Design Best 100 prize

### Support for Chinese Advertising Human Resources Development and Contribution to Japan–China Private Sector Exchanges
Dentsu Inc.

Since 1996, Dentsu has continuously undertaken activities to support advertising education and human resources development in China. In 2016, we commemorated the 20th year of these activities. Responding to the needs of advertising-related education in China, Dentsu holds a variety of programs, such as selecting young educators from Chinese universities to train at the Dentsu Head Office, holding Dentsu Student Advertising Seminars for those studying advertising, setting up the Dentsu Innovation Lab, and conducting publishing-related activities. In August 2006, Dentsu was presented with the Education Support Special Contribution Award and, for three consecutive years—in 2014, 2015 and 2016—we received the Most Valuable Partner Award from the Chinese Ministry of Education.

Chinese educators and Dentsu lecturers

### Participation in Michinoku Fukkou Jigyou Partners
Dentsu Inc.

Since June 2012, Dentsu has been participating in the Michinoku Fukkou Jigyou Partners platform to support next generation leaders engaged in the reconstruction of disaster-affected areas. We work jointly with the NPO ETIC.* and five companies (Isuzu Motors, Kao, Sompo Japan Nipponkoa Insurance, Toshiba and Benesse Holdings), conducting training programs intended to enable Tohoku regional organizations to contribute more to regional revitalization, hosting symposiums to disseminate information, and engaging in other Tohoku-region support activities.

The fifth Michinoku Recovery Project Symposium

* NPO ETIC: Established in 1993 as an organization to train young next-generation entrepreneurial leaders. ETIC. has produced many operational NPOs that are expected to lead future generations. www.etic.or.jp

Michinoku Fukkou Jigyou Partners ➡ http://www.dentsu.com/csr/contribution/participationinmfjp.html

## One Day for Change Dentsu Aegis Network

2016 saw the third One Day For Change as organised across the 14 countries that are part of the Asia Pacific region. This is an established volunteer day held annually in the months of May and June. This year the theme was "championing children". All countries organised DAN-wide activities that involved helping underprivileged children on a range of issues from health, education, water, abuse, family residence and other issues. More than 12,000 colleagues participated in over 60 activities, providing more than 100,000 hours of work for local communities and helping more than 50 charities directly.


## UCH Cancer Fund Dentsu Aegis Network

The partnership between Amplifi UK and the UCH Cancer Fund started in 2014 and supports a cancer centre in London, United Kingdom. Through fundraising, volunteering and pro-bono activities, the agency has helped the charity raise over £100,000 and dozens of volunteers regularly visit the cancer centre. The agency has also amplified the sports sponsorship from rugby club Saracens and involved clients and partners to support the charity. This partnership has made more than 300 Amplifi UK colleagues familiar with the impact cancer has on patients and their families.


# VOICE

### Ruth Stubbs

Global President
iProspect

1. Why should we, as a leading global agency, invest in Corporate Social Responsibility (CSR) and sustainability?

Our industry has seen vast amounts of change driven by technology and the evolution of the digital economy. With an extensive background in delivering digital solutions, I think we are perfectly positioned to create a wider impact on society, helping brands and consumers navigate the intricacies of our new reality and delivering shared digital value. Investing in CSR and sustainability not only presents some important social and business opportunities, but also our growing talent pool is more keen than ever to be involved in socially conscious programs.

2. What is the most important thing for you when it comes to taking action?

I feel Dentsu Aegis Network is truly leading the industry towards a more socially conscious approach to the digital economy – adding 'Society' as one of our key stakeholder is a perfect example of this. We have the right mind set, but in the throes of our everyday life, it is easy for CSR programs to take a back seat. Over 50% of our employees are under 30 with impressive skillsets and strong appetite to work on social responsible projects. We have both the support and resource to enable an investment in CSR and sustainability, so now it is vital that we organize strong working groups around each initiative to maintain this momentum.

3. What are you proud of last year (1 January – 31 December 2016)?

In 2016, Dentsu Aegis Network commissioned a bespoke research project on the emergence of female founders in Southeast Asia and subsequently launched the Female Foundry. This is a program designed to mentor, develop and find funding for female-led start-ups across South and Southeast Asia. Dentsu Ventures and four other VCs all served as amazing partners, participating in our capstone event, a Demo Day, where they had the opportunity to hear pitches from qualified candidates looking for Series A funding. This pilot is an industry first for Asia Pacific and has since been adapted into a blueprint for China, Latin America and Sub-Saharan Africa. I am thrilled that Latin America has just announced its adoption of the program in Q3 of this year.

Our Female Foundry and the #HearHerVoice initiative will hopefully help bridge the gap, equipping women with the access and relationship they need to succeed. I couldn't be more proud that I am part of a team and organization who feel this is a global initiative worth pursuing.

# Initiatives for Responsible Marketing and Communications

| Social Issues | The Dentsu Group's Approach |
|---|---|
| • Impact of advertising expressions on consumers<br>• Advertising and marketing that respects the rights of the socially vulnerable<br>• Improving creative and business ethics and enhancing creativity<br>• Ensuring editorial independence | In recognition of the substantial impact advertising has on society, we must not only pay the utmost attention to advertising expressions by establishing behavioral policies and guidelines for creative and business activities, but strive to maintain independence with regard to printed materials. Also, we must return marketing and communication skills accumulated up to now to wider society, creating a sustainable society alongside consumers. |

## Dentsu Creative Code

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

## Guidelines Regarding Advertising and Marketing That Affect Children

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

### Heart Attack Ads Dentsu Aegis Network

The New Zealand Heart Foundation conducts activities to eliminate the premature death of citizens from heart attacks. Heart disease is the leading cause of death in New Zealand, and although it causes 6,500 people to lose their lives every year, about half of these cases could have been prevented. Dentsu created an advertisement to show that the symptoms of heart attack imagined by most people are quite different from the actual symptoms. The commercial depicting the "man on the bench" urges viewers to call for help and treat seriously anyone exhibiting similar symptoms. As a result, according to emergency services reports, there was a 28% increase in calls about cardiac anomalies and a 54% increase in calls from those who noticed symptoms. One hospitalized patient said this advertisement caused him to take action and saved his life.

### Fami Navi Dentsu Aegis Network

In China, traffic accidents are rising at a rate of 10% per year due to an increase in both the number of cars on the road and dangerous driving. DAN China developed the Fami Navi app for Citroën, which seeks to establish a position in the Chinese market and increase its share of domestic advertising. The app has a traffic safety education picture book for children and a navigation function for drivers. Children can learn about traffic safety by reading the illustrated book with their parents, and at the same time they can record their own voices.

Children's voice recordings can also be used for navigation when driving. This app is useful for safe driving, and more than 90% of the users say that the Fami Navi app has helped them drive more safely than in the past.


## VOICE

Sarah Hofstetter

Chief Executive Officer,
360i

1. Why should we, as a leading global agency, invest in Corporate Social Responsibility (CSR) and sustainability?
Now more than ever, people want more meaning out of the work that they do and less of a gap between their work-life and their passions. In fact, 64% of millennials say it's a priority for them to work in order to make the world a better place. Meanwhile, many non-profits struggle to get great marketing talent because they don't have the marketing budgets to do the good work that their kind of causes that they deserve. We are uniquely qualified to bridge that gap.

2. What is the most important thing for you when it comes to taking action?
It's important to have a high do-to-say ratio. Lots of companies talk about the importance of CSR and sustainability, but not all take action and create the time, space and empowerment to actually make it happen.

3. What are you proud of last year (1 January – 31 December 2016)?
There's an old saying that goes, "Give a man a fish, he eats for a day. But teach a man to fish, and he eats for life." What we have done with The DEN, the digital education for non-profits, is teach non-profits to fish. We created a curriculum to teach hundreds of non-profits simultaneously how they can improve their digital marketing, which is especially important when many non-profit's marketing teams are very small and cannot invest in specialized skills. By creating the DEN, instead of just doing one or two big pro bono campaigns for a couple of non-profits, we are helping hundreds of organizations take advantage of newer mechanisms to reach a new generation of donors. I'm most proud of how we've educated non-profits around the world, using technology and social media to reach people all over, and improve the quality and effectiveness of their marketing.

# VOICE

## Aline Pimenta

Diretora de Negocios,
NBS Rio+Rio

1. Why should we, as a leading global agency, invest in Corporate Social Responsibility (CSR) and sustainability?

Companies are not bubbles. The business decisions affect society and society affects the business. When a company invests in sustainability, in a strategic way, it returns to the business, making that company stronger and well prepared to the challenges of the future.

Besides that, if we want to be one step ahead in our market, as a leading global agency, we need to behave ourselves like that in terms of business thinking. I strongly believe that sustainability is a contemporary way of doing business. It is good for the business, it is good for the employees, it is good for the clients, it is good for society. This is a win-win game.

2. What is the most important thing for you when it comes to taking action?

Taking action in CSR means collaboration and partnership. In order to make things happen, we need people with different backgrounds, from inside and outside the business.

A wide network of partners from outside the business is essential to make us updated with the best sustainability practices and the necessary knowledge to rise the impact of our projects.

I also believe that is very important to care about execution, doing the best with the available budget. That's why setting priorities is indispensable to reach the desirable results.

3. What are you proud of last year (1 January – 31 December 2016)?

In 2016, we develop an amazing project by NBS Rio+Rio (NBS social business): "Favelagrafia", which objective was to build a new image to the "favelas" (slums) in Rio de Janeiro, territories that mean 22% of the city population.

In order to show that "favela" is much more than drug traffic, guns and danger, we selected nine young non-professional photographers in nine different communities in Rio de Janeiro and empowered them with a photo workshop and an iPhone.

The quality of the pictures taken by them was so impressing that we got the opportunity to have a photo exhibition in the most noble art gallery of the city (Modern Art Museum of Rio de Janeiro – MAM).

"Favelagrafia" provoked an important public debate regarding the prejudice associated to the "favela" image and to its dwellers, reaching a huge premium spontaneous media space in Brazilian and international media.

By this project, we were able to empower the invisible talented people from the communities, we shared a new look at "favelas" and transformed it into art. That is why I'm so proud of this work.

# VOICE

## Sarah Wherritt

Head of CSR, Communications Strategy
& Planning, Dentsu Aegis Network
United Kingdom

1. Why should we, as a leading global agency, invest in Corporate Social Responsibility (CSR) and sustainability?

At a broad level, I strongly believe that we should be able to demonstrate that we are a responsible business throughout all levels of our network. As a leading agency in the advertising industry we do have a responsibility in what and how we market to and communicate with our consumers on a day to day basis and it is getting increasingly more important to clients.

Within our organization investing in CSR supports the type of culture we want to create within our network. In the UK market our people are given two days volunteering time. Not everyone makes use of these days unfortunately but with a focus on communicating the ways in which people can spend their time and skills and by creating programmes (like The Code) that they want to support – we are already seeing an uplift which is great to see. Overall it provides opportunities for our people to make a difference and do some good in society.

There is plenty more we can do, for example looking at more proactive ways that we can work with our clients to support the CSR and sustainability agenda together and to ensure we align what we do to the business strategy and along the way we get the buy in and ownership at all levels.

2. What is the most important thing for you when it comes to taking action?

First off, ensuring what we do fits in with the business strategy, direction and supports our culture and values. Time is precious and we are all busy so if it doesn't add value perhaps we shouldn't be doing it. I am a planner! So I'll always have a plan - having a strategy with a clear aim and objectives is important. But most importantly for me, it's having a team of engaged people who have helped shape it and are willing to get stuck in - at the end of the day it's the team around you who will make it a success.

3. What are you proud of last year (1 January – 31 December 2016)?

I joined the UK Communications team just over a year ago and from a volunteering perspective I noticed that we weren't making the most of the skills and expertise in our organization, and that our industry wasn't that well known within schools. And with conversations with senior management wanting us to do more, there was also a huge opportunity with the Apprenticeship levy coming in place in 2017 to somehow bring all this together. So, over three or four months and working with HR we came up with The Code. A new schools Programme which would allow our organization to collectively volunteer their time into schools, share their skills and to educate the younger generation about our industry and as a result hopefully open up the doors to future talent. I am really proud of this achievement. In a short space of time we built something from nothing, we got funding and buy in from across the business and created something meaningful and that we hope will make a real difference over the next few years.

# Supply Chain

| Social Issues | The Dentsu Group's Approach |
| --- | --- |
| • Spread of CSR procurement in the supply chain<br>• Legal compliance within community activities | In accordance with our basic procurement policy, the Dentsu Group distributes procurement guidelines to business partners and conducts through and ongoing CSR procurement activities. We organize CSR questionnaires for our business partners and monitor supply chain ESG risks to create a highly effective system. |

## Dentsu's CSR Procurement Activities

The Dentsu Group promotes CSR initiatives within procurement activities. Dentsu procurement guidelines are distributed to business partners, requesting cooperation with CSR procurement activities including consideration for human rights, compliance with laws and regulations, environmental conservation and respect for intellectual property rights within the production and provision processes of all services. In March 2014, the Dentsu procurement guidelines were revised to adopt the observance of international anti-corruption regulations (the U.S. Foreign Corrupt Practices Act and the UK Bribery Act), as well as regulations pertaining to conflict minerals (Section 1502 of the U.S. Dodd-Frank Act) as part of our business ethics with the aim of realizing CSR procurement that contributes to human rights. We ask all new clients to comply with CSR procurement through agreements incorporating a subcontractor basic agreement clause pertaining to CSR procurement.

Since fiscal 2015, to confirm the status of CSR procurement initiatives within the supply chain, we have conducted surveys regarding CSR targeting all major suppliers of the Dentsu Group. We monitor the level of supplier CSR activities and business partner ESG risks, reporting this status to the CSR Committee to promote the development of a highly effective system.

### Dentsu Basic Procurement Policy

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

**1. Fair business dealings**

We shall conduct fair business dealings.

(1) Our business dealings shall comply with laws and regulations.

(2) When selecting suppliers and business partners, we shall not only take into account economic factors, but also give due consideration to compliance and environmental issues.

**2. Cooperation with Dentsu's management system**

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

Dentsu Basic Procurement Policy, Dentsu Procurement Guidelines ➡
http://www.dentsu.co.jp/csr/compliance/procurementactivities.html

## Respect for Laws and Regulations and Various Rights in Business Activities

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

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


Handbooks for Laws and Regulations

# Environmental Report

## Environmental Protection

| Social Issues | The Dentsu Group's Approach |
|---|---|
| • Promotion of environmental communication<br>• Efforts on reducing the environmental burdens by each employee | Dentsu considers environmental issues a key CSR issue and established the Environmental Strategy Council, chaired by the president & CEO. As an environmental management system, Dentsu Eco Program sets out an environmental policy and environmental targets to advance company-wide efforts for environmental protection. These efforts have been recognized, and Dentsu was certified as an Eco-First Company by the Ministry of the Environment. Dentsu will continue to advance environmental protection activities, not only through internal activities, but also through efforts in cooperation with our stakeholders and the implementation of environmental communications, in order to contribute to the realization of a sustainable society. |

## Environmental Policy

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

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

### Environmental Protection

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

### Environmental Communication

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

## Environmental Objectives

1. Promotion of activities to business partners, consumers and employees to raise recognition of environmental issues
2. Promotion of activities to prevent global warming and conserve ecosystems
3. Maintaining waste reduction and recycling at a high rate

## Structures for Environmental Activities

In July 2008, Dentsu strengthened its arrangement for implementing environment-related measures with the establishment of the Environmental Strategy Council, chaired by the president & CEO, to promote environmental strategy as a corporate group. Additionally, the CSR Committee, one of the Company's principal committees, designated environmental managers to advance Group-wide efforts for the environment. CSR Promotion Committee members advance environmental activities at respective Dentsu divisions (offices). At each Group company, board members in charge of the Eco Program, environmental managers, supervisors, and promotion committee members are appointed to advance environmental activities.

## Dentsu Group Eco Program

In January 2005, we adopted the Dentsu Group Eco Program (ongoing), and in May 2005, we acquired ISO 14001 certification. Integrated Group certification that included subsidiaries in Japan was acquired in June 2006. Dentsu and 16 Group companies hold this certification as of December 31, 2016.

## Raising Awareness

### Environmental education

Dentsu provides employees with a broad range of environmental knowledge so that they might play a leading role in addressing environmental issues. As an example, Dentsu encourages its employees to take the Certification Test for Environmental Specialists, sponsored by the Tokyo Chamber of Commerce and Industry. Employees who acquire the certification are appointed as eco officers to promote Dentsu's environmental activities. In fiscal 2016, the certification was awarded to 107 employees.

**Awareness-raising using handbooks**

Dentsu creates handbooks as part of its awareness-raising activities for employees and uses them for new employee training and other purposes.

For example, the term "greenwash" is used in reference to labels and advertising that use unsubstantiated information or partial data to give the impression that products or corporate activities are more environmentally friendly than they actually are. Dentsu's business is deeply concerned about greenwashing, and we enhance the knowledge of our employees about related matters through our Greenwash Guide. Dentsu defines a green event as an event that is an environmentally friendly one, and the *Green Event Guide* is used for organizing such events. The guide describes how to organize green events from the viewpoint of a PDCA cycle, in line with the flow of event management, from the planning stage to implementation and post-event evaluation. The guide includes case studies that are useful in putting these instructions into practice.

## Climate Change Countermeasures

### Governance

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

### Strategies and Responses

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

### Risks and Opportunities

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

### Initiatives to Reduce $CO_2$ through SBT

To realize a decarbonized society, the Dentsu Group aims to achieve the 2°C target* stipulated in the Paris Agreement, an accord within the United Nations Framework Convention on Climate Change, with the goal of reducing greenhouse gas emissions based on scientific evidence by establishing Science Based Targets (SBT). Dentsu received the international Science Based Targets initiative certification in recognition of having established science-based goals. The Dentsu Group aims to reduce Scope 1 and 2 $CO_2$ emissions 24% by 2030 compared with 2014 levels, and to reduce Scope 3 (business trips) $CO_2$ emissions 20% per employee by 2050 compared with 2015 levels. We plan to continue tackling climate change issues by making further efforts to reduce $CO_2$ emissions.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

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

## Activities to Tackle Climate Change

### Perpetual Recycling of Paper

Dentsu Aegis Network

In 2016, Dentsu Aegis Network (DAN) India HR Director Sunil Seth led an effort to recycle and reuse paper with the cooperation of partners Green O Tech (Gurugram) and RaddiConnect.com (Mumbai), launching two interesting office programs that have made great strides toward environmental conservation. The DAN India office in the Delhi region recycled and reused 2,782 kilograms of paper, saving 25 trees. Green O Tech worked with local children to plant 15 trees, equivalent to the elimination of 5,461 kilograms of $CO_2$, enabling the conservation of 44,640 liters of water that would have been required for making new paper. In addition, DAN used recycled paper to make 910 notebooks that it donated to school children.

### Big Results from Small Efforts

Dentsu Aegis Network

Small efforts can lead to big results. During Sustainable Development Week 2016, our Paris office came up with three innovations. First, the Paris office began lending a Hybrid car for use during business trips to local areas and recommends car pool services as an environmentally friendly way to commute. Second, the office offers free bicycle inspections and provides a bicycle concierge service, so that employees can safely go out for lunch and return to the office every day. Third, the Paris office has launched paperless interviews. The HR team no longer uses paper CVs and, instead, uses paperless digital media such as computers and tablets to access work histories.

# Data Summary

## Employment Data (Basically non-consolidated)

### Number of Employees (Each year-end)

| | March 2013 | March 2014 | March 2015 | December 2015 | December 2016 |
|---|---|---|---|---|---|
| Consolidated | 37,450 | 39,427 | 43,583 | 47,324 | 55,843 |
| Non-consolidated | 7,515 | 7,425 | 7,348 | 7,261 | 6,799 |

### Employee Composition (December 31, 2016)

| | Male | Female | Total |
|---|---|---|---|
| Executive officers, others | 38 | 0 | 38 |
| Management staff | 1,532 | 140 | 1,672 |
| Non-management staff | 2,673 | 1,020 | 3,693 |
| Contract employees | 250 | 214 | 464 |
| Clerical staff | 1 | 506 | 507 |
| Partners / Senior staff | 105 | 41 | 146 |
| Part-timers, others | 25 | 14 | 39 |
| Seconded from other entities | 184 | 56 | 240 |
| Total | 4,808 | 1,991 | 6,799 |

Note: "Executive officers, others" indicates senior corporate advisors, special advisors and executive officers (excluding directors and auditors). "Part-timers, others" indicates permanent part-timers, non-permanent part-timers and employees of overseas branches.
Note: Employees on temporary transfer are excluded.

### Employees by Age and Gender (Each year-end)

| | March 2013 | March 2014 | March 2015 | December 2015 | December 2016 |
|---|---|---|---|---|---|
| Under 30 years of age | 1,593 | 1,535 | 1,403 | 1,389 | 1,146 |
| 30–39 | 2,727 | 2,682 | 2,618 | 2,576 | 2,346 |
| 40–49 | 1,803 | 1,773 | 1,798 | 1,805 | 1,784 |
| 50–59 | 1,252 | 1,290 | 1,380 | 1,326 | 1,328 |
| 60 years of age and over | 140 | 145 | 149 | 165 | 195 |
| Total | 7,515 | 7,425 | 7,348 | 7,261 | 6,799 |
| Average age | 38.9 | 39.6 | 39.5 | 39.5 | 40.3 |
| Male | 40.1 | 40.9 | 40.8 | 40.9 | 41.8 |
| Female | 36.0 | 36.1 | 36.4 | 36.1 | 36.6 |
| Average length of service (years) | 13.1 | 13.9 | 13.9 | 13.3 | 14.1 |
| Male | 14.7 | 15.5 | 15.4 | 14.8 | 15.8 |
| Female | 9.3 | 9.8 | 10.2 | 9.5 | 9.9 |

Note: Employees on temporary transfer are excluded.

### New Graduates Hired

| | April 2013 | April 2014 | April 2015 | April 2016 | April 2017 |
|---|---|---|---|---|---|
| Total | 136 | 135 | 132 | 144 | 145 |
| Male | 93 | 91 | 92 | 88 | 82 |
| Female | 43 | 44 | 40 | 56 | 63 |
| Female Component | 31.6% | 32.6% | 30.3% | 38.9% | 43.4% |

### Number of New Graduates and Mid-career Personnel Hired

| | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|---|
| Total | 224 | 169 | 167 | 152 | 176 |
| Male | 151 | 114 | 120 | 108 | 115 |
| Female | 73 | 55 | 47 | 44 | 61 |
| Female Component | 32.6% | 32.5% | 28.1% | 28.9% | 34.7% |

### Ratio of Women among Managers (as of December 2016)

| | | |
|---|---|---|
| Total | 7.82% | (including personnel seconded to the Company and excluding personnel seconded from the Company) |

## Work–Life Balance

### Average Number of Paid Vacation Days Taken

| | FY2012 | FY2013 | FY2014 | FY2015* | FY2016 |
|---|---|---|---|---|---|
| Total | 10.6 | 10.3 | 10.8 | 8.4 | 11.2 |
| Male | 9.7 | 9.2 | 9.6 | 7.5 | 10.2 |
| Female | 12.9 | 13.1 | 13.8 | 10.6 | 13.9 |
| Leave Taken | 53.0% | 51.5% | 54.0% | 42.0% | 56.0% |

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

| | FY2012 | FY2013 | FY2014 | FY2015* | FY2016 |
|---|---|---|---|---|---|
| Total Hours Taken | 42,994 | 45,005 | 49,712 | 38,275 | 47,138 |
| Total Number of People Taking Leave | 16,161 | 17,111 | 14,568 | 14,308 | 18,217 |
| Number of Hours Taken at One Time | 2.7 | 2.6 | 3.4 | 2.7 | 2.6 |

### Employees Taking Childcare Leave, Reinstatement Ratio

| | FY2012 | FY2013 | FY2014 | FY2015* | FY2016 |
|---|---|---|---|---|---|
| Total | 44 | 51 | 60 | 81 | 81 |
| Male | 8 | 11 | 10 | 15 | 31 |
| Female | 36 | 40 | 50 | 66 | 50 |
| Reinstatement ratio | 95.5% | 96.1% | 100% | 100% | 100% |

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

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

| | FY2012 | FY2013 | FY2014 | FY2015* | FY2016 |
|---|---|---|---|---|---|
| Total | 2,251 | 2,265 | 2,252 | 2,187 | 2,166 |

Note: Employees on temporary transfer are excluded.

## Occupational Health and Safety

### Employees' Health Check-up Rate

| | FY2012 | FY2013 | FY2014 | FY2015* | FY2016 |
|---|---|---|---|---|---|
| Total | 99.1% | 99.2% | 99.0% | 76.1% | 95.5% |

## Leveraging Diverse Human Resources

### Post-retirement Employees

| | FY2012 | FY2013 | FY2014 | FY2015* | FY2016 |
|---|---|---|---|---|---|
| Total | 28 | 32 | 55 | 53 | 46 |
| Male | 21 | 22 | 45 | 44 | 35 |
| Female | 7 | 10 | 10 | 9 | 11 |

### Employment Rate of People with Disabilities

| | June 2013 | June 2014 | June 2015 | June 2016 | June 2017 |
|---|---|---|---|---|---|
| Total | 1.62% | 1.79% | 2.01% | 2.04% | 2.07% |

Note: The June 2013 figure is for Dentsu on a non-consolidated basis. Figures for June 2014, 2015, 2016, and 2017 are three-company totals, for Dentsu, Dentsu Works, and Dentsu Solari.

* Scope of calculation: 9 months, from April 2015 to December 2015

## Environmental Performance Data

| | | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|
| $CO_2$ emissions (tons) | | 110,202 | 109,840 | 124,698 |
| | Dentsu (non-consolidated) | 32,338 | 29,188 | 30,886 |
| | Dentsu Group in Japan | 24,150 | 19,360 | 18,584 |
| | DAN (Dentsu Group Overseas) | 53,713 | 61,292 | 75,229 |
| $CO_2$ emissions per FTE | | 2.74 | 2.49 | 2.42 |
| Scope 1 (tons) | | 4,799 | 4,482 | 5,170 |
| | Dentsu (non-consolidated) | 570 | 577 | 594 |
| | Dentsu Group in Japan | 648 | 310 | 409 |
| | DAN (Dentsu Group Overseas) | 3,581 | 3,595 | 4,166 |
| Scope 2 (market-based, tons) | | — | 53,836 | 55,126 |
| | Dentsu (non-consolidated) | — | 20,938 | 21,867 |
| | Dentsu Group in Japan | — | 11,432 | 10,496 |
| | DAN (Dentsu Group Overseas) | — | 21,466 | 22,762 |
| Scope 2 (location-based, tons) | | 58,444 | 56,349 | 56,920 |
| | Dentsu (non-consolidated) | 22,949 | 20,938 | 21,867 |
| | Dentsu Group in Japan | 15,753 | 11,432 | 10,496 |
| | DAN (Dentsu Group Overseas) | 19,742 | 23,979 | 24,556 |
| Scope 3 (tons) | | 46,958 | 51,523 | 64,403 |
| | 1. Purchased goods and services | 4,533 | 4,844 | 3,066 |
| | 5. Waste generated in operations | 588 | 884 | 933 |
| | 6. Business travel | 38,438 | 42,460 | 57,372 |
| | 7. Employee commuting | 3,399 | 3,334 | 3,030 |
| Amount of waste (kg) | | | 6,790,003 | 6,768,018 |
| | Dentsu (non-consolidated) | 2,195,858 | 2,456,855 | 3,224,884 |
| | Dentsu Group in Japan | 1,828,000 | 1,105,180 | 1,292,447 |
| | DAN (Dentsu Group Overseas) | 1,599,892 | 3,227,968 | 2,250,687 |
| Water consumption ($m^3$) | | 618,694 | 785,193 | 853,583 |
| | Dentsu (non-consolidated) | 153,852 | 152,452 | 155,741 |
| | Dentsu Group in Japan | 222,856 | 215,825 | 230,391 |
| | DAN (Dentsu Group Overseas) | 241,986 | 416,916 | 467,451 |

**Scope and Method of Calculation**

- Excluding some of Dentsu Group companies
- Based on the calculation standards of WRI (World Resources Institute) GHG Protocol
- For $CO_2$ emissions, Categories 1, 5, 6, and 7 were calculated for Scope 3
- The volume of waste generated (in kg) is the sum of general waste and industrial waste (including waste oil, waste plastic)
- The volume of water resources used is the sum of municipal water and gray water at the Tokyo Head Office, and the municipal water used at the Kansai Branch Office and Chubu Branch Office

### Third-Party Assurance

Lloyd's Register Quality Assurance Limited (LRQA) provides third-party assurance on Dentsu's $CO_2$ emissions (greenhouse gas emissions).

The percentage of women in management, the percentage of women in new-graduate hires, and the employment rate of people with disabilities have received third-party verification from Sustainability Accounting Co., Ltd. (SusA).

# Financial Report

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

Dentsu Inc. and Consolidated Subsidiaries
As of March 30, 2017

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 30, 2017 with regulatory authorities.

## Significant Accounting Policies and Estimates

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

In the preparation of these consolidated financial statements, management discloses the amounts of the reported asset and liability figures as well as those of off-balance sheet transactions such as contingent liabilities, as of the date the accounts are closed. Management also estimates the impact of these figures on the Company's financial position and operating results during the reporting period. Management continuously evaluates forecasts and assumptions regarding such items as investments, 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 event s 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.

### Change in Fiscal Period

In the previous consolidated fiscal year, the Company changed its fiscal year end from March 31 to December 31. Subsidiaries with fiscal year-ends other than December 31 have also changed their fiscal year-ends to December 31. As a result of this change, for the Company and its main subsidiaries conducting business in Japan, the previous consolidated fiscal year is the nine-month period from April 1, 2015, to December 31, 2015. The fiscal year for subsidiaries conducting business overseas is the twelve-month period from January 1, 2015, to December 31, 2015.

## Analysis of Operating Results for the Fiscal Year under Review

### Revenue and Gross Profit

Consolidated revenue for the fiscal year under review reached 838.3 billion yen and gross profit totaled 789.0 billion yen.

Within gross profit, 363.2 billion yen (up 4.3%) was generated by the Japan business due to gross profit margin improvement on a non-consolidated basis and contributions from domestic Group companies.

In the Group's international business operations, gross profit was 426.0 billion yen (up 2.9%). The organic gross profit growth rate in the international business rose 5.7% year on year. By region, growth was higher than in the previous fiscal year, with EMEA up 6.9%; the Americas, 3.1%; and APAC, 7.9%.

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

Consolidated selling, general and administrative (SG&A) expenses for the consolidated fiscal year under review came to 659.8 billion yen.

Other income was 16.5 billion yen, and other expenses came to 8.0 billion yen.

As a result, operating profit for the consolidated fiscal year under review reached 137.6 billion yen.

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

Share of results of associates for the consolidated fiscal year under review was 3.3 billion yen, and the net difference between finance income and finance costs came to 8.1 billion yen in costs. As a result, profit before tax came to 132.9 billion yen.

Of the profit for the year, derived by deducting income tax expense from profit before tax, profit attributable to owners of the parent reached 83.5 billion yen.

## Management Issues

With the March 2013 acquisition of the Aegis Group plc, (currently the Dentsu Aegis Network Ltd.), the Dentsu Group was transformed into a full-fledged global network.

In recent years, amid the advance of technological innovations and significant changes in consumer behavior patterns, the organic combination of various measures within marketing activities has enabled companies to provide customers with rich corporate brand experiences like never before, while at the same time substantially heightening the precision and efficacy of marketing activities. Within this environment, we formulated the "Dentsu 2017 and Beyond" medium-term management plan to contribute to enhancing the corporate value of all our clients and becoming the world's most advanced global network. Four numerical targets for fiscal 2017 were established under this plan:

- Gross profit organic gross rate of 3%–5% (average annual growth rate)
- Gross profit international business ratio of 55% or higher
- Gross profit digital domain ratio of 35% or higher
- Underlying operating profit operating margin of 20% or higher

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

Specific issues and initiatives for achieving the medium-term management plan are as follows.

(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 5.7%, once again achieving a rate higher than those of its competitors in consecutive years. As a result, the gross profit international business ratio reached 54%, remaining flat on a 2016 calendar year basis. However, if the impact from exchange rate fluctuations is excluded, the gross profit organic growth rate in the Group's international business operations becomes 18.1%, demonstrating a steady increase over

the same period in the previous fiscal year.

The Group believes the reasons for this robust growth is because 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 the solid acquisition of new accounts through the Group's unique "One P&L" business model for its international business operations, and because business in the digital network domain is growing steadily. Furthermore, in the previous fiscal year we conducted a variety of M&As that contributed to the acquisition of necessary resources and enhanced competitiveness as a foundation for future growth, beginning with the acquisition of Merkle Group Inc., in the U.S.

Going forward, we will engage in global developments to strengthen our digital domain and content businesses, while at the same time making efforts to establish and enhance a competitive global network through the utilization of M&As.

(2) Evolving and expanding in the digital domain

Gross profit in the Japanese digital domain on a 2016 calendar year basis increased 8.6% year on year, continuing to achieve growth.

Outside of Japan, the Group acquired resources contributing to growth in various digital domain sectors in the fiscal year under review, including some large M&As. Due to M&As and internal growth, the gross profit of the international business operation in the digital domain increased 15.7% on a 2016 calendar year basis

As a result, the digital domain ratio across the entire Group reached 35% on a 2016 calendar year basis, achieving the goal of 35% or higher targeted in the fiscal year ending December 31, 2017.

Under the accelerated digital shift in client marketing activities, needs in the digital domain are becoming increasingly diversified and advanced in the advertising industry. These needs include the following:

- Programmatic buying systems in the media buying domain,
- Digital solutions including creative materials and contents, and
- Data analysis that contributes to business decision-making and consumer engagement strategies

As a result, the role played by the advertisement agency continues to expand. Given these circumstances, the Group will continue to proactively engage in M&As and work to improve its capabilities and quality of service.

Moreover, last year, with regard to confirming the appropriateness of questionable projects within digital advertising services provided in Japan, Dentsu and some of its domestic Group companies solicited the advice of outside experts (certified fraud investigators and certified public accountants) to assist Dentsu's in-house investigation committee that included outside experts (lawyers) to ascertain and verify the status of unsuitable business practice, investigate the cause of these occurrences and formulate measures to prevent future occurrences. One of these prevention measures involved the introduction of a mechanism for the independent verification of orders, implementation and billing pertaining to digital advertising at the beginning of September 2016 with the aim of thoroughly preventing human errors and unsuitable business practice within digital advertising work. Also, in light of issues revealed during subsequent investigations, we launched various measures to prevent recurrence, such as business process improvements and staff increases in relevant departments in an attempt to eradicate the causes of unsuitable business practice. Although this issue is not expected to have a material impact on business results, we will continue to proactively engage in efforts, such as improved operational accuracy within domestic digital advertising services, to realize higher quality, higher added value digital advertising services.

(3) Re-engineering business processes and improving profitability

Despite an increase in expenses related to technology investments in international business operations, the effect of ongoing cost control measures resulted in a consolidated underlying operating margin of 21.1% on a 2016 calendar year basis.

While aiming for top line growth in the Japan and international businesses, the Group achieved the goal of an "Underlying operating profit margin of 20% or higher" in fiscal 2016, one of the fiscal 2017 objectives targeted in the medium-term management plan. However, in the Group's Japan business, due to the aforementioned digital domain issues, we recognize the necessity of conducting ongoing business process improvements and are currently creating and implementing a roadmap in light of these efforts aimed at realizing sustainable growth in this business.

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

The Group's greatest strength, its solid business platform in Japan, remains unchanged. To enhance competitiveness, we are deepening specialization focused on the priority digital and promotion domains while working diligently to improve profitability. As a result, in the fiscal year 2016, the Japan business achieved growth in gross profit and underlying operating profit.

In Japan, where consumer behavior patterns are undergoing rapid changes, online and offline consumer behavior data are becoming increasingly useful as companies continue further incorporate this information into their marketing activities. In light of these environmental changes, the entire Group continues to work on strengthening digital solutions capabilities, including those in the marketing intelligence domain, while further enhancing systems.

In addition, the Group is strengthening its competitiveness in the mass media business through collaborations with leaders in the media content domain and efforts to establish new revenue models and enhance value in a diverse range of media. Furthermore, the Company will work to increase its problem-solving capabilities and profitability in a greater number of domains, in an effort to evolve into a "partner" able to support the success of clients from a variety of angles.

Additionally, the Company will continue to provide support for the formulation of marketing plans and sponsorship sales at a variety of sporting events.

As mentioned above, the Group has engaged in a variety of measures to achieve the medium-term management plan. As a result, taking a comprehensive view that includes exchange rate fluctuations last year, in fiscal 2016 we believe we achieved the target levels established for fiscal 2017 overall.

At the same time, from last year, there is increasing uncertainty and fluidity in global conditions that has made the structural reform of our Japan business an urgent matter. To this end, the Group recognizes the urgency and appropriateness of formulating and presenting a new management plan based on a medium-term perspective under a new management structure instead of the current medium-term management plan. The Group is promoting the rapid formulation of this plan and will present the new medium-term management plan to stakeholders as soon as possible.

Dentsu was investigated by the relevant authorities regarding labor management-related issues, and on December 28, 2016, the Company as a corporate entity and one of our employees was referred to prosecutors by the Tokyo labor bureau on suspicion of violating the Labor Standards Act. We take these charges very seriously.

Going forward, the Company will position employees as the top management priority, making the protection of each and every employee more important than anything else. We now recognize that an environment enabling all employees to work with healthy minds and bodies, as well as an environment facilitating personal growth through various workstyles in response to diverse values, to be the most important factors enabling Dentsu to achieve sustainable growth. To realize this kind of labor environment, we are promoting labor environment reforms in recognition of the role and responsibilities the Company should fulfill in society.

In light of urgent issues focused on appropriate workloads, ideal organizational management, a review of all systems, and a redefining of corporate culture, at present we are making every effort to effectively promote thorough legal compliance and measures under the supervision of a full-time executive officer aimed at labor environment improvements and the eradication of long working hours to prevent similar occurrences in the future. These efforts are primarily driven by the Working Environment Reforms Commission established in November 2016. In terms of progress and efficacy, an outside expert has been appointed to the Supervisory Board to conduct ongoing verifications, the results of which will be disclosed as appropriate.

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

Based on the "Dentsu Group Medium-term CSR strategy 2020" formulated in 2015, the Group is promoting activities in pursuit of targets to be achieved by 2020 in four key domains including environmental conservation. In recognition of these efforts, this fiscal year we were selected for the first time for inclusion in the Dow Jones Sustainability Asia Pacific Index (DJSI Asia/Pacific), a global socially responsible investment index.

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

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

## Analysis of Capital Resources and Cash Liquidity

### Assets, Liabilities and Equity

As of December 31, 2016, total assets increased by 89,155 million yen, liabilities increased by 209,937 million yen, and total equity decreased by 120,782 million yen compared to the previous consolidated fiscal year due to the impact of business combinations and other factors.

### Cash Flows

As of December 31, 2016, cash and cash equivalents (hereinafter "cash") amounted to 242,410 million yen (263,322 million yen was posted at the end of the previous consolidated fiscal year). As net cash provided by operating activities exceeded net cash used in investing activities and net cash provided by financing activities, cash at the end of the consolidated fiscal year under review decreased 20,911 million yen from the end of the previous consolidated fiscal year.

#### Cash flows from operating activities

Net cash provided by operating activities amounted to 143,585 million yen (provided 69,554 million yen in the previous consolidated fiscal year), primarily due to recording of profit before tax.

#### Cash flows from investing activities

Net cash used in investing activities amounted to 156,161 million yen (used 61,203 million yen in the previous consolidated fiscal year), primarily due to purchase of investments in subsidiaries.

#### Cash flows from financing activities

Net cash provided by financing activities amounted to 2,539 million yen (used 95,666 million yen in the previous consolidated fiscal year), primarily due to a net increase in short-term borrowings.

### Capital Requirements

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

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

### Financial Policy

The Group's primary source of funds is cash generated from internal reserves, 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 129.4 billion yen and 18.8 billion yen, respectively.

To ensure short-term liquidity, Dentsu established a bank credit line of up to 50.0 billion yen via a syndication arrangement. Also, Dentsu Aegis Network established a bank credit line of 500 million pounds (approximately 71.5 billion yen) as a contingency fund. In addition, to improve cash efficiency within the Group, a cash management system (CMS) was introduced so that Dentsu could borrow cash from domestic consolidated subsidiaries. A Groupwide finance system is now in place that enables nearly all domestic consolidated subsidiaries that require funding to borrow funds acquired for this purpose from other domestic consolidated subsidiaries with excess cash. Also, a global CMS has been introduced at Dentsu Aegis Network, through which overseas cash is consolidated in London.

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

## Operating and Other Risks

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

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

### Overall Industry-related Risk

#### Risk related to fluctuations in the economic and business environments

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

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

The Great East Japan Earthquake that occurred in March 2011 adversely affected the Japanese economy due to supply chain disruptions, electricity shortages and other factors. While economic and business conditions in Japan have improved since then, there is no assurance that conditions may not deteriorate again in the future, including as a result of future earthquakes or other natural disasters.

With the acquisition of the major British advertising agency Aegis in March 2013, the proportion of the Group's gross profit accounted for by its operations outside of Japan increased significantly, to 54%, in fiscal 2015. 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 2016 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 International Businesses

**Risks related to international business development**

With the acquisition of Aegis, the Dentsu Group's global operations have expanded to over 140 countries and regions. The Group's global operations are subject to a number of risks, including but not limited to the following:

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

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

**Risk related to impairment losses on goodwill and other intangible assets**

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

### Risk Related to Maintaining and Developing Human Resources

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

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

### Risk Related to Reliance on Information Technology Systems

The Dentsu Group relies on information technology systems and infrastructure to process transactions, summarize results and manage its business, including maintaining client marketing and advertising information. The Group's information technology systems are potentially vulnerable to system failures and network disruptions, malicious intrusion and random attack. Likewise, data security incidents and breaches by employees and others with or without permitted access to its systems may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. Additionally, the Group utilizes third parties to store, transfer or process data. While the Group has taken prudent measures to protect its data and information technology systems, there can be no assurance that its efforts will prevent system failures or network disruptions or breaches in its systems, or in systems of third parties the Group uses, which could adversely affect its results of operations.

### Risk Related to Legal or Regulatory Changes

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

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

### Risk of Litigation

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

# Consolidated Financial Statements

## Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2016

| ASSETS | Notes | (Millions of Yen) FY2015 (As of December 31, 2015) | (Millions of Yen) FY2016 (As of December 31, 2016) | (Millions of U.S. Dollars) FY2016 (As of December 31, 2016) |
|---|---|---|---|---|
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | 8 | ¥263,322 | ¥242,410 | $2,081 |
| Trade and other receivables | 9, 35 | 1,263,317 | 1,275,044 | 10,946 |
| Inventories | 10 | 18,724 | 18,862 | 162 |
| Other financial assets | 11, 20, 35 | 20,945 | 17,814 | 153 |
| Other current assets | 12 | 46,201 | 60,621 | 520 |
| Subtotal | | 1,612,510 | 1,614,753 | 13,862 |
| Non-current assets classified as held for sale | 13 | 5,513 | 3,357 | 29 |
| Total current assets | | 1,618,024 | 1,618,111 | 13,891 |
| NON-CURRENT ASSETS: | | | | |
| Property, plant and equipment | 14 | 196,782 | 193,757 | 1,663 |
| Goodwill | 7, 15 | 656,862 | 718,717 | 6,170 |
| Intangible assets | 7, 15 | 256,991 | 274,074 | 2,353 |
| Investment property | 17 | 41,642 | 37,837 | 325 |
| Investments accounted for using the equity method | 6, 18 | 50,281 | 55,691 | 478 |
| Other financial assets | 11, 35 | 218,083 | 224,723 | 1,929 |
| Other non-current assets | 23 | 11,515 | 13,183 | 113 |
| Deferred tax assets | 19 | 15,893 | 19,133 | 164 |
| Total non-current assets | | 1,448,051 | 1,537,118 | 13,195 |
| TOTAL ASSETS | 6 | ¥3,066,075 | ¥3,155,230 | $27,086 |

## Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2016

| LIABILITIES AND EQUITY | Notes | FY2015 (As of December 31, 2015) (Millions of Yen) | FY2016 (As of December 31, 2016) (Millions of Yen) | FY2016 (As of December 31, 2016) (Millions of U.S. Dollars) |
|---|---|---|---|---|
| LIABILITIES: | | | | |
| CURRENT LIABILITIES: | | | | |
| Trade and other payables | 20, 35 | ¥1,207,347 | ¥1,230,496 | $10,563 |
| Borrowings | 21, 35 | 66,805 | 130,490 | 1,120 |
| Other financial liabilities | 21, 35 | 44,988 | 26,781 | 230 |
| Income tax payables | | 11,177 | 34,248 | 294 |
| Provisions | 22 | 1,819 | 1,179 | 10 |
| Other current liabilities | | 156,156 | 176,030 | 1,511 |
| Subtotal | | 1,488,294 | 1,599,226 | 13,728 |
| Liabilities directly associated with non-current assets classified as held for sale | 13 | 307 | 8 | 0 |
| Total current liabilities | | 1,488,602 | 1,599,235 | 13,729 |
| NON-CURRENT LIABILITIES: | | | | |
| Borrowings | 21, 35 | 286,977 | 273,108 | 2,344 |
| Other financial liabilities | 21, 35 | 72,735 | 166,216 | 1,427 |
| Liability for retirement benefits | 23 | 30,557 | 31,377 | 269 |
| Provisions | 22 | 3,096 | 4,295 | 37 |
| Other non-current liabilities | 34 | 11,350 | 20,141 | 173 |
| Deferred tax liabilities | 19 | 70,011 | 78,893 | 677 |
| Total non-current liabilities | | 474,729 | 574,033 | 4,928 |
| Total liabilities | | 1,963,331 | 2,173,269 | 18,656 |
| EQUITY: | | | | |
| Share capital | 24 | 74,609 | 74,609 | 640 |
| Share premium account | 24 | 99,751 | 99,751 | 856 |
| Treasury shares | 24 | (20,155) | (20,168) | (173) |
| Other components of equity | | 261,039 | 121,346 | 1,042 |
| Retained earnings | 24 | 652,972 | 657,203 | 5,642 |
| Total equity attributable to owners of the parent | 35 | 1,068,216 | 932,742 | 8,007 |
| Non-controlling interests | | 34,526 | 49,218 | 423 |
| Total equity | | 1,102,743 | 981,961 | 8,430 |
| TOTAL LIABILITIES AND EQUITY | | ¥3,066,075 | ¥3,155,230 | $27,086 |

## Consolidated Statement of Income

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2016

| | Notes | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) (Millions of Yen) | FY2016 (Year ended December 31, 2016) (Millions of U.S. Dollars) |
|---|---|---|---|---|
| (Turnover (Note 1)) | 6 | ¥4,513,955 | ¥4,924,933 | $42,278 |
| Revenue | 6 | 706,469 | 838,359 | 7,197 |
| Cost | 14, 15, 23, 27 | 36,979 | 49,316 | 423 |
| Gross profit | 6 | 669,489 | 789,043 | 6,773 |
| Selling, general and administrative expenses | 14, 15, 23 | 566,487 | 659,885 | 5,665 |
| Other income | 26, 27 | 13,030 | 16,588 | 142 |
| Other expenses | 28 | 8,766 | 8,063 | 69 |
| Operating profit | 14, 15, 29, 34 | 107,265 | 137,681 | 1,182 |
| Share of results of associates | 6 | 3,911 | 3,362 | 29 |
| Profit before interest and tax | 18 | 111,177 | 141,044 | 1,211 |
| Finance income | | 4,926 | 5,104 | 44 |
| Finance costs | 30 | 10,059 | 13,230 | 114 |
| Profit before tax | 23, 27, 30 | 106,043 | 132,918 | 1,141 |
| Income tax expense | | 28,339 | 43,572 | 374 |
| Profit for the year | 19 | ¥77,704 | ¥89,345 | $767 |
| Profit attributable to: | | | | |
| Owners of the parent | | ¥72,653 | ¥83,501 | $717 |
| Non-controlling interests | | ¥5,051 | ¥5,844 | $50 |
| Earnings per share | | | (Yen) | (U.S. Dollars) |
| Basic earnings per share | 32 | ¥254.05 | ¥292.85 | $2.51 |
| Diluted earnings per share | 32 | ¥254.03 | ¥292.84 | $2.51 |

Reconciliation from operating profit to underlying operating profit

| | Notes | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) (Millions of Yen) | FY2016 (Year ended December 31, 2016) (Millions of U.S. Dollars) |
|---|---|---|---|---|
| Operating profit | | ¥107,265 | ¥137,681 | $1,182 |
| Amortization of intangible assets incurred in acquisitions | | 22,798 | 24,506 | 210 |
| Other adjusting items (selling, general and administrative expenses) | | 2,454 | 8,762 | 75 |
| Other adjusting items (other income) | | (4,565) | (7,522) | (65) |
| Other adjusting items (other expenses) | | 5,376 | 3,137 | 27 |
| Underlying operating profit (Note 2) | 6 | ¥133,328 | ¥166,565 | $1,430 |

(Note 1) Turnover represents the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes.
Disclosure of turnover information is not required under IFRS; however, it is voluntarily disclosed in the Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.
(Note 2) For the definition of underlying operating profit, refer to "3. SIGNIFICANT ACCOUNTING POLICIES (21) Underlying Operating Profit."

## Consolidated Statement of Comprehensive Income

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2016

| | Notes | FY2015 (Nine months ended December 31, 2015) | (Millions of Yen) FY2016 (Year ended December 31, 2016) | (Millions of U.S. Dollars) FY2016 (Year ended December 31, 2016) |
|---|---|---|---|---|
| PROFIT FOR THE YEAR | | ¥77,704 | ¥89,345 | $767 |
| OTHER COMPREHENSIVE INCOME | | | | |
| ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS: | | | | |
| Net change in financial assets measured at fair value through other comprehensive income | 31, 35 | 3,354 | 17,571 | 151 |
| Remeasurements of defined benefit plans | 23, 31 | 2,849 | (3,655) | (31) |
| Share of other comprehensive income of investments accounted for using the equity method | 18, 31 | 411 | (454) | (4) |
| ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS: | | | | |
| Exchange differences on translation of foreign operations | 31 | (35,439) | (133,674) | (1,148) |
| Effective portion of the change in the fair value of cash flow hedges | 31 | (1,950) | (3,101) | (27) |
| Share of other comprehensive income of investments accounted for using the equity method | 18, 31 | (589) | (268) | (2) |
| Other comprehensive income, net of tax | | (31,363) | (123,582) | (1,061) |
| COMPREHENSIVE INCOME FOR THE YEAR | | ¥46,340 | ¥(34,237) | $(294) |
| COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO: | | | | |
| Owners of the parent | | ¥42,077 | ¥(39,851) | $(342) |
| Non-controlling interests | | ¥4,263 | ¥5,614 | $48 |

## Consolidated Statement of Changes in Equity

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2016

(Millions of Yen)

| | Notes | Total equity attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Other components of equity | | |
| | Notes | 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, 2015 | | ¥74,609 | ¥99,906 | ¥(131) | ¥48 | ¥205,902 | ¥12,131 | ¥81,382 |
| Profit for the year | | | | | | | | |
| Other comprehensive income | | | | | | (34,769) | (1,909) | 3,293 |
| Comprehensive income for the year | | – | – | – | – | (34,769) | (1,909) | 3,293 |
| Repurchase of treasury shares | | | (154) | (20,024) | | | | |
| Dividends | 25 | | | | | | | |
| Transactions with non-controlling interests in subsidiaries that do not result in a loss of control | 24 | | | | | | | |
| Transfer from other components of equity to retained earnings | | | | | | | | (1,037) |
| Other | | | | | | | | |
| Transactions with owners—total | | – | (154) | (20,024) | – | – | – | (1,037) |
| As of December 31, 2015 | | ¥74,609 | ¥99,751 | ¥(20,155) | ¥48 | ¥171,132 | ¥10,222 | ¥83,639 |
| Profit for the year | | | | | | | | |
| Other comprehensive income | | | | | | (133,729) | (3,101) | 17,109 |
| Comprehensive income for the year | | – | – | – | – | (133,729) | (3,101) | 17,109 |
| Repurchase of treasury shares | | | | (13) | | | | |
| Disposal of treasury shares | | | (0) | 0 | | | | |
| Dividends | 25 | | | | | | | |
| Transactions with non-controlling interests in subsidiaries that do not result in a loss of control | 24 | | | | | | | |
| Transfer from other components of equity to retained earnings | | | | | | | | (16,339) |
| Other | | | | | (0) | | | |
| Transactions with owners—total | | – | (0) | (12) | (0) | – | – | (16,339) |
| As of December 31, 2016 | | ¥74,609 | ¥99,751 | ¥(20,168) | ¥48 | ¥37,403 | ¥7,120 | ¥84,409 |

(Millions of U.S. Dollars)

| | Notes | Total equity attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Other components of equity | | |
| | Notes | Share capital | Share premium account | Treasury shares | Share options | Exchange differences on translation of foreign operations | Effective portion of the change in the fair value of cash flow hedges | Net change in financial assets measured at fair value through other comprehensive income |
| As of December 31, 2015 | | $640 | $856 | $(173) | $0 | $1,469 | $88 | $718 |
| Profit for the year | | | | | | | | |
| Other comprehensive income | | | | | | (1,148) | (27) | 147 |
| Comprehensive income for the year | | – | – | – | – | (1,148) | (27) | 147 |
| Repurchase of treasury shares | | | | (0) | | | | |
| Disposal of treasury shares | | | (0) | 0 | | | | |
| Dividends | 25 | | | | | | | |
| Transactions with non-controlling interests in subsidiaries that do not result in a loss of control | 24 | | | | | | | |
| Transfer from other components of equity to retained earnings | | | | | | | | (140) |
| Other | | | | | (0) | | | |
| Transactions with owners—total | | – | (0) | (0) | (0) | – | – | (140) |
| As of December 31, 2016 | | $640 | $856 | $(173) | $0 | $321 | $61 | $725 |

(Millions of Yen)

| | Notes | Total equity attributable to owners of the parent: Other components of equity: Remeasurements of defined benefit plans | Total equity attributable to owners of the parent: Other components of equity: Total | Total equity attributable to owners of the parent: Retained earnings | Total equity attributable to owners of the parent: Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| As of April 1, 2015 | | ¥(6,813) | ¥292,652 | ¥613,327 | ¥1,080,364 | ¥30,699 | ¥1,111,063 |
| Profit for the year | | | – | 72,653 | 72,653 | 5,051 | 77,704 |
| Other comprehensive income | | 2,809 | (30,576) | | (30,576) | (787) | (31,363) |
| Comprehensive income for the year | | 2,809 | (30,576) | 72,653 | 42,077 | 4,263 | 46,340 |
| Repurchase of treasury shares | | | – | | (20,179) | | (20,179) |
| Dividends | 25 | | – | (20,072) | (20,072) | (3,164) | (23,236) |
| Transactions with non-controlling interests in subsidiaries that do not result in a loss of control | 24 | | – | (13,972) | (13,972) | 2,743 | (11,229) |
| Transfer from other components of equity to retained earnings | | | (1,037) | 1,037 | – | | – |
| Other | | | – | | – | (15) | (15) |
| Transactions with owners—total | | – | (1,037) | (33,008) | (54,224) | (436) | (54,660) |
| As of December 31, 2015 | | ¥(4,003) | ¥261,039 | ¥652,972 | ¥1,068,216 | ¥34,526 | ¥1,102,743 |
| Profit for the year | | | – | 83,501 | 83,501 | 5,844 | 89,345 |
| Other comprehensive income | | (3,630) | (123,352) | | (123,352) | (229) | (123,582) |
| Comprehensive income for the year | | (3,630) | (123,352) | 83,501 | (39,851) | 5,614 | (34,237) |
| Repurchase of treasury shares | | | – | | (13) | | (13) |
| Disposal of treasury shares | | | – | | 0 | | 0 |
| Dividends | 25 | | – | (22,811) | (22,811) | (4,581) | (27,392) |
| Transactions with non-controlling interests in subsidiaries that do not result in a loss of control | 24 | | – | (72,798) | (72,798) | 13,658 | (59,139) |
| Transfer from other components of equity to retained earnings | | | (16,339) | 16,339 | – | | – |
| Other | | | (0) | | (0) | | (0) |
| Transactions with owners—total | | – | (16,339) | (79,270) | (95,622) | 9,077 | (86,545) |
| As of December 31, 2016 | | ¥(7,634) | ¥121,346 | ¥657,203 | ¥932,742 | ¥49,218 | ¥981,961 |

(Millions of U.S. Dollars)

| | Notes | Total equity attributable to owners of the parent: Other components of equity: Remeasurements of defined benefit plans | Total equity attributable to owners of the parent: Other components of equity: Total | Total equity attributable to owners of the parent: Retained earnings | Total equity attributable to owners of the parent: Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| As of December 31, 2015 | | $(34) | $2,241 | $5,605 | $9,170 | $296 | $9,466 |
| Profit for the year | | | – | 717 | 717 | 50 | 767 |
| Other comprehensive income | | (31) | (1,059) | | (1,059) | (2) | (1,061) |
| Comprehensive income for the year | | (31) | (1,059) | 717 | (342) | 48 | (294) |
| Repurchase of treasury shares | | | – | | (0) | | (0) |
| Disposal of treasury shares | | | – | | 0 | | 0 |
| Dividends | 25 | | – | (196) | (196) | (39) | (235) |
| Transactions with non-controlling interests in subsidiaries that do not result in a loss of control | 24 | | – | (625) | (625) | 117 | (508) |
| Transfer from other components of equity to retained earnings | | | (140) | 140 | – | | – |
| Other | | | (0) | | (0) | | (0) |
| Transactions with owners—total | | – | (140) | (680) | (821) | 78 | (743) |
| As of December 31, 2016 | | $(66) | $1,042 | $5,642 | $8,007 | $423 | $8,430 |

## Consolidated Statement of Cash Flows

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2016

| | Notes | FY2015 (Nine months ended December 31, 2015) (Millions of Yen) | FY2016 (Year ended December 31, 2016) (Millions of Yen) | FY2016 (Year ended December 31, 2016) (Millions of U.S. Dollars) |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Profit before tax | | ¥106,043 | ¥132,918 | $1,141 |
| ADJUSTMENTS FOR: | | | | |
| Depreciation and amortization | | 41,453 | 45,860 | 394 |
| Impairment loss | | 2,489 | 522 | 4 |
| Interest and dividend income | | (4,136) | (4,326) | (37) |
| Interest expense | | 6,840 | 7,491 | 64 |
| Share of results of associates | | (3,911) | (3,362) | (29) |
| Increase (decrease) in liability for retirement benefits | | 1,670 | (3,055) | (26) |
| Other — net | | 1,838 | 2,481 | 21 |
| Cash flows from operating activities before adjusting changes in working capital and others | | 152,288 | 178,528 | 1,533 |
| CHANGES IN WORKING CAPITAL: | | | | |
| (Increase) decrease in trade and other receivables | | (73,141) | (49,992) | (429) |
| (Increase) decrease in inventories | | 7,367 | 649 | 6 |
| (Increase) decrease in other current assets | | (4,179) | (19) | (0) |
| Increase (decrease) in trade and other payables | | 28,483 | 41,035 | 352 |
| Increase (decrease) in other current liabilities | | 4,578 | 13,175 | 113 |
| Change in working capital | | (36,891) | 4,847 | 42 |
| Subtotal | | 115,396 | 183,376 | 1,574 |
| Interest received | | 2,044 | 1,776 | 15 |
| Dividends received | | 5,722 | 5,137 | 44 |
| Interest paid | | (6,781) | (7,623) | (65) |
| Income taxes paid | | (46,828) | (39,080) | (335) |
| Net cash flows from operating activities | | 69,554 | 143,585 | 1,233 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Payment for purchase of property, plant and equipment, intangible assets and investment property | 6 | (19,652) | (22,234) | (191) |
| Proceeds from sale of property, plant and equipment, intangible assets and investment property | | 869 | 12,006 | 103 |
| Net cash (paid) received on acquisition of subsidiaries | 7 | (41,996) | (170,419) | (1,463) |
| Net cash (paid) received on disposal of subsidiaries | | 25 | 121 | 1 |
| Payments for purchases of securities | | (6,755) | (13,610) | (117) |
| Proceeds from sales of securities | | 9,469 | 40,430 | 347 |
| Other — net | | (3,163) | (2,456) | (21) |
| Net cash flows from investing activities | | (61,203) | (156,161) | (1,341) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Net increase (decrease) in short-term borrowings | | (12,949) | 99,683 | 856 |
| Proceeds from long-term borrowings | | 91 | 28,511 | 245 |
| Repayment of long-term borrowings | | (29,246) | (89,257) | (766) |
| Repayments of bonds | | (11,936) | – | – |
| Payment for acquisition of interest in a subsidiary from non-controlling interests | | (2,735) | (6,093) | (52) |
| Proceeds from sales of interest in a subsidiary to non-controlling interests | | 2,952 | – | – |
| Payments for purchase of treasury shares | | (20,024) | (13) | (0) |
| Dividends paid | 25 | (20,072) | (22,811) | (196) |
| Dividends paid to non-controlling interests | | (2,917) | (4,121) | (35) |
| Other — net | | 1,171 | (3,359) | (29) |
| Net cash flows from financing activities | | (95,666) | 2,539 | 22 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | (14,741) | (10,874) | (93) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | (102,057) | (20,911) | (180) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 8 | 365,379 | 263,322 | 2,260 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 8 | ¥263,322 | ¥242,410 | $2,081 |

# Notes to Consolidated Financial Statements

Dentsu Inc. and Consolidated Subsidiaries

## 1. REPORTING ENTITY

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

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

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

The consolidated financial statements for the year ended December 31, 2016 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Shoichi Nakamoto, Senior Executive Vice President & CFO, on March 30, 2017.

## 2. BASIS OF PREPARATION

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

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

For the convenience of readers outside Japan, the accompanying Consolidated Financial Statements are also presented in United States dollars by translating Japanese yen amounts at the exchange rate of ¥116.49 to U.S.$1, the approximate rate of exchange at the end of December 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into United States dollars at the above or any other rate.

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

(4) Early Application of New Standards

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

(5) Change in Fiscal Year End

Effective from the previous fiscal year, the Company and its subsidiaries with fiscal year ends other than December 31 changed their fiscal year ends to December 31 in order to enhance and improve the efficiency of the account closing and management system on a Group-wide basis by unifying the fiscal year end with the Group's overseas consolidated subsidiaries.

As a result of this change of fiscal year end from March 31 to December 31, the previous fiscal year was the nine-month period from April 1, 2015 to December 31, 2015.

The fiscal year end date of Dentsu Aegis Network Ltd. and subsidiaries under control (hereinafter, collectively "Dentsu Aegis Network"), which operate the Group's international advertising business, continued to be December 31 as before, hence the Group consolidated financial results of Dentsu Aegis Network for the twelve-month period from January 1, 2015 to December 31, 2015 into the consolidated financial results for the nine-month period ended December 31, 2015.

For pro forma information of the consolidated statement of income assuming that the previous fiscal year of the Group had been the twelve-month period from January 1, 2015 to December 31, 2015, please refer to Note "39. CONSOLIDATED STATEMENT OF INCOME (2015 JANUARY–DECEMBER)".

## 3. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Consolidation

*A. Subsidiaries*

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

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

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

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

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

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

(i) Deferred tax assets or liabilities, and assets or liabilities, which are related to employee benefit arrangements, are recognized and measured in accordance with International Accounting Standards (hereinafter referred to as "IAS") 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively.

(ii) Assets or disposal groups that are classified as held-for-sale under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with such standard.

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

If the initial accounting for a business combination is incomplete by the end of the 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 reflected as an adjustment to the consideration transferred when the change occurs during the above measurement period, otherwise the change is recognized in profit or loss.

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

Acquisition-related costs incurred to 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 denominated in foreign currencies are translated at the exchange rate at the date of transaction.

*B. Translation of Foreign Operations*

For financial statements of foreign operations such as subsidiaries, assets and liabilities are translated into Japanese yen 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.

(4) Financial Instruments

*A. Non-derivative Financial Assets*

(i) Initial Recognition and Measurement

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

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

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

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

At the time of initial recognition, 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.

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.

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

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

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

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

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

(iii) Derecognition

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

*B. Impairment of Financial Assets Measured at Amortized Cost*

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

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

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

Impairment losses for a financial asset measured at amortized cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted 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*

(i) Initial Recognition and Measurement

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

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

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost, net of transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent measurements

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

(a) Financial Liabilities Measured at Amortized Cost

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

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

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

(iii) Derecognition

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

*D. Derivative Financial Instruments and Hedge Accounting*

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

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

(i) 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.

(ii) 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.

(iii) 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.

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

(iv) 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 presented on a net basis 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.

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: 2 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:

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.

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 "15. GOODWILL AND INTANGIBLE ASSETS" for details of impairment testing of goodwill.

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

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

An impairment loss recognized for goodwill is not reversed in a subsequent period. For assets excluding goodwill, an assessment is made at 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 classified as Held for Sale

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

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

(13) Post-employment Benefits

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

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

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

Certain subsidiaries of the Company grant cash-settled share-based payment plans.

For cash-settled share-based payments, services acquired and the liability incurred are measured at the fair value of the liability. The Company recognizes the services received as an expense, and a liability to pay for them, as the employees render services during the vesting period.

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

(21) Underlying Operating Profit

The underlying operating profit is calculated by eliminating from operating profit certain adjusting items such as amortization of intangible assets incurred in acquisition, impairment losses, gain or loss on sale of property, plant and equipment, intangible assets and investment property and costs incurred due to acquisition and is used by management for the purpose of measuring constant business performance.

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

(22) Reclassification

Certain reclassifications have been made to the consolidated financial statements for the nine months ended December 31, 2015 to conform to the presentation of the consolidated financial statements for the year ended December 31, 2016.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

- Impairment of property, plant and equipment, goodwill, intangible assets and investment properties ("14. PROPERTY, PLANT AND EQUIPMENT," "15. GOODWILL AND INTANGIBLE ASSETS," and "17. INVESTMENT PROPERTY")
- Valuation of financial instruments ("35. FINANCIAL INSTRUMENTS")
- Valuation of defined benefit obligations ("23. POST-EMPLOYMENT BENEFITS")
- Provisions ("22. PROVISIONS")
- Recoverability of deferred tax assets ("19. 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 |
|---|---|---|---|---|
| IFRS 15 | Revenue from Contracts with Customers | January 1, 2018 | Fiscal year ending December 2018 | 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 |
| IFRS 2 | Share-based Payment | January 1, 2018 | Fiscal year ending December 2018 | Clarification of classification and measurement of shared-based payment transactions |
| IAS 40 | Investment Property | January 1, 2018 | Fiscal year ending December 2018 | Requirements for transfers to, or from, investment properties |
| IFRS 16 | Leases | January 1, 2019 | Fiscal year ending December 2019 | Amendments for accounting treatment for lease arrangements |

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.

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

| | Japan business | International business | Total | Reconciliations | Consolidated |
|---|---|---|---|---|---|
| Turnover (Note1) | ¥1,369,732 | ¥3,156,328 | ¥4,526,061 | ¥(12,105) | ¥4,513,955 |
| Revenue (Note 2) | 302,237 | 416,337 | 718,574 | (12,105) | 706,469 |
| Gross profit (Note 3) | 255,746 | 414,066 | 669,812 | (323) | 669,489 |
| Segment profit (underlying operating profit) (Note 3) | 63,293 | 70,156 | 133,450 | (121) | 133,328 |
| (Adjusting items) | | | | | |
| Amortization of intangible assets incurred in acquisitions | – | – | – | – | (22,798) |
| Other adjusting items (selling, general and administrative expenses) (Note 5) | – | – | – | – | (2,454) |
| Other adjusting items (other income) (Note 5) | – | – | – | – | 4,565 |
| Other adjusting items (other expenses) (Note 5) | – | – | – | – | (5,376) |
| Operating profit | – | – | – | – | 107,265 |
| Share of results of associates | – | – | – | – | 3,911 |
| Finance income | – | – | – | – | 4,926 |
| Finance costs | – | – | – | – | 10,059 |
| Profit before tax | – | – | – | – | 106,043 |
| (Other income and expense items) | | | | | |
| Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions) | 8,951 | 9,702 | 18,654 | – | 18,654 |
| Segment assets (Note 4) | 1,212,941 | 1,957,884 | 3,170,825 | (104,749) | 3,066,075 |
| (Other asset items) | | | | | |
| Investments accounted for using the equity method | 46,819 | 3,461 | 50,281 | – | 50,281 |
| Capital expenditures | ¥4,136 | ¥15,516 | ¥19,652 | – | ¥19,652 |

FY2016: Year ended December 31, 2016

(Millions of Yen)

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

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

| | Japan business | International business | Total | Reconciliations | Consolidated |
|---|---|---|---|---|---|
| Turnover (Note1) | $16,228 | $26,153 | $42,381 | $(103) | $42,278 |
| Revenue (Note 2) | 3,609 | 3,691 | 7,300 | (103) | 7,197 |
| Gross profit (Note 3) | 3,118 | 3,657 | 6,775 | (2) | 6,773 |
| Segment profit (underlying operating profit) (Note 3) | 836 | 593 | 1,429 | 1 | 1,430 |
| (Adjusting items) | | | | | |
| Amortization of intangible assets incurred in acquisitions | – | – | – | – | (210) |
| Other adjusting items (selling, general and administrative expenses) (Note 5) | – | – | – | – | (75) |
| Other adjusting items (other income) (Note 5) | – | – | – | – | 65 |
| Other adjusting items (other expenses) (Note 5) | – | – | – | – | (27) |
| Operating profit | – | – | – | – | 1,182 |
| Share of results of associates | – | – | – | – | 29 |
| Finance income | – | – | – | – | 44 |
| Finance costs | – | – | – | – | 114 |
| Profit before tax | – | – | – | – | 1,141 |
| (Other income and expense items) | | | | | |
| Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions) | 93 | 91 | 183 | – | 183 |
| Segment assets (Note 4) | 10,514 | 17,886 | 28,399 | (1,313) | 27,086 |
| (Other asset items) | | | | | |
| Investments accounted for using the equity method | 463 | 16 | 478 | – | 478 |
| Capital expenditures | $61 | $130 | $191 | – | $191 |

(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:
(Note 6) The fiscal year end date of Dentsu Aegis Network, which operates the Group's international advertising business, continued to be December 31 as before, hence the Group consolidated financial results of Dentsu Aegis Network for the twelve-month period from January 1, 2015 to December 31, 2015 into the consolidated financial results for the nine-month period ended December 31, 2015.

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Other adjusting items (selling, general and administrative expenses) | | | |
| Early retirement benefits | ¥813 | ¥5,183 | $44 |
| Costs associated with merger and acquisitions | 1,610 | 3,579 | 31 |
| Other | 29 | 0 | 0 |
| Total | ¥2,454 | ¥8,762 | $75 |
| Other adjusting items (other income) | | | |
| Gain on sale of property, plant and equipment, intangible assets and investment property | ¥700 | ¥6,506 | $56 |
| Gain on sale of subsidiaries and associates shares | 954 | 664 | 6 |
| Other | 2,910 | 351 | 3 |
| Total | ¥4,565 | ¥7,522 | $65 |
| Other adjusting items (other expenses) | | | |
| Loss on sale of property, plant and equipment, intangible assets and investment property | ¥50 | ¥130 | $1 |
| Impairment losses (Note) | 2,489 | 522 | 4 |
| Other | 2,836 | 2,483 | 21 |
| Total | ¥5,376 | ¥3,137 | $27 |

(Note) Impairment losses by segment are ¥46 million (Japan business) and ¥2,442 million (International business) for nine months ended December 31, 2015 and ¥216 million ($2 million) (Japan business) and ¥306 million ($3 million) (International business) for the year ended December 31, 2016.

(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) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Advertising Services | ¥655,161 | ¥767,867 | $6,592 |
| Information Services | 47,099 | 66,443 | 570 |
| Other Services | 4,208 | 4,048 | 35 |
| Total | ¥706,469 | ¥838,359 | $7,197 |

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

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Japan | ¥226,159 | ¥213,617 | $1,834 |
| Overseas (mainly the United Kingdom) | 926,119 | 1,010,768 | 8,677 |
| Total | ¥1,152,278 | ¥1,224,386 | $10,511 |

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. BUSINESS COMBINATIONS

For the year ended December 31, 2016

Acquisition of Merkle Group Inc.

(1) Outline of the business combination

A. Name of acquired company: Merkle Group Inc.

B. Line of business: advertising and marketing business

C. Reason for the business combination:

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

D. Date of the business combination: September 1, 2016

E. Percentage of voting equity interests acquired: 68.3%

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

F. Legal form of the business combination: share acquisition by cash

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

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

(3) Acquisition cost of the acquired business and the breakdown thereof Acquisition cost of the acquired business: ¥101,218 million ($869 million)

Breakdown of the acquisition cost:

Consideration (cash) for shares ¥101,218 million ($869 million)

(4) Acquisition-related costs and the line item

The amount of acquisition-related costs incurred in said business combination was ¥1,526 million ($13 million), recognized in "selling, general and administrative expenses" in the consolidated statement of income.

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

| | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|
| | Date of acquisition of control (September 1, 2016) | Date of acquisition of control (September 1, 2016) |
| Current assets (Note 1) | ¥22,092 | $190 |
| Non-current assets | 63,288 | 543 |
| Total assets | ¥85,380 | $733 |
| Current liabilities | 18,723 | 161 |
| Non-current liabilities | 53,133 | 456 |
| Total liabilities | ¥71,856 | $617 |
| Fair value of identifiable net assets | 13,523 | 116 |
| Consideration paid | 101,218 | 869 |
| Non-controlling interests (Note 2) | 11,778 | 101 |
| Goodwill (Note 3) | ¥99,472 | $854 |

(Note 1) Cash and cash equivalents of ¥2,986 million ($26 million) were included. In addition, fair values of acquired trade and other receivables were ¥16,730 million ($144 million), the gross contractual amounts receivable was ¥16,889 million ($145 million), while the amount not expected to be collected is ¥158 million ($1 million).

(Note 2) Non-controlling interests were measured by multiplying the fair values of identifiable net assets of the acquired company at the date of acquisition of control, excluding the portion individually attributable to non-controlling shareholders, by the shareholding ratio after the business combination.

(Note 3) Goodwill reflected the expected future excess earning power. The total amount of goodwill that is expected to be deductible for tax purposes is ¥3,315 million ($28 million).

(Note 4) Consideration paid is allocated to the assets acquired and liabilities assumed on the basis of their relative fair values at the date of acquisition of control. During the three months ended December 31, 2016, the allocation of consideration paid was completed. Followed by additional analysis on the fair value of Merkle, Intangible assets, Deferred tax liabilities and Non-controlling interests increased by ¥58,882 million ($505 million), ¥21,786 million ($187 million) and ¥17,601 million ($151 million), respectively, from the initial provisional amount. Consequently, Goodwill decreased by ¥17,815 million ($153 million).

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| Type | Amortization period (year) | Amount | Amount |
| Brand | 15 | ¥24,911 | $214 |
| Relationship with clients | 10 | 22,465 | 193 |
| Others | 6 to 7 | 11,505 | 99 |
| Total | | ¥58,882 | $505 |

(7) Impact of the business combination on cash flows
Payment of acquisition costs: ¥(101,218) million ($(869) million)
Cash and cash equivalents accepted at the date of the business combination: ¥2,986 million ($26 million)
Payment for share acquisition: ¥(98,231) million ($(843) million)

(8) Revenue and profit of the acquired business
Revenue and profit of Merkle for the period after the date of acquisition of control included in the consolidated statement of income are ¥23,588 million ($202 million) and ¥195 million ($2 million), respectively.

(Pro forma information)
Assuming that the business combination was executed at the beginning of the current fiscal year, revenue and profit/(loss) included in the consolidated statement of income for the year ended December 31, 2016 would be ¥62,722 million ($538 million) and ¥(2,124) million ($(18) million), respectively.
This pro forma information is not subject to the audit. Furthermore, the information herein does not necessarily indicate possible future events, nor reflect the operating results of the Group should the actual equity investment have occurred as of the beginning of the fiscal year.

## 8. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents as of December 31, 2015 and 2016 is as follows:

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Cash and time deposits due within three months | ¥263,322 | ¥242,410 | $2,081 |

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

## 9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables as of December 31, 2015 and 2016 is as follows:

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Notes and accounts receivable trade | ¥1,229,430 | ¥1,245,919 | $10,696 |
| Other | 37,887 | 29,469 | 253 |
| Allowance for doubtful accounts | (4,000) | (345) | (3) |
| Total | ¥1,263,317 | ¥1,275,044 | $10,946 |

Trade and other receivables are presented net of allowance for doubtful accounts in the Consolidated Statement of Financial Position.
Trade and other receivables are classified as financial assets measured at amortized cost.

## 10. INVENTORIES

The breakdown of inventories as of December 31, 2015 and 2016 is as follows:

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Work-in-process | ¥17,441 | ¥17,408 | $149 |
| Other | 1,282 | 1,453 | 12 |
| Total | ¥18,724 | ¥18,862 | $162 |

The amount of write-down of inventories recognized as an expense was ¥179 million for the nine months ended December 31, 2015 and ¥609 million ($5 million) for the year ended December 31, 2016. There was no reversal of a write-down of inventories for the nine months ended December 31, 2015 and for the year ended December 31, 2016.

## 11. OTHER FINANCIAL ASSETS

(1) The breakdown of other financial assets as of December 31, 2015 and 2016 is as follows:

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Derivative assets | ¥22,519 | ¥26,240 | $225 |
| Equity securities " | 185,463 | 180,720 | 1,551 |
| Debt securities | 715 | 5 | 0 |
| Other | 47,922 | 53,739 | 461 |
| Allowance for doubtful accounts | (17,592) | (18,167) | (156) |
| Total | ¥239,028 | ¥242,538 | $2,082 |
| Current assets | 20,945 | 17,814 | 153 |
| Non-current assets | 218,083 | 224,723 | 1,929 |
| Total | ¥239,028 | ¥242,538 | $2,082 |

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 ¥3,005 million and ¥3,309 million ($28 million) as of December 31, 2015 and 2016, respectively.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of December 31, 2015 and 2016 are as follows:

| | (Millions of Yen) |
|---|---|
| Investees | FY2015 (As of December 31, 2015) |
| Recruit Holdings Co., Ltd. | ¥106,800 |
| Digital Garage, Inc. | 7,167 |
| Tokyo Broadcasting System Holdings, Inc. | 4,940 |
| Asahi Group Holdings, Ltd. | 3,489 |
| TV Asahi Holdings Corporation | 3,011 |

(Millions of Yen)

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

(Millions of U.S. Dollars)

| Investees | FY2016 (As of December 31, 2016) |
|---|---|
| Recruit Holdings Co., Ltd. | $845 |
| Digital Garage, Inc. | 57 |
| Perform Group Limited | 43 |
| Tokyo Broadcasting System Holdings, Inc. | 41 |
| Lion Corporation | 30 |
| Asahi Group Holdings, Ltd. | 29 |
| TV Asahi Holdings Corporation | 28 |

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

In order to 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:

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

| Fair value | Cumulative gain or loss recognized in equity as other components of equity |
|---|---|
| ¥7,976 | ¥1,592 |

FY2016: Year ended December 31, 2016

(Millions of Yen)

| Fair value | Cumulative gain or loss recognized in equity as other components of equity |
|---|---|
| ¥35,508 | ¥17,938 |

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

| Fair value | Cumulative gain or loss recognized in equity as other components of equity |
|---|---|
| $305 | $154 |

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

## 12. 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 December 31, 2015 and 2016 are as follows:

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Advanced payments which are expected to be recognized in profit and loss after more than 12 months | ¥4,289 | ¥9,298 | $80 |

## 13. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The breakdown of non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale as of December 31, 2015 and 2016 is as follows.

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

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Non-current assets classified as held for sale | | | |
| Property, plant and equipment | – | ¥3,357 | $29 |
| Goodwill | ¥2,536 | – | – |
| Investments accounted for using the equity method | 2,976 | – | – |
| Total | ¥5,513 | ¥3,357 | $29 |
| Liabilities directly associated with non-current assets classified as held for sale | | | |
| Other financial liabilities | ¥307 | ¥8 | $0 |
| Total | ¥307 | ¥8 | $0 |

Non-current assets classified as held for sale as of December 31, 2015 consist of assets and liabilities related to an equity-method associate located in China.

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

## 14. 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:

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

| | Buildings and structures | Land | Other | Total |
|---|---|---|---|---|
| Balance at the beginning of the year | ¥68,546 | ¥114,034 | ¥16,456 | ¥199,037 |
| Additions | 4,361 | – | 5,999 | 10,360 |
| Acquisitions through business combinations | 77 | – | 482 | 559 |
| Sales or disposals | (123) | (0) | (92) | (216) |
| Depreciation | (5,911) | – | (5,488) | (11,399) |
| Impairment losses | – | (2) | – | (2) |
| Exchange differences on translation of foreign operations | (654) | (36) | (785) | (1,475) |
| Other | (71) | 45 | (54) | (80) |
| Balance at the end of the year | ¥66,224 | ¥114,040 | ¥16,518 | ¥196,782 |

FY2016: Year ended December 31, 2016

(Millions of Yen)

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

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

| | Buildings and structures | Land | Other | Total |
|---|---|---|---|---|
| Balance at the beginning of the year | $568 | $979 | $142 | $1,689 |
| Additions | 68 | – | 56 | 125 |
| Acquisitions through business combinations | 14 | – | 20 | 33 |
| Sales or disposals | (13) | (6) | (3) | (23) |
| Depreciation | (58) | – | (53) | (111) |
| Impairment losses | (0) | – | (0) | (0) |
| Exchange differences on translation of foreign operations | (6) | (1) | (7) | (14) |
| Other | (16) | (16) | (4) | (36) |
| Balance at the end of the year | $558 | $955 | $150 | $1,663 |

The acquisition cost, accumulated depreciation and impairment losses, and carrying amount of property, plant and equipment as of December 31, 2015 and 2016 are as follows:

(Millions of Yen)

| | Buildings and structures | Land | Other | Total |
|---|---|---|---|---|
| FY2015 (As of December 31, 2015) | | | | |
| Acquisition cost | ¥140,195 | ¥114,836 | ¥53,310 | ¥308,342 |
| Accumulated depreciation and impairment losses | 73,971 | 796 | 36,792 | 111,560 |
| Carrying amount | 66,224 | 114,040 | 16,518 | 196,782 |
| FY2016 (As of December 31, 2016) | | | | |
| Acquisition cost | ¥130,905 | ¥112,059 | ¥55,923 | ¥298,888 |
| Accumulated depreciation and impairment losses | 65,872 | 796 | 38,462 | 105,131 |
| Carrying amount | 65,033 | 111,263 | 17,460 | 193,757 |

(Millions of U.S. Dollars)

| | Buildings and structures | Land | Other | Total |
|---|---|---|---|---|
| FY2016 (As of December 31, 2016) | | | | |
| Acquisition cost | $1,124 | $962 | $480 | $2,566 |
| Accumulated depreciation and impairment losses | 565 | 7 | 330 | 902 |
| Carrying amount | 558 | 955 | 150 | 1,663 |

The carrying amount of property, plant and equipment above includes the carrying amount of the following leased assets as of December 31, 2015 and 2016.

(Millions of Yen)

| Leased assets | Buildings and structures | Other | Total |
|---|---|---|---|
| FY2015 (As of December 31, 2015) | ¥8 | ¥2,135 | ¥2,144 |
| FY2016 (As of December 31, 2016) | 8 | 1,736 | 1,744 |

(Millions of U.S. Dollars)

| Leased assets | Buildings and structures | Other | Total |
|---|---|---|---|
| FY2016 (As of December 31, 2016) | $0 | $15 | $15 |

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

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

(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 ¥2 million and ¥24 million ($0 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively, in the Consolidated Statement of Income as "Other expenses."

Impairment losses for the nine months ended December 31, 2015 represent the losses incurred to reduce the carrying amounts of land to its recoverable amounts due to the assets becoming idle.

Impairment losses for the year ended December 31, 2016 represent the losses incurred to reduce the carrying amounts of buildings, structures and others to their recoverable amounts due to the assets becoming idle.

## 15. 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:

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

| | Goodwill | Customer relation-ships | Software | Other | Total |
|---|---|---|---|---|---|
| Balance at the beginning of the year | ¥656,565 | ¥196,867 | ¥24,459 | ¥53,417 | ¥931,310 |
| Additions | – | – | 8,980 | 617 | 9,597 |
| Acquisitions through business combinations | 35,811 | 14,684 | 66 | 3,726 | 54,288 |
| Sales or disposals | (1,905) | (391) | (503) | (55) | (2,855) |
| Amortization | – | (17,080) | (6,250) | (6,126) | (29,457) |
| Impairment losses | – | (2,060) | (143) | (278) | (2,482) |
| Exchange differences on translation of foreign operations | (31,015) | (10,091) | (555) | (2,251) | (43,912) |
| Other | (2,592) | – | (2) | (40) | (2,635) |
| Balance at the end of the year | ¥656,862 | ¥181,929 | ¥26,052 | ¥49,009 | ¥913,853 |

FY2016: Year ended December 31, 2016

(Millions of Yen)

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

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

| | Goodwill | Customer relation-ships | Software | Other | Total |
|---|---|---|---|---|---|
| Balance at the beginning of the year | $5,639 | $1,562 | $224 | $421 | $7,845 |
| Additions | – | – | 81 | 4 | 85 |
| Acquisitions through business combinations | 1,391 | 323 | 4 | 359 | 2,077 |
| Sales or disposals | – | – | (2) | (0) | (3) |
| Amortization | – | (148) | (62) | (66) | (276) |
| Impairment losses | – | – | (4) | 0 | (4) |
| Exchange differences on translation of foreign operations | (882) | (263) | (19) | (54) | (1,219) |
| Other | 22 | 9 | (13) | (0) | 18 |
| Balance at the end of the year | $6,170 | $1,483 | $207 | $663 | $8,523 |

The acquisition cost, accumulated amortization and impairment losses, and carrying amount of goodwill and intangible assets as of December 31, 2015 and 2016 are as follows:

(Millions of Yen)

| | Goodwill | Customer relationships | Software | Other | Total |
|---|---|---|---|---|---|
| FY2015 (As of December 31, 2015) | | | | | |
| Acquisition cost | ¥656,862 | ¥229,645 | ¥104,424 | ¥73,070 | ¥1,064,002 |
| Accumulated amortization and impairment losses | – | 47,716 | 78,371 | 24,060 | 150,148 |
| Carrying amount | 656,862 | 181,929 | 26,052 | 49,009 | 913,853 |
| FY2016 (As of December 31, 2016) | | | | | |
| Acquisition cost | ¥718,717 | ¥229,606 | ¥103,100 | ¥106,777 | ¥1,158,200 |
| Accumulated amortization and impairment losses | – | 56,893 | 78,961 | 29,553 | 165,409 |
| Carrying amount | 718,717 | 172,712 | 24,138 | 77,223 | 992,791 |

(Millions of U.S. Dollars)

| | Goodwill | Customer relationships | Software | Other | Total |
|---|---|---|---|---|---|
| FY2016 (As of December 31, 2016) | | | | | |
| Acquisition cost | $6,170 | $1,971 | $885 | $917 | $9,942 |
| Accumulated amortization and impairment losses | – | 488 | 678 | 254 | 1,420 |
| Carrying amount | 6,170 | 1,483 | 207 | 663 | 8,523 |

The carrying amount of intangible assets above includes the carrying amount of the following leased assets as of December 31, 2015 and 2016.

(Millions of Yen)

| Leased assets | Software |
|---|---|
| FY2015 (As of December 31, 2015) | ¥421 |
| FY2016 (As of December 31, 2016) | 230 |

(Millions of U.S. Dollars)

| Leased assets | Software |
|---|---|
| FY2016 (As of December 31, 2016) | $2 |

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

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

(2) Significant goodwill and intangible assets

The significant portion of goodwill as of December 31, 2015 and 2016, arose from the international business segment which forms a cash generating unit, and amounted to ¥656,590 million and ¥718,447 million ($6,167 million) as of December 31, 2015 and 2016, respectively.

Significant intangible assets other than goodwill as of December 31, 2015 and 2016, consist of customer relationships in the international business segment, which amounted to ¥181,929 million and ¥172,712 million ($1,483 million) as of December 31, 2015 and 2016, 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 2.0% (3.4% as of December 31, 2015) is set for cash flows beyond the four-year period.

The pre-tax discount rates used for determining value in use are 8.1% and 7.5% as of December 31, 2015 and 2016, 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 ¥2,482 million and ¥498 million ($4 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively, in the Consolidated Statement of Income as "Other expenses."

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

Impairment losses for the year ended December 31, 2016, 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.

## 16. LEASES

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

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

(1) Present value of finance lease obligations

The total of future minimum lease payments for leased assets recognized based on the finance lease contracts, their future financial costs and present value as of December 31, 2015 and 2016 are as follows:

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Not later than 1 year | | | |
| Total of future minimum lease payments | ¥1,138 | ¥964 | $8 |
| Future finance costs | 22 | 13 | 0 |
| Present value | ¥1,116 | ¥951 | $8 |
| Later than 1 year and not later than 5 years | | | |
| Total of future minimum lease payments | ¥1,595 | ¥1,168 | $10 |
| Future finance costs | 18 | 12 | 0 |
| Present value | ¥1,576 | ¥1,155 | $10 |
| Later than 5 years | | | |
| Total of future minimum lease payments | ¥6 | ¥15 | $0 |
| Future finance costs | 0 | 0 | 0 |
| Present value | ¥6 | ¥15 | $0 |
| Total | | | |
| Total of future minimum lease payments | ¥2,740 | ¥2,148 | $18 |
| Future finance costs | 41 | 26 | 0 |
| Present value | ¥2,699 | ¥2,122 | $18 |

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

The total of future minimum lease payments under non-cancellable operating leases as of December 31, 2015 and 2016 are as follows:

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Not later than 1 year | ¥25,470 | ¥24,347 | $209 |
| Later than 1 year and not later than 5 years | 59,637 | 65,075 | 559 |
| Later than 5 years | 43,985 | 32,684 | 281 |
| Total | ¥129,093 | ¥122,106 | $1,048 |

(3) Total of minimum lease payments

The total of minimum lease payments of operating lease contracts for the nine months ended December 31, 2015 and for the year ended December 31, 2016 are ¥24,404 million and ¥25,689 million ($221 million), respectively.

17. 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) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Balance at the beginning of the year | ¥42,160 | ¥41,642 | $357 |
| Additions | 40 | 50 | 0 |
| Depreciation | (555) | (637) | (5) |
| Sales or disposals | (4) | (3,215) | (28) |
| Other | 1 | 0 | 0 |
| Balance at the end of the year | ¥41,642 | ¥37,837 | $325 |
| Acquisition cost (balance at the beginning of the year) | ¥53,854 | ¥50,950 | $437 |
| Accumulated depreciation and impairment losses (balance at the beginning of the year) | 11,694 | 9,308 | 80 |
| Acquisition cost (balance at the end of the year) | ¥50,950 | ¥46,253 | $397 |
| Accumulated depreciation and impairment losses (balance at the end of the year) | 9,308 | 8,416 | $72 |

(2) Fair value

The carrying amount and fair value of investment property as of March 31, 2015 and December 31, 2015 are as follows:

| | | | (Millions of Yen) | | (Millions of U.S. Dollars) | |
|---|---|---|---|---|---|---|
| | FY2015 (As of December 31, 2015) | | FY2016 (As of December 31, 2016) | | FY2016 (As of December 31, 2016) | |
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Investment property (Level 3) | ¥41,642 | ¥48,593 | ¥37,837 | ¥46,820 | $325 | $402 |

The fair value of investment property is mainly based on 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) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Rental income | ¥1,833 | ¥2,331 | $20 |
| Direct operating expenses | 1,307 | 1,154 | 10 |

## 18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of investments in associates and joint ventures as of December 31, 2015 and 2016 is as follows:

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Total of carrying amount | ¥50,281 | ¥55,691 | $478 |

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

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Profit for the year | ¥3,911 | ¥3,362 | $29 |
| Other comprehensive income | (178) | (723) | (6) |
| Comprehensive income for the year | ¥3,733 | ¥2,639 | $23 |

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

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

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Unrecognized losses | ¥82 | ¥42 | $0 |

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Cumulative unrecognized losses | ¥347 | ¥334 | $3 |

## 19. INCOME TAXES

(1) Deferred tax assets and deferred tax liabilities

The breakdown of deferred tax assets and deferred tax liabilities by major causes of their occurrence as of December 31, 2015 and 2016 is as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Deferred tax assets | | | |
| Liability for retirement benefits | ¥33,481 | ¥29,904 | $257 |
| Accrued expenses | 7,969 | 10,729 | 92 |
| Carryforwards of tax losses | 7,373 | 7,851 | 67 |
| Other | 6,441 | 6,316 | 54 |
| Total of deferred tax assets | ¥55,265 | ¥54,801 | $470 |
| Deferred tax liabilities | | | |
| Gain on establishment of retirement benefit trust | ¥(14,701) | ¥(13,079) | $(112) |
| Unrealized gain on securities | (36,879) | (36,521) | (314) |
| Valuation differences on intangible assets | (50,187) | (63,483) | (545) |
| Other | (7,614) | (1,476) | (13) |
| Total of deferred tax liabilities | ¥(109,383) | ¥(114,561) | $(983) |
| Net deferred tax assets (liabilities) | ¥(54,118) | ¥(59,759) | $(513) |

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Net deferred tax assets (liabilities) | | | |
| Balance at the beginning of the year | ¥(58,737) | ¥(54,118) | $(465) |
| Deferred income taxes | 6,444 | 4,691 | 40 |
| Deferred taxes related to components of other comprehensive income | | | |
| Exchange differences on translation of foreign operations | (35) | 1 | 0 |
| Effective portion of the change in the fair value of cash flow hedges | 840 | 1,601 | 14 |
| Net change in financial assets measured at fair value through other comprehensive income | (734) | (6,966) | (60) |
| Remeasurements of defined benefit plans | (1,220) | 1,492 | 13 |
| Changes in deferred tax assets (liabilities) arising from business combinations, and others | (675) | (6,462) | (55) |
| Balance at the end of the year | ¥(54,118) | ¥(59,759) | $(513) |

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 December 31, 2015 and 2016, for which deferred tax assets are not recognized in the Consolidated Statement of Financial Position, is as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Deductible temporary differences | ¥10,977 | ¥12,859 | $110 |
| Carryforwards of tax losses | 60,604 | 64,152 | 551 |

The breakdown of carryforwards of tax losses by expiry date as of December 31, 2015 and 2016, for which deferred tax assets are not recognized in the Consolidated Statement of Financial Position, is as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| 1st year | ¥12,668 | ¥16,040 | $138 |
| 2nd year | 354 | 202 | 2 |
| 3rd year | 206 | 379 | 3 |
| 4th year | 783 | 723 | 6 |
| 5th year | 355 | 501 | 4 |
| After the 5th year | 3,118 | 3,932 | 34 |
| No definite term for expiry | 43,118 | 42,372 | 364 |
| Total | ¥60,604 | ¥64,152 | $551 |

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 ¥142,738 million and ¥126,014 million ($1,082 million) as of December 31, 2015 and 2016, 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) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Current income taxes | ¥34,784 | ¥48,264 | $414 |
| Deferred income taxes | (6,444) | (4,691) | (40) |

Deferred income taxes decreased by ¥3,038 million due to a change in the tax rate in England in the nine months ended December 31, 2015.

Deferred income taxes increased by ¥1,217 million ($10 million) due to a change in the income tax rate in Japan and decreased by ¥1,063 million ($9 million) due to a change in the tax rate in England in the fiscal year ended December 31, 2016.

(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 33.0% and 33.0% for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively. Foreign subsidiaries are subject to income taxes at their locations.

| | | (%) |
|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) |
| Effective statutory tax rate | 33.0 | 33.0 |
| (Reconciliation items) | | |
| Permanently non-deductible items, including entertainment expenses | 1.3 | 3.2 |
| Permanently non-taxable items, including dividend income | (2.9) | (5.3) |
| Share of results of associates | (1.2) | (0.8) |
| Reduction of deferred tax assets (liabilities) at fiscal year end due to tax rate changes | (2.8) | 0.1 |
| Other | (0.7) | 2.5 |
| Income tax rate following the adoption of deferred tax accounting | 26.7 | 32.8 |

## 20. TRADE AND OTHER PAYABLES

(1) The breakdown of trade and other payables as of December 31, 2015 and 2016 is as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Notes and accounts payable—trade | ¥1,157,663 | ¥1,172,829 | $10,068 |
| Other | 49,684 | 57,667 | 495 |
| Total | ¥1,207,347 | ¥1,230,496 | $10,563 |

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 December 31, 2015 and 2016 are as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| Assets pledged as collateral | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Other financial assets (current assets) | ¥72 | ¥169 | $1 |

| Corresponding liabilities | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
|---|---|---|---|
| Notes and accounts payable | ¥509 | ¥493 | $4 |

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.

## 21. BORROWINGS (INCLUDING OTHER FINANCIAL LIABILITIES)

Breakdown of financial liabilities

The breakdown of borrowings (including other financial liabilities) as of December 31, 2015 and 2016 is as follows:

| | | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | Date of maturity | FY2016 (As of December 31, 2016) |
| Derivative liabilities | ¥34,971 | ¥112,046 | – | $962 |
| Short-term borrowings | 32,190 | 127,768 | – | 1,097 |
| Current portion of long-term borrowings | 34,615 | 2,722 | – | 23 |
| Long-term borrowings | 286,977 | 273,108 | 2018–2023 | 2,344 |
| Other | 82,752 | 80,951 | – | 695 |
| Total | ¥471,506 | ¥596,597 | – | $5,121 |
| Current liabilities | ¥111,794 | ¥157,272 | | $1,350 |
| Non-current liabilities | 359,712 | 439,325 | | 3,771 |
| Total | ¥471,506 | ¥596,597 | | $5,121 |

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

Borrowings are classified as financial liabilities measured at amortized cost. The average interest rates of short-term borrowings and long-term borrowings (including the current portion of long-term borrowings) for year ended December 31, 2016 are 2.94% and 1.25%, respectively.

"Other" includes financial liabilities measured at fair value through profit or loss of ¥59,269 million and ¥66,067 million ($567 million) as of December 31, 2015 and 2016, respectively.

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

22. PROVISIONS

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

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

| | Provisions for asset retirement obligations | Provisions for loss on order received | Other provisions | Total |
|---|---|---|---|---|
| Balance at the beginning of the year | ¥1,110 | ¥132 | ¥3,593 | ¥4,836 |
| Additional provisions in the year | 23 | 989 | 1,372 | 2,385 |
| Interest expense incurred over the discount period | 11 | – | – | 11 |
| Provisions used | (90) | (132) | (127) | (349) |
| Provisions reversed | – | – | (1,111) | (1,111) |
| Exchange differences on translation of foreign operations | – | – | (1,008) | (1,008) |
| Other | – | – | 152 | 152 |
| Balance at the end of the year | ¥1,056 | ¥989 | ¥2,871 | ¥4,916 |
| Current liabilities | ¥– | ¥989 | ¥830 | ¥1,819 |
| Non-current liabilities | 1,056 | – | 2,040 | 3,096 |
| Total | ¥1,056 | ¥989 | ¥2,871 | ¥4,916 |

FY2016: Year ended December 31, 2016

(Millions of Yen)

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

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

| | Provisions for asset retire-ment obligations | Provisions for loss on order received | Other provisions | Total |
|---|---|---|---|---|
| Balance at the beginning of the year | $9 | $8 | $25 | $42 |
| Additional provisions in the year | 2 | 1 | 13 | 15 |
| Interest expense incurred over the discount period | 0 | – | – | 0 |
| Provisions used | (0) | (8) | (1) | (9) |
| Provisions reversed | – | – | (4) | (4) |
| Exchange differences on translation of foreign operations | – | – | 2 | 2 |
| Other | – | – | 0 | 0 |
| Balance at the end of the year | $11 | $1 | $36 | $47 |
| Current liabilities | $1 | $1 | $8 | $10 |
| Non-current liabilities | 9 | – | 28 | 37 |
| Total | $11 | $1 | $36 | $47 |

(1) Provisions for asset retirement obligations

The probable amount to be paid in the future is recognized based on past performance in settling 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 order received

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

## 23. POST-EMPLOYMENT BENEFITS

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

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

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

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

The Company, on April 1, 2015, and regional Dentsu subsidiaries (Dentsu East Inc., Dentsu West Inc., Dentsu Kyushu Inc., and Dentsu Hokkaido Inc.), on January 1, 2016, partially shifted from a defined benefit corporate pension plan to a defined contribution pension plan.

(1) Reconciliation of defined benefit obligations and plan assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position as of December 31, 2015 and 2016 is as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Funded defined benefit obligations | ¥122,840 | ¥118,043 | $1,013 |
| Plan assets | (107,123) | (101,369) | (870) |
| Subtotal | 15,717 | 16,674 | 143 |
| Unfunded defined benefit obligations | 14,141 | 13,757 | 118 |
| Total | ¥29,859 | ¥30,431 | $261 |
| Balance recognized in the Consolidated Statement of Financial Position | | | |
| Liabilities for retirement benefits | ¥30,557 | ¥31,377 | $269 |
| Assets for retirement benefits | (697) | (945) | (8) |
| Net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position | ¥29,859 | ¥30,431 | $261 |

(2) Schedule of defined benefit obligations

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Balance at the beginning of the year | ¥178,550 | ¥136,982 | $1,176 |
| Current service cost (Note 1) | 5,366 | 6,752 | 58 |
| Interest expense (Note 1) | 855 | 1,015 | 9 |
| Actuarial gains and losses (Note 2) | 257 | 3,868 | 33 |
| Benefits paid | (9,711) | (11,529) | (99) |
| Past service cost | 162 | (52) | (0) |
| Changes due to termination (curtailment or settlement) of a defined benefit plans | (38,316) | (4,533) | (39) |
| Exchange differences on translation of foreign operations | (185) | (702) | (6) |
| Effects of business combinations and disposals | 3 | – | – |
| Balance at the end of the year | ¥136,982 | ¥131,800 | $1,131 |

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

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

The weighted average duration of defined benefit obligations as of December 31, 2015 and 2016 is as follows:

(Years)

| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) |
|---|---|---|
| Weighted average duration | 9.7 | 9.7 |

(3) Schedule of plan assets

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

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Balance at the beginning of the year | ¥149,463 | ¥107,123 | $920 |
| Interest income | 668 | 848 | 7 |
| Return on plan assets (excluding amounts included in interest income) | 4,219 | (1,260) | (11) |
| Contributions by the employer | 586 | 193 | 2 |
| Contributions (refunds) associated with the shift to defined contribution pension plans | (3,211) | 2,136 | 18 |
| Benefits paid | (6,219) | (2,963) | (25) |
| Changes due to termination (curtailment or settlement) of a defined benefit plans | (38,316) | (4,533) | (39) |
| Exchange differences on translation of foreign operations | (67) | (174) | (1) |
| Balance at the end of the year | ¥107,123 | ¥101,369 | $870 |

The Group plans to pay contributions of ¥180 million ($2 million) in the year ending December 31, 2017.

(4) Major breakdown of plan assets

The major breakdown of the total of plan assets as of December 31, 2015 and 2016 is as follows:

| | FY2015 (As of December 31, 2015) | | | FY2016 (As of December 31, 2016) (Millions of Yen) | | | FY2016 (As of December 31, 2016) (Millions of U.S. Dollars) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | ¥72,291 | ¥0 | ¥72,291 | ¥70,931 | ¥4 | ¥70,936 | $609 | $0 | $609 |
| Debt instruments | 1,148 | 52 | 1,200 | 1,151 | 80 | 1,231 | 10 | 1 | 11 |
| General account of life insurance companies | – | 18,300 | 18,300 | – | 15,716 | 15,716 | – | 135 | 135 |
| Other | – | 15,330 | 15,330 | – | 13,485 | 13,485 | – | 116 | 116 |
| Total | ¥73,439 | ¥33,684 | ¥107,123 | ¥72,082 | ¥29,286 | ¥101,369 | $619 | $251 | $870 |

(Note) Plan assets above include retirement benefit trusts established for defined benefit corporate pension plans and retirement lump-sum payment plans of ¥72,563 million and ¥70,841 million ($608 million), as of December 31, 2015 and 2016, respectively.
Both as of December 31, 2015 and as of December 31, 2016, equity instruments are mainly those issued in Japan and debt instruments are mainly those issued in overseas.

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

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

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

(5) Actuarial assumptions

The major items of actuarial assumptions as of December 31, 2015 and 2016 are as follows:

| (%) | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) |
|---|---|---|
| Discount rate | 0.8 | 0.5 |

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

| | Change in assumptions | FY2015 (As of December 31, 2015) (Millions of Yen) | FY2016 (As of December 31, 2016) (Millions of Yen) | FY2016 (As of December 31, 2016) (Millions of U.S. Dollars) |
|---|---|---|---|---|
| Discount rate | Increase by 0.5% | ¥(6,298) | ¥(6,074) | $(52) |
| | Decrease by 0.5% | ¥6,840 | ¥6,572 | $56 |

(6) Defined contribution plans

Expenses recognized due to contributions to defined contribution plans by the Company and consolidated subsidiaries amounted to ¥6,534 million and ¥7,560 million ($65 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

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

## 24. EQUITY AND OTHER EQUITY ITEMS

(1) Share capital

A. authorized shares

The number of authorized shares as of December 31, 2015 and 2016 is 1,100,000,000 ordinary shares.

B. Fully paid issued shares

The number of issued shares as of December 31, 2015 and 2016 are as follows:

| | Number of ordinary issued shares (Shares) |
|---|---|
| FY2015 (As of December 31, 2015) | 288,410,000 |
| Increase (decrease) | – |
| FY2016 (As of December 31, 2016) | 288,410,000 |

All the shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(2) Treasury shares

The number of treasury shares as of December 31, 2015 and 2016 are as follows:

| | Number of shares (Shares) |
|---|---|
| FY2015 (As of December 31, 2015) | 3,270,939 |
| Increase (decrease) | 2,320 |
| FY2016 (As of December 31, 2016) | 3,273,259 |

(Note) 2,320 shares represent an increase due to repurchase of shares less than one unit.

(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.

(4) Transactions with non-controlling interests in subsidiaries that do not result in a loss of control

The Company entered into a contract with non-controlling shareholders, mainly those of a newly acquired company, to purchase their shares under certain condition in the future.

The Company recognized financial liabilities at the fair value of the contract as of the contract date and reduced retained earnings by the same amount.

## 25. DIVIDENDS

(1) Dividends paid

FY2015: Nine months ended December 31, 2015

| Resolution | Class of shares | Total dividends (Millions of Yen) | Dividends per share (Yen) | Basis date | Effective date |
|---|---|---|---|---|---|
| Annual Shareholders Meeting (June 26, 2015) | Ordinary shares | ¥10,092 | ¥35.00 | March 31, 2015 | June 29, 2015 |
| Board of Directors (November 11, 2015) | Ordinary shares | ¥9,979 | ¥35.00 | September 30, 2015 | December 4, 2015 |

FY2016: Year ended December 31, 2016

| Resolution | Class of shares | Total dividends (Millions of Yen) | Dividends per share (Yen) | Basis date | Effective date |
|---|---|---|---|---|---|
| Annual Shareholders Meeting (March 30, 2016) | Ordinary shares | ¥11,405 | ¥40.00 | December 31, 2015 | March 31, 2016 |
| Board of Directors (August 12, 2016) | Ordinary shares | ¥11,405 | ¥40.00 | June 30, 2016 | September 2, 2016 |

FY2016: Year ended December 31, 2016

| Resolution | Class of shares | Total dividends (Millions of U.S. Dollars) | Dividends per share (U.S. Dollars) | Basis date | Effective date |
|---|---|---|---|---|---|
| Annual Shareholders Meeting (March 30, 2016) | Ordinary shares | $98 | $0.34 | December 31, 2015 | March 31, 2016 |
| Board of Directors (August 12, 2016) | Ordinary shares | $98 | $0.34 | June 30, 2016 | September 2, 2016 |

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

FY2015: Nine months ended December 31, 2015

| Resolution | Class of shares | Dividends resource | Total dividends (Millions of Yen) | Dividends per share (Yen) | Basis date | Effective date |
|---|---|---|---|---|---|---|
| Annual Shareholders Meeting (March 30, 2016) | Ordinary shares | Retained earnings | ¥11,405 | ¥40.00 | December 31, 2015 | March 31, 2016 |

FY2016: Year ended December 31, 2016

| Resolution | Class of shares | Dividends resource | Total dividends (Millions of Yen) | Dividends per share (Yen) | Basis date | Effective date |
|---|---|---|---|---|---|---|
| Board of Directors (February 14, 2017) | Ordinary shares | Retained earnings | ¥12,831 | ¥45.00 | December 31, 2016 | March 9, 2017 |

FY2016: Year ended December 31, 2016

| Resolution | Class of shares | Dividends resource | Total dividends (Millions of U.S. Dollars) | Dividends per share (U.S. Dollars) | Basis date | Effective date |
|---|---|---|---|---|---|---|
| Board of Directors (February 14, 2017) | Ordinary shares | Retained earnings | $110 | $0.39 | December 31, 2016 | March 9, 2017 |

## 26. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Staff costs | ¥376,274 | ¥444,657 | $3,817 |
| Depreciation and amortization | 39,092 | 43,576 | 374 |
| Other | 151,120 | 171,652 | 1,474 |
| Total | ¥566,487 | ¥659,885 | $5,665 |

(Note) "Other" includes research and development costs of ¥596 million and ¥936 million ($8 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

## 27. STAFF COSTS

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Salaries, bonuses and allowances | ¥328,386 | ¥388,417 | $3,334 |
| Welfare expenses | 50,279 | 56,840 | 488 |
| Post-employment benefits costs | 12,335 | 14,590 | 125 |
| Other | 813 | 5,183 | 44 |
| Total | ¥391,815 | ¥465,031 | $3,992 |

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

## 28. OTHER INCOME

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Profit distributions | ¥7,134 | ¥6,262 | $54 |
| Foreign exchange gains | 422 | 1,453 | 12 |
| Gain on sale of property, plant and equipment, intangible assets and investment property | 700 | 6,506 | 56 |
| Gain on sale of subsidiaries and associates shares | 954 | 664 | 6 |
| Gain on step acquisitions and gain on remeasurement of residual interests on loss of control or significant influence | 2,905 | 339 | 3 |
| Other | 912 | 1,361 | 12 |
| Total | ¥13,030 | ¥16,588 | $142 |

## 29. OTHER EXPENSES

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Amortization of long-term prepaid expenses | ¥2,377 | ¥3,684 | $32 |
| Loss on sale of property, plant and equipment, intangible assets and investment property | 50 | 130 | 1 |
| Impairment losses | 2,489 | 522 | 4 |
| Loss on liquidation of subsidiaries and associates | 2,617 | – | – |
| Other | 1,231 | 3,725 | 32 |
| Total | ¥8,766 | ¥8,063 | $69 |

## 30. FINANCE INCOME AND FINANCE COSTS

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Interest income | | | |
| Financial assets measured at amortized cost | ¥1,884 | ¥1,743 | $15 |
| Dividend income | | | |
| Financial assets measured at fair value through other comprehensive income | 2,251 | 2,583 | 22 |
| Dividend income and asset management gains from insurance | 505 | 559 | 5 |
| Other (Note) | 284 | 218 | 2 |
| Total | ¥4,926 | ¥5,104 | $44 |

(Note) "Other" includes finance income arising from financial instruments measured at fair value through profit or loss of ¥29 million and ¥17 million ($0 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

The breakdown of dividend income is as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Financial assets derecognized during the fiscal year | ¥2 | ¥477 | $4 |
| Financial assets held at the end of the fiscal year | 2,248 | 2,105 | 18 |

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Interest expense | | | |
| Financial liabilities measured at amortized cost | ¥6,840 | ¥7,474 | $64 |
| Other | 195 | 211 | 2 |
| Changes in fair value of contingent consideration | 1,662 | 3,400 | 29 |
| Valuation loss on derivatives (related to share purchase option) | 187 | 1,444 | 12 |
| Foreign exchange losses (Note 1) | 66 | 325 | 3 |
| Other (Note 2) | 1,107 | 375 | 3 |
| Total | ¥10,059 | ¥13,230 | $114 |

(Note 1) Valuation loss on foreign currency derivatives is included in the foreign exchange lossess.
(Note 2) "Other" includes finance costs arising from financial instruments measured at fair value through profit or loss of ¥62 million and ¥160 million ($1million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

31. OTHER COMPREHENSIVE INCOME

Amount arising during the year, reclassification adjustments to profit or loss and income tax effects for each component of other comprehensive income for each fiscal year are as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Exchange differences on translation of foreign operations | | | |
| Amount arising during the year | ¥(35,232) | ¥(132,961) | $(1,141) |
| Reclassification adjustments | (170) | (715) | (6) |
| Before tax effects | (35,403) | (133,676) | (1,148) |
| Tax effects | (35) | 1 | 0 |
| Exchange differences on translation of foreign operations | ¥(35,439) | ¥(133,674) | $(1,148) |
| Effective portion of the change in the fair value of cash flow hedges | | | |
| Amount arising during the year | ¥(1,034) | ¥(3,929) | $(34) |
| Reclassification adjustments | (1,756) | (774) | (7) |
| Before tax effects | (2,790) | (4,703) | (40) |
| Tax effects | 840 | 1,601 | 14 |
| Effective portion of the change in the fair value of cash flow hedges | ¥(1,950) | ¥(3,101) | $(27) |
| Net change in financial assets measured at fair value through other comprehensive income | | | |
| Amount arising during the year | ¥4,089 | ¥24,538 | $211 |
| Before tax effects | 4,089 | 24,538 | 211 |
| Tax effects | (734) | (6,966) | (60) |
| Net change in financial assets measured at fair value through other comprehensive income | ¥3,354 | ¥17,571 | $151 |
| Remeasurements of defined benefit plans | | | |
| Amount arising during the year | ¥4,069 | ¥(5,147) | $(44) |
| Before tax effects | 4,069 | (5,147) | (44) |
| Tax effects | (1,220) | 1,492 | 13 |
| Remeasurements of defined benefit plans | ¥2,849 | ¥(3,655) | $(31) |
| Share of other comprehensive income of investments accounted for using the equity method | | | |
| Amount arising during the year | ¥(178) | ¥(723) | $(6) |
| Share of other comprehensive income of investments accounted for using the equity method | ¥(178) | ¥(723) | $(6) |

## 32. EARNINGS PER SHARE

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

| | | | (U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Basic earnings per share (Yen) | ¥254.05 | ¥292.85 | $2.51 |
| Diluted earnings per share (Yen) | ¥254.03 | ¥292.84 | $2.51 |

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

| | | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| 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) | ¥72,653 | ¥83,501 | $717 |
| 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) | 72,653 | 83,501 | 717 |
| Adjustment | | | |
| Share-based payment held by associates (Millions of Yen) | (5) | (2) | (0) |
| Profit for the year used for calculation of diluted earnings per share (Millions of Yen) | ¥72,647 | ¥83,499 | $717 |
| Weighted average number of ordinary shares outstanding used for the calculation of basic earnings per share and diluted earnings per share | | | |
| Weighted average number of ordinary shares outstanding used for the calculation of basic earnings per share (Thousands of shares) | 285,984 | 285,138 | |
| 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) | 285,984 | 285,138 | |

## 33. SIGNIFICANT NON-CASH TRANSACTIONS

In the nine months ended December 31, 2015, the Company dissolved a retirement benefit trust for corporate pension fund plans and established a retirement benefit trust for retirement lump-sum payment plans. As a result, other non-current assets and liabilities for retirement benefits decreased by ¥12,787 million each.

## 34. SHARE-BASED PAYMENTS

Certain subsidiaries of the Company adopted cash-settled share-based payment plans for employees, under which the eligible employees receive compensation in the form of cash-settled payments based on the difference between the exercise price and the share price as of the exercise date. Rights to cash-settled share-based payments vest over five years from the grant date and the exercise period is 10 years from the grant date. Expenses recognized in relation to the cash-settled shared-based payment plans granted to employees is ¥446 million ($4 million) for the year ended December 31, 2016, and the corresponding liability as of December 31, 2016 is ¥6,877 million ($59 million).

The following table provides a summary of the status of cash-settled share-based payment plans.

| | | | (U.S. Dollars) |
|---|---|---|---|
| | | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| | Shares | Weighted Average Exercise Price | Weighted Average Exercise Price |
| Balance at the beginning of the year | – | ¥– | $– |
| Increase due to business combination | 624,732 | 6,304 | 54.12 |
| Granted | 171,375 | 15,091 | 129.55 |
| Exercised | (1,610) | 7,095 | 60.91 |
| Forfeited | (8,300) | 7,852 | 67.40 |
| Repurchased | (14,926) | 5,959 | 51.15 |
| Balance at the end of the year | 771,271 | 8,821 | 75.72 |
| Exercisable at the end of the year | 300,850 | ¥5,892 | $50.58 |

1. The weighted average remaining life of the cash-settled share-based payments plans is 8.19 years as of December 31, 2016.
2. The weighted average share price upon exercise is ¥15,091 ($129.55) for the year ended December 31, 2016.
3. The intrinsic value of the cash-settled share-based payments vested in the year ended December 31, 2016 is ¥3,918 million ($34 million).
4. There were no share-based payment plans in place for the nine months ended December 31, 2015.

## 35. FINANCIAL INSTRUMENTS

(1) Capital management

The Group's basic policy for capital management aims to enhance capital efficiency by the long-term improvement of its value through business growth, while maintaining a sound financial structure.

Indicators for monitoring the capital management include total equity attributable to owners of the parent and Underlying ROE (ratio of Underlying profit for the year to total equity attributable to owners of the parent).

The balances as of December 31, 2015 and 2016 are as follows:

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Total equity attributable to owners of the parent | ¥1,068,216 | ¥932,742 | $8,007 |
| Underlying ROE (%) | 10.6 | 11.3 | |

(Note) The underlying profit for the year (attributable to owners of the parent), the numerator of underlying ROE, is a KPI used to measure recurring profit attributable to owners of the parent which is calculated as profit for the year (attributable to owners of the parent) adjusted for adjustment items related to operating profit, revaluation of earnout liabilities / M&A related put-option liabilities, related tax effects, profit or loss attributable to non-controlling interests, and other one-off items. While the previous fiscal year was the nine-month period from April 1, 2015 to December 31, 2015, the underlying ROE for the fiscal year ended December 31, 2015 is determined based on the results for the period from January 1, 2015 to December 31, 2015. Reconciliation from profit for the year (attributable to owners of the parent) to underlying profit for the year (attributable to owners of the parent) is stated below.

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (From January 1,2015 to December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Profit for the year (attributable to owners of the parent) | ¥83,090 | ¥83,501 | $717 |
| (Adjustment items) | | | |
| Adjustment items related to operating profit | 32,226 | 28,883 | 248 |
| Revaluation of earnout liabilities / M&A related put-option liabilities | 3,198 | 4,844 | 42 |
| Tax expenses related to the above items and effects from tax regulation changes | (5,167) | (3,637) | (31) |
| Others | 40 | (620) | (5) |
| Underlying profit for the year (attributable to owners of parent) | ¥113,388 | ¥112,972 | $970 |

(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 speculative 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 ¥1,745 million and ¥2,360 million ($20 million) as of December 31, 2015 and 2016, 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 December 31, 2015 and 2016 is as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Within 30 days | ¥116,612 | ¥120,917 | $1,038 |
| Over 30 days, within 60 days | 40,285 | 39,659 | 340 |
| Over 60 days, within 90 days | 31,371 | 19,132 | 164 |
| Over 90 days | 18,421 | 24,986 | 214 |
| Total | ¥206,690 | ¥204,696 | $1,757 |

D. Schedule of allowance for doubtful accounts

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

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Balance at the beginning of the year | ¥20,073 | ¥21,593 | $185 |
| Addition | 6,247 | 4,541 | 39 |
| Decrease (intended use) | (489) | (3,193) | (27) |
| Decrease (reversal) | (2,761) | (1,203) | (10) |
| Other | (1,476) | (3,226) | (28) |
| Balance at the end of the year | ¥21,593 | ¥18,512 | $159 |

(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 December 31, 2015 and 2016 is as follows:

FY2015: As of December 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 | ¥1,207,347 | ¥1,207,347 | ¥1,207,347 | ¥– | ¥– | ¥– | ¥– | ¥– |
| Contingent consideration on acquisition and others | 59,226 | 59,226 | 26,205 | 9,743 | 8,459 | 7,121 | 3,708 | 3,987 |
| Borrowings | 353,783 | 366,499 | 70,352 | 5,341 | 53,268 | 60,202 | 81,958 | 95,375 |
| Subtotal | 1,620,357 | 1,633,073 | 1,303,905 | 15,084 | 61,728 | 67,323 | 85,667 | 99,363 |
| Derivative liabilities | 34,971 | 34,971 | 4,935 | 3,345 | 5,322 | 4,196 | 4,558 | 12,612 |
| Total | ¥1,655,328 | ¥1,668,044 | ¥1,308,841 | ¥18,429 | ¥67,051 | ¥71,520 | ¥90,225 | ¥111,976 |

FY2016: As of December 31, 2016

(Millions of Yen)

| | Carrying amount | Contractual cash flow | Due within 1 year | Due after 1 year through 2 years | Due after 2 years through 3 years | Due after 3 years through 4 years | Due after 4 years through 5 years | Due after 5 years |
|---|---|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | ¥1,230,496 | ¥1,230,496 | ¥1,230,496 | ¥– | ¥– | ¥– | ¥– | ¥– |
| Contingent consideration on acquisition and others | 66,021 | 66,021 | 17,725 | 14,104 | 13,651 | 9,688 | 6,933 | 3,917 |
| Borrowings | 403,599 | 415,447 | 135,244 | 51,868 | 52,738 | 80,263 | 33,388 | 61,943 |
| Subtotal | 1,700,117 | 1,711,965 | 1,383,466 | 65,973 | 66,390 | 89,952 | 40,322 | 65,860 |
| Derivative liabilities | 112,046 | 112,046 | 1,823 | 8,134 | 27,613 | 17,907 | 46,473 | 10,094 |
| Total | ¥1,812,163 | ¥1,824,012 | ¥1,385,290 | ¥74,107 | ¥94,003 | ¥107,859 | ¥86,795 | ¥75,955 |

FY2016: As of December 31, 2016

(Millions of U.S. Dollars)

| | Carrying amount | Contractual cash flow | Due within 1 year | Due after 1 year through 2 years | Due after 2 years through 3 years | Due after 3 years through 4 years | Due after 4 years through 5 years | Due after 5 years |
|---|---|---|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | $10,563 | $10,563 | $10,563 | $– | $– | $– | $– | $– |
| Contingent consideration on acquisition and others | 567 | 567 | 152 | 121 | 117 | 83 | 60 | 34 |
| Borrowings | 3,465 | 3,566 | 1,161 | 445 | 453 | 689 | 287 | 532 |
| Subtotal | 14,595 | 14,696 | 11,876 | 566 | 570 | 772 | 346 | 565 |
| Derivative liabilities | 962 | 962 | 16 | 70 | 237 | 154 | 399 | 87 |
| Total | $15,556 | $15,658 | $11,892 | $636 | $807 | $926 | $745 | $652 |

C. Undrawn committed facilities

Undrawn committed facilities amounted to ¥291,313 million and ¥281,113 million ($2,413 million) as of December 31, 2015 and 2016, 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 fluctuations risks. The Company uses forward foreign exchange contracts to hedge its foreign exchange fluctuation risks identified for each currency in each month.

In addition, forward foreign exchange contracts and others are used to hedge foreign currency transactions that exceed a specified amount in accordance with accounting rules and guidelines.

Some of the consolidated subsidiaries use forward foreign exchange contracts to hedge significant foreign exchange fluctuation risks.

B. Foreign currency derivatives to which hedge accounting is applied

The details of foreign currency derivatives to which hedge accounting is applied as of December 31, 2015 and 2016 are as follows:

| | | | | | (Millions of Yen) | | | | (Millions of U.S. Dollars) |
|---|---|---|---|---|---|---|---|---|---|
| | | | FY2015 (As of December 31, 2015) | | | FY2016 (As of December 31, 2016) | | | FY2016 (As of December 31, 2016) |
| | Contract amount | Over 1 year | Fair value | Contract amount | Over 1 year | Fair value | Contract amount | Over 1 year | Fair value |
| Foreign exchange contracts | ¥68,548 | ¥51,893 | ¥17,423 | ¥53,830 | ¥42,011 | ¥13,913 | $462 | $361 | $119 |

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 ¥1,986 million (deduction) and ¥942 million ($8 million) (deduction) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, 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) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| US Dollars | ¥368 | ¥406 | $3 |
| Euros | (3) | 155 | 1 |

(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 fluctuation risk. For interest rate fluctuation 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 December 31, 2015 and 2016 are as follows:

| | | | | | (Millions of Yen) | | | | (Millions of U.S. Dollars) |
|---|---|---|---|---|---|---|---|---|---|
| | | | FY2015 (As of December 31, 2015) | | | FY2016 (As of December 31, 2016) | | | FY2016 (As of December 31, 2016) |
| | 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 | ¥230,246 | ¥230,246 | ¥1,536 | ¥220,115 | ¥220,115 | ¥7,990 | $1,890 | $1,890 | $69 |

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

There is no gains or losses on hedging instruments designated as fair value hedges for the nine months ended December 31, 2015 and for the fiscal year ended December 31, 2016.

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 December 31, 2015 and 2016 is as follows:

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

| | (Millions of Yen) | | | | (Millions of U.S. Dollars) | |
|---|---|---|---|---|---|---|
| | FY2015 (As of December 31, 2015) | | FY2016 (As of December 31, 2016) | | FY2016 (As of December 31, 2016) | |
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Long-term borrowings | 321,592 | 326,130 | 275,831 | 277,518 | $2,368 | $2,382 |

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

The fair value of long-term borrowings is determined by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

The fair value hierarchy of long-term borrowings is categorized 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 nine months ended December 31, 2015 and for the year ended December 31, 2016.

FY2015: As of December 31, 2015

(Millions of Yen)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| Derivative assets | ¥– | ¥22,519 | ¥– | ¥22,519 |
| Equity securities | 172,235 | – | 13,228 | 185,463 |
| Other | 513 | 2,507 | 6,756 | 9,777 |
| Total | ¥172,749 | ¥25,026 | ¥19,984 | ¥217,760 |
| Financial liabilities | | | | |
| Derivative liabilities | ¥– | ¥3,777 | ¥31,194 | ¥34,971 |
| Other | – | – | 59,226 | 59,226 |
| Total | ¥– | ¥3,777 | ¥90,421 | ¥94,198 |

FY2016: As of December 31, 2016

(Millions of Yen)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| Derivative assets | ¥– | ¥26,240 | ¥– | ¥26,240 |
| Equity securities | 168,406 | – | 12,314 | 180,720 |
| Other | 514 | 2,397 | 9,337 | 12,250 |
| Total | ¥168,920 | ¥28,637 | ¥21,652 | ¥219,211 |
| Financial liabilities | | | | |
| Derivative liabilities | ¥– | ¥4,478 | ¥107,568 | ¥112,046 |
| Other | – | – | 66,021 | 66,021 |
| Total | ¥– | ¥4,478 | ¥173,589 | ¥178,067 |

FY2016: As of December 31, 2016

(Millions of U.S. Dollars)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| Derivative assets | $– | $225 | $– | $225 |
| Equity securities | 1,446 | – | 106 | 1,551 |
| Other | 4 | 21 | 80 | 105 |
| Total | $1,450 | $246 | $186 | $1,882 |
| Financial liabilities | | | | |
| Derivative liabilities | $– | $38 | $923 | $962 |
| Other | – | – | 567 | 567 |
| Total | $– | $38 | $1,490 | $1,529 |

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 valuated 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 valuated 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 whose fair values are measured using observable market data are categorized within Level 2, while stocks whose fair values are measured based mainly on market approaches using unobservable inputs are categorized within Level 3.

Significant unobservable inputs mainly include the price/net asset value multiples, and fair value increases (decreases) based on the increase (decrease) of the price/net asset value multiples.

The price/net asset value multiples used at December 31, 2015 and 2016, are 0.73 and 0.68, respectively.

The fair values of other (financial liabilities) are categorized within Level 3 as they are valuated 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 | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) (Millions of Yen) | FY2016 (Year ended December 31, 2016) (Millions of U.S. Dollars) |
|---|---|---|---|
| Balance at the beginning of the year | ¥18,278 | ¥19,984 | $172 |
| Other comprehensive income (Note 1) | (1,415) | (1,352) | (12) |
| Purchases | 3,908 | 4,564 | 39 |
| Sales or settlements | (4,253) | (1,192) | (10) |
| Transfers out of Level 3 (Note 2) | (354) | – | – |
| Other | 3,821 | (351) | (3) |
| Balance at the end of the year | ¥19,984 | ¥21,652 | $186 |

| Financial liabilities | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) (Millions of Yen) | FY2016 (Year ended December 31, 2016) (Millions of U.S. Dollars) |
|---|---|---|---|
| Balance at the beginning of the year | ¥88,099 | ¥90,421 | $776 |
| Profit or loss (Note 3) | 1,849 | 4,844 | 42 |
| Purchases | 28,319 | 105,490 | 906 |
| Sales or settlements | (25,559) | (31,362) | (269) |
| Other | (2,287) | 4,195 | 36 |
| Balance at the end of the year | ¥90,421 | ¥173,589 | $1,490 |

(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 nine months ended December 31, 2015 is 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 ¥1,849 million and ¥4,844 million ($42 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

36. RELATED PARTIES

(1) Remuneration for the Company's directors

Remuneration for the Company's directors for each fiscal year is as follows:

| | | (Millions of Yen) | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (Nine months ended December 31, 2015) | FY2016 (Year ended December 31, 2016) | FY2016 (Year ended December 31, 2016) |
| Remuneration and bonuses | ¥469 | ¥418 | $4 |

(2) Major subsidiaries

The Company's significant subsidiaries are as follows:

| Company name | Location | Ownership percentage of voting rights (%) |
|---|---|---|
| Dentsu East Japan Inc. | Tokyo, Japan | 100.0 |
| Dentsu West Japan Inc. | Osaka, Japan | 100.0 |
| Dentsu Kyushu Inc. | Fukuoka, Japan | 100.0 |
| Dentsu Hokkaido Inc. | Sapporo, Japan | 100.0 |
| Dentsu Meitetsu Communications Inc. | Nagoya, Japan | 50.0 |
| The Goal Inc. | Tokyo, Japan | 100.0 |
| Dentsu Ad-Gear Inc. | Tokyo, Japan | 66.7 |
| Dentsu Young & Rubicam Inc. | Tokyo, Japan | 51.0 |
| Cyber Communications Inc. | Tokyo, Japan | 100.0 |
| Carat Japan Inc. | Tokyo, Japan | 100.0 |
| Dentsu Digital Inc. | Tokyo, Japan | 100.0 |
| Dentsu Tec Inc. | Tokyo, Japan | 100.0 |
| Information Services International-Dentsu, Ltd. | Tokyo, Japan | 61.8 |
| Dentsu Works Inc. | Tokyo, Japan | 100.0 |
| Dentsu Aegis Network Ltd. | London, the United Kingdom | 100.0 |
| Dentsu Aegis London Ltd. | London, the United Kingdom | 100.0 |
| Aegis International Ltd. | London, the United Kingdom | 100.0 |
| Portman Square US Holdings Ltd. | London, the United Kingdom | 100.0 |
| Aegis Group Participations Ltd. | London, the United Kingdom | 100.0 |
| Aegis Toriton Ltd. | London, the United Kingdom | 100.0 |
| Aegis GPS Holdings Ltd. | London, the United Kingdom | 100.0 |
| Aegis Finance Ltd. | London, the United Kingdom | 100.0 |
| Dentsu Aegis Network Central Europe Holding GmbH | Wiesbaden, Federal Republic of Germany | 100.0 |
| Dentsu Aegis Network Central Europe GmbH | Wiesbaden, Federal Republic of Germany | 100.0 |
| Dentsu Aegis Network France SAS | Paris, France | 100.0 |
| Dentsu McGarry Bowen, LLC | New York, the United States | 100.0 |
| 360i LLC | Atlanta, the United States | 100.0 |
| Dentsu Aegis Network US Holdings, Inc. | New York, the United States | 100.0 |
| Merkle Group Inc. | Columbia, the United States | 73.4 |
| Dentsu Aegis (Shanghai) Investment Co., Ltd. | Shanghai, China | 100.0 |
| Beijing Dentsu Advertising Co., Ltd. | Beijing, China | 70.0 |

37. CONTINGENT LIABILITIES

The contingent liabilities as of December 31, 2015 and 2016 are as follows:

Guarantees of loans and other liabilities

| | (Millions of Yen) | | (Millions of U.S. Dollars) |
|---|---|---|---|
| | FY2015 (As of December 31, 2015) | FY2016 (As of December 31, 2016) | FY2016 (As of December 31, 2016) |
| Liabilities on guarantees resulting from a loan scheme for housing funds for employees | ¥492 | ¥309 | $3 |
| Liabilities for guarantees of bank loans and others | 1,252 | 2,051 | 18 |
| Total | ¥1,745 | ¥2,360 | $20 |

38. SUBSEQUENT EVENTS

(1) Purchase of treasury shares

At a meeting of its Board of Directors on February 14, 2017, the Company resolved 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.

A. Reason for share repurchase

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

B. Details of matters related to the share repurchase

(i) Class of shares to be repurchased: Ordinary shares of the Company

(ii) Total number of shares to be repurchased: 5,000,000 shares (maximum)

(iii) Total repurchase cost: 20 billion yen (maximum)

(iv) Repurchase period: From February 20, 2017 to May 31, 2017

(v) Method of repurchase: Open market purchase on the Tokyo Stock Exchange

(2) Financing for the acquisition of Merkle

Aegis Group Holdings Ltd. (a wholly owned subsidiary of Dentsu Aegis Network Ltd.) received the following borrowings from financial institutions, as the fund for the acquisition of Merkle, which the Company acquired on September 1, 2016.

A. Borrower: Aegis Group Holdings Ltd.

B. The amount of Borrowings: $1,300 million

C. Interest rate: floating interest (LIBOR + Spread)

D. Financial institutions: The Bank of Tokyo-Mitsubishi UFJ, Ltd. and two other banks

E. Date of borrowing: March 15, 2017

F. Repayment date and amount: $1,100 million (March 15, 2024)
$200 million (March 15, 2022)

G. Collateral or guarantee: Guaranteed by Dentsu Aegis Network Ltd.

H. Other: None

Short-term borrowings of $770 million made for the acquisition of Merkle was repaid on March 15, 2017, using the above borrowings.

## 39. CONSOLIDATED STATEMENT OF INCOME (2015 JANUARY–DECEMBER)

Consolidated statement of income assuming that the fiscal year of the Group had been the twelve-month period from January 1, 2015 to December 31, 2015 is as follows:

(Millions of Yen)

| | (From January 1, 2015 to December 31, 2015) |
|---|---|
| (Turnover (Note 1)) | ¥4,990,854 |
| Revenue | 818,566 |
| Cost | 56,570 |
| Gross profit | 761,996 |
| Selling, general and administrative expenses | 636,268 |
| Other income | 15,455 |
| Other expenses | 12,970 |
| Operating profit | 128,212 |
| Share of results of associates | 4,515 |
| Profit before interest and tax | 132,727 |
| Finance income | 6,125 |
| Finance costs | 12,114 |
| Profit before tax | 126,739 |
| Income tax expense | 37,637 |
| Profit for the year | ¥89,101 |
| | |
| Profit attributable to: | |
| Owners of the parent | ¥83,090 |
| Non-controlling interests | ¥6,011 |
| | |
| Earnings per share | (Yen) |
| Basic earnings per share | ¥289.95 |
| Diluted earnings per share | ¥289.92 |

Reconciliation from operating profit to underlying operating profit

(Millions of Yen)

| | (From January 1, 2015 to December) 31, 2015 |
|---|---|
| Operating profit | ¥128,212 |
| Amortization of intangible assets incurred in acquisitions | 22,798 |
| Other adjusting items (selling, general and administrative expenses) | 6,225 |
| Other adjusting items (other income) | (5,180) |
| Other adjusting items (other expenses) | 8,382 |
| Underlying operating profit | ¥160,438 |

(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, please refer to "3. SIGNIFICANT ACCOUNTING POLICIES (21) Underlying Operating Profit."

Deloitte.

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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 December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the fiscal year from January 1, 2016 to December 31, 2016, 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 December 31, 2016, and the consolidated results of their operations and their cash flows for the fiscal year then ended in accordance with International Financial Reporting Standards.

### Convenience Translation

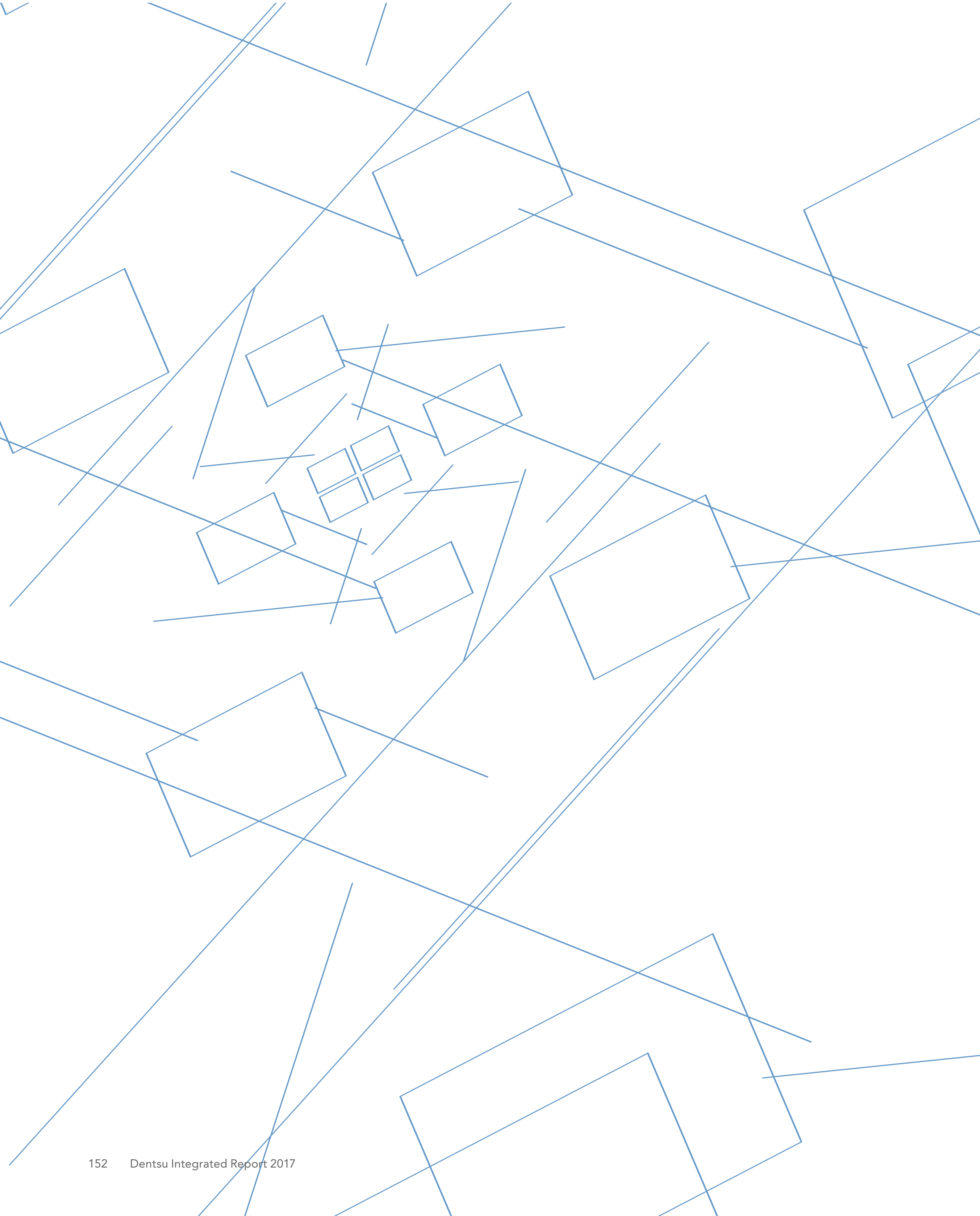
Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in "2. BASIS OF PREPARATION—(3) Functional Currency and Presentation Currency." Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

March 30, 2017

Member of
Deloitte Touche Tohmatsu Limited

# Corporate Data



# Subsidiaries and Affiliates

Dentsu conducts its business together with its subsidiaries and affiliates. As of December 31, 2016, the Dentsu Group includes 844 consolidated subsidiaries and 64 affiliated companies accounted for by the equity method.

## Consolidated Subsidiaries

### Dentsu East Japan Inc.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Advertising in the Kanto and Tohoku regions as well as Shizuoka and Niigata prefectures

### Dentsu West Japan Inc.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Advertising in the Chugoku region and Shikoku as well as Hyogo, Ishikawa, Fukui and Toyama prefectures

### Dentsu Kyushu Inc.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Advertising in Kyushu

### Dentsu Hokkaido Inc.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Advertising in Hokkaido

### Dentsu Meitetsu Communications Inc.*1
Geographic Area: Japan
Equity Held by Dentsu: 50.0%
Description of Business: Total advertising services, specializing in promotion and OOH

### The Goal Inc.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Fashion and accessories industry advertising

### Dentsu Ad-Gear Inc.
Geographic Area: Japan
Equity Held by Dentsu: 66.7%
Description of Business: Advertising firm specializing in out-of-home media and store promotions

### Dentsu Young & Rubicam Inc.
Geographic Area: Japan
Equity Held by Dentsu: 51.0%
Description of Business: Advertising company established by Dentsu and Young & Rubicam

### Cyber Communications Inc.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%
Description of Business: Internet-based advertising media rep

### Carat Japan Co., Ltd.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Media communication company

### Dentsu Digital Inc.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of business: Consulting, development and implementation, management and operation in all digital marketing domains

### Dentsu Tec Inc.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Planning and
production for sales promotions, events, commercials, print, etc.

### Information Services International-Dentsu, Ltd.*2 *3
Geographic Area: Japan
Equity Held by Dentsu: 61.8%
Equity Held Indirectly: 0.0%
Description of Business: Information systems building; software sales and support for various business areas

### Dentsu Works Inc.
Geographic Area: Japan
Equity Held by Dentsu: 100.0%
Description of Business: Environment-related consulting, building management, real estate services and business consulting services

### Dentsu Aegis Network Ltd.*3
Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Description of Business: Headquarters of the Dentsu Group's global business, which oversees operations outside of Japan

### Dentsu Aegis London Ltd.
Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

### Aegis International Ltd.*3
Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

### Portman Square US Holdings Ltd.*3
Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

### Aegis Group Participations Ltd.*1
Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

### Aegis Toriton Ltd.
Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

### Aegis GPS Holdings Ltd.*3
Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Aegis Finance Ltd.*3
Geographic Area: United Kingdom
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu Aegis Network Central Europe Holding GmbH
Geographic Area: Germany
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu Aegis Network Central Europe GmbH
Geographic Area: Germany
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu Aegis Network France SAS*3
Geographic Area: France
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu McGarry Bowen, LLC*3
Geographic Area: U.S.A.
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

360i LLC*3
Geographic Area: U.S.A.
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Dentsu Aegis Network US Holdings, Inc.*3
Geographic Area: U.S.A.
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Merkle Group Inc.
Geographic Area: U.S.A.
Equity Held by Dentsu: 73.4%
Equity Held Indirectly: 73.4%

Dentsu Aegis (Shanghai) Investment Co., Ltd.
Geographic Area: China
Equity Held by Dentsu: 100.0%
Equity Held Indirectly: 100.0%

Beijing Dentsu Advertising Co., Ltd.
Geographic Area: China
Equity Held by Dentsu: 70.0%

and 813 other companies

*1 Although Dentsu's ownership is 50% or less, the company is considered a subsidiary because Dentsu exerts effective control.
*2 It is a Company Which Submits Annual Securities Report.
*3 It is a Specified Subsidiary.

## Affiliated Companies Accounted for by the Equity Method

Video Research Ltd.
Geographic Area: Japan
Equity Held by Dentsu: 34.2%
Description of Business: TV audience rating surveys, radio audience rating surveys and other research

D2C Inc.
Geographic Area: Japan
Equity Held by Dentsu: 46.0%
Equity Held Indirectly: 10.0%
Description of Business: Advertising for i-mode and other mobile platforms

Kakaku.com, Inc.*1 *2
Geographic Area: Japan
Equity Held by Dentsu: 16.1%
Description of Business: An Internet media company that operates the customer procurement support site Kakaku.com, word of mouth restaurant and gourmet guide site Tabelog, and other sites

and 61 other companies

*1 Although Dentsu's equity is less than 20%, because Dentsu can have significant impact on its business policy decisions, it is considered an affiliated company.
*2 It is a Company Which Submits Annual Securities Report.

# History

| | |
|---|---|
| 1901 | Hoshiro Mitsunaga establishes Japan Advertising Ltd. and Telegraphic Service Co. (currently known as Dentsu). |
| 1913 | Dentsu contributes to the establishment of The Japan Newspaper Publishers & Editors Association. |
| 1951 | Dentsu establishes the Radio Division at its Head Office and local offices. Commercial radio broadcasting begins in Japan. |
| 1953 | Dentsu establishes the Radio and Television Division at its Head Office and local offices. |
| | Commercial television broadcasting begins. |
| 1955 | The corporate name is changed to Dentsu Inc. |
| 1959 | Dentsu establishes the Marketing Department and promotes the introduction of marketing. |
| | Dentsu establishes its New York Office. |
| 1964 | Dentsu contributes to the support of the Tokyo Olympic Games. |
| 1970 | Dentsu contributes to the support of Osaka Expo '70. |
| 1974 | The US-based magazine *Advertising Age* ranks Dentsu the No. 1 advertising agency worldwide in terms of billings (calendar 1973). |
| 1980 | Dentsu establishes its Beijing Office in China ahead of all other overseas advertising agencies. |
| 1984 | Dentsu contributes to the support of the Los Angeles Olympic Games. |
| | Dentsu and US-based Young & Rubicam jointly establish DYR, an international service network. |
| 1989 | Dentsu's net sales exceed one trillion yen in the fiscal year ended March 31, 1989. |
| 1996 | Dentsu contributes to the establishment of cyber communications inc. (cci), Japan's first Internet advertising agency. |
| 1997 | The animated film Princess Mononoke—a co-production between Dentsu, Tokuma Shoten, and others—becomes a big hit. |
| 1998 | Dentsu contributes to the support of the Nagano Winter Olympic Games. |
| 2000 | Dentsu establishes the Bcom3 Group with the US-based firms the Leo Group and the MacManus Group. |
| 2001 | Dentsu lists its shares on the First Section of the Tokyo Stock. Exchange (TSE: 4324). Dentsu commemorates its 100th anniversary. |
| 2002 | Dentsu contributes to the support of the 2002 FIFA World Cup Korea/Japan™. |
| | The Bcom3 Group merges with the French company Publicis Groupe S.A., and Dentsu acquires capital in the Publicis Groupe. |
| 2004 | Dentsu implements a stock split (1:2). |
| 2007 | Dentsu's consolidated net sales reach two trillion yen in the fiscal year ended March 31, 2007. |
| 2008 | Dentsu Holdings USA, Inc. acquires mcgarrybowen, LLC of the United States. |
| | Dentsu repurchases shares of approximately 60 billion yen. |
| 2009 | Dentsu implements a stock split (1:100). |
| 2010 | Dentsu establishes Dentsu Digital Holdings. |
| 2012 | Dentsu terminates strategic alliance and other agreements with Publicis Groupe S.A. and sells to Publicis a block of the shares of Publicis held by Dentsu. |
| 2013 | Dentsu acquires Aegis Group plc and establishes a new global operating unit, Dentsu Aegis Network, in London. |
| | The Dentsu Group medium-term management plan "Dentsu 2017 and Beyond" was released. |
| | Dentsu raises funds through a public offering. |
| 2014 | Dentsu is appointed as marketing agency by the Tokyo Organising Committee of the Olympic and Paralympic Games. |
| 2015 | Dentsu repurchases shares worth approximately 20 billion yen. |
| | The Dentsu Group medium-term CSR strategy 2020 is released. |
| 2016 | Transition from a company with an Audit & Supervisory Board to one with an Audit and Supervisory Committee |
| | Dentsu Digital Inc. is incorporated. |
| | Dentsu acquires a majority of shares in Merkle Group, Inc., an independent agency in the United States. |
| 2017 | Senior Vice President Toshihiro Yamamoto is appointed as Dentsu's 13th president. |
| | Dentsu acquires approximately 20.0 billion yen in treasury shares. |

# Board Members/Management

(As of April 1, 2017)

## Board Members

### Representative Directors

- Toshihiro Yamamoto
- Shoichi Nakamoto
- Yoshio Takada

### Directors

- Tim Andree
- Wataru Mochizuki
- Yoshiharu Sengoku
- Arinobu Soga
- Nobuko Matsubara (Outside Director)

### Directors / Audit and Supervisory Committee Members

- Kenichi Kato
- Atsuko Toyama (Outside Director)
- Toshiaki Hasegawa (Outside Director)
- Kentaro Koga (Outside Director)

## Executive Officers

### President & CEO

- Toshihiro Yamamoto

### Senior Executive Vice President & CFO

- Shoichi Nakamoto

### Executive Vice Presidents

- Yoshio Takada
- Tim Andree

### Senior Vice Presidents

- Naoki Tani
- Yasuo Motoi
- Wataru Mochizuki
- Jerry Buhlmann
- Hiroaki Sano
- Takashi Yagi
- Yutaka Ishikawa

### Executive Officers

- Nobuyuki Tohya
- Tsuyoshi Iwashita
- Yuichi Okubo
- Keiichi Maeda
- Kiyoshi Nakamura
- Yoshiharu Sengoku
- Takaki Hibino
- Toshiya Oyama
- Norio Kamijo
- Masahiko Hibi
- Motohiro Yamagishi
- Misao Toyoda
- Akira Ando
- Tetsuji Hirose
- Hiroshi Igarashi
- Hidemi Matsuo
- Arinobu Soga
- Norihiro Kuretani
- Jun Shibata
- Norihiko Sakata
- Shigeru Ishida

## Information for Shareholders

(As of December 31, 2016)

Corporate Headquarters
1-8-1, Higashi-shimbashi, Minato-ku, Tokyo 105-7001, Japan
Phone: +81-3-6216-5111

Contact Info
Investor Relations Department,
Executive office,
1-8-1, Higashi-shimbashi, Minato-ku, Tokyo 105-7001, Japan
Email: irmail@dentsu.co.jp

Stock Exchange Listing
Tokyo Stock Exchange, First Section
Securities code: 4324

Capital
74,609.81 million yen

Total Number of Shares Issued
288,410,000

General Meeting of Shareholders
The Ordinary General Meeting of Shareholders is held in Tokyo in March each year.

Transfer Agent
The Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-Chome, Chiyoda-ku, Tokyo 100-8212, Japan

Internet Address
http://www.dentsu.com

## Share Information

(As of December 31, 2016)

### Breakdown of Shareholders by Type

| | Number of Shareholders | Number of Shares Held | Percentage of Total Number of Shares Issued |
|---|---|---|---|
| Japanese financial institutions | 78 | 86,186,650 | 29.88 |
| Japanese securities firms | 35 | 9,953,185 | 3.45 |
| Other Japanese corporations | 557 | 77,113,839 | 26.74 |
| Japanese individuals and others (Including treasury stock) | 31,961 | 41,365,183 | 14.34 |
| Foreign institutions and individuals | 597 | 73,791,143 | 25.59 |
| Total | 33,228 | 288,410,000 | 100.00 |

### Major Shareholders (Top 10)

| Major Shareholders | Number of Shares Held | Percentage of Total Number of Shares Issued |
|---|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust accounts) | 28,110,500 | 9.75 |
| Kyodo News | 18,988,800 | 6.58 |
| Jiji Press, Ltd. | 16,878,680 | 5.85 |
| Japan Trustee Services Bank, Ltd. (Trust accounts) | 16,764,100 | 5.81 |
| State Street Bank and Trust Company 505001 | 9,559,128 | 3.31 |
| Group Employees' Stockholding Association | 6,135,216 | 2.13 |
| 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 |

# Third-party Evaluation and Share Price Changes

The Dentsu Group actively engages in environmental preservation and other corporate sustainability activities. Receiving high recognition for such activities, Dentsu received a score of 94C from the Carbon Disclosure Project (CDP) in 2016.

Moreover, in recent years, socially responsible investment,*1 which takes into account not only financial aspects such as corporate revenue and growth prospects, but also ethics, legal compliance, efforts to tackle environmental, and other issues has been gaining attention in investment trust management.

Dentsu's CSR efforts received high recognition from SRI rating agencies as well, being included in the MSCI Global Sustainability Indexes*2 in June 2015. In September 2016, Dentsu was selected for inclusion in the Dow Jones Sustainability Asia Pacific Index (DJSI Asia Pacific), the Asia Pacific version of the Dow Jones Sustainability Indices (DJSI)*3.

Dentsu was also selected as a finalist in the Asia Sustainability Reporting Awards (ASURA) for the previous year's integrated report.

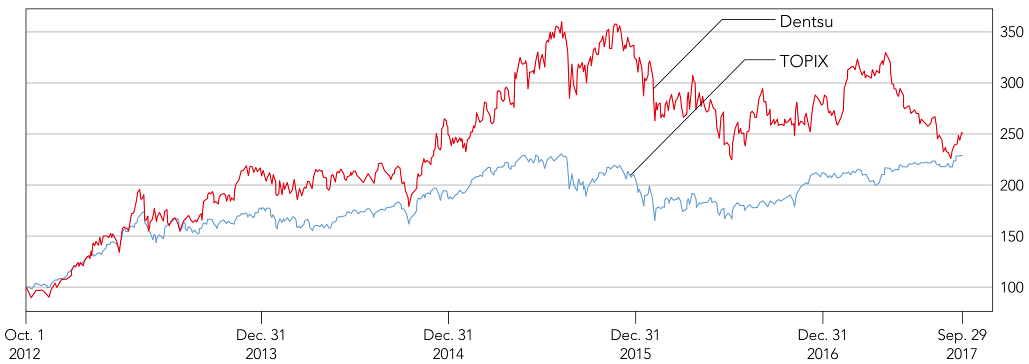
*1 Socially responsible investment is an investment method that aims for stable revenue by evaluating and selecting companies based on social, ethical, and environmental aspects, such as legal compliance, employment relations, human rights issues, consumer protection, and contribution to society and community, in addition to conventional investment criteria based on financial analysis.

*2 An index developed by Morgan Stanley Capital International (MSCI) in the United States that selects companies that are particularly outstanding in environmental, social, and governance (ESG) assessments.

*3 DJSI is a stock index developed jointly by S&P Dow Jones Indices, a U.S. company that provides global financial market indices, and RobecoSAM, a Swiss company that conducts research and rates companies in relation to socially responsible investing. In addition to conventional financial analysis, this index measures broader corporate sustainability based on companies' social and environmental initiatives, selecting companies that are excellent overall. DJSI Asia Pacific targets approximately 600 leading companies in the Asia Pacific region. In fiscal 2016, 146 companies (68 of them from Japan) were selected for inclusion.

CDP DISCLOSURE INSIGHT ACTION
MSCI 2017 Constituent MSCI ESG Leaders Indexes
MSCI 2017 Constituent MSCI ジャパンESG セレクト・リーダーズ指数
MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM
asra 2016 FINALIST

TOPIX and Dentsu (relative comparison over five years)




Design concept of this integrated report

Although appearing random at first glance, the design incorporates lines that are all interrelated. The design theme indicates connections among people and between people and society.

### Takahiro Kurashima

Born in 1960, as an art director Mr. Kurashima has been involved in diverse creative work for a variety of clients. At the same time, he has continued to develop his own work. Switzerland's Lars Müller Publishers has published his work *Poemotion*, a project aimed at cultivating a new perspective in graphic art. An art exhibition on this theme is scheduled for next fiscal year.

dentsu