February 14, 2017

Dentsu Inc.
FY2016 Consolidated Financial Results

(Fiscal year ended December 31, 2016 – reported on an IFRS basis)

Strong performance in organic growth and operating margin
Acquisitions helping to accelerate our data strategy

Consolidated Group (million yen) – reported on an IFRS basis	FY2016	FY2015*	YoY Change, %	Constant currency basis, %
Revenue	838,359	818,566	2.4	-
Gross profit**	789,043	761,996	3.5	11.3
Statutory results				
• operating profit	137,681	128,212	7.4	-
• net profit (attributable to owners of the parent)	83,501	83,090	0.5	-
• basic EPS (yen)	292.85	289.95	1.0	-
Underlying results***				
▪ operating profit	166,565	160,438	3.8	9.4
▪ operating margin	21.1%	21.1%	0.0	(0.4)
▪ net profit (attributable to owners of the parent)	112,972	113,388	(0.4)	-
▪ basic EPS (yen)	396.20	395.67	0.1	-
EBITDA	184,064	175,454	4.9	-
Average JPY/USD rate	108.9 yen	121.0 yen	(10.1)	-
Average JPY/GBP rate	147.8 yen	185.1 yen	(20.2)	-

**FY2015 was a transitional one-time only nine-month period from April 1 to December 31, 2015. Figures for FY2015 are provided on a pro forma calendar year basis to enable year-on-year performance comparison.*
***FY2015 Gross profit, defined as revenue less direct costs, is the metric by which the Group's organic growth is measured. Organic growth represents the constant currency year-on-year growth after adjusting for the effect of businesses acquired or disposed of since the beginning of the prior year.*
****Throughout this announcement, results are stated on an underlying basis unless otherwise indicated. See page 2 for definition of "underlying."*

Highlights of FY2016:

- The Dentsu Group delivered total gross profit growth of 11.3% (constant currency basis) in FY2016:
  - 4.3% gross profit growth at the Group's operations in Japan, and 18.1% gross profit growth (at constant currency) at Dentsu Aegis Network, its international business
- The Group produced organic gross profit growth of 5.1% in FY2016, including 3.9% in Q4 FY2016, ahead of the peer group average:
  - The Group's operations in Japan produced organic gross profit growth of 4.5% in FY2016, including 1.0% in Q4 FY2016, driven by the improvement in Dentsu Inc.'s non-consolidated gross profit rate and strong performance of subsidiaries in Japan
  - Dentsu Aegis Network delivered organic gross profit growth of 5.7% in FY2016, including 5.8% in Q4 FY2016 with digital overtaking traditional revenue for the first time leaving it well placed for continued momentum

- Gross profit contribution from digital businesses reached 37.3%, including 19.7% in Japan and 52.3% at Dentsu Aegis Network
- Group underlying operating margin was 21.1% (FY2015:21.1%), same as the previous fiscal year
- 45 acquisitions and investments signed in FY2016 helped to accelerate the Group's strategic objectives
- Underlying basic earnings per share were 396.20 yen, a 0.1% increase from the prior year
- Dividend per share for FY2016 was 85 yen, an increase from 75 yen from the prior year, equating to a dividend payout ratio of 21.5% (based on underlying net profit attributable to owners of the parent)
- Dentsu Group expects to continue delivering market outperformance in 2017 by expanding its presence in the digital economy

Reconciliation from underlying to statutory operating profit

Consolidated Group (million yen) – reported on an IFRS basis	FY2016	FY2015	Change, %
Underlying operating profit*	**166,565**	**160,438**	3.8
Adjustment items:	(28,883)	(32,226)	
Amortization of M&A related intangible assets	(24,506)	(22,798)	
Acquisition costs	(3,579)	(1,624)	
One-off items	(798)	(7,803)	
Gain (loss) on sales and retirement of non-current assets	6,074	(874)	
Gain (loss) on sales of shares of subsidiaries and associates	11	954	
Revaluation gain (loss) on investment reclassification	339	3,260	
Impairment loss	(522)	(3,650)	
Special retirement expenses	(5,183)	(4,564)	
Loss on liquidation of subsidiaries and associates	-	(2,617)	
Others	(1,517)	(312)	
Statutory operating profit	**137,681**	**128,212**	7.4

** Underlying operating profit and underlying net profit are operating profit and net profit respectively, stated before those items of financial performance that the Group believes should be separately disclosed to assist in the understanding of the underlying performance achieved by the Group and its businesses ("adjustment items"). In the opinion of the Group, such adjustment items are material by nature or amount and may include impairment charges, profits and losses on disposals of investments and property or on retirement of non-current assets, amortization of purchased intangible assets (being amortization charged on separately identifiable intangible assets in acquired businesses), special retirement expenses and one-off items which are material by nature or amount in the opinion of the Group, and any related tax thereon, as appropriate.*

Toshihiro Yamamoto, President and Chief Executive Officer of Dentsu Inc., said:

"In 2016, the fourth year of our medium-term management plan "Dentsu 2017 and Beyond", we delivered a market leading performance with strong revenue growth in both our Japanese and international business. As a result, and in accordance with the plan, the Group continued to deliver against its KPI targets.

We continued to make strong progress against our strategy, particularly in our ongoing investment in digital capability. This is helping forge solid growth for our clients and for the first time our international business has delivered over 50% of revenue from digital.

In 2017, we will pioneer a new working environment to foster a progressed working culture in Japan. We will leverage our extensive global network, taking advantage of new markets and opportunities, to enable us to continue to contribute to the success of our clients.

The Group is well placed with a clear strategy and plan, robust revenue growth and strong momentum; we expect to continue to outperform the market in the years ahead. "

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Dentsu Inc.'s FY2016 Consolidated Financial Results

1. The Dentsu Group's strategic objectives and progress made against them in FY2016

The Dentsu Group's long-term ambition is to evolve into a truly global network at the forefront of marketing convergence. To support this ambition, the Group has four key strategic focus areas:

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

As part of the Group's medium-term plan to FY2017, originally communicated in FY2013, management set four key performance indicators, against which its success across these strategy focus areas is measured. The Group continued to deliver against these KPIs in FY2016:

KPI to be achieved by FY2017	KPI status in FY2016 (January to December 2016)	KPI status in FY2015 (January to December 2015)
Organic gross profit growth of 3–5% (5 year CAGR)	**5.1%**	7.0%
Ratio of gross profit from international (non-Japanese) business of 55% or higher	**54.0%**	54.3%
Ratio of gross profit from the digital domain of 35% or higher	**37%**	34%
Underlying operating margin* of 20% or higher	**21.1%**	21.1%

**Underlying operating margin under IFRS is defined as underlying operating profit as a percentage of gross profit.*

2. Results overview

Gross profit for the Dentsu Group in FY2016 was 789,043 million yen, up 11.3% on a constant currency basis, from the previous year. Organic growth, based on gross profit, for the Group was 5.1%, ahead of the peer group average, including 3.9% in Q4 FY2016.

Group underlying operating profit was 166,565 million yen, an increase of 9.4% on a constant currency basis, from the previous fiscal year. The Group's underlying operating margin was the same as the previous year at 21.1%.

Underlying basic earnings per share increased by 0.1% to 396.20 yen, up from 395.67 yen in the same period of the previous fiscal year.

3. Performance review

The Group's operations in Japan produced organic gross profit growth of 4.5% in the FY2016, including 1.0% in Q4 FY2016, supported by the improvement in Dentsu Inc.'s non-consolidated gross profit rate and strong performance of subsidiaries in Japan. Underlying operating margin in Japan improved by 80 bps to 26.8%. This was because of operating leverage from the top-line growth.

The Group's international business, Dentsu Aegis Network, delivered further peer group-leading organic gross profit growth of 5.7% in FY2016, including 5.8% in Q4 FY2016, supported by an ongoing focus on:

- Building capability in the digital economy
- Broadening its service offering across clients
- Growing its international client and new business profile
- Building leading positions in the top 20 markets, prioritizing the USA and China
- Continuing to develop a market-leading, scalable organization that is clearly differentiated.

During FY2016, underlying operating margin at Dentsu Aegis Network declined by 70 basis points to 16.2%. This was the result of a planned increase in investment in digital tools, talent and capabilities.

Each of the Dentsu Aegis Network's regions delivered strong performance, above our peer group average in FY2016.

In APAC, excluding Japan, Dentsu Aegis Network delivered organic gross profit growth of 7.9% in FY2016, including 5.6% in Q4 FY2016. There were strong performances from two major markets, India and Australia, who both delivered double-digit growth. China continues to be a key market for the region, and has performed well with increased spend from existing clients.

In the Americas, Dentsu Aegis Network produced a solid organic gross profit growth of 3.1% in FY2016, including 4.4% in Q4 FY2016. The performance in the US included a step-up in growth in the second half of 2016, with positive impacts from new business wins. Canada delivered a strong performance, with FY2016 growth accelerating significantly compared to FY2015. In Latin America, Mexico, Columbia and Argentina produced strong double-digit growth. Brazil, however, remains a challenging market with an uncertain economic and political climate.

In EMEA, Dentsu Aegis Network delivered organic gross profit growth of 6.9% in FY2016, including 7.5% in Q4 FY2016. This is a strong performance, considering the effect the EU referendum had on business confidence in the region. There were very strong performances across Continental Europe, with double-digit growth in Spain and Italy, and high single-digit growth in Germany and France. After a relatively unstable environment in 2015, Russia has performed exceptionally well in FY2016, also delivering double-digit growth.

4. Highlights of the Group's M&A activity in FY2016

Acquisitions remain a strong focus to accelerate the growth strategy of the Group with a record number of 45 deals signed in FY2016. Acquisitions provide scale, capability in-fill and entrepreneurial talent to strengthen the Group's world-class offering to its clients. With over 100 deals signed in the past three years, M&A has bolstered the delivery of market leading organic growth in FY2016, and will continue to be a focus in the years ahead.

Digital capabilities continue to be the focus of the Groups' M&A activity. With more than 50% of the deals in FY2016 further expanding a broad suite of digital services – CRM and data, brand commerce, performance marketing among others – M&A continues to enable the Group to further support the digital needs of its clients and build strong capability and scale as a digital economy business.

In particular, the acquisition of Merkle – a global data-driven, technology-enabled performance marketing agency and the largest independent agency in the US for CRM, digital and search – in Q3 FY2016 has marked a step-change for the Group providing immediate scale, talent and new capability in top quality data, analytics and CRM. With the addition of Merkle, Dentsu Aegis Network's newest global network brand, the Group now provides unparalleled industry-leading, data driven solutions for its clients globally.

Overall, acquisitions in FY2016 provided strong geographic and capability in-fill in 20 markets across the Americas, APAC and EMEA. North America has been a key M&A growth market in 2016, with the acquisition of Merkle, as well as gyro, the largest independent global creative agency dedicated to B2B, and significant investment in digital (Cardinal Path), programmatic (Accordant) and OOH (C2C).

5. Balance sheet position and capital utilization strategy

The Group's balance sheet remains strong and its leverage position enables flexibility for the Group to continue to invest in growth. Net debt, as at December 31, 2016, was 161.1 billion yen. Its leverage position, as at December 31, 2016, on a Net Debt: EBITDA basis remains comfortable at 0.88 times. The Group's strategy for capital utilization continues to be focused on:

• Prioritizing the deployment of capital to drive the growth of the business, by investing in growth through value-enhancing acquisitions which provide scale, in-fill and innovation. To this end, Dentsu signed 45 acquisitions in FY2016, which is the highest number signed by the Group to date; and

• Focusing on capital returns and dividends, with the objective of improving capital efficiency. With this in mind, the Group's directors are recommending a dividend per share for FY2016 of 85 yen, an increase of 13.3% from the prior year. This equates to a dividend payout ratio of 21.5% based on underlying net profit attributable to owners of the parent.

6. Forecast for FY2017 full year performance

The strength of Digital continues to be a dominant element in the growth of the global advertising expenditure. According to Carat's latest forecasts, the positive momentum of the global advertising spend in 2016 is expected to continue into 2017 with a healthy +4.0% year-on-year growth, led by the ongoing upsurge of Digital media. Expanding over three times faster than the global rate, digital reaffirms itself as the unrivalled driver of growth, with +13.6% growth forecast in 2017. Driven by the high demand of Mobile, Online Video and Social Media, Digital media spend is expected to reach 30.2% share of total global media spend in 2017. As the advertising industry becomes more data-driven and complex, the Group will continue to focus on delivering innovative capabilities to its clients, to navigate and meet the needs of the digital economy.

These actions and investments will ensure the Group remains at the leading edge of the digital economy in 2017 and beyond. The Group expects to continue delivering a performance ahead of the market in 2017, forecasting an increase in gross profit of 17.8% to 929.5 billion yen for 2017. Underlying operating profit is expected to increase by 1.4% to 168.9 billion yen in 2017, but the underlying operating margin is expected to be down 290 basis points to 18.2%, due to the planned increase in strategic investment in digital tools, talent and capabilities, both in Japan and globally in 2017. This is expected to lead to a 1.0% decrease in underlying basic eps of 392.09 yen for 2017.

Cash dividends per share of common stock applicable to the fiscal year ending December 31, 2017 are expected to be 90 yen, including an interim dividend of 45 yen and a year–end dividend of 45 yen.*

**Forecasts based on average monthly exchange rates of USD1=114.8 yen and GBP1=141.6 yen in January 2017*

- Ends -

Further information:

Further details of these results, including all related financial statements, can be found in the Investor Relations section of the Dentsu Inc. website: http://www.dentsu.com/ir.

The quarterly organic gross profit growth figures for 2015 and 2016 to date for the Dentsu Group and Dentsu in Japan, and the figures for 2014, 2015 and 2016 to date for Dentsu Aegis Network, are as follows:

	Dentsu Group Total			Dentsu in Japan			Dentsu Aegis Network Total		
	2016	2015	2014*	2016	2015	2014*	2016	2015	2014
Q1 (Jan – Mar)	5.1%	6.2%	-	5.6%	0.0%	-	4.5%	13.7%	9.6%
Q2 (Apr – June)	9.5%	6.5%	-	12.2%	1.9%	-	7.2%	10.2%	8.5%
Q3 (Jul – Sept)	2.7%	4.2%	-	0.3%	1.4%	-	5.2%	6.6%	12.8%
Q4 (Oct – Dec)	3.9%	10.6%	-	1.0%	12.9%	-	5.8%	8.2%	10.5%

The quarterly organic gross profit growth figures for 2014, 2015 and 2016 to date for Dentsu Aegis Network in each geographic region are as follows:

	Dentsu Aegis Network APAC			Dentsu Aegis Network Americas			Dentsu Aegis Network EMEA		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Q1 (Jan – Mar)	5.2%	22.5%	14.8%	(2.0)%	10.4%	4.7%	10.7%	11.1%	10.6%
Q2 (Apr – June)	16.8%	5.4%	15.2%	2.4%	7.9%	5.0%	5.0%	16.1%	6.9%
Q3 (Jul – Sept)	5.3%	9.3%	15.5%	5.4%	0.1%	12.8%	5.0%	11.0%	10.8%
Q4 (Oct – Dec)	5.6%	11.0%	12.8%	4.4%	2.1%	8.3%	7.5%	11.0%	10.6%

**Given the different year-ends of Dentsu in Japan and Dentsu Aegis Network previously, and the fact that Dentsu in Japan previously reported under JGAAP, the quarterly organic gross profit growth figures for FY2014 for the Dentsu Group and Dentsu in Japan are not directly comparable to the figures for FY2015 and FY2016, which are reported on a December year-end basis under IFRS. Therefore, the FY2014 quarterly organic gross profit growth numbers for the Dentsu Group and Dentsu in Japan are not included in the table above.*

FY 2017 Forecast (million yen)

	2017 Jan-Dec	2016 Jan-Dec	YoY%	Constant Currency basis %
Revenue	978,500	838,359	16.7	-
Gross profit	929,500	789,043	17.8	15.8
Japan	360,400	363,242	(0.8)	(0.8)
International total	569,100	426,014	33.6	29.5
Underlying operating profit	168,900	166,565	1.4	(0.5)
Japan	81,200	97,362	(16.6)	(16.6)
International total	87,700	69,059	27.0	21.1
Operating margin	18.2%	21.1%	(2.9)	(3.0)
Japan	22.5%	26.8%	(4.3)	(4.3)
International total	15.4%	16.2%	(0.8)	(1.1)
Underlying net profit	111,800	112,972	(1.0)	-
Underlying basic EPS	392.09 yen	396.20 yen	(1.0)	-
Operating profit	151,500	137,681	10.0	-
Net profit	86,600	83,501	3.7	-

Currency

	Av. Jan in 2017	Av. Jan-Dec in 2016		
JPY/USD	114.8 yen	108.9 yen	5.4	-
JPY/GBP	141.6 yen	147.8 yen	(4.2)	-

Note: Net profit, underlying net profit and underlying basic EPS…Excluding attribution to non-controlling interests

(Reference)

As mentioned above, 2016 was a record year for acquisitions and investments across the Dentsu Group with 45 deals signed in the period. The largest and most significant was that of Merkle Inc. which is a significant and transformational acquisition for the Group. This transaction closed in September 2016 and therefore initial acquisition accounting relating to this transaction was included in the Group's Condensed Quarterly Consolidated Financial Statements at 30 September 2016.

Dentsu Inc. recognised liabilities (Other financial liabilities) at the acquisition date for the option to purchase the remaining shares of the acquired business at fair value with a corresponding reduction in the non-profit portion of Retained earnings.

During the closing process of the fiscal year ended December 31, 2016, a full exercise has been performed, and this has resulted in a reduction to the liability relating to the option to acquire the remaining shares, largely attributable to the application of a higher discount rate to the future cash flows reflecting the international nature and expansion plans of the acquired business.

This reduction in the liability recognised at the acquisition date requires an amendment to the Condensed Quarterly Consolidated Financial Statements, at 30 September 2016. The impact of this is to decrease the financial liabilities (Other financial liabilities) as of the acquisition date, and increase the non-profit portion of Retained earnings. In future periods, this application of a higher discount rate will result in a corresponding increase to the unwind of the discount charge which will increase the liability over time.

A related amendment to Exchange differences on translation of foreign operations has also been made.

The main sections of amendments are as follows.

(million yen)

	Before amendment	After amendment	Change
Non-current liabilities Other financial liabilities	201,687	146,884	(54,802)
Other components of equity	69,224	67,462	(1,761)
Retained earnings	568,217	624,782	56,564
Profit before tax	82,102	81,879	(222)
Profit for the period	55,493	55,271	(222)

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About the Dentsu Group

Dentsu is the world's largest advertising agency brand. Led by Dentsu Inc. (Tokyo: 4324; ISIN: JP3551520004), a company with a history of 116 years of innovation, the Dentsu Group provides a comprehensive range of client-centric brand, integrated communications, media and digital services through its ten global network brands—Carat, Dentsu, Dentsu media, iProspect, Isobar, mcgarrybowen, Merkle, MKTG, Posterscope and Vizeum—as well as through its specialist/multi-market brands. The Dentsu Group has a strong presence in over 140 countries across five continents, and employs more than 50,000 dedicated professionals. Dentsu Aegis Network Ltd., its global business headquarters in London, oversees Dentsu's agency operations outside of Japan. The Group is also active in the production and marketing of sports and entertainment content on a global scale. www.dentsu.com