Excerpt from Quarterly Report
(Consolidated Financial Statements)
(January 1 to March 31, 2018)

Part 4. Financial Section

1. Preparation Method of Condensed Quarterly Consolidated Financial Statements

(1) The condensed quarterly consolidated financial statements of Dentsu Inc. (hereinafter referred to as "the Company") are prepared in accordance with International Accounting Standards 34 "Interim Financial Reporting" (hereinafter referred to as "IAS 34") under the provisions of Article 93 of the "Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements" (Cabinet Office Ordinance No. 64, 2007; hereinafter referred to as "the Ordinance").

(2) In the condensed quarterly consolidated financial statements, figures less than one million yen are rounded down to the nearest million yen.

2. Audit Certificate

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the Company's condensed quarterly consolidated financial statements for the first quarter ended March 31, 2018 (from January 1 to March 31, 2018) and the condensed consolidated financial statements for the first three months (from January 1 to March 31, 2018) of fiscal year 2018, which were compiled in Japanese, were subject to a quarterly review by KPMG AZSA LLC.

1. Condensed Quarterly Consolidated Financial Statements

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Millions of Yen)

	Notes	FY2017 (As of December 31, 2017)	The first quarter (As of March 31, 2018)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		305,760	229,700
Trade and other receivables		1,410,454	1,281,068
Inventories		22,074	23,899
Other financial assets	12	21,934	17,541
Other current assets		74,525	86,370
Subtotal		1,834,749	1,638,580
Non-current assets classified as held for sale		1,835	1,446
Total current assets		1,836,584	1,640,026
NON-CURRENT ASSETS:			
Property, plant and equipment		196,659	195,792
Goodwill		798,177	778,297
Intangible assets		274,502	260,633
Investment property		37,360	37,311
Investments accounted for using the equity method		56,752	57,544
Other financial assets	12	327,356	318,077
Other non-current assets		15,062	13,925
Deferred tax assets		20,401	21,508
Total non-current assets		1,726,272	1,683,089
TOTAL ASSETS	5	3,562,857	3,323,116

(Millions of Yen)

	Notes	FY2017 (As of December 31, 2017)	The first quarter (As of March 31, 2018)
LIABILITIES AND EQUITY			
LIABILITIES			
CURRENT LIABILITIES:			
Trade and other payables		1,380,875	1,191,908
Borrowings	12	89,325	96,529
Other financial liabilities	12	43,030	53,306
Income tax payables		23,366	18,318
Provisions		2,070	2,604
Other current liabilities		203,091	195,946
Subtotal		1,741,758	1,558,613
Liabilities directly associated with non-current assets classified as held for sale		456	409
Total current liabilities		1,742,215	1,559,023
NON-CURRENT LIABILITIES:			
Borrowings	12	371,187	358,608
Other financial liabilities	12	146,076	142,967
Liability for retirement benefits		19,210	19,481
Provisions		4,983	4,306
Other non-current liabilities		19,497	19,423
Deferred tax liabilities		109,552	98,838
Total non-current liabilities		670,507	643,626
Total liabilities		2,412,722	2,202,649
EQUITY:			
Share capital		74,609	74,609
Share premium account		99,751	99,751
Treasury shares		(40,182)	(40,184)
Other components of equity		231,185	208,487
Retained earnings		727,846	722,081
Total equity attributable to owners of the parent		1,093,211	1,064,746
Non-controlling interests		56,923	55,721
Total equity		1,150,134	1,120,467
TOTAL LIABILITIES AND EQUITY		3,562,857	3,323,116

(2) Condensed Quarterly Consolidated Statement of Income

(Millions of Yen)

	Notes	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Turnover (Note 1)	5	1,260,292	1,250,838
Revenue	5, 7	229,813	242,107
Cost		12,552	15,442
Revenue less cost of sales	5	217,261	226,665
Selling, general and administrative expenses		185,198	204,166
Other income	8	2,603	3,492
Other expenses	9	2,547	3,597
Operating profit		32,119	22,393
Share of results of associates		801	916
Profit before interest and tax		32,920	23,310
Finance income	10	1,280	1,502
Finance costs	10	5,638	5,789
Profit before tax		28,563	19,023
Income tax expense		9,741	6,781
Profit for the period		18,821	12,241
Profit attributable to:			
Owners of the parent		17,943	10,788
Non-controlling interests		877	1,453
Earnings per share			
Basic earnings per share (Yen)	11	63.02	38.27
Diluted earnings per share (Yen)	11	63.02	38.27

Reconciliation from operating profit to underlying operating profit

(Millions of Yen)

	Notes	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Operating profit		32,119	22,393
Amortization of intangible assets incurred in acquisitions		7,833	8,792
Other adjusting items (selling, general and administrative expenses)		327	346
Other adjusting items (other income)		(3)	(9)
Other adjusting items (other expenses)		1,003	1,221
Underlying operating profit (Note 2)	5	41,281	32,744

(Notes) 1 Turnover represents the total amount billed and billable to clients handled 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 Condensed Quarterly Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.

2 The 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, share-based compensation expenses related to acquired companies and one-off items such as impairment loss and gain/loss on sales of non-current assets.

Underlying operating profit is not defined under IFRS; however, it is voluntarily disclosed in the Condensed Quarterly Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.

(3) Condensed Quarterly Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Notes	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
PROFIT FOR THE PERIOD		18,821	12,241
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	12	16,011	(7,710)
Remeasurements of defined benefit plans		27	23
Share of other comprehensive income of investments accounted for using the equity method		14	(53)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:			
Exchange differences on translation of foreign operations		(7,749)	(14,293)
Effective portion of the change in the fair value of cash flow hedges		(2,667)	(2,491)
Share of other comprehensive income of investments accounted for using the equity method		26	(68)
Other comprehensive income, net of tax		5,663	(24,595)
COMPREHENSIVE INCOME FOR THE PERIOD		24,485	(12,353)
COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the parent		23,961	(11,905)
Non-controlling interests		523	(447)

(4) Condensed Quarterly Consolidated Statement of Changes in Equity

For the three months ended March 31, 2017 (From January 1 to March 31, 2017)

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent					
					Other components of equity		
		Share capital	Share premium account	Treasury shares	Share options	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges
As of January 1, 2017		74,609	99,751	(20,168)	48	37,403	7,120
Profit for the period							
Other comprehensive income						(7,289)	(2,667)
Comprehensive income for the period		–	–	–	–	(7,289)	(2,667)
Repurchase of treasury shares	6			(8,798)			
Dividends	6						
Transactions with non-controlling interests							
Transfer from other components of equity to retained earnings							
Transactions with owners－total		–	–	(8,798)	–	–	–
As of March 31, 2017		74,609	99,751	(28,966)	48	30,113	4,452

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent					Non-controlling interests	Total equity
		Other components of equity						
		Net change in financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total		
As of January 1, 2017		84,409	(7,634)	121,346	657,203	932,742	49,218	981,961
Profit for the period				–	17,943	17,943	877	18,821
Other comprehensive income		15,948	26	6,017		6,017	(353)	5,663
Comprehensive income for the period		15,948	26	6,017	17,943	23,961	523	24,485
Repurchase of treasury shares	6			–		(8,798)		(8,798)
Dividends	6			–	(12,831)	(12,831)	(495)	(13,326)
Transactions with non-controlling interests				–	(489)	(489)	40	(448)
Transfer from other components of equity to retained earnings		27		27	(27)	–		–
Transactions with owners－total		27	–	27	(13,348)	(22,118)	(454)	(22,573)
As of March 31, 2017		100,385	(7,608)	127,391	661,799	934,585	49,288	983,873

For the three months ended March 31, 2018 (From January 1 to March 31, 2018)

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent					
					Other components of equity		
		Share capital	Share premium account	Treasury shares	Share options	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges
As of January 1, 2018		74,609	99,751	(40,182)	48	69,734	6,231
Cumulative effects of changes in accounting policies							
Restated balance as of January 1, 2018		74,609	99,751	(40,182)	48	69,734	6,231
Profit for the period							
Other comprehensive income						(12,705)	(2,491)
Comprehensive income for the period		–	–	–	–	(12,705)	(2,491)
Repurchase of treasury shares				(2)			
Disposal of treasury shares			(0)	0			
Dividends	6						
Transactions with non-controlling interests							
Transfer from other components of equity to retained earnings							
Other changes					(48)		
Transactions with owners－total		–	(0)	(1)	(48)	–	–
As of March 31, 2018		74,609	99,751	(40,184)	–	57,029	3,740

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent					Non-controlling interests	Total equity
		Other components of equity						
		Net change in financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total		
As of January 1, 2018		151,258	3,913	231,185	727,846	1,093,211	56,923	1,150,134
Cumulative effects of changes in accounting policies				–	(3,872)	(3,872)		(3,872)
Restated balance as of January 1, 2018		151,258	3,913	231,185	723,973	1,089,338	56,923	1,146,261
Profit for the period				–	10,788	10,788	1,453	12,241
Other comprehensive income		(7,518)	21	(22,693)		(22,693)	(1,901)	(24,595)
Comprehensive income for the period		(7,518)	21	(22,693)	10,788	(11,905)	(447)	(12,353)
Repurchase of treasury shares				–		(2)		(2)
Disposal of treasury shares				–		0		0
Dividends	6			–	(12,685)	(12,685)	(790)	(13,476)
Transactions with non-controlling interests				–	(0)	(0)	36	36
Transfer from other components of equity to retained earnings		42		42	(42)	–		–
Other changes				(48)	48	0		0

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent					Non-controlling interests	Total equity
		Other components of equity			Retained earnings	Total		
		Net change in financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total				
Transactions with owners－total		42	－	(5)	(12,680)	(12,687)	(754)	(13,441)
As of March 31, 2018		143,782	3,935	208,487	722,081	1,064,746	55,721	1,120,467

(5) Condensed Quarterly Consolidated Statement of Cash Flows

(Millions of Yen)

	Notes	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		28,563	19,023
ADJUSTMENTS FOR:			
Depreciation and amortization		13,399	14,629
Impairment loss		616	—
Interest and dividend income		(1,003)	(736)
Interest expense		2,255	2,863
Share of results of associates		(801)	(916)
Increase (decrease) in liability for retirement benefits		682	459
Other—net		(1,445)	(2,982)
Cash flows from operating activities before adjusting changes in working capital and others		42,266	32,340
CHANGES IN WORKING CAPITAL:			
(Increase) decrease in trade and other receivables		40,617	90,810
(Increase) decrease in inventories		(2,511)	(2,256)
(Increase) decrease in other current assets		(9,353)	(13,335)
Increase (decrease) in trade and other payables		(90,129)	(152,977)
Increase (decrease) in other current liabilities		(533)	11,032
Change in working capital		(61,910)	(66,724)
Subtotal		(19,643)	(34,384)
Interest received		607	541
Dividends received		535	256
Interest paid		(1,848)	(2,672)
Income taxes paid		(30,743)	(16,347)
Net cash flow from operating activities		(51,091)	(52,605)

(Millions of Yen)

	Notes	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment, intangible assets and investment property		(5,022)	(6,163)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		―	275
Net cash (paid) received on acquisition of subsidiaries		(10,263)	(7,370)
Payments for purchases of securities		(7,333)	(3,555)
Proceeds from sales of securities		4,353	120
Other—net		(419)	994
Net cash flow from investing activities		(18,684)	(15,698)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in short-term borrowings		(69,137)	11,770
Proceeds from long-term borrowings		149,895	1,545
Payment for acquisition of interest in a subsidiary from non-controlling interests		(612)	(125)
Payments for purchase of treasury shares	6	(8,798)	(2)
Dividends paid	6	(12,831)	(12,685)
Dividends paid to non-controlling interests		(648)	(961)
Other—net		(661)	(1,098)
Net cash flow from financing activities		57,207	(1,556)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(2,092)	(6,199)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(14,661)	(76,060)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		242,410	305,760
CASH AND CASH EQUIVALENTS AT END OF PERIOD		227,749	229,700

Notes on the Condensed Quarterly Consolidated Financial Statements

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 "5. Segment Information."

The condensed quarterly consolidated financial statements for the first quarter ended March 31, 2018 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Arinobu Soga, Representative Director and Senior Executive Vice President & CFO, on May 15, 2018.

2. Basis of Preparation

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

The Company's condensed quarterly consolidated financial statements meet all requirements of Article 1-2 "Specified Company for Designated IFRS" stipulated in the Ordinance and are prepared in accordance with IAS 34 under the provisions of Article 93 of the Ordinance.

The condensed quarterly consolidated financial statements do not include all the information that must be disclosed in the annual consolidated financial statements, and therefore should be used in conjunction with the consolidated financial statements for the previous fiscal year.

3. Significant Accounting Policies

Significant accounting policies applied to the condensed quarterly consolidated financial statements for the first quarter ended March 31, 2018 are identical to those applied to the consolidated financial statements for the previous fiscal year, with the exception of changes in accounting policies stated below. Meanwhile, income taxes for the three months ended March 31, 2018 are calculated based on the estimated annual effective tax rate.

(Changes in accounting polices)

(Adoption of IFRS 9 (2014) “Financial Instruments”)

The Group has adopted IFRS 9 (2014) “Financial Instruments” from the first quarter ended March 31, 2018. Under IFRS 9, “incurred loss model” used in IAS 39 “Financial Instruments: Recognition and Measurement” was replaced by “expected credit loss model” with regard to the impairment of financial assets. Credit losses are recognized earlier under IFRS 9 than the timing of recognition under IAS 39.

As a result, 5,121 million yen of allowance for doubtful accounts was recognized, and a 3,872 million yen decrease in retained earnings at the beginning of the period as of the commencement date of adoption of IFRS 9 was recognized, in accordance with the transitional arrangements. The effect on the condensed quarterly consolidated statement of income for the three months ended March 31, 2018 are not material.

With regard to the hedge accounting, IAS 39 shall continue to be applied as a provisional measure.

(Adoption of IFRS 15 “Revenue from Contracts with Customers” and others)

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” (published in May 2014) and “Clarifications to IFRS 15” (published in April 2016) (hereinafter, collectively referred to as ”IFRS 15”) from the first quarter ended March 31, 2018. As a result of the adoption of IFRS 15, revenues are recognized based on the following five-step approach.

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligation in the contract.
Step 3: Calculate the transaction price.
Step 4: Allocate the transaction price to each performance obligation in the contract.
Step 5: An entity recognizes revenue when a performance obligation is satisfied.

Based on the five-step approach stated above, changes were made for some transactions in the recognition of revenue when a performance obligation is satisfied. As a result, in the condensed quarterly consolidated statement of income for the three months ended March 31, 2018, revenue, revenue less cost of sales, operating profit, and profit before tax decreased by 3,856 million yen each compared to the figures under the former accounting standards. In the condensed quarterly consolidated statement of financial position for the first quarter ended March 31, 2018, trade and other receivables, and trade and other payables decreased by 43,445 million yen and 39,992 million yen, respectively, and other current liabilities increased by 403 million yen.

The IFRS 15 has been applied retrospectively, and the cumulative effects due to the adoption were recognized on the commencement date of adoption in accordance with the provisional measure; however, the amount of cumulative effect as of the commencement date of adoption of said standards is not material.

In addition to the above changes, with the adoption of IFRS 15, in the case where other concerned parties are involved in providing goods or services to customers, the Group reviewed, under the newly stipulated application guidelines, whether the nature of an entity's promise represents a performance obligation of providing specified goods or services to customers by the entity itself (that is, the entity is the party concerned) or a performance obligation of making arrangements for these goods or services to be provided by the other concerned parties (that is, the entity is an agent). Based on the review, recognition of revenue for some transactions has been changed from "net base" to "gross base." As a result, revenue and cost increased by 2,888 million yen each in the condensed quarterly consolidated statement of income for the three months ended March 31, 2018 when compared to said figures under the former accounting standards.

As a result of the adoption of IFRS 15, basic earnings per share and diluted earnings per share for the three months ended March 31, 2018 decreased by 8.81 yen, respectively, when compared to said figures under the former accounting standards.

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Accounting judgments, estimates and assumptions that may have a material effect on the amounts in the condensed quarterly consolidated financial statements for the first quarter ended March 31, 2018 are identical to those for the consolidated financial statements for the previous fiscal year, except for the effect of the adoption of IFRS 9 and 15 (See "3. Significant Accounting Policies").

5. Segment Information

(1) Description of reportable segments

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

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.

Three months ended March 31, 2017 (From January 1 to March 31, 2017)

(Millions of Yen)

	Japan business	International business	Total	Reconciliations	Consolidated
Turnover (Note 1)	538,159	724,221	1,262,380	(2,088)	1,260,292
Revenue (Note 2)	117,897	114,004	231,901	(2,088)	229,813
Revenue less cost of sales (Note 3)	103,966	113,329	217,296	(35)	217,261
Segment profit (underlying operating profit) (Note 3)	36,589	4,698	41,288	(6)	41,281
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(7,833)
Other adjusting items (selling, general and administrative expenses)	–	–	–	–	(327)
Other adjusting items (other income)	–	–	–	–	3
Other adjusting items (other expenses)	–	–	–	–	(1,003)
Operating profit	–	–	–	–	32,119
Share of results of associates	–	–	–	–	801
Finance income	–	–	–	–	1,280
Finance costs	–	–	–	–	5,638
Profit before tax	–	–	–	–	28,563
Segment assets (Note 4)	1,283,078	1,901,352	3,184,431	(80,106)	3,104,324

Three months ended March 31, 2018 (From January 1 to March 31, 2018)

(Millions of Yen)

	Japan business (Note 5)	International business (Note 5)	Total	Reconciliations	Consolidated
Turnover (Note 1)	493,677	761,278	1,254,955	(4,116)	1,250,838
Revenue (Note 2)	118,190	128,033	246,223	(4,116)	242,107
Revenue less cost of sales (Note 3)	102,340	124,385	226,725	(60)	226,665
Segment profit (underlying operating profit) (Note 3)	30,439	2,309	32,748	(3)	32,744
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(8,792)
Other adjusting items (selling, general and administrative expenses)	–	–	–	–	(346)
Other adjusting items (other income)	–	–	–	–	9
Other adjusting items (other expenses)	–	–	–	–	(1,221)
Operating profit	–	–	–	–	22,393
Share of results of associates	–	–	–	–	916
Finance income	–	–	–	–	1,502
Finance costs	–	–	–	–	5,789
Profit before tax	–	–	–	–	19,023
Segment assets (Note 4)	1,346,194	2,094,466	3,440,661	(117,545)	3,323,116

(Notes)

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 Condensed Quarterly Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.
2. Reconciliations for revenue are due to eliminations of intersegment transactions (same amount as for turnover).
3. Reconciliations for revenue less cost of sales and segment profit (underlying operating profit) are due to eliminations of intersegment transactions.
4. Reconciliations for segment assets are due to eliminations of intersegment transactions.
5. Due to the effects of the adoption of IFRS 15 (See "3. Significant Accounting Policies"), in the three months ended March 31, 2018, revenue, revenue less cost of sales, and segment profit in the Japan business segment decreased by 3,856 million yen each, and revenue from the International business segment increased by 2,888 million yen; however, the resulting effects on profits are not material in the International business segment. Segment assets decreased by 43,445 million yen in the Japan business segment, and the resulting effects on the International business segment are not material.

6. Capital

(1) Dividends

Dividends paid are as follows:

Three months ended March 31, 2017 (From January 1 to March 31, 2017)

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 14, 2017)	Ordinary shares	12,831	45.00	December 31, 2016	March 9, 2017

Three months ended March 31, 2018 (From January 1 to March 31, 2018)

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 13, 2018)	Ordinary shares	12,685	45.00	December 31, 2017	March 8, 2018

(2) Purchase of treasury shares

Three months ended March 31, 2017 (From January 1 to March 31, 2017)

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

1) Reason for the repurchase of treasury share

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

2) Details of matters related to the repurchase

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

3) Treasury shares repurchased during the first three months ended March 31, 2017

1) Class of shares repurchased: Common shares of the Company
2) Total number of shares repurchased: 1,422,800 shares
3) Total repurchase cost: 8,792 million yen
4) Repurchase period: February 20, 2017 to March 24, 2017

5) Method of repurchase: Open market purchase on the Tokyo Stock Exchange

7. Revenue

Breakdown of revenue recognized from contracts with customers is shown below.

Three months ended March 31, 2018 (From January 1 to March 31, 2018)

(Millions of Yen)

	Segments			Re-conciliations of internal transactions	Total
	Japan business	International business	Subtotal		
Principal services					
Advertising	99,650	128,033	227,683	—	—
Information Services	17,497	—	17,497	—	—
Other Business	1,043	—	1,043	—	—
Total	118,190	128,033	246,223	(4,116)	242,107
Breakdown by regional markets					
Japan	118,190	—	118,190	—	—
EMEA (Europe, Middle East and Africa)	—	47,828	47,828	—	—
Americas	—	54,059	54,059	—	—
APAC (Asia Pacific)	—	26,145	26,145	—	—
Total	118,190	128,033	246,223	(4,116)	242,107

8. Other Income

The breakdown of other income is as follows:

(Millions of Yen)

	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Profit distributions	2,094	3,082
Gain on sale of property, plant and equipment, intangible assets and investment property	3	0
Other	506	409
Total	2,603	3,492

9. Other Expenses

The breakdown of other expenses is as follows:

(Millions of Yen)

	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Foreign exchange losses	231	548
Loss on sale of property, plant and equipment, intangible assets and investment property	4	–
Impairment losses	616	–
Amortization of long-term prepaid expenses	908	964
Share-based compensation expenses settled in cash	368	1,098
Other	417	986
Total	2,547	3,597

10. Finance Income and Finance Costs

(1) The breakdown of finance income is as follows:

(Millions of Yen)

	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Interest income	603	638
Dividend income	400	97
Changes in fair value of contingent consideration	–	643
Other	277	123
Total	1,280	1,502

(2) The breakdown of finance costs is as follows:

(Millions of Yen)

	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Interest expense	2,288	2,877
Changes in fair value of contingent consideration	163	—
Remeasurements of stock purchase obligations	3,010	2,562
Foreign exchange losses	160	274
Other	14	75
Total	5,638	5,789

11. Earnings Per Share

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

	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Basic earnings per share (Yen)	63.02	38.27
Diluted earnings per share (Yen)	63.02	38.27

(Note) Due to the effect of the adoption of IFRS 15 (See "3. Significant Accounting Policies"), basic earnings per share and diluted earnings per share for the three months ended March 31, 2018 decreased by 8.81 yen, respectively.

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

	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Profit for the period used for calculation of basic earnings per share and diluted earnings per share		
Profit for the period attributable to owners of the parent (Millions of Yen)	17,943	10,788
Amounts not attributable to ordinary equity holders of the parent (Millions of Yen)	–	–
Profit for the period used for calculation of basic earnings per share (Millions of Yen)	17,943	10,788
Adjustment		
Share-based payment held by associates (Millions of Yen)	(0)	(0)
Profit for the period used for calculation of diluted earnings per share (Millions of Yen)	17,943	10,787
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)	284,750	281,898
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)	284,750	281,898

12. Financial Instruments

(1) 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, 2017 and March 31, 2018 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)

	FY2017 (As of December 31, 2017)		The first quarter (As of March 31, 2018)	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	419,099	420,572	403,814	403,053

(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.

(2) 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 three months ended March 31, 2017 and the three months ended March 31, 2018. Figures in the following table include stock purchase obligations.

FY2017 (As of December 31, 2017)

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	18,886	–	18,886
Equity securities	268,141	–	20,401	288,543
Other	522	2,825	11,780	15,128
Total	268,664	21,712	32,181	322,558
Financial liabilities				
Derivative liabilities	–	3,451	–	3,451
Stock purchase obligations	–	–	105,758	105,758
Other (mainly contingent consideration)	–	–	61,909	61,909
Total	–	3,451	167,667	171,119

The first quarter (As of March 31, 2018)

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	14,185	–	14,185
Equity securities	259,229	–	20,456	279,686
Other	521	2,776	12,418	15,716
Total	259,750	16,962	32,875	309,588
Financial liabilities				
Derivative liabilities	–	4,666	–	4,666
Stock purchase obligations	–	–	102,450	102,450
Other (mainly contingent consideration)	–	–	62,542	62,542
Total	–	4,666	164,993	169,659

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.

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 valuated using observable market data are categorized within Level 2, while stocks valuated based mainly on market approaches (the comparable companies analysis) 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 as of December 31, 2017 and March 31, 2018 are 0.77 and 0.73, respectively.

The fair values, etc. of stock purchase obligations and other (financial liabilities) are categorized within Level 3 as they are valuated based on the discounted cash flow method using unobservable inputs. As the major unobservable inputs used in the valuation of other (financial liabilities) are mainly future profit levels, their fair values, etc. will increase (decrease) in line with the improvement (deterioration) of profit levels.

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 is as follows:

(Millions of Yen)

Financial assets	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Balance at the beginning of the period	21,652	32,181
Other comprehensive income (Note 1)	543	(178)
Purchases or acquisitions	1,301	1,419
Sales or settlements	(89)	(202)
Other	(157)	(344)
Balance at the end of the period	23,249	32,875

(Millions of Yen)

Financial liabilities	Three months ended March 31, 2017 (From January 1 to March 31, 2017)	Three months ended March 31, 2018 (From January 1 to March 31, 2018)
Balance at the beginning of the period	173,589	167,667
Profit or loss (Note 2)	3,173	1,918
Purchases	4,599	5,035
Sales or settlements	(762)	(2,078)
Other	(3,742)	(7,550)
Balance at the end of the period	176,856	164,993

(Notes) 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."

2 "Profit or loss" is associated with financial liabilities measured at fair value through profit or loss and included in finance income or finance costs. Profit or loss arising from financial instruments held at the end of the quarter amounted to ¥3,173 million and ¥1,918 million for the three months ended March 31, 2017 and the three months ended March 31, 2018, respectively.

13. Subsequent Events

No items to report

2. Other Information

(1) Dividends from surplus

The Company resolved at its meeting of the Board of Directors held on February 13, 2018 that year-end dividends shall be paid to the shareholders whose names are recorded in the register of shareholders as of December 31, 2017, in the following manner.

1) Total amount of dividends:	JPY 12,685 million
2) Dividend per share:	JPY 45.00
3) Effective date of the right to collect payment and commencement date of dividend payment:	March 8, 2018

(2) Significant lawsuits, etc.

Although there are pending lawsuits, etc. involving the Group, their impact on the Group’s financial position and financial results is deemed to be insignificant.