February 13, 2018

Dentsu Inc.
FY2017 Consolidated Financial Results

(Fiscal year ended December 31, 2017 – reported on an IFRS basis)

Overview of FY2017 performance

- In FY2017 the Dentsu Group delivered total gross profit growth of 9.2% (constant currency basis) and organic gross profit growth of 0.1%.
- FY2017 saw Dentsu in Japan deliver a resilient performance against the backdrop of a challenging market. While the market continued the transition to digital media, Dentsu in Japan remained focused on further developing its digital capabilities to offer clients new opportunities for consumer engagement and growth.
- The international business, Dentsu Aegis Network, delivered total gross profit growth of 17.1% with a record year for net new business; $5.2bn of net new media billings. This success will drive above peer group average organic growth in FY2018.
- In FY2017, Dentsu Aegis Network made a total of 31 acquisitions and investments to accelerate its growth strategy.
- Dentsu in Japan is committed to the completion of environmental/infrastructural overhaul for future growth by accelerating the work environment reforms.
- The Dentsu Group forecasts an improving market in FY2018, driven by an increase in advertising spend. While the operating environment remains challenging, the Group enters FY2018 with strong momentum.

Financial Results for FY2017

Consolidated Group (million yen)	**FY2017**	**FY2016**	**YoY change, %**	**Constant currency basis, %**
Revenue	928,841	838,359	10.8	-
Gross profit*	877,622	789,043	11.2	9.2
Statutory results				
• operating profit	137,392	137,681	(0.2)	-
• net profit (attributable to owners of the parent)	105,478	83,501	26.3	-
• basic EPS (yen)	373.11	292.85	27.4	-
Underlying results**				
▪ operating profit	163,946	166,565	(1.6)	(3.8)
▪ operating margin	18.7%	21.1%	(240 bps)	(250 bps)
▪ net profit (attributable to owners of the parent)	107,874	112,972	(4.5)	-
▪ basic EPS (yen)	381.58	396.20	(3.7)	-
EBITDA***	194,073	184,064	5.4	-
Average JPY/USD rate	112.2 yen	108.9 yen	3.0	-
Average JPY/GBP rate	144.5 yen	147.8 yen	(2.2)	-

** 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 previous year.*
*** See page 6 for definition of "underlying."*
**** See page 6 for definition of "EBITDA."*

FY2017 results

- The Dentsu Group delivered **gross profit growth** of 9.2% (constant currency basis) in FY2017:
  - (0.4%) in Japan, and 17.1% (at constant currency) at Dentsu Aegis Network. This growth was mainly due to contribution from M&A and a positive impact from foreign exchange rates.
- The Group produced **organic gross profit growth** of 0.1% (constant currency basis) in FY2017, including 2.8% in Q4 FY2017:
  - FY2017: (0.3%) in Japan, and 0.4% (at constant currency) at Dentsu Aegis Network. The business was challenged by industry-wide conditions, however, following the sharp slowdown in Q2 FY2017 the Group has seen 760 bps of organic gross profit growth rate improvement to Q4 FY2017.
  - Q4 FY2017: 5.5% in Japan, and 1.2% (at constant currency) at Dentsu Aegis Network. Dentsu in Japan has improved mainly due to Tokyo Motor Show related business. Dentsu Aegis Network has sequentially improved its performance quarter on quarter since Q2 FY2017 due to accumulated new business wins during FY2017, with much of the impact still to be seen in FY2018.
  - **Digital business contribution to total gross profit** reached 43.2% (FY2016: 37.3%), including 22.2% in Japan (FY2016: 19.7%), and 57.9% at Dentsu Aegis Network (FY2016: 52.3%).
  - **International business contribution to total gross profit** reached 58.8% (FY2016: 54.0%).
- Group **underlying operating profit** was 163.9 billion yen (FY2016: 166.5 billion yen).
  - 88.8 billion yen in Japan (FY2016: 97.3 billion yen), and 75.1 billion yen at Dentsu Aegis Network (FY2016: 69.0 billion yen).
- Group **underlying operating margin** was 18.7% (FY2016: 21.1%).
  - 24.5 % in Japan (FY2016: 26.8%), and 14.6 % at Dentsu Aegis Network (FY2016: 16.2%).
  - Decline of group underlying operating margin was mainly due to planned SG&A costs related to the work environment reforms in Japan. At Dentsu Aegis Network the margin contraction reflects both planned investments in global platforms and systems and the impact from slower top line growth. However, the Group margin was better than the revised forecast announced in August 2017.
- **Net profit (attributable to owners of the parent)** increased by 26.3% due to factors including an increase of financial income from a gain on revaluation of earnout liabilities and M&A related put option liabilities.
- **Underlying basic EPS** were 381.58 yen, a 3.7% decrease from the previous year.
- **Dividend per share for FY2017** was 90 yen, an increase by five yen from the previous year, equating to **a dividend payout ratio** of 23.6% (based on underlying net profit attributable to owners of the parent).

Toshihiro Yamamoto, President and CEO, Dentsu Inc., said:

> "In FY2017, Dentsu Group delivered a resilient performance in a challenging market. Following the pull back in performance in Q2 FY2017, Dentsu Group achieved sequential quarter on quarter improvement in organic gross profit growth across the business.
>
> Clients are looking for a more data-driven approach with greater insights and addressability. Dentsu in Japan continues to deliver against our digital ambitions and remains focused on our People Driven Marketing (PDM) initiative - an integrated framework which executes full-funnel marketing through the integration of on-line and off-line activities.

Dentsu Aegis Network continues to invest in data capabilities. The M1 platform is a key pillar of our data strategy and is the first phase in realizing our vision for all media planning and activation to be people based. FY2018 will see the rollout of the M1 platform outside of the US.

At Dentsu in Japan, we are committed to accomplishing our work environment reforms for future growth by the end of FY2018. Looking ahead, the record year for net new business at Dentsu Aegis Network showcases the strength of our talent and the competitiveness of our product. We are upbeat about the prospects for further new business growth in FY2018. We remain committed to differentiating our product offering and momentum is with the business as we enter FY2018.”

Dentsu Inc.’s FY2017 Consolidated Financial Results and FY2018 Forecasts

1. FY2017 performance review by region

Japan:
The Group’s operations in Japan produced organic gross profit decline of 0.3% in the FY2017. This was due, in part, to the absence of large-scale events (the 2016 Summer Olympics & Paralympic Games in Rio de Janeiro), and our investment in work environment reforms. This was partially offset by the growth of the digital business.

Although Q4 FY2017 was also challenging, the organic gross profit rate improved by 1,050 bps from Q3 FY2017 due to Tokyo Motor Show related business.

Underlying operating margin in Japan declined by 230 bps to 24.5%. This was primarily due to planned investments in the working environment reforms.

International:
Dentsu Aegis Network delivered organic gross profit growth of 0.4% in FY2017, including 1.2% in Q4 FY2017. Q4 FY2017 showed an improvement of 140 bps on Q3 FY2017 organic growth rate driven by new business wins and strength in the media agencies.

FY2017 was a record year for net new business at Dentsu Aegis Network, generating $5.2bn in media billings. The pitch pipeline remains healthy and we remain upbeat about the prospects for further business growth in FY2018. We expect to return to outperforming the peer group in FY2018 driven by our strong new business performance in FY2017.

In FY2017 the underlying operating margin at Dentsu Aegis Network declined in line with our budget by 160 bps to 14.6%. The margin contraction reflects both planned investments and the impact from slower top line growth in a challenging market environment. We continue to responsibly manage the cost base and close management of costs will continue in FY2018.

Investment in the business for long term growth will continue in FY2018 and FY2019 to support common platforms and shared global systems. This will allow the business to operate efficiently at scale. Further inward investment will standardize business operations, support faster decision making and improve efficiency. Further margin moderation is expected in FY2018 with a return to growth in FY2019.

Dentsu Aegis Network finished the year with a strong cash position driven by close management of working capital giving the business capacity to continue to invest in targeted acquisitions.

Regionally, the Americas contributed 40% of Dentsu Aegis Network gross profit, EMEA 35% and APAC excluding Japan 25%. The continued expansion and diversification of the global gross profit footprint is evidenced by double digit growth (at constant currency) in countries such as India, Russia, Malaysia, Denmark, Poland and Sweden.

In the Americas, Dentsu Aegis Network delivered organic gross profit decline of 1.5% in FY2017 with a flat organic performance in Q4 FY2017. The U.S. market showed a strong finish to the year with positive organic gross profit growth in Q4 but Brazil remained a drag on the region's overall performance. The media agencies continue to show growth; while creative and project based work has been more challenging and is expected to remain under pressure in the near term. Management changes earlier in the year will continue to build on recent successes that are expected to contribute to FY2018 performance.

In EMEA, Dentsu Aegis Network delivered organic gross profit growth of 3.1% in FY2017, including 1.3% in Q4 FY2017. Some of our largest markets in Europe had a difficult end to the year; this was offset by robust performances from Russia, Italy, Denmark and Sweden.

In APAC excluding Japan, Dentsu Aegis Network delivered organic gross profit decline of 0.6% in FY2017, including a growth of 2.6% in Q4 FY2017. The Q4 FY2017 showed a strong performance in Australia, one of our top five markets, after a weaker Q2 and Q3. China remained a challenging market; our exposure to Western and Japanese clients remained solid but reduced spend by local clients continued. Recent management changes in China will strengthen our position going forward.

2. Highlights of the Group's M&A activity in FY2017

Acquisitions remain a strong focus to accelerate the growth strategy of the Group. Acquisitions provide scale, capability in-fill and entrepreneurial talent. In FY2017 Dentsu Aegis Network made a total of 31 acquisitions and investments taking the total over the past five years to 150.

Dentsu Aegis Network continues to support the planned international expansion of Merkle. In FY2017 Merkle made six acquisitions; these include Sokrati in India, a leading data driven performance marketing and analytics agency and Oxyma Group a leading performance marketing agency in the Netherlands and Dubai.

Number of acquisitions and investments by Dentsu Aegis Network are as follows:

Number of Acquisitions and Investments by Dentsu Aegis Network		
2017	**2016**	**2015**
31	45	36

3. 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, 2017, was 154.7 billion yen. Its leverage position, as at December 31, 2017, on a Net Debt: EBITDA basis remained comfortable at 0.80 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.

Cash dividends per share of common stock applicable to the fiscal year ended December 31, 2017 was determined to increase by five yen year-on-year to 90 yen, including an interim dividend of 45 yen and a year-end dividend of 45 yen.

This equates to a dividend payout ratio of 23.6% based on underlying net profit attributable to owners of the parent.

4. Outlook & Forecasts for FY2018 full year performance

Outlook for FY2018

Dentsu Aegis Network forecasts that global ad spend growth rate will be 3.6% in 2018 (2017: 3.1%) in "DENTSU AEGIS NETWORK AD SPEND REPORT JANUARY 2018." Events such as the Winter Olympics & Paralympics, the FIFA World Cup in Russia and U.S. Congressional elections will help to drive this growth.

Guidance for Dentsu in Japan is a decline of operating profit margin mainly due to the proactive investment accelerating the working environment reforms, which continues to be a priority. We are committed to the completion of environmental/infrastructural overhaul for future growth by the end of FY2018.

Guidance for Dentsu Aegis Network for FY2018 is low to mid-single digit organic gross profit growth; we expect to return to outperforming the peer group in FY2018 driven by our strong new business performance. Further margin moderation is expected in FY2018 at Dentsu Aegis Network as planned investments to support business growth continue. Margin growth is expected from FY2019 onwards.

Cash dividends per share of common stock applicable to the fiscal year ending December 31, 2018 are expected to be 90 yen, including an interim dividend of 45 yen and a year-end dividend of 45 yen. This equates to a dividend payout ratio of 25.4% (FY2017: 23.6%) based on underlying net profit attributable to owners of the parent forecast.

FY2018 Forecasts

Consolidated Group (million yen)	**2018 Jan-Dec Forecasts**	**2017 Jan-Dec Actual Results**	**YoY change, %**	**Constant currency basis, %**
Revenue	1,006,900	928,841	8.4	-
Gross profit	954,700	877,622	8.8	7.2
Japan	366,600	361,902	1.3	1.3
International total	588,100	516,052	14.0	11.2
Underlying operating profit	150,000	163,946	(8.5)	(9.5)
Japan	72,500	88,801	(18.4)	(18.4)
International total	77,500	75,146	3.1	0.9
Operating profit margin	15.7%	18.7%	(3.0)	(2.9)
Japan	19.8%	24.5%	(4.7)	(4.7)
International total	13.2%	14.6%	(1.4)	(1.3)
Underlying net profit	99,800	107,874	(7.5)	-
Underlying basic EPS	354.03 yen	381.58 yen	(7.2)	-
Operating profit	112,900	137,392	(17.8)	-
Net profit	61,600	105,478	(41.6)	-
JPY/USD rate*	110.9 yen	112.2 yen	(1.2)	-
JPY/GBP rate*	153.4 yen	144.5 yen	6.2	-

** Estimated exchange rates adopted in FY2018 forecasts are based on average exchange rates in January 2018. Actual exchange rates in FY2017 are annual average exchange rates in 2017.*

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

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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.

Definitions of “underlying” and “EBITDA”

Underlying operating profit: 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 gain/loss on sales and retirement of non-current assets and impairment loss.

Operating margin: Underlying operating profit divided by gross profit.

Underlying net profit (attributable to owners of the parent): KPI to measure recurring net profit attributable to owners of the parent which is calculated as net profit (attributable to owners of the parent) added with adjustment items related to operating profit, revaluation of earnout liabilities / M&A related put-option liabilities, tax-related, NCI profit-related and other one-off items.

Underlying basic EPS: EPS based on underlying net profit (attributable to owners of the parent).

EBITDA: Operating profit before depreciation, amortization and impairment losses.

Reconciliation from underlying to statutory operating profit in FY2017

Consolidated Group (million yen) – reported on an IFRS basis	FY2017	FY2016	Change, %
Underlying operating profit	**163,946**	**166,565**	(1.6)
Adjustment items:	(26,554)	(28,883)	
Amortization of M&A related intangible assets	(31,779)	(24,506)	
Acquisition costs	(1,795)	(3,579)	
Share-based compensation expenses related to acquired companies	(2,046)	(446)	
One-off items	9,066	(352)	
Payment related to working hours*	(3,103)	-	
Gain (loss) on sales and retirement of non-current assets	13,168	6,074	
Gain (loss) on sales of shares of subsidiaries and associates	602	11	
Impairment loss	(1,093)	(522)	
Special retirement expenses	(366)	(5,183)	
Others	(142)	(732)	
Statutory operating profit	**137,392**	**137,681**	(0.2)

** This is an allowance for a lump sum payment based on the results of surveys of the Dentsu Group in Japan carried out on employees’ individual testimonies in order to confirm the unregistered time which an individual employee may have been engaged in work over the past two years from April 2015 to March 2017.*

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Quarterly organic gross profit growth for the Dentsu Group, Dentsu in Japan, and Dentsu Aegis Network

	Dentsu Group Total			Dentsu in Japan			Dentsu Aegis Network Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Q1 (Jan – Mar)	3.9%	5.1%	6.2%	4.7%	5.6%	0.0%	3.1%	4.5%	13.7%
Q2 (Apr – June)	(4.8%)	9.5%	6.5%	(8.1%)	12.2%	1.9%	(2.7%)	7.2%	10.2%
Q3 (Jul – Sept)	(2.1%)	2.7%	4.2%	(5.0%)	0.3%	1.4%	(0.2%)	5.2%	6.6%
Q4 (Oct – Dec)	2.8%	3.9%	10.6%	5.5%	1.0%	12.9%	1.2%	5.8%	8.2%
Fiscal Year	0.1%	5.1%	7.0%	(0.3%)	4.5%	3.9%	0.4%	5.7%	9.4%

Quarterly organic gross profit growth figures of Dentsu Aegis Network by region

	Dentsu Aegis Network EMEA			Dentsu Aegis Network Americas			Dentsu Aegis Network APAC		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Q1 (Jan – Mar)	5.8%	10.7%	11.1%	0.6%	(2.0%)	10.4%	4.5%	5.2%	22.5%
Q2 (Apr – June)	(0.3%)	5.0%	16.1%	(4.1%)	2.4%	7.9%	(3.8%)	16.8%	5.4%
Q3 (Jul – Sept)	5.9%	5.0%	11.0%	(2.0%)	5.4%	0.1%	(5.5%)	5.3%	9.3%
Q4 (Oct – Dec)	1.3%	7.5%	11.0%	(0.0%)	4.4%	2.1%	2.6%	5.6%	11.0%
Fiscal Year	3.1%	6.9%	12.2%	(1.5%)	3.1%	4.9%	(0.6%)	7.9%	11.4%

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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 117 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 X, 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 and regions across five continents, and employs more than 60,000 dedicated professionals. Dentsu Aegis Network Ltd., its international 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