Summary of Financial Results for the Fiscal Year Ended December 31, 2018

－IFRS Consolidated Results－

Name of Listed Company:	Dentsu Inc.
Code Number:	4324
Stock Exchange Listing:	First Section of the Tokyo Stock Exchange
URL:	http://www.dentsu.com/
Name of Representative:	Toshihiro Yamamoto, Representative Director and President & CEO

Scheduled date of Ordinary General Meeting of Shareholders:
March 28, 2019

Scheduled start date of dividend payment:
March 7, 2019

Scheduled date for filing of the Financial Report:
March 28, 2019

Supplementary briefing material on annual results:
Available

Annual results briefing for institutional investors and analysts:
Scheduled

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Summary of Consolidated Financial Results
for the Fiscal Year Ended December 31, 2018 [IFRS]

1. Summary of Financial Results for the Fiscal Year Ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

(Figures are rounded down to the nearest one million yen)

(1) Consolidated Financial Results

(Percentages indicate the rate of increase or decrease compared with the previous fiscal year.)

(Millions of yen)

	Revenue		Operating profit		Profit before tax		Profit for the year		Profit attributable to owners of the parent		Total comprehensive income for the year	
Fiscal year ended December 31, 2018	1,018,512	9.7	111,638	(18.7)	148,751	(0.6)	97,501	(13.8)	90,316	(14.4)	18,766	(91.6)
Fiscal year ended December 31, 2017	928,841	10.8	137,392	(0.2)	149,662	12.6	113,142	26.6	105,478	26.3	223,621	—

(Yen, except as otherwise stated)

	Basic earnings per share	Diluted earnings per share	Return on equity attributable to owners of the parent	Ratio of profit before tax to total assets
Fiscal year ended December 31, 2018	320.39	320.38	8.4%	4.1%
Fiscal year ended December 31, 2017	373.11	373.10	10.4%	4.5%

(Reference)

Share of results of associates

Fiscal year ended December 31, 2018: 2,699 million yen

Fiscal year ended December 31, 2017: 4,222 million yen

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" from the first quarter ended March 31, 2018. For details, please refer to "Summary of financial results for the fiscal year ended December 31, 2018" on page 7 and "Changes in Accounting Policies" on page 22 in the attachment.

Revenue less cost of sales

Fiscal year ended December 31, 2018: 932,680 million yen; 6.3%

Fiscal year ended December 31, 2017: 877,622 million yen; 11.2%

Underlying operating profit

Fiscal year ended December 31, 2018: 153,229 million yen; (6.5%)

Fiscal year ended December 31, 2017: 163,946 million yen; (1.6%)

Operating margin

Fiscal year ended December 31, 2018: 16.4%

Fiscal year ended December 31, 2017: 18.7%

Underlying net profit attributable to owners of the parent

Fiscal year ended December 31, 2018: 97,419 million yen; (9.7%)

Fiscal year ended December 31, 2017: 107,874 million yen; (4.5%)

Underlying basic earnings per share
Fiscal year ended December 31, 2018: 345.59 yen; (9.4%)
Fiscal year ended December 31, 2017: 381.58 yen; (3.7%)

For the definition of "Underlying operating profit" and "Underlying net profit attributable to owners of the parent," please refer to "Summary of financial results for the fiscal year ended December 31, 2018" on page 7.

"Operating margin" is underlying operating profit divided by revenue less cost of sales.

(2) Consolidated Financial Position

(Millions of yen, except as otherwise stated)

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity attributable to owners of the parent per share (Yen)
As of December 31, 2018	3,638,488	1,110,749	1,047,619	28.8%	3,716.33
As of December 31, 2017	3,562,857	1,150,134	1,093,211	30.7%	3,878.03

(3) Consolidated Cash Flows

(Millions of yen)

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
Fiscal year ended December 31, 2018	133,049	(61,382)	57,522	416,668
Fiscal year ended December 31, 2017	141,557	(85,531)	1,226	305,760

2. Dividends

(Yen, except as otherwise stated)

	Cash dividend per share					Total cash dividends for the year (Millions of yen)	Dividend payout ratio (Consolidated)	Ratio of dividend to equity attributable to owners of the parent (Consolidated)
	First Quarter	Second Quarter	Third Quarter	Year-end	Total			
Fiscal year ended December 31, 2017	—	45.00	—	45.00	90.00	25,370	24.1%	2.5%
Fiscal year ended December 31, 2018	—	45.00	—	45.00	90.00	25,370	28.1%	2.4%
Fiscal year ending December 31, 2019 (forecast)	—	47.50	—	47.50	95.00		43.6%	

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Millions of yen, except as otherwise stated)

	Revenue		Operating profit		Profit for the year		Profit attributable to owners of the parent		Basic earnings per share (Yen)
Fiscal year ending December 31, 2019	1,097,900	7.8%	122,500	9.7%	69,000	(29.2%)	61,400	(32.0%)	217.81

Revenue less cost of sales
Fiscal year ending December 31, 2019: 986,400 million yen; 5.8%
Underlying operating profit
Fiscal year ending December 31, 2019: 157,400 million yen; 2.7%
Operating margin
Fiscal year ending December 31, 2019: 16.0%
Underlying net profit attributable to owners of the parent
Fiscal year ending December 31, 2019: 95,400 million yen; (2.1%)
Underlying basic earnings per share
Fiscal year ending December 31, 2019: 338.42 yen; (2.1%)

For the definition of "Underlying operating profit" and "Underlying net profit attributable to owners of the parent," please refer to "Summary of financial results for the fiscal year ended December 31, 2018" on page 7.
"Operating margin" is underlying operating profit divided by revenue less cost of sales.

Notes

(1) Changes in Significant Consolidated Subsidiaries during the Fiscal Year (change in specified subsidiaries involving changes in the scope of consolidation): None

(2) Changes in Accounting Policies and Changes in Accounting Estimates
- a. Changes in accounting policies required by IFRS: Yes
- b. Changes in accounting policies due to other reasons: Yes
- c. Changes in accounting estimates: Yes

(3) Number of issued shares (ordinary shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2018	288,410,000 shares
As of December 31, 2017	288,410,000 shares

b. Number of treasury shares at the end of the period

As of December 31, 2018	6,513,459 shares
As of December 31, 2017	6,511,082 shares

c. Average number of shares during the period

Fiscal year ended December 31, 2018	281,897,828 shares
Fiscal year ended December 31, 2017	282,702,284 shares

(Reference) Summary of Non-consolidated Financial Results

1. Summary of Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (from January 1, 2018 to December 31, 2018)

(1) Non-consolidated Financial Results

(Percentages indicate the rate of increase or decrease compared with the previous fiscal year.)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended December 31, 2018	1,539,962	(1.4%)	48,604	(10.5%)	75,414	(1.9%)	94,841	49.2%
Fiscal year ended December 31, 2017	1,561,528	(2.4%)	54,289	(16.1%)	76,837	(20.9%)	63,556	(30.9%)

(Yen)

	Net income per share (Basic)	Net income per share (Diluted)
Fiscal year ended December 31, 2018	336.44	—
Fiscal year ended December 31, 2017	224.82	—

(2) Non-consolidated Financial Position

(Millions of yen, except as otherwise stated)

	Total assets	Net assets	Equity ratio	Equity per share (Yen)
As of December 31, 2018	1,838,638	991,086	53.9%	3,515.78
As of December 31, 2017	1,764,774	939,212	53.2%	3,331.56

(Reference)
Equity
As of December 31, 2018: 991,086 million yen
As of December 31, 2017: 939,164 million yen

Financial figures of the non-consolidated financial results are based on the Generally Accepted Accounting Principles of Japan (hereinafter referred to as "Japanese GAAP").

2. Forecast of Non-consolidated Financial Results for the Fiscal Year Ending December 31, 2019 (from January 1, 2019 to December 31, 2019)

(Percentages indicate the rate of increase or decrease compared with the same period of the previous fiscal year.)
(Millions of yen, except as otherwise stated)

	Net sales		Operating income		Ordinary income		Net income		Net income per share (Yen)
Fiscal year ending December 31, 2019	1,628,300	5.7%	48,300	(0.6%)	64,200	(14.9%)	48,600	(48.8%)	172.40

Financial figures of the forecast of non-consolidated financial results are based on Japanese GAAP.

Notes
This summary of consolidated financial results for the fiscal year is not subject to the auditing by the Certified Public Accountants or the audit corporation.

Disclaimer regarding appropriate use of forecasts and related points of note
Since the forecast of financial results has been prepared based on certain conditions which Dentsu believes to be reasonable at this time, actual financial results may be substantially different from the forecast due to various factors. For information relating to the forecasts above, please refer to "Outlook for the fiscal year ending December 31, 2019" on page 9.

1. Financial Results and Financial Position

(1) Financial Results

1) Summary of financial results for the fiscal year ended December 31, 2018

Effective from the first quarter of the fiscal year under review, the Group has adopted IFRS 15 "Revenue from Contracts with Customers." As a result, for certain transactions, changes have been made to revenue recognition upon fulfillment of performance obligations. Moreover, for certain transactions, the amount of revenue to be recognized has been changed from the net amount to the gross amount. The rates of increase/decrease adjusted for these impacts are indicated below as rates in "real terms."

The Japanese economy during the fiscal year 2018 under review remained on a moderate recovery track as improvements in both corporate earnings and the employment and earnings environment continued. Meanwhile, the global economy remained robust, despite uncertain prospects due to concerns about intensifying trade friction triggered by the protectionist policies of the US.

The growth rate forecast for worldwide advertising expenditure in the 2018 calendar year published in January 2019 by the Company's global business headquarters Dentsu Aegis Network Ltd. was 4.1%. Forecasts by region were as follows: Japan 0.2%; Europe, the Middle East and Africa (hereinafter "EMEA") 3.3%; the Americas 4.0%; and the Asia Pacific region (excluding Japan; hereinafter "APAC") 6.3%.

Under such circumstances, the business results of the Group's Japan business operations during the fiscal year under review (from January 1, 2018 to December 31, 2018) were stronger than the previous year, resulting in revenue less cost of sales of 369,258 million yen (2.0% increase year on year, 2.0% increase in real terms). The revenue less cost of sales organic growth rate (internal growth rate factoring out acquisitions and the effect of exchange rates) of the international business operations was 4.3% for the entire Group. By region, positive growth of 7.4% and 4.9% was achieved in EMEA and in the Americas, respectively, while the growth rate was negative 1.7% in APAC. Revenue less cost of sales of the international business operations increased to 563,852 million yen (9.3% increase year on year, 9.3% increase in real terms) mainly owing to the contribution of M&A.

As a result, the Group posted 1,018,512 million yen in revenue (9.7% increase year on year, 7.2% increase in real terms) and 932,680 million yen in revenue less cost of sales (6.3% increase, 6.3% increase in real terms). Owing mainly to an increase in expenses for the working environment reforms in Japan and an increase in IT expenses for the purpose of improving the corporate infrastructure for a new growth phase in the international business operations, underlying operating profit was 153,229 million yen (6.5% decrease, 6.5% decrease in real terms), operating profit was 111,638 million yen (18.7% decrease, 18.7% decrease in real terms), underlying net profit attributable to owners of the parent was 97,419 million yen (9.7% decrease, 9.7% decrease in real terms), profit for the year attributable to owners of the parent was 90,316 million yen (14.4% decrease, 14.4% decrease in real terms).

Underlying operating profit is a profit indicator 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 net profit attributable to owners of the parent is an indicator 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, gain/loss on sales of shares of associates, revaluation of earnout liabilities/M&A related put-option liabilities, tax-related and NCI profit-related and other one-off items.

Record of Income for Reportable Segments

a. Japan business

Revenue less cost of sales of 369,258 million yen (2.0% increase year on year, 2.0% increase in real terms) and underlying operating profit of 80,268 million yen (9.6% decrease, 9.6% decrease in real terms) were posted.

b. International business

Revenue less cost of sales of 563,852 million yen (9.3% increase year on year, 9.3% increase in real terms) and underlying operating profit of 72,963 million yen (2.9% decrease, 2.9% decrease in real terms) were posted.

As to Dentsu's non-consolidated financial results (Japanese GAAP, from January 1, 2018 to December 31, 2018), the Company posted non-consolidated net sales of 1,539,962 million yen (1.4% decrease year on year), revenue less cost of sales of 231,520 million yen (1.3% increase), operating income of 48,604 million yen (10.5% decrease), and ordinary income of 75,414 million yen (1.9% decrease). Net income was 94,841 million yen (49.2% increase) mainly due to the recording of a gain on sales of shares of subsidiaries and associates.

2) Outlook for the fiscal year ending December 31, 2019

Data released by Dentsu Aegis Network Ltd., the Company's global business headquarters, in January 2019 for the 2019 calendar year forecasts that growth rate of worldwide advertising expenditures will be 3.8%. By region, Dentsu Aegis Network Ltd. forecasts growth of 0.6% in Japan; 3.0% in EMEA; 3.6% in the Americas; and 6.0% in APAC compared with the 2018 calendar year, respectively.

Against this backdrop, for the fiscal year ending December 31, 2019, on a consolidated basis, Dentsu forecasts revenue of 1,097.9 billion yen, an increase of 7.8% compared with the previous fiscal year; revenue less cost of sales of 986.4 billion yen, an increase of 5.8%; underlying operating profit of 157.4 billion yen, an increase of 2.7%; operating profit of 122.5 billion yen, an increase of 9.7%; underlying net profit attributable to owners of the parent of 95.4 billion yen, a decrease of 2.1%; and profit for the year attributable to owners of the parent of 61.4 billion yen, a decrease of 32.0%.

3) Basic policy concerning distribution of profit and distribution of dividends for the fiscal year ended December 31, 2018 and the fiscal year ending December 31, 2019

Regarding matters provided for in each Item of Article 459, Paragraph 1 of the Companies Act, such as the distribution of dividends, etc., the Company has stipulated in the Articles of Incorporation that it may decide upon such matters by a resolution of the Board of Directors, unless otherwise provided for in the applicable laws and regulations.

Dentsu considers the return of profits an important management issue. Dentsu will work for comprehensive profit return through a combination of a maximization of corporate value through long-term business growth, continued and stable dividend distribution, flexible acquisition of treasury shares, etc., in accordance with the changes in the management environment surrounding the Company. Dividends for each term shall be decided taking into consideration the necessary internal reserve for sustained investment for business growth, consolidated performance trends, financial situation and other factors, while placing an emphasis on stability.

While paying attention to the stability of management and financial soundness, the Company is aggressively seeking to create additional business opportunities by responding to the globalization of corporate activities, technological development, etc., through aggressive activities such as investment. By further improving the

Group’s competitiveness, profitability and business growth, the Company wishes to enhance returns to shareholders through improving fundamental corporate value.

The year-end dividend for this year is 45 yen per share, comprehensively taking into consideration the aforementioned factors. As a result, because Dentsu has already paid 45 yen per share as an interim dividend, the annual dividend will be 90 yen per share.

The annual dividend planned for the fiscal year ending December 31, 2019 is 95 yen per share (interim dividend of 47.50 yen per share and year-end dividend of 47.50 yen per share).

(2) Financial Position

As of December 31, 2018, total assets increased by 75,631 million yen primarily due to an increase in cash and cash equivalents. Total liabilities increased by 115,015 million yen, primarily due to an increase in bonds and borrowings. Total equity decreased by 39,384 million yen, primarily due to a decrease in exchange differences on translation of foreign operations.

Cash flow status for the fiscal year under review

As of December 31, 2018, cash and cash equivalents (hereinafter “cash”) amounted to 416,668 million yen from the 305,760 million yen posted at the end of the previous fiscal year. As net cash provided by operating activities and financing activities exceeded net cash used in investing activities, cash at the end of the fiscal year under review increased by 110,907 million yen from the end of the previous fiscal year.

Net cash provided by (used in) operating activities

Net cash provided by operating activities amounted to 133,049 million yen (141,557 million yen provided in the previous fiscal year) primarily due to the posting of profit before tax.

Net cash provided by (used in) investing activities

Net cash used in investing activities amounted to 61,382 million yen (85,531 million yen used in the previous fiscal year). This was primarily due to a decrease in cash because of payment for purchase of property, plant and equipment, intangible assets and investment property, net cash paid on acquisition of subsidiaries, and payments for purchases of securities, despite an increase in cash because of proceeds from sales of securities.

Net cash provided by (used in) financing activities

Net cash provided by financing activities amounted to 57,522 million yen (1,226 million yen provided in the previous fiscal year) primarily due to proceeds from issuance of corporate bonds.

(Reference) Trends in cash flow indicators

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
Ratio of equity attributable to owners of the parent to total assets (%)	30.7	28.8
Ratio of equity attributable to owners of the parent to total assets at market value (%)	37.8	38.0
Cash flows/Interest-bearing debt ratio (years)	3.3	4.1
Interest coverage ratio (times)	12.4	10.3

(Notes)

Ratio of equity attributable to owners of the parent to total assets = Total equity attributable to owners of the parent/Total assets

Ratio of equity attributable to owners of the parent to total assets at market value = Aggregate market value/Total assets

Cash flows/Interest-bearing debt ratio = Interest-bearing debts/Operating cash flow

Interest coverage ratio = Operating cash flow/Interest payment

- Each indicator is calculated based on the consolidated financial figures.
- Operating cash flow represents "Net cash flow from operating activities" in the consolidated statement of cash flows. Interest-bearing debts refer to all liabilities with obligations to pay interest posted on the consolidated statement of financial position.

2. Basic Stance Concerning Choice of Accounting Standards

The Group acquired Aegis Group plc, a large UK-based advertising company, in March 2013. The Group currently has business operations around the world, achieving steady, continuous growth. Amid such circumstances, with the intent of improving the ability of financial information to be compared in international context in capital markets, in place of the previous Japanese GAAP, the Group has applied IFRS from the fiscal year ended March 31, 2015 (from April 1, 2014 to March 31, 2015).

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Statement of Financial Position

(Millions of yen)

	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	305,760	416,668
Trade and other receivables	1,410,454	1,368,728
Inventories	22,074	28,580
Other financial assets	21,934	15,090
Other current assets	74,525	106,516
Subtotal	1,834,749	1,935,583
Non-current assets classified as held for sale	1,835	2
Total current assets	1,836,584	1,935,586
NON-CURRENT ASSETS:		
Property, plant and equipment	196,659	199,207
Goodwill	798,177	786,851
Intangible assets	274,502	249,921
Investment property	37,360	37,089
Investments accounted for using the equity method	56,752	39,897
Other financial assets	327,356	348,537
Other non-current assets	15,062	14,242
Deferred tax assets	20,401	27,155
Total non-current assets	1,726,272	1,702,902
TOTAL ASSETS	3,562,857	3,638,488

	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)
		(Millions of yen)
LIABILITIES AND EQUITY		
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	1,380,875	1,341,461
Borrowings	89,325	104,879
Other financial liabilities	43,030	47,395
Income tax payables	23,366	42,981
Provisions	2,070	1,575
Other current liabilities	203,091	247,315
Subtotal	1,741,758	1,785,608
Liabilities directly associated with non-current assets classified as held for sale	456	—
Total current liabilities	1,742,215	1,785,608
NON-CURRENT LIABILITIES		
Bonds and borrowings	371,187	433,980
Other financial liabilities	146,076	163,362
Liability for retirement benefits	19,210	30,675
Provisions	4,983	4,705
Other non-current liabilities	19,497	18,133
Deferred tax liabilities	109,552	91,272
Total non-current liabilities	670,507	742,130
Total liabilities	2,412,722	2,527,738
EQUITY		
Share capital	74,609	74,609
Share premium account	99,751	99,751
Treasury shares	(40,182)	(40,194)
Other components of equity	227,272	160,735
Retained earnings	731,759	752,717
Total equity attributable to owners of the parent	1,093,211	1,047,619
Non-controlling interests	56,923	63,129
Total equity	1,150,134	1,110,749
TOTAL LIABILITIES AND EQUITY	3,562,857	3,638,488

(2) Consolidated Statement of Income and Comprehensive Income

Consolidated Statement of Income

(Millions of yen)

	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
Turnover (Note 1)	5,187,300	5,357,278
Revenue	928,841	1,018,512
Cost	51,218	85,831
Revenue less cost of sales	877,622	932,680
Selling, general and administrative expenses	751,957	820,058
Other income	23,347	11,168
Other expenses	11,620	12,151
Operating profit	137,392	111,638
Share of results of associates	4,222	2,699
Gain on sales of shares of associates	—	52,127
Profit before interest and tax	141,614	166,465
Finance income	20,302	6,839
Finance costs	12,254	24,553
Profit before tax	149,662	148,751
Income tax expense	36,520	51,250
Profit for the year	113,142	97,501
Profit attributable to:		
Owners of the parent	105,478	90,316
Non-controlling interests	7,663	7,185
Earnings per share		
Basic earnings per share (Yen)	373.11	320.39
Diluted earnings per share (Yen)	373.10	320.38

Reconciliation from operating profit to underlying operating profit

(Millions of yen)

	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
Operating profit	137,392	111,638
Amortization of intangible assets incurred in acquisitions	31,779	35,123
Other adjusting items (selling, general and administrative expenses)	5,265	1,700
Other adjusting items (other income)	(15,410)	(840)
Other adjusting items (other expenses)	4,919	5,606
Underlying operating profit (Note 2)	163,946	153,229

(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 Consolidated Statement of Income since management has concluded that the information is useful for users of 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 Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.

Consolidated Statement of Comprehensive Income

(Millions of yen)

	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
PROFIT FOR THE YEAR	113,142	97,501
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	66,721	(23,273)
Remeasurements of defined benefit plans	11,563	(7,532)
Share of other comprehensive income of investments accounted for using the equity method	163	(213)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:		
Exchange differences on translation of foreign operations	32,687	(47,516)
Effective portion of the change in the fair value of cash flow hedges	(888)	133
Share of other comprehensive income of investments accounted for using the equity method	232	(332)
Other comprehensive income, net of tax	110,479	(78,735)
COMPREHENSIVE INCOME FOR THE YEAR	223,621	18,766
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:		
Owners of the parent	214,979	15,326
Non-controlling interests	8,642	3,439

(3) Consolidated Statement of Changes in Equity

(Millions of yen)

	Total equity attributable to owners of the parent					
				Other components of equity		
	Share capital	Share premium account	Treasury shares	Share options	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges
As of January 1, 2017	74,609	99,751	(20,168)	48	37,403	7,120
Profit for the year						
Other comprehensive income					32,331	(888)
Comprehensive income for the year	―	―	―	―	32,331	(888)
Repurchase of treasury shares			(20,014)			
Disposal of treasury shares		(0)	0			
Dividends						
Transactions with non-controlling interests						
Transfer from other components of equity to retained earnings						
Transactions with owners―total	―	(0)	(20,013)	―	―	―
As of December 31, 2017	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 year						
Other comprehensive income					(45,845)	133
Comprehensive income for the year	―	―	―	―	(45,845)	133
Repurchase of treasury shares			(12)			
Disposal of treasury shares		(0)	0			
Dividends						
Transactions with non-controlling interests						
Transfer from other components of equity to retained earnings						
Other changes				(48)		
Transactions with owners―total	―	(0)	(12)	(48)	―	―
As of December 31, 2018	74,609	99,751	(40,194)	―	23,888	6,364

(Millions of yen)

	Total equity attributable to owners of the parent						
	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	Non-controlling interests	Total equity
As of January 1, 2017	84,409	—	128,981	649,568	932,742	49,218	981,961
Profit for the year			—	105,478	105,478	7,663	113,142
Other comprehensive income	66,510	11,547	109,501		109,501	978	110,479
Comprehensive income for the year	66,510	11,547	109,501	105,478	214,979	8,642	223,621
Repurchase of treasury shares			—		(20,014)		(20,014)
Disposal of treasury shares			—		0		0
Dividends			—	(25,516)	(25,516)	(2,735)	(28,252)
Transactions with non-controlling interests			—	(8,980)	(8,980)	1,798	(7,182)
Transfer from other components of equity to retained earnings	337	(11,547)	(11,210)	11,210	—		—
Transactions with owners—total	337	(11,547)	(11,210)	(23,286)	(54,510)	(937)	(55,448)
As of December 31, 2017	151,258	—	227,272	731,759	1,093,211	56,923	1,150,134
Cumulative effects of changes in accounting policies			—	(3,850)	(3,850)		(3,850)
Restated balance as of January 1, 2018	151,258	—	227,272	727,909	1,089,360	56,923	1,146,284
Profit for the year			—	90,316	90,316	7,185	97,501
Other comprehensive income	(21,718)	(7,558)	(74,989)		(74,989)	(3,745)	(78,735)
Comprehensive income for the year	(21,718)	(7,558)	(74,989)	90,316	15,326	3,439	18,766
Repurchase of treasury shares			—		(12)		(12)
Disposal of treasury shares			—		0		0
Dividends			—	(25,370)	(25,370)	(7,229)	(32,600)
Transactions with non-controlling interests			—	(31,684)	(31,684)	10,321	(21,363)
Transfer from other components of equity to retained earnings	941	7,558	8,500	(8,500)	—		—
Other changes			(48)	48	0	(324)	(324)
Transactions with owners—total	941	7,558	8,452	(65,507)	(57,067)	2,766	(54,300)
As of December 31, 2018	130,482	—	160,735	752,717	1,047,619	63,129	1,110,749

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	149,662	148,751
ADJUSTMENTS FOR:		
Depreciation and amortization	55,587	59,739
Impairment loss	1,093	27
Interest and dividend income	(5,544)	(6,032)
Interest expense	11,391	13,364
Share of results of associates	(4,222)	(2,699)
Loss (gain) on sales of share of subsidiaries and associates	—	(52,133)
Increase (decrease) in liability for retirement benefits	2,462	1,249
Other—net	(19,558)	11,213
Cash flows from operating activities before adjusting changes in working capital and others	190,870	173,481
CHANGES IN WORKING CAPITAL:		
(Increase) decrease in trade and other receivables	(93,833)	(13,409)
(Increase) decrease in inventories	(2,158)	(6,028)
(Increase) decrease in other current assets	(11,059)	(35,736)
Increase (decrease) in trade and other payables	111,943	14,161
Increase (decrease) in other current liabilities	10,402	48,878
Change in working capital	15,293	7,865
Subtotal	206,164	181,347
Interest received	2,082	2,563
Dividends received	5,792	8,063
Interest paid	(11,424)	(12,956)
Income taxes paid	(61,058)	(45,968)
Net cash flow from operating activities	141,557	133,049

(Millions of yen)

	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for purchase of property, plant and equipment, intangible assets and investment property (Note)	(27,767)	(31,631)
Proceeds from sales of property, plant and equipment, intangible assets and investment property (Note)	18,420	309
Net cash (paid) received on acquisition of subsidiaries	(67,299)	(50,804)
Net cash (paid) received on disposal of subsidiaries	86	249
Payments for purchases of securities	(14,985)	(65,114)
Proceeds from sales of securities	6,754	86,539
Other—net	(739)	(931)
Net cash flow from investing activities	(85,531)	(61,382)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term borrowings	(95,990)	25,893
Proceeds from long-term borrowings	155,773	38,818
Repayment of long-term borrowings	(4,131)	(45,134)
Proceeds from issuance of corporate bonds	—	79,739
Payment for acquisition of interest in a subsidiary from non-controlling interests	(5,396)	(21,505)
Proceeds from sales of interest in a subsidiary to non-controlling interests	—	11,588
Payments for purchase of treasury shares	(20,014)	(12)
Dividends paid	(25,516)	(25,370)
Dividends paid to non-controlling interests	(2,983)	(6,685)
Other—net	(513)	192
Net cash flow from financing activities	1,226	57,522
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	6,097	(18,281)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,349	110,907
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	242,410	305,760
CASH AND CASH EQUIVALENTS AT END OF PERIOD	305,760	416,668

(Note) Of cash flows from investing activities, payment for purchase of property, plant and equipment, intangible assets and investment property as well as proceeds from sales of property, plant and equipment, intangible assets and investment property are related to property, plant and equipment, intangible assets, and investment property.

(5) Notes on the Consolidated Financial Statements

(Notes on Premise of Going Concern)

No items to report

(Changes in Accounting Policies)

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

The Group has adopted IFRS 9 (2014) “Financial Instruments” from the fiscal year ended December 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, 5,088 million yen of allowance for doubtful accounts was recognized, and a 3,850 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 provisions. The effect on the consolidated statement of income for the fiscal year ended December 31, 2018 is not material.

With regard to the hedge accounting, IAS 39 continues to be applied in accordance with transitional provisions.

(2) 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 fiscal year ended December 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 obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize the revenue when a performance obligation is satisfied

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

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 principal) 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 32,598 million yen each in the consolidated statement of income for the fiscal year ended December 31, 2018 when compared to said figures under the former accounting standards.

(3) Change in accounting policy for remeasurements of defined benefit plans

The Company previously recognized remeasurements of defined benefit plans as other comprehensive income in the period in which such remeasurements occurred and reflected them in the cumulative amount of other components of equity. Following the completion of the transition to the defined contribution pension plans at each of the domestic group companies in the current fiscal year, the Company changed its accounting policy to the method of immediately transferring such remeasurements from other components of equity to retained earnings.

This change in accounting policy has been applied retrospectively, and other components of equity that were recognized as other comprehensive income in the previous fiscal year and in each fiscal year prior to the previous fiscal year were immediately transferred to retained earnings.

Consequently, in the consolidated statement of changes in equity for the previous fiscal year, 11,547 million yen of other comprehensive income recognized in the previous fiscal year has been transferred to retained earnings, resulting in an increase in other components of equity by 7,634 million yen and a decrease in retained earnings by the same amount at the beginning of the previous fiscal year, and a decrease in other components of equity by 3,913 million yen and an increase in retained earnings by the same amount at the end of the previous fiscal year. In addition, in the consolidated statement of changes in equity for the current fiscal year, (7,558) million yen of other comprehensive income recognized in the current fiscal year has been transferred to retained earnings. As a result, beginning balance of other components of equity and retained earnings have decreased by and increased by 3,913 million yen, respectively, and ending balance of other components of equity and retained earnings have increased by and decreased by 3,645 million yen, respectively, during the current fiscal year.

As a result, in the consolidated statement of financial position, other components of equity decreased by 3,913 million yen while retained earnings increased by the same amount for the previous fiscal year, and other components of equity increased by 3,645 million yen while retained earnings decreased by the same amount for the current fiscal year.

(Segment and Other Information)

<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.

FY2017: Year ended December 31, 2017

(Millions of yen)

	Japan business	International business	Total	Reconciliations	Consolidated
Turnover (Note 1)	1,865,117	3,329,418	5,194,536	(7,235)	5,187,300
Revenue (Note 2)	416,671	519,405	936,077	(7,235)	928,841
Revenue less cost of sales (Note 3)	361,902	516,052	877,954	(331)	877,622
Segment profit (underlying operating profit) (Note 3)	88,801	75,146	163,948	(1)	163,946
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(31,779)
Other adjusting items (selling, general and administrative expenses) (Note 5)	—	—	—	—	(5,265)
Other adjusting items (other income) (Note 5)	—	—	—	—	15,410
Other adjusting items (other expenses) (Note 5)	—	—	—	—	(4,919)
Operating profit	—	—	—	—	137,392
Share of results of associates	—	—	—	—	4,222
Finance income	—	—	—	—	20,302
Finance costs	—	—	—	—	12,254
Profit before tax	—	—	—	—	149,662
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	9,477	14,330	23,807	—	23,807
Segment assets (Note 4)	1,337,776	2,373,085	3,710,862	(148,005)	3,562,857
(Other asset items)					
Investments accounted for using the equity method	55,726	1,026	56,752	—	56,752
Capital expenditures	9,659	18,108	27,767	—	27,767

FY2018: Year ended December 31, 2018

(Millions of yen)

	Japan business (Note 6)	International business (Note 6)	Total	Reconciliations	Consolidated
Turnover (Note 1)	1,880,768	3,488,430	5,369,199	(11,920)	5,357,278
Revenue (Note 2)	430,292	600,140	1,030,433	(11,920)	1,018,512
Revenue less cost of sales (Note 3)	369,258	563,852	933,111	(430)	932,680
Segment profit (underlying operating profit) (Note 3)	80,268	72,963	153,231	(2)	153,229
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(35,123)
Other adjusting items (selling, general and administrative expenses) (Note 5)	—	—	—	—	(1,700)
Other adjusting items (other income) (Note 5)	—	—	—	—	840
Other adjusting items (other expenses) (Note 5)	—	—	—	—	(5,606)
Operating profit	—	—	—	—	111,638
Share of results of associates	—	—	—	—	2,699
Gain on sales of shares of associates	—	—	—	—	52,127
Finance income	—	—	—	—	6,839
Finance costs	—	—	—	—	24,553
Profit before tax	—	—	—	—	148,751
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	9,303	15,312	24,615	—	24,615
Segment assets (Note 4)	1,411,258	2,396,629	3,807,888	(169,399)	3,638,488
(Other asset items)					
Investments accounted for using the equity method	38,998	898	39,897	—	39,897
Capital expenditures	12,957	18,674	31,631	—	31,631

(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 Consolidated Statement of Income since management has concluded that the information is useful for users of 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. The breakdown of "Other adjusting items (selling, general and administrative expenses)," "Other adjusting items (other income)" and "Other adjusting items (other expenses)" are as follows.
6. Due to the effects of the adoption of IFRS 15 (See "Changes in Accounting Policies"), in the current fiscal year, revenue from the International business segment increased by 32,598 million yen; however, the resulting effects on revenue and profits in the Japan business segment and profits in the International business segment are not material. The resulting effects on segment assets are also not material.

(Millions of yen)

	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
Other adjusting items (selling, general and administrative expenses)		
Early retirement benefits	366	72
Costs associated with merger and acquisitions	1,795	1,554
Other	3,103	73
Total	5,265	1,700
Other adjusting items (other income)		
Gain on sales of property, plant and equipment, intangible assets and investment property	14,441	5
Gain on sales of subsidiaries and associates shares	790	8
Other	178	826
Total	15,410	840
Other adjusting items (other expenses)		
Loss on sales of property, plant and equipment, intangible assets and investment property	1,069	1
Impairment loss	1,093	27
Other	2,757	5,577
Total	4,919	5,606

Impairment loss by segment is 451 million yen (Japan business) and 641 million yen (International business) for the year ended December 31, 2017 and 27 million yen (Japan business) and null (International business) for the current fiscal year.

3. Information on products and services

"Advertising" refers to business activities related to the development and execution of advertising via a wide range of media including newspapers, magazines, radio, television, the Internet, sales promotions, movies, outdoor, transit and all other media plus strategy planning, creative, marketing, PR, content and other services. "Information Services" refers to business activities related to the provision of information services and sales of information-related merchandise and others. "Other Business" refers to business activities related to the leasing of office space, building maintenance services, accounting and other services.

Revenue from clients outside the Group for each of the products and services is as follows:

(Millions of yen)

	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
Advertising	857,439	941,938
Information Services	67,531	72,745
Other Business	3,870	3,828
Total	928,841	1,018,512

4. Information by region

(1) Revenue from clients outside the Group

In "International", revenues attributable to the United States were 177,156 million yen for the year ended December 31, 2017 and 195,125 million yen for the current fiscal year. The said amounts are allocated according to the location of each client.

(2) Non-current assets (property, plant and equipment, goodwill, intangible assets and investment property)

(Millions of yen)

	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)
Japan	212,894	222,281
International (mainly the United Kingdom and the United States)	1,093,805	1,050,788
Total	1,306,700	1,273,069

(Notes) 1. Non-current assets are allocated according to the location of each Group entity.

2. In "International", goodwill and intangible assets that are not tied to a specific country are included at 798,177 million yen and 262,312 million yen for the year ended December 31, 2017, and 782,515 million yen and 219,733 million yen for the current fiscal year, respectively.

5. Information on major clients

Information is omitted since none of the clients outside the Group contribute 10% or more to the Group's revenue included in the Consolidated Statement of Income.

(Per Share Information)

1. Basic earnings per share and diluted earnings per share

	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
Basic earnings per share (Yen)	373.11	320.39
Diluted earnings per share (Yen)	373.10	320.38

2. Basis of calculating basic earnings per share and diluted earnings per share

	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
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)	105,478	90,316
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)	105,478	90,316
Adjustment		
Share-based payment held by associates (Millions of yen)	(1)	(0)
Profit for the year used for calculation of diluted earnings per share (Millions of yen)	105,476	90,315
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)	282,702	281,897
Effect of dilutive potential ordinary shares (Thousands of shares)	—	—
Weighted average number of ordinary shares outstanding used for the calculation of diluted earnings per share (Thousands of shares)	282,702	281,897

(Significant Subsequent Events)

(Management Integration between The Company's Consolidated Subsidiary, Cyber Communications Inc. and CARTA HOLDINGS, INC. (trade name was changed from VOYAGE GROUP, INC. on January 1, 2019.))

The Company's Consolidated Subsidiary, Cyber Communications Inc. ("CCI") and VOYAGE GROUP, INC. ("VOYAGE GROUP") carried out management integration ("Management Integration") on January 1, 2019 ("Integration Date").

On the Integration Date, VOYAGE GROUP conducted a share exchange in which VOYAGE GROUP acquired all issued shares of CCI, while allotting and delivering common shares of VOYAGE GROUP to the Company, the parent company of CCI ("Share Exchange"). Following the Share Exchange, VOYAGE GROUP became a consolidated subsidiary of the Company, while CCI became a wholly-owned subsidiary of VOYAGE GROUP (a second-tier subsidiary of the Company).

Through a company split in which VOYAGE GROUP acted as the splitting company in absorption-type split, while a newly established wholly-owned subsidiary of VOYAGE GROUP for the purpose of preparing for the company split ("Split Preparation Company") acted as the successor company, rights and duties pertaining to VOYAGE GROUP's businesses were succeeded by the Split Preparation Company. VOYAGE GROUP changed its trade name to CARTA HOLDINGS, INC. in conjunction with its transition to a holding-company structure, and the Split Preparation Company changed its trade name to VOYAGE GROUP, INC.

(1) Summary of the business combination

1) Name of the acquiree and its type of business

Name of the acquire	VOYAGE GROUP, INC. (listed on the First Section of the Tokyo Stock Exchange)
Type of business	Ad-platform Business, Point Media Business and Incubation Business

2) Reason for the business combination

As the business environment for the online advertising business has changed drastically due to expansion of the smartphone advertising market, rapid development of the video advertising market, and increase in the advertisers utilizing data and technology, more sophisticated and specialized technologies and robust business operation structures have become vital. Under such circumstances, Dentsu, CCI and VOYAGE GROUP have reached an agreement to carry out the Management Integration, pursuing enhancement of business performance and improvement in corporate value, with the objective of achieving further sustained business growth and accelerating business development, through the creation of synergy capitalizing on the respective strengths of Dentsu, CCI and VOYAGE GROUP.

3) Date of the business combination

January 1, 2019

4) Legal form of the business combination

A share exchange in which VOYAGE GROUP becomes the wholly-owning parent company, while CCI becomes the wholly-owned subsidiary.

5) Name of the company after the combination

CARTA HOLDINGS, INC.

(Note) VOYAGE GROUP changed its trade name on January 1, 2019, in conjunction with its transition to a holding-company structure.

6) Ratio of voting rights to be acquired

52.9%

7) Primary rationale for determining the acquiring company

The Company will acquire a majority of the voting rights of VOYAGE GROUP.

(2) Matters related to calculation of consideration of the acquisition, etc.

1) Consideration for acquisition of the acquiring company and breakdown by type of consideration

Consideration for acquisition	243,336 common shares of CCI (Note 1)
Fair value of consideration for acquisition	JPY 6,605 million (Note 2)

(Note 1) The number of shares of CCI issued to VOYAGE GROUP corresponding to the equity interest in CCI acquired by VOYAGE GROUP.

(Note 2) Calculated based on the fair value of the equity interest held by VOYAGE GROUP.

2) Share exchange ratio by class of shares, the employed calculation method and the number of shares to be delivered

a. Share exchange ratio by class of shares

26 common shares of VOYAGE GROUP for each common share of CCI

b. Calculation method

The share exchange ratio was determined as stated in a. above, based on a comprehensive consideration of factors, including the result of calculation of the share exchange ratio by third party appraisal organizations, the financial condition of the two companies, the trend of the share price of VOYAGE GROUP and the future outlook.

c. Number of shares to be delivered
516,981 common shares of CCI

d. Number of shares to be acquired
13,441,506 common shares of VOYAGE GROUP (allotment of newly issued shares)

(3) Amount of acquisition-related expenses and account titles to be presented
Yet to be determined at this time.

(4) Identifiable assets acquired and liabilities assumed
Fair values of goodwill, non-controlling interests, as well as assets acquired and liabilities assumed are yet to be determined at this time.