

**Excerpt from Quarterly Report
(Consolidated Financial Statements)
(January 1 to September 30, 2019)**

Part 4. Financial Section

1. Preparation Method of Condensed Quarterly Consolidated Financial Statements

- (1) The condensed quarterly consolidated financial statements of Dentsu 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 third quarter ended September 30, 2019 (from July 1 to September 30, 2019) and the condensed consolidated financial statements for the first nine months (from January 1 to September 30, 2019) of fiscal year 2019, 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	FY2018 (As of December 31, 2018)	The third quarter (As of September 30, 2019)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		416,668	254,976
Trade and other receivables		1,368,728	1,303,301
Inventories		28,580	23,959
Other financial assets	12	15,090	15,493
Other current assets		106,516	81,805
Subtotal		1,935,583	1,679,535
Non-current assets classified as held for sale		2	2
Total current assets		1,935,586	1,679,537
NON-CURRENT ASSETS:			
Property, plant and equipment		199,207	309,806
Goodwill		786,851	788,602
Intangible assets		249,921	245,356
Investment property		37,089	36,863
Investments accounted for using the equity method		39,897	45,912
Other financial assets	12	348,537	373,248
Other non-current assets		14,242	14,329
Deferred tax assets		27,155	33,945
Total non-current assets		1,702,902	1,848,064
TOTAL ASSETS	5	3,638,488	3,527,602

		(Millions of Yen)	
		FY2018	The third quarter
		(As of December 31, 2018)	(As of September 30, 2019)
LIABILITIES AND EQUITY			
LIABILITIES			
CURRENT LIABILITIES:			
		1,341,461	1,173,037
	Trade and other payables		
	Borrowings	104,879	206,674
12			
	Other financial liabilities	47,395	70,024
12			
	Income tax payables	42,981	3,788
	Provisions	1,575	2,030
	Other current liabilities	247,315	156,363
	Total current liabilities	1,785,608	1,611,919
NON-CURRENT LIABILITIES:			
	Bonds and borrowings	433,980	405,279
12			
	Other financial liabilities	163,362	282,496
12			
	Liability for retirement benefits	30,675	30,121
	Provisions	4,705	4,549
	Other non-current liabilities	18,133	30,040
	Deferred tax liabilities	91,272	84,423
	Total non-current liabilities	742,130	836,912
	Total liabilities	2,527,738	2,448,832
EQUITY:			
	Share capital	74,609	74,609
	Share premium account	99,751	100,013
	Treasury shares	(40,194)	(44,572)
	Other components of equity	160,735	140,370
	Retained earnings	752,717	734,270
	Total equity attributable to owners of the parent	1,047,619	1,004,690
	Non-controlling interests	63,129	74,079
	Total equity	1,110,749	1,078,770
	TOTAL LIABILITIES AND EQUITY	3,638,488	3,527,602

(2) Condensed Quarterly Consolidated Statement of Income

For the nine months ended September 30, 2018 and September 30, 2019

		(Millions of Yen)	
	Notes	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Turnover (Note 1)	5	3,836,587	3,665,096
Revenue	5, 7	725,168	746,610
Cost		56,867	72,405
Revenue less cost of sales	5	668,301	674,205
Selling, general and administrative expenses		608,130	631,890
Other income	8	6,867	6,174
Other expenses	9	9,045	11,439
Operating profit		57,993	37,050
Share of results of associates		1,996	409
Gain on sale of shares of associates		52,128	-
Revaluation gain on step acquisition		-	2,239
Profit before interest and tax		112,118	39,698
Finance income	10	6,081	6,504
Finance costs	10	19,713	30,107
Profit before tax		98,487	16,096
Income tax expense		35,745	6,831
Profit for the period		62,741	9,265
Profit attributable to:			
Owners of the parent		58,200	4,742
Non-controlling interests		4,541	4,522
Earnings per share			
Basic earnings per share (Yen)	11	206.46	16.83
Diluted earnings per share (Yen)	11	206.46	16.82

Reconciliation from operating profit to underlying operating profit

		(Millions of Yen)	
		Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Operating profit		57,993	37,050
Amortization of intangible assets incurred in acquisitions		26,290	26,789
Other adjusting items (selling, general and administrative expenses)		977	4,771
Other adjusting items (other income)		(13)	(29)
Other adjusting items (other expenses)		4,263	6,996
Underlying operating profit (Note 2)	5	<u>89,510</u>	<u>75,578</u>

For the third quarter ended September 30, 2018 and September 30, 2019

		(Millions of Yen)	
	Notes	Third quarter ended September 30, 2018 (From July 1 to September 30, 2018)	Third quarter ended September 30, 2019 (From July 1 to September 30, 2019)
Turnover (Note 1)		1,248,410	1,186,396
Revenue		243,514	249,542
Cost		20,951	24,579
Revenue less cost of sales		222,562	224,962
Selling, general and administrative expenses		203,643	203,934
Other income		2,119	2,165
Other expenses		3,578	4,219
Operating profit		17,459	18,974
Share of results of associates		225	578
Gain on sale of shares of associates		51,569	-
Revaluation gain on step acquisition		-	2,239
Profit before interest and tax		69,254	21,791
Finance income		10,136	1,650
Finance costs		3,807	10,038
Profit before tax		75,583	13,403
Income tax expense		26,756	5,720
Profit for the period		48,827	7,683
Profit attributable to:			
Owners of the parent		47,414	6,017
Non-controlling interests		1,412	1,665
Earnings per share			
Basic earnings per share (Yen)	11	168.20	21.37
Diluted earnings per share (Yen)	11	168.20	21.36

Reconciliation from operating profit to underlying operating profit

	(Millions of Yen)	
	Third quarter ended September 30, 2018 (From July 1 to September 30, 2018)	Third quarter ended September 30, 2019 (From July 1 to September 30, 2019)
Operating profit	17,459	18,974
Amortization of intangible assets incurred in acquisitions	8,774	8,854
Other adjusting items (selling, general and administrative expenses)	371	114
Other adjusting items (other income)	(11)	(26)
Other adjusting items (other expenses)	2,053	2,662
Underlying operating profit (Note 2)	<u>28,647</u>	<u>30,580</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

For the nine months ended September 30, 2018 and September 30, 2019

		(Millions of Yen)	
		Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
	Notes		
PROFIT FOR THE PERIOD		62,741	9,265
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	12	40,041	24,125
Remeasurements of defined benefit plans		0	39
Share of other comprehensive income of investments accounted for using the equity method		(166)	(46)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:			
Exchange differences on translation of foreign operations		(20,199)	(24,506)
Effective portion of the change in the fair value of cash flow hedges		1,283	(5,683)
Share of other comprehensive income of investments accounted for using the equity method		(305)	(166)
Other comprehensive income, net of tax		20,653	(6,238)
COMPREHENSIVE INCOME FOR THE PERIOD		83,395	3,026
COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the parent		80,106	(800)
Non-controlling interests		3,288	3,827

For the third quarter ended September 30, 2018 and September 30, 2019

	(Millions of Yen)	
	Third quarter ended September 30, 2018 (From July 1 to September 30, 2018)	Third quarter ended September 30, 2019 (From July 1 to September 30, 2019)
PROFIT FOR THE PERIOD	48,827	7,683
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	31,947	(16,925)
Remeasurements of defined benefit plans	(14)	40
Share of other comprehensive income of investments accounted for using the equity method	(153)	4
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:		
Exchange differences on translation of foreign operations	12,762	(15,491)
Effective portion of the change in the fair value of cash flow hedges	1,169	(996)
Share of other comprehensive income of investments accounted for using the equity method	(30)	(113)
Other comprehensive income, net of tax	45,681	(33,482)
COMPREHENSIVE INCOME FOR THE PERIOD	94,508	(25,798)
COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Owners of the parent	92,042	(27,149)
Non-controlling interests	2,465	1,350

(4) Condensed Quarterly Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2018 (From January 1 to September 30, 2018)

		(Millions of Yen)					
		Total equity attributable to owners of the parent					
		Other components of equity					
Notes	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, 2018	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 period						
	Other comprehensive income					(19,650)	1,283
	Comprehensive income for the period	–	–	–	–	(19,650)	1,283
	Repurchase of treasury shares			(7)			
	Disposal of treasury shares		(0)	0			
	Dividends						
6	Transactions with non-controlling interests						
	Transfer from other components of equity to retained earnings						
	Other changes				(48)		
	Transactions with owners—total	–	(0)	(7)	(48)	–	–
	As of September 30, 2018	74,609	99,751	(40,190)	–	50,083	7,515

		(Millions of Yen)						
		Total equity attributable to owners of the parent						
		Other components of equity						
Notes	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, 2018	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 period			–	58,200	58,200	4,541	62,741
	Other comprehensive income	40,269	3	21,906		21,906	(1,252)	20,653
	Comprehensive income for the period	40,269	3	21,906	58,200	80,106	3,288	83,395
	Repurchase of treasury shares			–		(7)		(7)
	Disposal of treasury shares			–		0		0
	Dividends			–	(25,370)	(25,370)	(2,595)	(27,965)
6	Transactions with non-controlling interests			–	(2,608)	(2,608)	756	(1,851)
	Transfer from other components of equity to retained earnings	2,186	(3)	2,183	(2,183)	–		–
	Other changes			(48)	48	0	(306)	(306)
	Transactions with owners—total	2,186	(3)	2,135	(30,113)	(27,986)	(2,144)	(30,131)
	As of September 30, 2018	193,715	–	251,314	755,996	1,141,481	58,067	1,199,548

For the nine months ended September 30, 2019 (From January 1 to September 30, 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	3					
Restated balance as of January 1, 2019		74,609	99,751	(40,194)	23,888	6,364
Profit for the period						
Other comprehensive income					(24,299)	(5,683)
Comprehensive income for the period		—	—	—	(24,299)	(5,683)
Repurchase of treasury shares	6			(4,379)		
Disposal of treasury shares			(0)	1		
Dividends	6					
Transactions with non-controlling interests						
Transfer from other components of equity to retained earnings						
Other changes			262			
Transactions with owners—total		—	262	(4,378)	—	—
As of September 30, 2019		74,609	100,013	(44,572)	(411)	681

(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, 2019		130,482	—	160,735	752,717	1,047,619	63,129	1,110,749
Cumulative effects of changes in accounting policies	3				(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 for the period				—	4,742	4,742	4,522	9,265
Other comprehensive income		24,400	39	(5,543)		(5,543)	(694)	(6,238)
Comprehensive income for the period		24,400	39	(5,543)	4,742	(800)	3,827	3,026
Repurchase of treasury shares	6			—		(4,379)		(4,379)
Disposal of treasury shares				—		0		0
Dividends	6			—	(26,075)	(26,075)	(1,938)	(28,013)
Transactions with non-controlling interests				—	(3,581)	(3,581)	9,617	6,036
Transfer from other components of equity to retained earnings		(14,782)	(39)	(14,822)	14,822	—		—
Other changes				—	62	324		324
Transactions with owners—total		(14,782)	(39)	(14,822)	(14,772)	(33,710)	7,678	(26,031)
As of September 30, 2019		140,099	—	140,370	734,270	1,004,690	74,079	1,078,770

(5) Condensed Quarterly Consolidated Statement of Cash Flows

	(Millions of Yen)	
Notes	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	98,487	16,096
ADJUSTMENTS FOR:		
Depreciation and amortization	44,209	67,965
Interest and dividend income	(3,603)	(3,964)
Interest expense	9,569	15,136
Share of results of associates	(1,996)	(409)
Loss (gain) on sales of share of subsidiaries and associates	(52,128)	-
Increase (decrease) in liability for retirement benefits	758	(384)
Other—net	9,578	21,072
Cash flows from operating activities before adjusting changes in working capital and others	104,874	115,512
CHANGES IN WORKING CAPITAL:		
(Increase) decrease in trade and other receivables	108,569	37,863
(Increase) decrease in inventories	(11,907)	5,288
(Increase) decrease in other current assets	(8,938)	18,150
Increase (decrease) in trade and other payables	(168,132)	(139,282)
Increase (decrease) in other current liabilities	(4,740)	(82,909)
Change in working capital	(85,150)	(160,888)
Subtotal	19,723	(45,375)
Interest received	1,634	2,580
Dividends received	2,742	2,258
Interest paid	(8,898)	(14,542)
Income taxes paid	(41,619)	(68,650)
Net cash flow from operating activities	(26,417)	(123,728)

		(Millions of Yen)	
		Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
	Notes		
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment, intangible assets and investment property		(20,155)	(22,129)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		433	884
Net cash (paid) received on acquisition of subsidiaries		(26,460)	(42,132)
Net cash (paid) received from sale of subsidiaries		297	-
Payments for purchases of securities		(56,283)	(22,390)
Proceeds from sales of securities		81,981	29,547
Other—net		(694)	(1,760)
Net cash flow from investing activities		(20,882)	(57,980)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in short-term borrowings		35,467	35,797
Proceeds from long-term borrowings		39,492	55,298
Repayment of long-term borrowings		(43,872)	(2,724)
Repayments of lease obligations		(914)	(24,567)
Payment for acquisition of interest in a subsidiary from non-controlling interests		(8,030)	(3,923)
Repurchase of treasury shares	6	(7)	(4,379)
Dividends paid	6	(25,370)	(26,075)
Dividends paid to non-controlling interests		(2,750)	(1,981)
Other—net		3,806	(882)
Net cash flow from financing activities		(2,181)	26,561
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(5,888)	(6,543)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(55,369)	(161,691)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		305,760	416,668
CASH AND CASH EQUIVALENTS AT END OF PERIOD		250,391	254,976

Notes on the Condensed Quarterly Consolidated Financial Statements

1. Reporting Entity

Dentsu 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 and principal business offices are available on the Company's website (www.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 third quarter ended September 30, 2019 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Arinobu Soga, Director and Executive Officer, on November 14, 2019.

2. Basis of Preparation

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.

3. Significant Accounting Policies

Significant accounting policies applied to the condensed quarterly consolidated financial statements for the third quarter ended September 30, 2019 are identical to those applied to the consolidated financial statements for the previous fiscal year, with the exception of changes in accounting policies stated below. Meanwhile,

income taxes for the nine months ended September 30, 2019 are calculated based on the estimated annual effective tax rate.

(Changes in accounting polices)

The Group has adopted IFRS 16 "Leases" from the first quarter ended March 31, 2019.

In adopting IFRS 16, the Group has applied the modified retrospective approach of recognizing the cumulative effect of adopting the standard as an adjustment to the beginning balance of retained earnings at the date of initial application.

In the transition to IFRS 16, the Group has elected to apply the practical expedient of maintaining its previous assessment of whether a contract is a lease. IFRS 16 has been applied only to contracts which were previously determined to be leases, and contracts which were not determined to be leases applying IAS 17 or IFRIC 4 were not reassessed as to whether they were leases. Consequently, the definition of a lease in accordance with IFRS 16 has only been applied to contracts executed or modified on and after January 1, 2019.

As a lessee, the Group had previously classified leases into operating leases and finance leases based on the assessment of whether the lessor substantially transferred the entire risks and rewards incidental to ownership of an underlying asset to the Group. Under IFRS 16, the Group recognizes a right-of-use asset and a lease obligation for most leases. However, the Group applies the recognition exemptions for short-term leases and leases of low-value assets.

Leases previously classified as operating leases applying IAS 17 were measured at the present value of the remaining lease payments discounted by using the Group's incremental borrowing rate as of January 1, 2019. The right-of-use assets were measured by either of the following methods.

- The carrying amount calculated on the assumption that IFRS 16 had been applied from the inception of the lease. However, the lessee's incremental borrowing rate at the date of initial application is used as the discount rate.
- The amount equivalent to the measurement of the lease obligation.

The Group has applied the following practical expedients in the application of IFRS 16 to leases, which had previously been classified as operating leases applying IAS 17.

- A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- A lessee shall adjust the right-of-use asset by the amount of any provision for onerous leases applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review.
- A lessee may apply the exemption to not recognize a right-of-use asset and a lease obligation for leases with remaining terms of 12 months or less.
- A lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases applying IAS 17, the carrying amounts of the right-of-use asset and the lease obligation as at January 1, 2019 were calculated based on the carrying amounts of the lease asset and lease obligation immediately before that date measured applying IAS 17.

For leases in which the Group is the lessor, excluding subleases, the Group is not required to make any adjustments at the time of transition to IFRS 16. IFRS 16 requires subleases to be classified by referencing the right-to-use asset rather than the underlying asset. The Group has concluded that, upon reassessment, the sublease contracts which had previously been classified as operating leases applying IAS 17 are finance leases applying IFRS 16.

As a result of the transition to IFRS 16, the Group has additionally recognized 128,246 million yen in right-of-use assets and 141,066 million yen in lease obligations and a decrease of 8,417 million yen in the opening balance of retained earnings (after taking into account tax effect).

Right-of-use assets are presented under "property, plant and equipment" or "intangible assets" and lease obligations are presented under "other financial liabilities" of current liabilities or "other financial liabilities" of non-current liabilities.

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 third quarter ended September 30, 2019 are identical to those for the consolidated financial statements for the previous fiscal year, except for those included in the following notes.

3. Significant Accounting Policies

10. Finance Income and Finance Costs

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 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.

Nine months ended September 30, 2018 (From January 1 to September 30, 2018)

(Millions of Yen)

	Japan business	International business	Total	Reconciliations	Consolidated
Turnover (Note 1)	1,385,951	2,458,908	3,844,860	(8,272)	3,836,587
Revenue (Note 2)	316,462	416,978	733,440	(8,272)	725,168
Revenue less cost of sales (Note 3)	272,676	395,811	668,488	(186)	668,301
Segment profit (underlying operating profit) (Note 3)	61,494	28,015	89,510	(0)	89,510
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(26,290)
Other adjusting items (selling, general and administrative expenses)	—	—	—	—	(977)
Other adjusting items (other income)	—	—	—	—	13
Other adjusting items (other expenses)	—	—	—	—	(4,263)
Operating profit	—	—	—	—	57,993
Share of results of associates	—	—	—	—	1,996
Gain on sale of shares of associates	—	—	—	—	52,128
Finance income	—	—	—	—	6,081
Finance costs	—	—	—	—	19,713
Profit before tax	—	—	—	—	98,487
Segment assets (Note 4)	1,372,333	2,214,477	3,586,811	(117,598)	3,469,212

Nine months ended September 30, 2019 (From January 1 to September 30, 2019)

(Millions of Yen)

	Japan business (Note 5)	International business (Note 5)	Total	Reconciliations	Consolidated
Turnover (Note 1)	1,393,087	2,278,971	3,672,059	(6,962)	3,665,096
Revenue (Note 2)	325,441	428,131	753,573	(6,962)	746,610
Revenue less cost of sales (Note 3)	276,444	398,141	674,585	(380)	674,205
Segment profit (underlying operating profit) (Note 3)	50,502	25,079	75,582	(3)	75,578
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	—	—	—	—	(26,789)
Other adjusting items (selling, general and administrative expenses)	—	—	—	—	(4,771)
Other adjusting items (other income)	—	—	—	—	29
Other adjusting items (other expenses)	—	—	—	—	(6,996)
Operating profit	—	—	—	—	37,050
Share of results of associates	—	—	—	—	409
Revaluation gain on step acquisition	—	—	—	—	2,239
Finance income	—	—	—	—	6,504
Finance costs	—	—	—	—	30,107
Profit before tax	—	—	—	—	16,096
Segment assets (Note 4)	1,449,844	2,207,570	3,657,415	(129,812)	3,527,602

- (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 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. Due to the effects of the adoption of IFRS 16 (See "3. Significant Accounting Policies"), segment assets as of January 1, 2019 increased by 43,192 million yen in the Japan business segment and by 85,054 million yen in the International business segment.

6. Capital

(1) Dividends

Dividends paid are as follows:

Nine months ended September 30, 2018 (From January 1 to September 30, 2018)

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 13, 2018)	Ordinary shares	12,685	45.00	December 31, 2017	March 8, 2018
Board of Directors (August 9, 2018)	Ordinary shares	12,685	45.00	June 30, 2018	September 7, 2018

Nine months ended September 30, 2019 (From January 1 to September 30, 2019)

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 14, 2019)	Ordinary shares	12,685	45.00	December 31, 2018	March 7, 2019
Board of Directors (August 7, 2019)	Ordinary shares	13,397	47.50	June 30, 2019	September 6, 2019

(Note) Total dividends by resolution at the meeting of the Board of Directors held on August 7, 2019 includes the 7 million yen in dividends for the Company's shares held by the trust account relating to the performance-based stock compensation plan.

(2) Purchase of treasury shares

The Company resolved at the Board of Directors' meeting held on August 7, 2019 to authorize a share repurchase pursuant to Article 156 of the Companies Act, as applied by replacing certain terms under the provisions of Article 165, Paragraph 3 of the Act.

1) Reason for the repurchase of treasury share

To enhance shareholder value and further improve capital efficiency, and at the same time to implement a flexible capital policy in response to changes in the business environment

2) Details of matters related to the repurchase

- | | |
|--|---|
| 1) Class of shares to be repurchased: | Common shares of the Company |
| 2) Total number of shares to be repurchased: | 12,000,000 shares (maximum) |
| 3) Total repurchase cost: | 30,000 million yen (maximum) |
| 4) Repurchase period: | August 8, 2019 to March 24, 2020 |
| 5) Method of repurchase: | Market purchase on the Tokyo Stock Exchange through a |

discretionary trading authorization
agreement

- 3) Treasury shares repurchased during the nine months ended September 30, 2019
- 1) Class of shares repurchased: Common shares of the Company
 - 2) Total number of shares repurchased: 1,154,400 shares
 - 3) Total repurchase cost: 4,372 million yen
 - 4) Repurchase period: September 2, 2019 to September 20, 2019
 - 5) Method of repurchase: Market purchase on the Tokyo Stock Exchange through a discretionary trading authorization agreement

7. Revenue

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

Nine months ended September 30, 2018 (From January 1 to September 30, 2018)

(Millions of Yen)

	Segments			Re-conciliations of internal transactions	Total
	Japan business	International business	Subtotal		
Principal services					
Advertising	261,252	416,978	678,230	—	—
Information Services	52,217	—	52,217	—	—
Other Business	2,992	—	2,992	—	—
Total	316,462	416,978	733,440	(8,272)	725,168
Breakdown by regional markets					
Japan	316,462	—	316,462	—	—
EMEA (Europe, Middle East and Africa)	—	155,283	155,283	—	—
Americas	—	173,774	173,774	—	—
APAC (Asia Pacific)	—	87,919	87,919	—	—
Total	316,462	416,978	733,440	(8,272)	725,168

Nine months ended September 30, 2019 (From January 1 to September 30, 2019)

(Millions of Yen)

	Segments			Re-conciliations of internal transactions	Total
	Japan business	International business	Subtotal		
Principal services					
Advertising	265,375	428,131	693,506	—	—
Information Services	57,310	—	57,310	—	—
Other Business	2,755	—	2,755	—	—
Total	325,441	428,131	753,573	(6,962)	746,610
Breakdown by regional markets					
Japan	325,441	—	325,441	—	—
EMEA (Europe, Middle East and Africa)	—	159,796	159,796	—	—
Americas	—	188,804	188,804	—	—
APAC (Asia Pacific)	—	79,530	79,530	—	—
Total	325,441	428,131	753,573	(6,962)	746,610

8. Other Income

The breakdown of other income is as follows:

(Millions of Yen)

	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Foreign exchange gains	—	125
Profit distributions	5,864	4,365
Other	1,002	1,683
Total	6,867	6,174

9. Other Expenses

The breakdown of other expenses is as follows:

(Millions of Yen)

	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Amortization of long-term prepaid expenses	2,983	3,380
Foreign exchange losses	12	—
Share-based compensation expenses settled in cash	3,996	6,182
Other	2,052	1,877
Total	9,045	11,439

10. Finance Income and Finance Costs

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

(Millions of Yen)

	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Interest income	2,018	2,189
Dividend income	1,584	1,775
Changes in fair value of contingent consideration	1,868	1,934
Foreign exchange gains	115	—
Other	494	605
Total	6,081	6,504

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

(Millions of Yen)

	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Interest expense	9,611	15,219
Remeasurements of stock purchase obligations (Note)	9,872	14,163
Foreign exchange losses	—	191
Other	229	533
Total	19,713	30,107

(Note) During the nine months ended September 30, 2018 and the nine months ended September 30, 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 nine months ended September 30, 2018 and the nine months ended September 30, 2019 increased by 11,399 million yen and 7,618 million yen, respectively.

11. Earnings Per Share

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

	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Basic earnings per share (Yen)	206.46	16.83
Diluted earnings per share (Yen)	206.46	16.82

	Third quarter ended September 30, 2018 (From July 1 to September 30, 2018)	Third quarter ended September 30, 2019 (From July 1 to September 30, 2019)
Basic earnings per share (Yen)	168.20	21.37
Diluted earnings per share (Yen)	168.20	21.36

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

	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Profit for the period used for calculation of basic earnings per share and diluted earnings per share		
Profit for the period attributable to owners of the parent (Millions of Yen)	58,200	4,742
Amounts not attributable to ordinary equity holders of the parent (Millions of Yen)	—	—
Profit for the period used for calculation of basic earnings per share (Millions of Yen)	58,200	4,742
Adjustment		
Share-based payment held by subsidiaries and associates (Millions of Yen)	(0)	(2)
Profit for the period used for calculation of diluted earnings per share (Millions of Yen)	58,199	4,739
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)	281,898	281,807
Effect of dilutive potential ordinary shares (Thousands of shares):		
Performance-based stock compensation plan	—	74
The weighted average number of ordinary shares outstanding used for the calculation of diluted earnings per share (Thousands of shares)	281,898	281,882

	Third quarter ended September 30, 2018 (From July 1 to September 30, 2018)	Third quarter ended September 30, 2019 (From July 1 to September 30, 2019)
Profit for the period used for calculation of basic earnings per share and diluted earnings per share		
Profit for the period attributable to owners of the parent (Millions of Yen)	47,414	6,017
Amounts not attributable to ordinary equity holders of the parent (Millions of Yen)	—	—
Profit for the period used for calculation of basic earnings per share (Millions of Yen)	47,414	6,017
Adjustment		
Share-based payment held by subsidiaries and associates (Millions of Yen)	—	(0)
Profit for the period used for calculation of diluted earnings per share (Millions of Yen)	47,414	6,017
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)	281,897	281,634
Effect of dilutive potential ordinary shares (Thousands of shares):		
Performance-based stock compensation plan	—	74
The weighted average number of ordinary shares outstanding used for the calculation of diluted earnings per share (Thousands of shares)	281,897	281,709

12. 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, 2018 and September 30, 2019 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)

	FY2018 (As of December 31, 2018)		The third quarter (As of September 30, 2019)	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	405,769	404,360	446,290	449,523
Bonds payable	79,746	80,245	79,775	80,704

(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 nine months ended September 30, 2018 and the nine months ended September 30, 2019.

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.

FY2018 (As of December 31, 2018)

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	—	16,792	—	16,792
Equity securities	234,375	—	68,011	302,386
Other	513	2,641	13,098	16,254
Total	234,889	19,434	81,110	335,433
Financial liabilities				
Derivative liabilities	—	2,893	—	2,893
Stock purchase obligations	—	—	120,839	120,839
Other (mainly contingent consideration)	—	—	69,244	69,244
Total	—	2,893	190,083	192,977

The third quarter (As of September 30, 2019)

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	—	15,485	—	15,485
Equity securities	246,042	—	75,768	321,810
Other	540	2,790	17,820	21,152
Total	246,582	18,275	93,589	358,448
Financial liabilities				
Derivative liabilities	—	6,083	—	6,083
Stock purchase obligations	—	—	133,522	133,522
Other (mainly contingent consideration)	—	—	68,025	68,025
Total	—	6,083	201,547	207,631

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, 2018 and September 30, 2019 are 0.58 and 0.56, respectively.

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	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Balance at the beginning of the period	32,181	81,110
Other comprehensive income (Note 1)	1,610	(4,345)
Purchases or acquisitions	56,670	17,414
Sales or settlements	(739)	(170)
Other	39	(419)
Balance at the end of the period	89,763	93,589

(Millions of Yen)

Financial liabilities	Nine months ended September 30, 2018 (From January 1 to September 30, 2018)	Nine months ended September 30, 2019 (From January 1 to September 30, 2019)
Balance at the beginning of the period	167,667	190,083
Profit or loss (Note 2)	8,003	12,229
Purchases	14,491	24,934
Sales or settlements	(22,419)	(21,274)
Other	(1,546)	(4,424)
Balance at the end of the period	166,196	201,547

(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 or finance costs. Profit or loss arising from financial instruments held at the end of the quarter amounted to 1,868 million yen (finance income) and 9,872 million yen (finance costs) for the nine months ended September 30, 2018, and 1,934 million yen (finance income) and 14,163 million yen (finance costs) for the nine months ended September 30, 2019.

13. Subsequent Events

No items to report

2. Other Information

(1) Dividends from surplus

With regard to the interim dividend for the fiscal year ending December 31, 2019 (from January 1, 2019 to December 31, 2019), the Company resolved at its meeting of the Board of Directors held on August 7, 2019 that dividends shall be paid to the shareholders whose names are recorded in the last register of shareholders as of June 30, 2019, in the following manner.

- | | |
|--|--------------------|
| 1) Total amount of dividends: | JPY 13,397 million |
| 2) Dividend per share: | JPY 47.50 |
| 3) Effective date of the right to collect payment and commencement date of dividend payment: | September 6, 2019 |

(Note) Total dividends by resolution at the meeting of the Board of Directors held on August 7, 2019 includes the 7 million yen in dividends for the Company's shares held by the trust account relating to the performance-based stock compensation plan.

(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.