

**Excerpt from Quarterly Report  
(Consolidated Financial Statements)  
(January 1 to March 31, 2020)**

**Part 4. Financial Section**

1. Preparation Method of Condensed Quarterly Consolidated Financial Statements

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

2. Audit Certificate

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the Company's condensed quarterly consolidated financial statements for the first quarter ended March 31, 2020 (from January 1 to March 31, 2020) and the condensed consolidated financial statements for the first three months (from January 1 to March 31, 2020) of fiscal year 2020, which were compiled in Japanese, were subject to a quarterly review by KPMG AZSA LLC.

# 1. Condensed Quarterly Consolidated Financial Statements

## (1) Condensed Quarterly Consolidated Statement of Financial Position

		(Millions of Yen)	
	Notes	FY2019 (As of December 31, 2019)	The first quarter (As of March 31, 2020)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		414,055	259,761
Trade and other receivables		1,424,127	1,326,234
Inventories		21,007	20,689
Other financial assets	13	15,859	14,974
Other current assets		57,976	73,077
Subtotal		1,933,025	1,694,737
Non-current assets classified as held for sale		665	2
<b>Total current assets</b>		1,933,691	1,694,739
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment		315,116	299,240
Goodwill	6	754,796	722,722
Intangible assets		245,517	231,008
Investment property		36,835	36,736
Investments accounted for using the equity method		47,662	48,479
Other financial assets	13	423,410	329,913
Other non-current assets		15,052	14,713
Deferred tax assets		23,645	38,829
<b>Total non-current assets</b>		1,862,037	1,721,645
<b>TOTAL ASSETS</b>	5	3,795,729	3,416,385

		(Millions of Yen)	
		FY2019 (As of December 31, 2019)	The first quarter (As of March 31, 2020)
Notes			
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
	Trade and other payables	1,390,778	1,173,016
13	Borrowings	184,816	192,040
13	Other financial liabilities	72,863	81,644
	Income tax payables	17,689	22,964
	Provisions	8,554	12,307
	Other current liabilities	184,326	163,142
	Subtotal	1,859,029	1,645,115
	Liabilities directly associated with non-current assets classified as held for sale	195	-
	<b>Total current liabilities</b>	<b>1,859,224</b>	<b>1,645,115</b>
<b>NON-CURRENT LIABILITIES:</b>			
13	Bonds and borrowings	439,110	430,763
13	Other financial liabilities	283,711	263,526
	Liability for retirement benefits	24,254	33,983
	Provisions	4,389	4,852
	Other non-current liabilities	27,717	23,281
	Deferred tax liabilities	104,787	91,367
	<b>Total non-current liabilities</b>	<b>883,970</b>	<b>847,774</b>
	<b>Total liabilities</b>	<b>2,743,195</b>	<b>2,492,889</b>
<b>EQUITY:</b>			
	Share capital	74,609	74,609
	Share premium account	100,102	100,187
7	Treasury shares	(60,202)	(70,202)
	Other components of equity	206,649	103,710
	Retained earnings	653,818	641,236
	<b>Total equity attributable to owners of the parent</b>	<b>974,977</b>	<b>849,542</b>
	<b>Non-controlling interests</b>	<b>77,556</b>	<b>73,953</b>
	<b>Total equity</b>	<b>1,052,533</b>	<b>923,495</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,795,729</b>	<b>3,416,385</b>

## (2) Condensed Quarterly Consolidated Statement of Income

		(Millions of Yen)	
	Notes	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Turnover (Note 1)	5	1,214,714	1,194,431
Revenue	5, 8	250,578	252,737
Cost		22,604	25,567
Revenue less cost of sales	5	227,974	227,170
Selling, general and administrative expenses		216,646	199,660
Other income	9	1,735	2,790
Other expenses	10	3,769	5,606
Operating profit		9,294	24,694
Share of results of associates		160	430
Impairment loss of associates		-	(436)
Loss on sale of shares of subsidiaries and associates		-	(78)
Revaluation gain on step acquisition		-	44
Profit before interest and tax		9,454	24,653
Finance income	11	1,302	13,346
Finance costs	11	12,241	8,249
Profit (loss) before tax		(1,484)	29,750
Income tax expense		(553)	11,593
Profit (loss) for the period		(930)	18,156
Profit (loss) attributable to:			
Owners of the parent		(2,583)	15,356
Non-controlling interests		1,652	2,799
Earnings (loss) per share			
Basic earnings (loss) per share (Yen)	12	(9.16)	55.89
Diluted earnings (loss) per share (Yen)	12	(9.17)	55.85

## Reconciliation from operating profit to underlying operating profit

		(Millions of Yen)	
	Notes	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Operating profit		9,294	24,694
Amortization of intangible assets incurred in acquisitions		9,004	8,138
Selling, general and administrative expenses		3,865	367
Other income		(1)	(193)
Other expenses		2,309	4,229
Underlying operating profit (Note 2)	5	<u>24,472</u>	<u>37,237</u>

- (Notes)
- 1 Turnover represents the total amount billed and billable to clients handled by the Group, net of discounts, VAT and other sales-related taxes.  
Disclosure of turnover information is not required under IFRS; however, it is voluntarily disclosed in the Condensed Quarterly Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.
  - 2 The underlying operating profit is a KPI to measure recurring business performance which is calculated as operating profit added with amortization of M&A related intangible assets, acquisition costs, share-based compensation expenses related to acquired companies and one-off items such as impairment loss and gain/loss on sales of non-current assets.  
Underlying operating profit is not defined under IFRS; however, it is voluntarily disclosed in the Condensed Quarterly Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.

### (3) Condensed Quarterly Consolidated Statement of Comprehensive Income

		(Millions of Yen)	
		Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
	Notes		
<b>PROFIT (LOSS) FOR THE PERIOD</b>		(930)	18,156
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:</b>			
Net change in financial assets measured at fair value through other comprehensive income	13	26,289	(73,600)
Remeasurements of defined benefit plans		(3)	(10,726)
Share of other comprehensive income of investments accounted for using the equity method		(16)	(61)
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:</b>			
Exchange differences on translation of foreign operations		15,736	(31,465)
Effective portion of the change in the fair value of cash flow hedges		(2,945)	(5,122)
Share of other comprehensive income of investments accounted for using the equity method		(26)	(34)
Other comprehensive income, net of tax		39,033	(121,010)
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>38,102</b>	<b>(102,853)</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Owners of the parent		35,450	(101,335)
Non-controlling interests		2,651	(1,517)

#### (4) Condensed Quarterly Consolidated Statement of Changes in Equity

For the three months ended March 31, 2019 (From January 1 to March 31, 2019)

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent				
		Share capital	Share premium account	Treasury shares	Other components of equity	
					Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges
As of January 1, 2019		74,609	99,751	(40,194)	23,888	6,364
Cumulative effects of changes in accounting policies						
Restated balance as of January 1, 2019		74,609	99,751	(40,194)	23,888	6,364
Profit (loss) for the period						
Other comprehensive income					15,022	(2,945)
Comprehensive income for the period		—	—	—	15,022	(2,945)
Repurchase of treasury shares				(2)		
Dividends	7					
Transactions with non-controlling interests						
Transfer from other components of equity to retained earnings						
Other changes			87			
Transactions with owners—total		—	87	(2)	—	—
As of March 31, 2019		74,609	99,838	(40,197)	38,911	3,419

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent						Total equity
		Other components of equity			Retained earnings	Total	Non-controlling interests	
		Net change in financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total				
As of January 1, 2019		130,482	—	160,735	752,717	1,047,619	63,129	1,110,749
Cumulative effects of changes in accounting policies				—	(8,417)	(8,417)	(557)	(8,975)
Restated balance as of January 1, 2019		130,482	—	160,735	744,299	1,039,202	62,572	1,101,774
Profit (loss) for the period				—	(2,583)	(2,583)	1,652	(930)
Other comprehensive income		25,960	(3)	38,034		38,034	999	39,033
Comprehensive income for the period		25,960	(3)	38,034	(2,583)	35,450	2,651	38,102
Repurchase of treasury shares				—		(2)		(2)
Dividends	7			—	(12,685)	(12,685)	(850)	(13,536)
Transactions with non-controlling interests				—	(1,141)	(1,141)	9,535	8,393
Transfer from other components of equity to retained earnings		193	3	197	(197)	—		—
Other changes				—		87		87
Transactions with owners—total		193	3	197	(14,023)	(13,741)	8,684	(5,057)
As of March 31, 2019		156,636	—	198,966	727,692	1,060,911	73,908	1,134,819



For the three months ended March 31, 2020 (From January 1 to March 31, 2020)

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent				
		Share capital	Share premium account	Treasury shares	Other components of equity	
					Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges
As of January 1, 2020		74,609	100,102	(60,202)	26,559	2,952
Profit for the period						
Other comprehensive income					(29,900)	(5,122)
Comprehensive income for the period		—	—	—	(29,900)	(5,122)
Repurchase of treasury shares	7			(10,001)		
Disposal of treasury shares			(0)	0		
Dividends	7					
Transactions with non-controlling interests						
Transfer from other components of equity to retained earnings						
Other changes			85			
Transactions with owners—total		—	85	(10,000)	—	—
As of March 31, 2020		74,609	100,187	(70,202)	(3,341)	(2,169)

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent						
		Other components of equity			Retained earnings	Total	Non-controlling interests	Total equity
		Net change in financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total				
As of January 1, 2020		177,137	—	206,649	653,818	974,977	77,556	1,052,533
Profit for the period				—	15,356	15,356	2,799	18,156
Other comprehensive income		(70,943)	(10,726)	(116,692)		(116,692)	(4,317)	(121,010)
Comprehensive income for the period		(70,943)	(10,726)	(116,692)	15,356	(101,335)	(1,517)	(102,853)
Repurchase of treasury shares	7			—		(10,001)		(10,001)
Disposal of treasury shares				—		0		0
Dividends	7			—	(13,145)	(13,145)	(1,583)	(14,728)
Transactions with non-controlling interests				—	(1,133)	(1,133)	(294)	(1,427)
Transfer from other components of equity to retained earnings		3,027	10,726	13,754	(13,754)	—		—
Other changes				—	93	179	(207)	(28)
Transactions with owners—total		3,027	10,726	13,754	(27,938)	(24,099)	(2,085)	(26,185)
As of March 31, 2020		109,221	—	103,710	641,236	849,542	73,953	923,495

## (5) Condensed Quarterly Consolidated Statement of Cash Flows

	(Millions of Yen)	
Notes	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit (loss) before tax	(1,484)	29,750
<b>ADJUSTMENTS FOR:</b>		
Depreciation and amortization	22,907	21,870
Share-based compensation expenses related to acquired companies	1,984	2,424
Interest and dividend income	(1,008)	(722)
Interest expense	4,927	5,055
Share of results of associates	(160)	(430)
Impairment loss of associates	-	436
Revaluation (gain) loss on contingent consideration and put option liability	7,216	(9,669)
Increase (decrease) in liability for retirement benefits	(350)	387
Increase (decrease) in provision of business restructuring cost	-	(5,376)
Other—net	(437)	2,333
Cash flows from operating activities before adjusting changes in working capital and others	33,594	46,060
<b>CHANGES IN WORKING CAPITAL:</b>		
(Increase) decrease in trade and other receivables	72,461	88,907
(Increase) decrease in inventories	(3,722)	194
(Increase) decrease in other current assets	(29,831)	(16,893)
Increase (decrease) in trade and other payables	(165,969)	(201,820)
Increase (decrease) in other current liabilities	(5,938)	(15,221)
Change in working capital	(132,999)	(144,833)
Subtotal	(99,405)	(98,773)
Interest received	1,438	726
Dividends received	298	208
Interest paid	(4,159)	(4,824)
Income taxes paid	(36,498)	(12,776)
Net cash flow from operating activities	(138,327)	(115,439)

		(Millions of Yen)	
		Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
	Notes		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of property, plant and equipment, intangible assets and investment property		(6,276)	(5,214)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		289	540
Net cash (paid) received on acquisition of subsidiaries		(5,323)	(7,825)
Payments for purchases of securities		(5,908)	(4,634)
Proceeds from sales of securities		229	1,525
Other—net		(1,499)	(57)
Net cash flow from investing activities		(18,489)	(15,666)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase (decrease) in short-term borrowings		34,238	23,424
Proceeds from long-term borrowings		19,551	1,738
Repayment of long-term borrowings		(498)	(1,487)
Repayments of lease obligations		(8,015)	(8,818)
Payment for acquisition of interest in a subsidiary from non-controlling interests		(806)	(1,528)
Repurchase of treasury shares	7	-	(10,001)
Dividends paid	7	(12,685)	(13,145)
Dividends paid to non-controlling interests		(850)	(1,677)
Other—net		394	(115)
Net cash flow from financing activities		31,328	(11,610)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		5,026	(11,577)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(120,461)	(154,293)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		416,668	414,055
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		296,206	259,761

## Notes on the Condensed Quarterly Consolidated Financial Statements

### 1. Reporting Entity

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

The addresses of the Company's registered corporate headquarters are available on the Company's website ([www.group.dentsu.com](http://www.group.dentsu.com)).

The details of businesses and principal business activities of the Company and its subsidiaries (hereinafter referred to as "the Group") are stated in "5. Segment Information."

The condensed quarterly consolidated financial statements for the first quarter ended March 31, 2020 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Arinobu Soga, Director and Executive Officer, on May 27, 2020.

### 2. Basis of Preparation

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

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

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

#### (2) Changes in Presentation

(Condensed Quarterly Consolidated Statement of Cash Flows)

The "Share-based compensation expenses related to acquired companies" and the "Revaluation (gain) loss on contingent consideration and put option liability," which had been presented under "Other—net" in "Cash flows from operating activities" in the

three months ended March 31, 2019 are presented separately in the three months ended March 31, 2020, due to an increase in their quantitative materiality. To reflect this change in the presentation, the Condensed Quarterly Consolidated Statement of Cash Flows for the three months ended March 31, 2019, has been reclassified.

As a result, the 8,763 million yen presented under "Other—net" in "Cash flows from operating activities" in the Condensed Quarter Consolidated Statement of Cash Flows for the three months ended March 31, 2019 has been reclassified as 1,984 million yen under "Share-based compensation expenses related to acquired companies," 7,216 million yen under "Revaluation (gain) loss on contingent consideration and put option liability," and negative 437 million yen under "Other—net," respectively.

### 3. Significant Accounting Policies

Significant accounting policies applied to the condensed quarterly consolidated financial statements for the first quarter ended March 31, 2020 are identical to those applied to the consolidated financial statements for the previous fiscal year. Meanwhile, income taxes for the three months ended March 31, 2020 are calculated based on the estimated annual effective tax rate.

### 4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Accounting judgments, estimates and assumptions that may have a material effect on the amount in the condensed quarterly consolidated financial statements for the first quarter ended March 31, 2020 are identical to those for the consolidated financial statements for the previous fiscal year.

The Group conducts an impairment test of goodwill on the record date of October 1 of each year related to the APAC (Asia Pacific) region in international business operations

and other regions (EMEA region and the Americas region) in international business operations. However, in light of the deterioration of the economy caused by the spread of COVID-19 at this time, the Group conducted an impairment test at the end of the first quarter ended March 31, 2020, assuming that indications of possible impairment of goodwill existed. For details, see “6. Impairment Test of Goodwill.”

## 5. Segment Information

### (1) Description of reportable segments

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

The Group is mainly engaged in providing communications-related services focusing on advertising, and manages its Japan business and international business separately.

Accordingly, the Group has two reportable segments: Japan business segment and International business segment.

(2) Information on reportable segments

Segment profit (loss) is based on operating profit (loss) net of "Amortization of intangible assets incurred in acquisitions" and "Other adjusting items."

Intersegment revenues are based on the prevailing market price.

Three months ended March 31, 2019 (From January 1 to March 31, 2019)

(Millions of Yen)

	Japan business	International business	Total	Reconciliations	Consolidated
Turnover (Note 1)	493,435	724,271	1,217,707	(2,993)	1,214,714
Revenue (Note 2)	117,921	135,650	253,571	(2,993)	250,578
Revenue less cost of sales (Note 3)	101,561	126,482	228,043	(68)	227,974
Segment profit (loss) (underlying operating profit (loss)) (Note 4)	24,655	(183)	24,471	0	24,472
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(9,004)
Selling, general and administrative expenses	—	—	—	—	(3,865)
Other income	—	—	—	—	1
Other expenses	—	—	—	—	(2,309)
Operating profit	—	—	—	—	9,294
Share of results of associates	—	—	—	—	160
Finance income	—	—	—	—	1,302
Finance costs	—	—	—	—	12,241
Loss before tax	—	—	—	—	(1,484)
Segment assets (Note 5)	1,504,426	2,339,486	3,843,912	(132,096)	3,711,815

Three months ended March 31, 2020 (From January 1 to March 31, 2020)

(Millions of Yen)

	Japan business	International business	Total	Reconciliations (Note 6)	Consolidated
Turnover (Note 1)	497,657	698,222	1,195,879	(1,447)	1,194,431
Revenue (Note 2)	123,063	131,121	254,185	(1,447)	252,737
Revenue less cost of sales (Note 3)	103,715	123,210	226,925	245	227,170
Segment profit (underlying operating profit) (Note 4)	30,069	8,655	38,725	(1,487)	37,237
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(8,138)
Selling, general and administrative expenses	—	—	—	—	(367)
Other income	—	—	—	—	193
Other expenses	—	—	—	—	(4,229)
Operating profit	—	—	—	—	24,694
Share of results of associates	—	—	—	—	430
Impairment loss of associates	—	—	—	—	(436)
Loss on sales of shares of associates	—	—	—	—	(78)
Revaluation gain on step acquisition	—	—	—	—	44
Finance income	—	—	—	—	13,346
Finance costs	—	—	—	—	8,249
Profit before tax	—	—	—	—	29,750
Segment assets (Note 5)	1,399,668	2,064,442	3,464,110	(47,725)	3,416,385

- (Notes)
1. Turnover represents the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of turnover information is not required under IFRS; however, it is voluntarily disclosed in the Condensed Quarterly Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.
  2. Reconciliations for revenue are due to eliminations of intersegment transactions (same amount as for turnover).
  3. Reconciliations for revenue less cost of sales are due to eliminations of intersegment transactions.
  4. Reconciliations for segment profit (loss) (underlying operating profit (loss)) for the three months ended March 31, 2019 are due to eliminations of intersegment transactions. Reconciliations for segment profit (underlying operating profit) for the three months ended March 31, 2020 are due to corporate expenses attributable to the holding company and eliminations of intersegment transactions. Corporate expenses attributable to the holding company are personnel expenses at the holding company.
  5. Reconciliations for segment assets for the three months ended March 31, 2019 are due to eliminations of intersegment transactions.



Reconciliations for segment assets for the three months ended March 31, 2020 are due to corporate assets attributable to the holding company and eliminations of intersegment transactions. Corporate assets attributable to the holding company are the company's cash (cash and deposits) and loans, etc. to group companies.

6. Effective January 1, 2020, the Company changed its trade name to "Dentsu Group Inc." and the Group transitioned to a holding company structure. In the three months ended March 31, 2020, reconciliations for segment profit (underlying operating profit) decreased by 1,211 million yen due to corporate expenses attributable to the holding company and reconciliations for segment assets increased by 71,368 million yen due to the corporate assets attributable to the holding company.

## 6. Impairment Test of Goodwill

(Goodwill related to the International business segment)

The Group basically conducts an annual impairment test of goodwill on the record date of October 1 of each year related to the APAC (Asia Pacific) region and the other regions (EMEA (Europe, the Middle East, and Africa) region and the Americas region) in international business operations. However, in light of the deterioration of the economy caused by the spread of COVID-19 at this time, the Group conducted an impairment test at the end of the first quarter ended March 31, 2020, assuming that indications of possible impairment of goodwill existed. Additionally, the necessity of recognizing impairment was also confirmed on the International business segment as a whole, which includes the corporate assets and corporate expenses unallocated to each region. As of March 31, 2020, goodwill of 64,733 million yen and 653,176 million yen were recognized for the APAC region and the regions other than the APAC region in international business operations, respectively, while 68,172 million yen (less impairment losses) and 680,458 million yen, respectively, were recognized as of March 31, 2019.

The recoverable amount is calculated using the value in use based on the latest estimates for the current fiscal year approved by management and the results forecast for the subsequent four fiscal years. These estimates and results forecast are based on the assumption that the impact of the spread of COVID-19 will be the greatest in the current fiscal year and that a recovery trend will emerge thereafter. Additionally, in terms of operating margin, a moderate improvement from the current fiscal year is assumed. The perpetual growth rate which was set for cash flows for a period exceeding five years and the pre-tax discount rate used in the calculation of value in use are as follows.

The first quarter (As of March 31, 2020)

Cash-generating unit group	Perpetual growth rate	Discount rate
APAC region	1.5%	12.0%
Regions other than the APAC in the International business segment	1.61%–1.75%	10.1%
Entire International business segment	1.5%–1.75%	10.2%

FY2019 (As of December 31, 2019)

Cash-generating unit group	Perpetual growth rate	Discount rate
APAC region	1.5%	10.8%
Regions other than the APAC in the International business segment	1.61%–1.75%	9.0%
Entire International business segment	1.5%–2.0%	9.0%

Given that in all cash-generating unit groups, the recoverable amount exceeded the carrying amount, impairment losses were not reported in the first quarter of the fiscal year ended March 31, 2020. Assuming that the rate of the recoverable amount exceeding the carrying amount (the surplus rate) and all other variables are fixed, the changes in major assumptions (breakeven) required in order to make the recoverable amount equal to the carrying amount are as follows.

Cash-generating unit group	Surplus rate	Breakeven		
		Perpetual growth rate	Discount rate	Operating margin
APAC region	18.0%	-2.1%	+1.3%	-1.7%
Regions other than the APAC in the International business segment	7.1%	-0.9%	+0.6%	-1.2%
Entire International business segment	1.4%	-0.2%	+0.1%	-0.2%

## 7. Capital

### (1) Dividends paid

Dividends paid are as follows:

Three months ended March 31, 2019 (From January 1 to March 31, 2019)

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Resolution at the Board of Directors (February 14, 2019)	Ordinary shares	12,685	45.00	December 31, 2018	March 7, 2019

Three months ended March 31, 2020 (From January 1 to March 31, 2020)

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Resolution at the Board of Directors (February 13, 2020)	Ordinary shares	13,152	47.50	December 31, 2019	March 5, 2020

(Note) The total amount of dividends based on a resolution of the Board of Directors includes a dividend of 7 million yen for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.

### (2) Purchase of treasury shares

The Company, in accordance with a resolution of the Board of Directors on August 7, 2019, carried out the repurchase of treasury shares during the three months ended March 31, 2020 as described below, pursuant to Article 156 of the Companies Act, as applied mutatis mutandis under the provisions of Article 165, Paragraph 3 of the Act, and the provisions of the Company's Articles of Incorporation. This repurchase of treasury shares was concluded on February 14, 2020.

- |  |   |
|--|---|
| 1) Class of shares repurchased:        | Common shares of the Company                |
| 2) Total number of shares repurchased: | 2,727,300 shares                            |
| 3) Total repurchase cost:              | 9,999 million yen                           |
| 4) Repurchase period:                  | January 6, 2020 to February 14, 2020        |
| 5) Method of repurchase:               | Market purchase on the Tokyo Stock Exchange |

## 8. Revenue

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

Three months ended March 31, 2019 (From January 1 to March 31, 2019)

(Millions of Yen)

	Segments			Re-conciliations of internal transactions	Total
	Japan business	International business	Subtotal		
Principal services					
Advertising	98,111	135,650	233,761	—	—
Information Services	18,867	—	18,867	—	—
Other Business	942	—	942	—	—
<b>Total</b>	<b>117,921</b>	<b>135,650</b>	<b>253,571</b>	<b>(2,993)</b>	<b>250,578</b>
Breakdown by regional markets					
Japan	117,921	—	117,921	—	—
EMEA (Europe, Middle East and Africa)	—	52,027	52,027	—	—
Americas	—	58,379	58,379	—	—
APAC (Asia Pacific)	—	25,243	25,243	—	—
<b>Total</b>	<b>117,921</b>	<b>135,650</b>	<b>253,571</b>	<b>(2,993)</b>	<b>250,578</b>

Three months ended March 31, 2020 (From January 1 to March 31, 2020)

(Millions of Yen)

	Segments			Re-conciliations of internal transactions	Total
	Japan business	International business	Subtotal		
Principal services					
Advertising	101,729	131,121	232,850	—	—
Information Services	20,371	—	20,371	—	—
Other Business	962	—	962	—	—
<b>Total</b>	<b>123,063</b>	<b>131,121</b>	<b>254,185</b>	<b>(1,447)</b>	<b>252,737</b>
Breakdown by regional markets					
Japan	123,063	—	123,063	—	—
EMEA (Europe, Middle East and Africa)	—	50,062	50,062	—	—
Americas	—	60,719	60,719	—	—
APAC (Asia Pacific)	—	20,339	20,339	—	—
<b>Total</b>	<b>123,063</b>	<b>131,121</b>	<b>254,185</b>	<b>(1,447)</b>	<b>252,737</b>

## 9. Other Income

The breakdown of other income is as follows:

(Millions of Yen)

	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Foreign exchange gains	—	761
Profit distributions	1,347	1,361
Other	388	667
Total	1,735	2,790

## 10. Other Expenses

The breakdown of other expenses is as follows:

(Millions of Yen)

	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Foreign exchange losses	83	—
Impairment loss	—	1,686
Amortization of long-term prepaid expenses	1,075	1,229
Share-based compensation expenses related to acquired companies	1,984	2,424
Other	625	265
Total	3,769	5,606

## 11. Finance Income and Finance Costs

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

(Millions of Yen)

	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Interest income	861	574
Dividend income	147	148
Changes in fair value of contingent consideration	—	12,403
Foreign exchange gains	32	—
Other	261	220
Total	1,302	13,346

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

(Millions of Yen)

	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Interest expense	4,955	5,070
Changes in fair value of contingent consideration	2,163	—
Remeasurements of stock purchase obligations	5,052	2,733
Foreign exchange losses	—	194
Other	69	250
Total	12,241	8,249

(Note) During the three months ended March 31, 2019, with regard to the stock purchase obligations of certain consolidated subsidiaries, changes were made to the estimates relating to the redemption period of such stock purchase obligations. As a result, finance costs for the three months ended March 31, 2019 increased by 4,449 million yen.

## 12. Earnings (Loss) Per Share

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

	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Basic earnings (loss) per share (Yen)	(9.16)	55.89
Diluted earnings (loss) per share (Yen)	(9.17)	55.85

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

	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Profit (loss) for the period used for calculation of basic earnings (loss) per share and diluted earnings (loss) per share		
Profit (loss) for the period attributable to owners of the parent (Millions of Yen)	(2,583)	15,356
Amounts not attributable to ordinary equity holders of the parent (Millions of Yen)	—	—
Profit (loss) for the period used for calculation of basic earnings (loss) per share (Millions of Yen)	(2,583)	15,356
Adjustment		
Share-based payment held by subsidiaries and associates (Millions of Yen)	(0)	(1)
Profit (loss) for the period used for calculation of diluted earnings (loss) per share (Millions of Yen)	(2,583)	15,355
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings (loss) per share and diluted earnings (loss) per share		
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings (loss) per share (Thousands of shares)	281,896	274,790
Effect of dilutive potential ordinary shares (Thousands of shares):		
Performance-based stock compensation plan	—	161
The weighted average number of ordinary shares outstanding used for the calculation of diluted earnings (loss) per share (Thousands of shares)	281,896	274,951



### 13. Financial Instruments

#### (1) The carrying amount and fair value of financial instruments

The breakdown of the carrying amount and fair value of financial instruments as of December 31, 2019 and March 31, 2020 is as follows:

The fair value of financial assets and financial liabilities measured at amortized cost approximates their carrying amount, except for long-term borrowings and bonds payable.

(Millions of Yen)

	FY2019 (As of December 31, 2019)		The first quarter (As of March 31, 2020)	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	483,197	484,374	471,830	477,802
Bonds payable	79,785	80,147	79,794	80,065

(Note) Current portion that is scheduled for repayment within one year is included.

The fair value of long-term borrowings is determined by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made.

The fair value hierarchy of long-term borrowings is categorized within Level 3.

The fair value of bonds payable is calculated based on market prices. The fair value hierarchy of bonds payable is categorized within Level 2.

#### (2) Fair value hierarchy of financial instruments

Financial instruments measured at fair value on a recurring basis after initial recognition are categorized into the three levels of the fair value hierarchy according to observability and significance of input used in measurements. The fair value hierarchy is defined as follows:

Level 1: Fair value measured at the quoted price in the active market

Level 2: Fair value that is measured using the observable price other than categorized in Level 1 directly or indirectly

Level 3: Fair value that is measured based on unobservable inputs

When multiple inputs are used to measure fair value, fair value levels are determined based on the lowest level input that is significant to the entire fair value measurement.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of each quarter.

There are no transfers between Level 1 and Level 2 for the three months ended March 31, 2019 and the three months ended March 31, 2020.

The categories by level of the fair value hierarchy of financial instruments measured at fair value on a recurring basis are as follows.

Figures in the following table include stock purchase obligations.

FY2019 (As of December 31, 2019)

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	—	12,815	—	12,815
Equity securities	297,224	—	77,348	374,572
Other	1,186	2,702	18,628	22,517
Total	298,411	15,518	95,977	409,906
Financial liabilities				
Derivative liabilities	—	3,624	—	3,624
Stock purchase obligations	—	—	140,488	140,488
Other (mainly contingent consideration)	—	—	68,470	68,470
Total	—	3,624	208,959	212,583

The first quarter (As of March 31, 2020)

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	—	14,249	—	14,249
Equity securities	212,578	—	64,611	277,189
Other	1,660	2,718	20,359	24,737
Total	214,238	16,967	84,970	316,176
Financial liabilities				
Derivative liabilities	—	8,709	—	8,709
Stock purchase obligations	—	—	139,578	139,578
Other (mainly contingent consideration)	—	—	55,503	55,503
Total	—	8,709	195,081	203,791

The fair values of interest rate swap contracts and foreign exchange contracts included in derivative assets and derivative liabilities are categorized within Level 2 as they are valued using price estimates obtained from financial institutions or observable market data.

The fair values of stocks included in equity securities and other (financial assets) for which active markets exist are categorized within Level 1 as they are determined based on market prices. For stocks in which active markets do not exist, the stocks valued using observable market data are categorized within Level 2, while stocks valued based mainly on market approaches (the comparable companies analysis) using unobservable inputs are categorized within Level 3. Significant unobservable inputs mainly include the price/net asset value multiples, and fair value increases (decreases) based on the increase (decrease) of the price/net asset value multiples. The price/net asset value multiples used as of December 31, 2019 and March 31, 2020 are 0.60 and 0.52–5.15, respectively. Additionally, the fair values, as of March 31, 2020, of certain stocks categorized within Level 3 have been calculated based on the stock depreciation rate (-16%) of comparable companies.

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

The fair values of assets and liabilities categorized within Level 3 are measured using asset and liability valuation methods determined by the department in charge in accordance with fair value measurement valuation policies and procedures. Fair value measurement results are approved by the appropriate personnel in charge.

The schedule of financial instruments categorized within Level 3 is as follows:

(Millions of Yen)

Financial assets	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Balance at the beginning of the period	81,110	95,977
Other comprehensive income (Note 1)	1,395	(13,588)
Purchases or acquisitions	3,348	2,700
Sales or settlements	(20)	(100)
Other	(200)	(18)
Balance at the end of the period	85,633	84,970

(Millions of Yen)

Financial liabilities	Three months ended March 31, 2019 (From January 1 to March 31, 2019)	Three months ended March 31, 2020 (From January 1 to March 31, 2020)
Balance at the beginning of the period	190,083	208,959
Profit or loss (Note 2)	7,216	(9,669)
Purchases	6,447	4,196
Sales or settlements	(2,905)	(2,908)
Other	2,188	(5,496)
Balance at the end of the period	203,030	195,081

- (Notes) 1 "Other comprehensive income" is associated with financial assets measured at fair value through other comprehensive income and included in "Net change in financial assets measured at fair value through other comprehensive income."
- 2 "Profit or loss" is associated with financial liabilities measured at fair value through profit or loss and included in finance income and finance costs. Profit or loss arising from financial instruments held at the end of the quarter amounted to 7,216 million yen (finance costs) for the three months ended March 31, 2019, and 12,403 million yen (finance income) and 2,733 million yen (finance costs) for the three months ended March 31, 2020.

#### 14. Subsequent Events

(100% ownership of Merkle Group Inc. and the disposal of treasury shares)

Effective April 15, 2020, OrangeCo Merger Sub, Inc., the Company's wholly-owned subsidiary, implemented an absorption-type merger with Merkle Group Inc. ("Merkle"). As consideration for the merger, a certain amount of cash and the Company's treasury shares (4,743,300 shares) were delivered to the shareholders of Merkle excluding the

Group. In conjunction with this merger, the put options on Merkle's shares against the Group held by Merkle's shareholders were canceled.

Additionally, effective April 17, 2020, for the purpose of retaining the key members of Merkle's management team after the merger, payment for the disposal of the Company's treasury shares (2,581,200 shares) to be granted as share compensation to them was completed. With regard to the granting of these shares, in accordance with the agreement concluded between the Company, Merkle and the key members of Merkle's management team, a contractual transfer restriction (the transfer restriction period shall be, in principle, the period until December 31, 2023) was set on the shares subject to the grant, and if certain events occurred including the resignation of the key members of Merkle's management team from the management positions during the transfer restriction period without a justifiable reason, the shares granted would be confiscated without contribution.

## 2. Other Information

### (1) Dividends from surplus

The Company resolved at its meeting of the Board of Directors held on February 13, 2020 that year-end dividends shall be paid to the shareholders whose names are recorded in the register of shareholders as of December 31, 2019, in the following manner.

- |  |                    |
|--|--------------------|
| 1) Total amount of dividends:  | JPY 13,152 million |
| 2) Dividend per share:   | JPY 47.50          |
| 3) Effective date of the right to collect payment and commencement date of dividend payment: | March 5, 2020      |

(Note) The total amount of dividends based on a resolution of the Board of Directors includes a dividend of 7 million yen for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.

### (2) Significant lawsuits, etc.

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