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FY2017 First Quarter Results

May 15, 2017

* Please be reminded that the figures shown in this presentation may be different from those shown in the financial statements as this presentation has been prepared for investors to understand our businesses. Please refer to the annotations in the Appendices for each definition of the indicators.

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Highlights

- Gross profit increased by 17.7% (YoY, constant currency basis)
- Organic gross profit growth: +3.9%
  (Japan +4.7% / International +3.1%)
- Underlying operating profit increased by 13.4% (constant currency basis)
- Underlying operating margin: 19.0%, -70 bps (constant currency basis)
- Underlying basic EPS increased by 20.3%

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Summary

(JPY mn)

	2017 Jan–Mar	2016 Jan–Mar	YoY %	Constant currency basis %
Turnover	1,260,292	1,195,570	+5.4	-
Revenue	229,813	199,542	+15.2	-
Gross profit	217,261	186,990	+16.2	+17.7
Underlying operating profit	41,281	35,769	+15.4	+13.4
Operating margin	19.0%	19.1%	(0.1)	(0.7)
Underlying net profit	25,883	21,552	+20.1	-
Underlying basic EPS	90.90 yen	75.58 yen	+20.3	-
Operating profit	32,119	31,796	+1.0	-
Net profit	17,943	17,215	+4.2	-
EBITDA	46,135	42,287	+9.1	-
Currency				
JPY/USD	113.6 yen	115.4 yen	(1.6)	-
JPY/GBP	140.8 yen	165.2 yen	(14.8)	-

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

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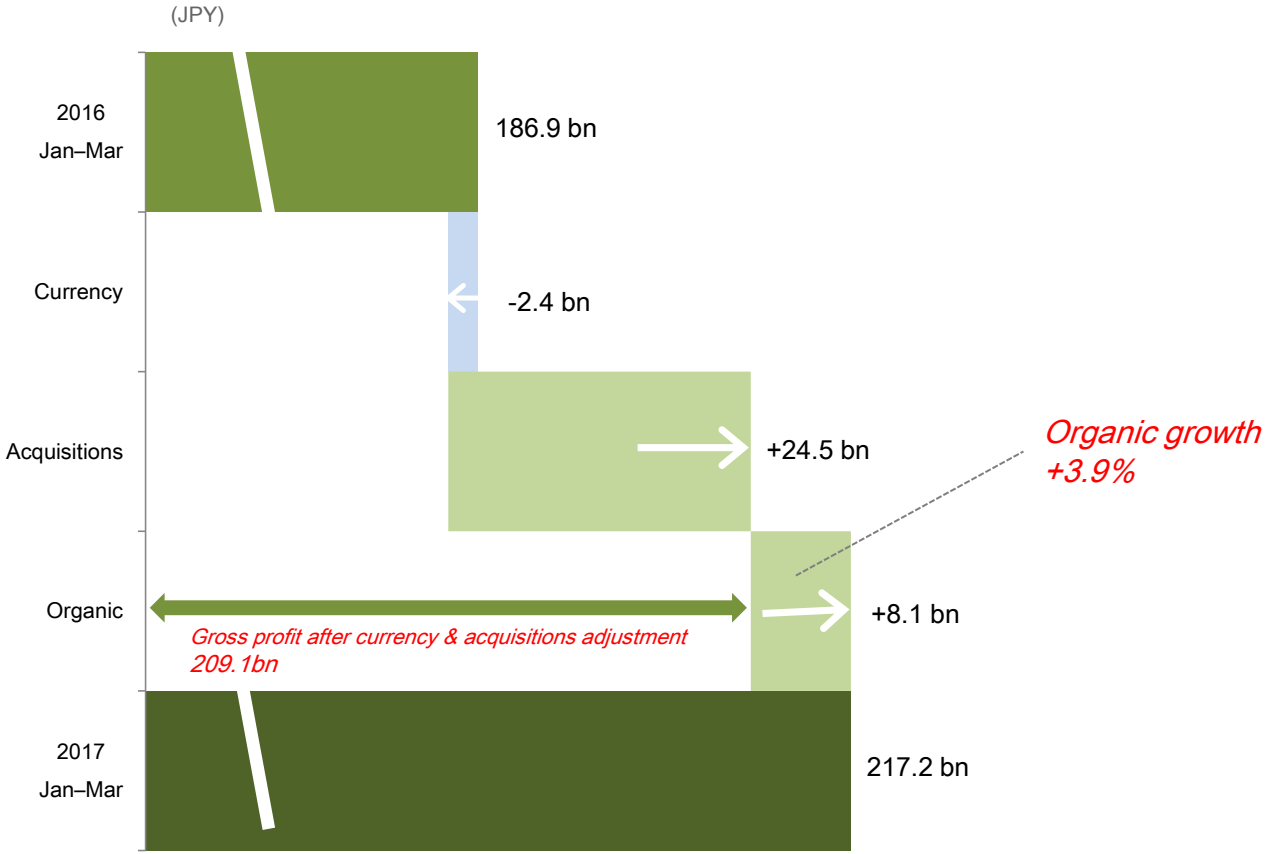
Gross Profit Growth



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Regional Information – Gross Profit –

(JPY mn)

	2017 Jan–Mar	2016 Jan–Mar	YoY %	Constant currency basis %	Organic growth %
Japan	103,966	99,308	+4.7	+4.7	+4.7
Digital domain ratio	20.2%	18.8%	+1.4	+1.4	
EMEA	37,341	33,730	+10.7	+18.2	+5.8
Americas	50,646	30,929	+63.8	+63.4	+0.6
APAC	25,330	23,042	+9.9	+11.6	+4.5
International total	113,329	87,702	+29.2	+32.8	+3.1
Digital domain ratio	56.9%	47.8%	+9.1	+9.2	
Consolidation adjustments	(35)	(20)	-	-	-
Dentsu consolidated total	217,261	186,990	+16.2	+17.7	+3.9
Digital domain ratio	39.4%	32.4%	+7.0	+7.2	
International business ratio	52.2%	46.9%	+5.3	+6.0	

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Regional Information – Underlying Operating Profit –

(JPY mn)

	Underlying operating profit				Operating margin			
	2017 Jan–Mar	2016 Jan–Mar	YoY %	Constant currency basis %	2017 Jan–Mar	2016 Jan–Mar	YoY %	Constant currency basis %
Japan	36,589	33,218	+10.1	+10.1	35.2%	33.4%	+1.8	+1.8
International total	4,698	2,545	+84.6	+48.0	4.1%	2.9%	+1.2	+0.4
Consolidation adjustments	(6)	5	-	-	-	-	-	-
Dentsu consolidated total	41,281	35,769	+15.4	+13.4	19.0%	19.1%	(0.1)	(0.7)

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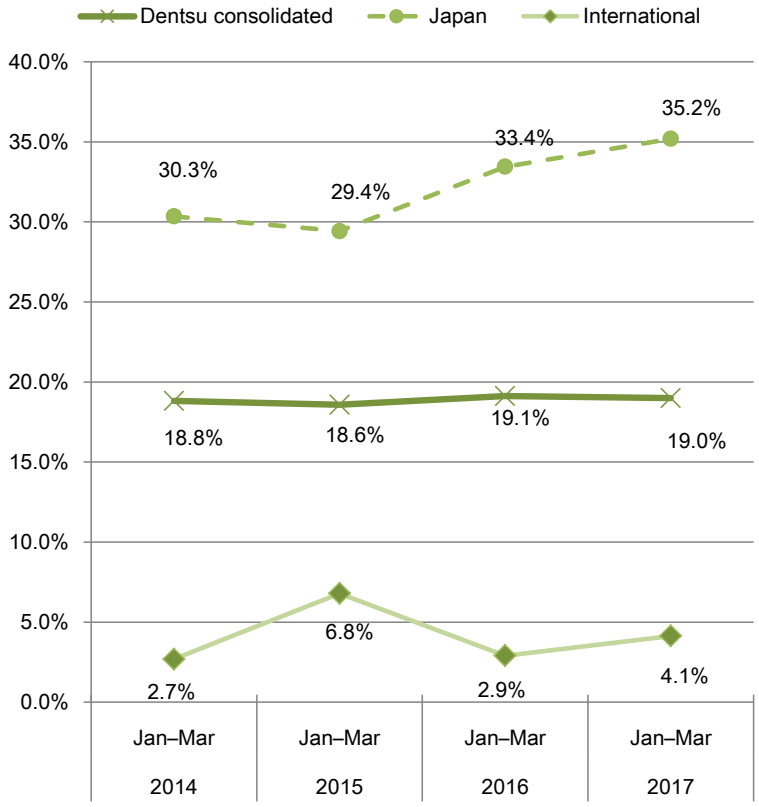
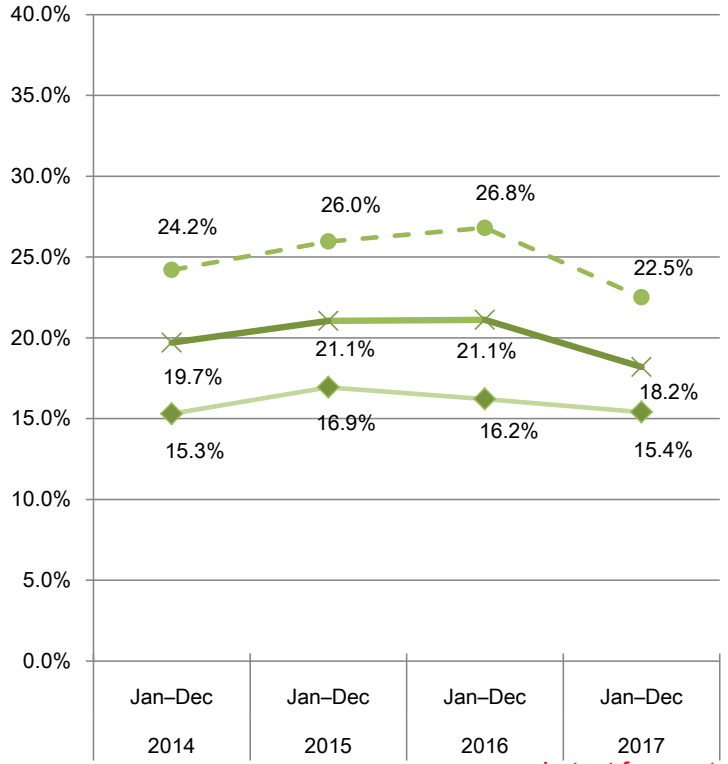
Operating Margin





Latest forecast
(announced in Feb)

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Reconciliation from Underlying OP to Statutory OP

(JPY mn)

	2017 Jan–Mar	2016 Jan–Mar	YoY #	YoY %
Underlying operating profit	41,281	35,769	+ 5,511	+15.4
Adjustment items	(9,161)	(3,972)	(5,189)	
Amortization of M&A related intangible assets	(7,833)	(5,460)	(2,373)	
Acquisition costs	(215)	(284)	+ 68	
One-off items	(1,113)	+ 1,772	(2,884)	
Gain (loss) on sales and retirement of non-current assets	(8)	+ 1,419	(1,427)	
Gain (loss) on sales of shares of subsidiaries and associates	-	+ 1,445	(1,445)	
Impairment loss	(616)	(5)	(611)	
Special retirement expenses	(113)	(44)	(68)	
Others	(376)	(1,043)	+ 667	
Operating profit	32,119	31,796	+ 322	+1.0

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Statutory Operating Profit to Net Profit

(JPY mn)

	2017 Jan–Mar	2016 Jan–Mar	YoY #	YoY %
Operating profit	32,119	31,796	+ 322	+1.0
Share of results of associates	801	910	(109)	(12.0)
Profit before interest and tax	32,920	32,706	+ 213	+0.7
Net finance income (costs)	(4,357)	(4,293)	(63)	+1.5
Finance income	1,280	1,253	+ 26	+2.2
Finance costs	5,638	5,547	+ 90	+1.6
Profit before tax	28,563	28,412	+ 150	+0.5
Income tax expense	9,741	9,603	+ 137	+1.4
Net profit	18,821	18,809	+ 12	+0.1
Attributable to owners of the parent	17,943	17,215	+ 728	+4.2
Attributable to non-controlling interests	877	1,593	(715)	(44.9)

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Cash Flow

(JPY mn)

	2017 Jan–Mar	2016 Jan–Mar	YoY #	YoY %
Profit before tax	28,563	28,412	+ 150	+0.5
Share of results of associates	(801)	(910)	+ 109	
Depreciation and amortization	13,399	10,485	+ 2,914	
Impairment loss	616	5	+ 611	
Others	(216)	(1,818)	+ 1,602	
Income taxes paid	(30,743)	(14,304)	(16,439)	
Cash flow from operations before change in WC i	10,819	21,870	(11,051)	(50.5)

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Use of Cash

(JPY mn)

	2017 Jan–Mar	2016 Jan–Mar	YoY #	YoY %
Change in WC ii	(61,910)	(20,622)	(41,287)	
Payments for PPE, intangible assets and investment property (net)	(5,022)	(807)	(4,215)	
Payments for investing activities (net)	(14,935)	(7,460)	(7,474)	
Dividends paid to shareholders	(12,831)	(11,405)	(1,425)	
Dividends paid to non-controlling shareholders	(648)	(1,027)	+ 379	
Payments for share repurchase	(8,798)	(3)	(8,795)	
Use of cash iii	(42,235)	(20,704)	(21,531)	+104.0
Effect of exchange rate changes and others iv	9,996	4,474	+ 5,521	
Change in net cash i (preceding slide)+ii+iii+iv	(83,330)	(14,980)	(68,349)	-
(Acquisition payments)				
Initial payments	(9,735)	(4,826)	(4,908)	
Earn-out payments / Additional acquisition payments	(1,140)	(6,436)	+ 5,296	
Proceeds from sales	-	6,062	(6,062)	

Notes: “Payments for PPE (property, plant and equipment), intangible assets and investment property (net)” and “Payments for investing activities (net)” are shown as net figures of payments and proceeds by disposal of PPE/intangible assets/investment property and businesses/subsidiaries.
Effect of exchange rate changes and others… Including effect of exchange rate changes from debt and net cash that acquired companies had held.

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Net Debt

(JPY mn)

	2017 End of Mar	2016 End of Dec	Var. #
Total debt	472,268	403,599	+ 68,669
Cash and cash equivalents	227,749	242,410	(14,661)
Net debt	244,518	161,188	+ 83,330
Total debt (LTM average)	390,893	367,196	+ 23,697
Cash and cash equivalents (LTM average)	234,752	241,866	(7,114)
Net debt (LTM average)	156,141	125,329	+ 30,811
EBITDA (LTM)	187,913	184,064	+ 3,849
Net debt / EBITDA (LTM)	1.30	0.88	
Net debt (LTM average) / EBITDA (LTM)	0.83	0.68	

Note: LTM… Last twelve months

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FY2017 Forecast (no changes from Feb 14th)

(JPY mn)

	2017 Jan–Dec	2016 Jan–Dec	YoY %	Constant currency basis %
Revenue	978,500	838,359	+16.7	-
Gross profit	929,500	789,043	+17.8	+15.8
Japan	360,400	363,242	(0.8)	(0.8)
International total	569,100	426,014	+33.6	+29.5
Underlying operating profit	168,900	166,565	+1.4	(0.5)
Japan	81,200	97,362	(16.6)	(16.6)
International total	87,700	69,059	+27.0	+21.1
Operating margin	18.2%	21.1%	(2.9)	(3.0)
Japan	22.5%	26.8%	(4.3)	(4.3)
International total	15.4%	16.2%	(0.8)	(1.1)
Underlying net profit	111,800	112,972	(1.0)	-
Underlying basic EPS	392.09 yen	396.20 yen	(1.0)	-
Operating profit	151,500	137,681	+10.0	-
Net profit	86,600	83,501	+3.7	-
Currency	Av. Jan in 2017	Av. Jan–Dec in 2016		
JPY/USD	114.8 yen	108.9 yen	+5.4	-
JPY/GBP	141.6 yen	147.8 yen	(4.2)	-

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

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Disclaimer

Forward-Looking Statements

This presentation contains statements about Dentsu that are or may be forward-looking statements. All statements other than statements of historical facts included in this presentation may be forward-looking statements. Without limitation, any statements preceded or followed by or that include the words “targets”, “plans”, “believes”, “expects”, “aims”, “intends”, “will”, “may”, “anticipates”, “estimates”, “projects” or, words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: information on future capital expenditures, expenses, revenues, earnings, synergies, economic performance, and future prospects.

Such forward-looking statements involve risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results to differ materially from those projected or implied in any forward-looking statements. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation

i Risk related to fluctuations in the economic and business environment

ii Risk related to structural changes in the media

iii Risk related to our ability to realize our financial targets

iv Risk related to common business practices

v Risk related to competition among advertising agencies

vi Risk related to the development of systems and databases

vii Risk related to legal or regulatory changes

viii Risk of litigation

Dentsu disclaims any obligation to update any forward-looking or other statements contained herein, except as required by applicable law.

Previous year’s figures in the Consolidated Statement of Income

The previous year’s figures are provided on a December year-end basis, although the fiscal year-end had not yet changed in the same period of the previous year.

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Appendices

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Definition

- Turnover: The gross amounts billable to clients handled by the Group on behalf of clients, with net of discounts, VAT and other sales-related taxes
- Underlying operating profit: KPI to measure recurring business performance which is calculated as operating profit added with amortization of M&A related intangible assets, acquisition costs and one-off items such as impairment loss and gain/loss on sales of non-current assets
- Operating margin: Underlying operating profit divided by gross profit
- Underlying net profit (attributable to owners of the parent):
  KPI to measure recurring net profit attributable to owners of the parent which is calculated as net profit (attributable to owners of the parent) added with adjustment items related to operating profit, revaluation of earnout liabilities / M&A related put-option liabilities, tax-related, NCI profit-related and other one-off items
- Underlying basic EPS: EPS based on underlying net profit (attributable to owners of the parent)
- EBITDA: Operating profit before depreciation, amortization and impairment losses
- Constant currency basis: Comparison with the current period where the previous year's numbers are recalculated using the currency exchange rate which is used for the current year's numbers
- Currency: Currency movements comparing prior period reported gross profit at reported currency to prior period gross profit at constant currency (reported currency of the current year)
- Acquisitions: The effect of business acquired or disposed of since the beginning of the prior year
- Organic: Organic growth represents the constant currency year-on-year growth after adjusting for the effect of business acquired or disposed of since the beginning of the prior year. This is calculated by comparing current period reported gross profit to prior period gross profit, adjusted for the pre-acquisition or pre-disposal gross profit as applicable, and stated at constant exchange rate, in order to derive like-for-like growth

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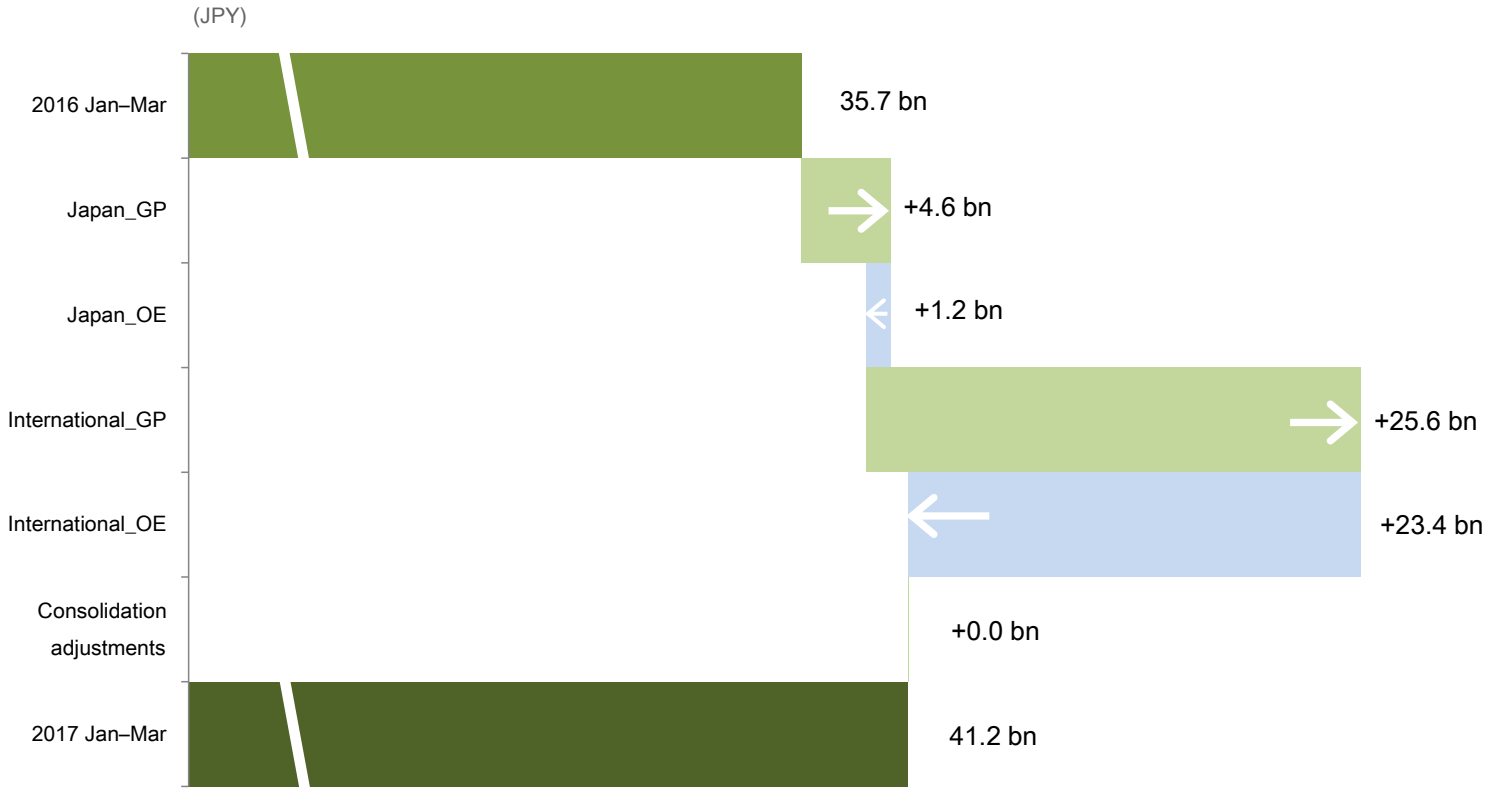
Quarterly Gross Profit Organic Growth

(%)

	Dentsu consolidated total			Japan			International total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Jan–Mar	+3.9	+5.1	+6.2	+4.7	+5.6	+0.0	+3.1	+4.5	+13.7
Apr–Jun	-	+9.5	+6.5	-	+12.2	+1.9	-	+7.2	+10.2
Jul–Sep	-	+2.7	+4.2	-	+0.3	+1.4	-	+5.2	+6.6
Oct–Dec	-	+3.9	+10.6	-	+1.0	+12.9	-	+5.8	+8.2

	International – EMEA			International – Americas			International – APAC		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Jan–Mar	+5.8	+10.7	+11.1	+0.6	(2.0)	+10.4	+4.5	+5.2	+22.5
Apr–Jun	-	+5.0	+16.1	-	+2.4	+7.9	-	+16.8	+5.4
Jul–Sep	-	+5.0	+11.0	-	+5.4	+0.1	-	+5.3	+9.3
Oct–Dec	-	+7.5	+11.0	-	+4.4	+2.1	-	+5.6	+11.0

Analysis of Underlying Operating Profit



Notes:
GP… Gross profit
OE… Operating expenses (selling, general & administrative expenses, other income and other expenses)

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Reconciliation from Underlying NP to Statutory NP

(JPY mn)

	2017 Jan–Mar	2016 Jan–Mar	YoY #	YoY %
Underlying net profit	25,883	21,552	+ 4,331	+20.1
Adjustment items	(7,939)	(4,336)	(3,603)	
Operating profit adjustments	(9,161)	(3,972)	(5,189)	
Loss on revaluation of earnout liabilities and M&A related put option liabilities	(3,173)	(2,868)	(304)	
Related income tax expense	+ 4,206	+ 2,312	+ 1,894	
Adjustments attributable to non-controlling interests	+ 188	+ 192	(3)	
Net profit	17,943	17,215	+ 728	+4.2

Note: Operating profit adjustments…Please refer to "Reconciliation from Underlying OP to Statutory OP" on page 7
Underlying net profit and net profit… Excluding attribution to non-controlling interests
Effective tax rate…Income tax expense divided by Profit before tax

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Financial Position

(JPY mn)

	2017 End of Mar	2016 End of Dec	Var. #	Var. %
Current assets	1,561,208	1,618,111	(56,902)	(3.5)
Non-current assets	1,543,116	1,537,118	+ 5,997	+0.4
Total assets	3,104,324	3,155,230	(50,905)	(1.6)
Current liabilities	1,402,553	1,599,235	(196,682)	(12.3)
Non-current liabilities	717,898	574,033	+ 143,864	+25.1
Total liabilities	2,120,451	2,173,269	(52,818)	(2.4)
Owners' interests	934,585	932,742	+ 1,842	+0.2
Non-controlling interests	49,288	49,218	+ 69	+0.1
Total equity	983,873	981,961	+ 1,912	+0.2
Total liabilities and equity	3,104,324	3,155,230	(50,905)	(1.6)
JPY/USD	112.2 yen	116.5 yen	-	(3.7)
JPY/GBP	140.1 yen	143.0 yen	-	(2.0)

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Results of Parent Company (J-GAAP)

(JPY mn)

	2017 Jan–Mar	2016 Jan–Mar	YoY %
Net sales	459,867	436,019	+5.5
Gross profit	68,976	66,927	+3.1
gross profit margin	*15.0%*	*15.3%*	-
SG&A	43,844	43,487	+0.8
Operating income	25,131	23,440	+7.2
vs. gross profit	*36.4%*	*35.0%*	-
Ordinary income	36,399	45,674	(20.3)
Income before income taxes	36,555	46,118	(20.7)
Net income	28,108	37,994	(26.0)

Note: SG&A… Selling, general & administrative expenses

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Net Sales of Parent Company by Business Category
(J-GAAP)

(JPY mn)

	2017 Jan–Mar	YoY %
Newspapers	27,351	(2.4)
Magazines	6,075	(15.4)
Radio	3,479	+0.9
Television	168,668	+0.7
Time	71,607	(1.2)
Spot	97,061	+2.1
Interactive Media	27,468	+19.6
OOH Media	16,294	+5.3
Creative	54,916	(1.9)
Marketing/Promotion	57,935	+10.1
Content Services	87,096	+20.2
Others	10,581	+2.8
Total	459,867	+5.5

Note:
* Scale of digital domain operations in Japan (including parent company)… Please refer to the “Regional Information – Gross Profit –” slide

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Net Sales of Parent Company by Industry
(J-GAAP)

(JPY mn)

	2017 Jan–Mar	YoY %
Information/Communications	72,166	+15.2
Finance/Insurance	49,691	+1.7
Foodstuffs	37,014	+14.8
Beverages/Cigarettes	35,021	(4.1)
Cosmetics/Toiletries	31,765	+2.7
Automobiles/Related Products	25,588	+10.0
Transportation/Leisure	24,747	+12.2
Real Estate/Housing Facilities	22,604	+28.1
Food Services/Other Services	22,370	(6.8)
Government/Organizations	21,908	+5.3
Distribution/Retailing	20,635	(10.4)
Hobbies/Sporting Goods	15,889	+7.2
Energy/Materials/Machinery	14,479	+19.1
Pharmaceuticals/Medical Supplies	12,367	+1.3
Home Electric Appliances/AV Equipment	12,152	(13.2)
Others	41,463	+1.5
Total	459,867	+5.5

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Effects of Currency Exchange Rates

	Average rate			Period end rate		
	2017 Jan–Mar	2016 Jan–Mar	Var. %	2017 End of Mar	2016 End of Dec	Var. %
JPY/USD	113.6 yen	115.4 yen	(1.6)	112.2 yen	116.5 yen	(3.7)
JPY/EUR	121.1 yen	127.2 yen	(4.8)	119.8 yen	122.7 yen	(2.4)
JPY/CNY	16.6 yen	17.6 yen	(5.9)	16.3 yen	16.8 yen	(2.8)
JPY/GBP	140.8 yen	165.2 yen	(14.8)	140.1 yen	143.0 yen	(2.0)
JPY/AUD	86.2 yen	83.2 yen	+3.6	85.8 yen	84.4 yen	+1.8

Gross profit ratio by currency

(%)	JPY	USD	EUR	CNY	GBP	AUD	Others	Total
FY2017 Jan–Mar	47.8	20.6	7.7	3.8	4.6	3.1	12.3	100.0