dentsu group

Financial Report 2022

period covered: FY2020-FY2021

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Any forward-looking statements in the following discussion and analysis are based on the judgment of management as of the date that Dentsu Group Inc. (hereinafter "the Company") filed its securities report for the fiscal year ended December 31, 2021 with regulatory authorities.

Management Policies, Management Environment and Issues to be Addressed, etc.

(1) Changes in Business Environment and Growth Opportunities

The environment surrounding the Group as well as society as a whole are undergoing significant changes. Due to the emergence of new technologies, consumers' contact with media and consumer behavior are becoming more diverse. Consumers are now placing more value in personalized experience than ever before. In response to the changes in consumer attitudes, the needs of our client are also becoming more sophisticated and complex. Going beyond the conventional advertising and Marketing Communication fields, we are required to respond to the needs for integrated solutions based on business strategies, design of the total customer experience utilizing data and technology, and ideas on how to improve customer experience.

From another perspective, after going through the global crisis triggered by the COVID-19 pandemic, consumers are more concerned about social issues and placing more importance on sustainability in everyday life. It is imperative for companies including the Group to appropriately respond to issues in the ESG area, given there are mounting expectations for businesses to find solutions to such issues.

These changes in societal values, and the expansion of our clients' needs provide new growth opportunities for the Group. Meanwhile, the competitive environment surrounding our Group is becoming more complex – increasingly we compete with competitors outside the advertising industry, including consulting firms and system integrators.

(2) Maximizing Corporate Value

The Dentsu Group exists to realize a better society by contributing to the growth of our clients, partners, people, and all consumers. Under the new executive structure starting in January 2022, the Group announced a plan to become a "B2B2S" company as the new management policy to embody this purpose. The Group will evolve itself into a B-to-B-to-S (Business to Business to Society) business group, which faces not only "B-to-B (Business to Business)" but also "S (Society)" and solves social issues through working with clients. By doing so, the Group will create mid- and long-term value in society as a whole and work to maximize its corporate value for all of its stakeholders including shareholders, clients, partners and employees.

(3) Progress and Update of the Medium-term Management Plan

In August 2020, amid drastic changes in business environment, we launched a structural reform program based on a Comprehensive Review of our business operations and capital efficiency. This resulted in an improved cost structure in both the Japan and international businesses and enhanced the efficiency of our balance sheet through the disposal of non-business assets.

For FY2021, the first year of the Group Medium-term Management Plan announced in February 2021, the Group posted double-digit organic growth and made a significant improvement in adjusted operating margin compared to FY2020 due to the recovery in demand post the COVID-19 crisis and the effect of the structural reform program. Customer Transformation & Technology, a high-growth area that helps clients in their business transformation by evolving our know-how such as creativity cultivated in our existing business through combining it with data and technology, also posted a double-digit growth, contributing to the Group's earnings. As a result, FY2021 saw record-high net revenue, underlying operating profit and operating profit of the Group since it went public.

Looking forward, uncertainties remain, such as another outbreak of the global COVID-19 pandemic, but the advertising market, which is our core market, is expected to continue to grow by 8.7% globally in 2022 (forecast by the Group). FY2022 is the pivotal year of the Medium-term Management Plan covering the period through FY2024, in which we plan to move on to the business transformation and sustainable growth phase. Therefore, in February 2022 we updated the plan by specifying and upgrading our targets.

The Group will implement the Medium-term Management Plan focused on the following four pillars.

1. Transformation & Growth
2. Operations & Margin
3. Capital Allocation & Shareholder Returns
4. Social Impact & ESG

(i) Transformation & Growth

To address more sophisticated and complex clients' challenges, the Group has designed its strategy centering on the Integrated Growth Solutions, which are comprehensive solutions by optimally combining the Group's unique and diverse capabilities. Going forward, by leveraging growth and expansion of the Customer Transformation & Technology area including growth through M&A, the Group will integrate a diverse range of capabilities in the Marketing Communication field and further enhance them as solutions that help clients achieve topline growth.

The Group has expanded its capabilities and diversified its revenue sources during its history of development. The Marketing Communication field includes the Creative, Media and Content business domains, whereas the Customer Transformation & Technology area includes the Marketing Technology, Customer Experience Management, Commerce, System Integration, and Transformation & Growth Strategy domains. Such diverse service coverage has driven the Group's competitive advantages. Further, consumer intelligence based on our unique data base (which is the data analytics and insight that leads to an understanding of consumer behavior) underpins these diverse capabilities. On top of that, the Group has forged alliances with technology companies and platformers, and has increased and expanded resources for helping clients introduce or utilize marketing technology or analysis tools of these partners. Our resources are demonstrating market competitiveness in size and quality.

By making full use of these advantages, we will achieve organic growth through development of new technologies and solutions, investment in innovation and investment in human resources such as skill development and recruitment. In 2021, the Group acquired a US agency, LiveArea (a division of PFSweb, Inc.) to bolster the Group's Commerce domain, and made Dream Incubator Inc. an equity-method affiliate of the Group to enhance its business consulting capabilities. After making Septeni Holdings Co., Ltd. its consolidated subsidiary in January 2022, the Group became a leading player in digital advertising market in Japan. With estimated M&A funds of ¥250 to 300 billion by FY2024, the Group will make disciplined investment with focus on Customer Transformation & Technology to increase and expand capabilities and scale, and thus achieve business transformation.

(ii) Operations & Margin

We have implemented structural reform in our Japan and international businesses under the Comprehensive Review since 2020.

Our Japan business, Dentsu Japan Network (hereinafter "DJN"), has transformed its Advertising, Creative, Marketing and Promotions, Digital, Media, Content and other domains into four new business domains. These domains are AX (Advertising Transformation), BX (Business Transformation), CX (Customer Experience Transformation) and DX (Digital Transformation). To enhance the value of these four business domains, functions of each of DJN companies that make up the Japan business have been grouped and optimized from the perspectives of areas of expertise and generation of synergies, including the establishment of a virtual organization. In July 2021, Dentsu Digital Inc. and Dentsu Isobar Inc. merged. The control of Dentsu Direct Inc., which was established through the merger of Dentsu Direct Marketing Inc. and DA Search &Link Inc., was transferred to Septeni HD when Septeni HD became a consolidated subsidiary of the Dentsu Group as described above. Dentsu Corporate One Inc. in charge of corporate functions for our operations in Japan was established in January 2022 and is consolidating human resources and functions.

In our international business, we are in the process of consolidating more than 160 agency brands into six global leadership brands within Dentsu International (hereinafter "DI"). By transforming our organizational structure into a more integrated and efficient one, we offer solutions that are "ideas-led, data-driven and technology-enabled"

The Group has lowered its cost base through the reform implemented in 2020 and 2021.We will continue to enhance efficiency through business simplification and de-duplication of corporate functions. Over the mideium- to long-term profitability will be supported through the use of nearshore and offshore locations

(iii) Capital Allocation & Shareholder Returns

It is imperative to maintain a sound and flexible balance sheet in order to ensure necessary funds for business transformation and to generate long-term growth. We established a capital allocation policy considering the needs of the business including M&A investment in high-growth areas, capital expenditure to strengthen the core business, andgenerate improving shareholder returns." These priorities were balanced with, "consideration of the appropriate financial leverage and, the ongoing review of non-trading assets" to ensure sustainable improvement in shareholder value.

In February 2022, Dentsu Group Inc. announced a buyback of the Company's own shares up to ¥40 billion in FY2022 to further improve shareholder returns. The FY2021 dividend was a record-high for the Group at ¥117.5 per share. We aim to progressively raise the dividend payout ratio based on the policy under the Medium-term Management Plan, reaching 35% by 2024.

(iv) Social Impact & ESG

The Group will place greater importance on ESG-focused corporate management to improve corporate value. We will execute the "2030 Sustainability Strategy" and integrate our business growth and sustainability strategy under the governance of the Sustainable Business Board established last year. Diversity, Equity and Inclusion (DE&I) in the workplace will be promoted under the leadership of Chief Diversity Officer of DJN and Chief Equity Officers of DI. In a shift to ESG-focused corporate management, non-financial performance indicators are now linked to compensation of executives.

As part of governance enhancement efforts, the chairperson of the Board of Directors is no longer appointed from executives within the Group. This reflects a new management structure where the Chairman and CEO/President roles are separated in order to strengthen thefunction of the board.

For details of the Group's individual activities, including activities to reduce environment impact, diversity & inclusion initiatives, responsible communication and content creation policy, SDGs actions, see "Dentsu Group Integrated Report" (https://www.group.dentsu.com/en/sustainability/reports/).

(4) Management Targets under the Medium-term Management Plan

Management targets and other figures set by the Group and specified in the Annual Securities Report for the previous fiscal year are as follows (The figures are before reflecting the upward revision and other changes of the Medium-term Management Plan announced in February 2022):

Management Targets

- Organic growth rate
  3-4% CAGR FY2021-2024
- Operating margin
  Progressive year-on-year improvement in underlying operating margin through FY2024 vs. FY2021
- Customer Transformation & Technology ratio to Group

net revenue

Improvement in the ratio to reach 50% of Group net revenue over time during the Medium-term Management Plan

- Social impact & ESG

 Multiple targets and action plans including 46% absolute reduction in CO_2 emissions & 100% renewable energy utilization by 2030

 Improvement in employee engagement score

 Diverse & inclusive workforce

Management Policies

- New dividend policy: Dividend payout ratio to reach 35% of underlying basic EPS over the next few years
- Upper limit of 1.5x for the net debt/underlying EBITDA ratio (non IFRS 16 basis) in the medium term (lower level in the short term)

Comparing to the above management targets and KPIs, the business results in FY2021 are as follows:

The net revenue organic growth rate was 13.1% on a consolidated basis (DJN: 17.9%, DI: 9.7%), which are significantly above the target (3-4% CAGR).

Operating margin improved year on year from 14.8% to 18.3%.

Customer Transformation and Technology constituted 29.1% of Group net revenue, up from 27.5% last year.

As for ESG-focused corporate management, the Medium-term Management Plan updated in February 2022 sets a new target ratio of 50% for female managers by FY2030.

Payout ratio (calculated based on underlying basic EPS) was raised from 28.5% to 30.0% year on year. The Net debt/underlying EBITDA ratio was negative at the end of FY2021, below the level of 1.5x.

The Group updated management targets under the Medium-term Management Plan as below:

(i) Transformation & Growth

- Organic growth vs. FY2021 through FY2024 CAGR 4-5%
- Customer Transformation & Technology to constitute 50% of Group net revenue over time

(ii) Operations & Margin

- 17.0-18.0% adjusted operating margin through FY2023 to reach 18.0% in FY2024

(iii) Capital Allocation & Shareholder Returns

- Upper limit of 1.5x for the net debt/underlying EBITDA ratio (year end, non-IFRS 16 basis); indicative medium-term range of 1.0 to 1.5x
- Progressive increase in dividend, reaching 35% payout ratio of underlying basic EPS by FY2024

(iv) Social Impact & ESG

- 46% absolute reduction in CO_2 & 100% renewable energy (in markets where available) by FY2030
- Improvement in employee engagement score
- Enhancement of Diversity, Equity and Inclusion (DE&I) in the workplace. Ratio of female managers to reach 30% by FY2030 (DJN: 25%; DI: 50%)

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Comprehensive Business Overview

Due to the economic recovery from the COVID-19 crisis, the Group's business in FY2021 recovered in Japan and all of the three international regions, and organic growth rate (internal growth rate factoring out the effects of foreign exchange rates and acquisitions) on a consolidated basis increased by 13.1% and net revenue increased by 16.9% year on year. As a result of the increase in revenue and the effect of restructuring and cost control efforts in Japan and overseas, underlying operating profit increased by 44.4% year on year to ¥179,028 million, operating margin (underlying operating profit divided by net revenue) increased by 350 bps year on year to 18.3%, and underlying net profit attributable to owners of the parent increased by 56.2% year on year to ¥109,203 million.

Meanwhile, in terms of statutory profit items, operating profit was ¥ 241,841 million (operating loss was ¥ 140,625 million in the previous fiscal year) and profit attributable to owners of the parent was ¥ 108,389 million (loss attributable to owners of the parent was ¥ 159,596 million in the previous fiscal year), both of which significantly improved due to the earnings recovery and the recognition of a gain on sale of non-current assets including the Dentsu Headquarters Building.

Underlying operating profit is a profit calculation that a company uses as a profit indicator to measure regular accounting cycle events that exclude M&A related items and one-off items.

M&A related items: amortization of purchased intangible assets, acquisition costs, share-based compensation expenses relatedtoacquiredcompanies,share-based compensationexpenseissuedfollowingthe acquisition of 100% ownership of a subsidiary.

One-off items: items such as restructuring costs, impairment loss and gain/loss on sales of non-current assets.

Underlying net profit attributable to owners of the parent is a profit calculation that a company uses as an indicator to measure recurring net profit/loss attributable to owners of the parent that excludes adjustment items related to operating profit, change in fair value of contingent considerations (gain/loss on revaluation of earnout liabilities), remeasurements of share purchase liabilities (gain/loss on revaluation of M&A related put-option liabilities), tax-related, NCI profit-related and other one-off items.

We updated the Medium-term Management Plan for the four-year period from FY2021 to FY2024. This includes our new management policy "B2B2S (Business to Business to Society)" and specified and upgraded KPIs and targets in each of growth, profitability, capital allocation and ESG areas.

To increase shareholder returns, based on the dividend payout ratio of 30% of underlying basic EPS as set out in the Medium-term Management Plan, the Group decided to pay a total of dividends for FY2021 at \117.5 per share. In addition to the repurchase of its own shares of approximately ¥30 billion during FY2021, the share buyback plan up to ¥40 billion in FY2022 was approved at the meeting of the Board of Directors held on February 14, 2022.

Consolidated Financial Results

Consolidated financial results for this fiscal year (millions of yen)

Item	FY2021 (Fiscal year ended December 31, 2021)	FY2020 (Fiscal year ended December 31, 2020)	Year-on-year increase (decrease)
Revenue	**1,085,592**	939,243	15.6%
Net revenue	**976,577**	835,042	16.9%
Underlying operating profit	**179,028**	123,979	44.4%
Operating margin	**18.3%**	14.8%	350bps
Underlying net profit (attributable to owners of the parent)	**109,203**	69,890	56.2%
Operating profit (loss)	**241,841**	(140,625)	–
Profit (loss) for the year attributable to owners of the parent	**108,389**	(159,596)	–

Summary of consolidated financial results for the fiscal year ended December 31, 2021

Net revenue increased by 16.9% year on year (13.5% year on year after factoring out the effects of foreign exchange rates) to ¥976,577 million. The main causes of the increase in net revenue were increased organic growth (by ¥112,756 million; or by 13.1% on a consolidated basis, 17.9% in DJN, 9.7% in DI), increased effect of foreign exchange rates (by ¥25,721 million), and increased effect of acquisitions (by ¥3,059 million).

At DJN, net revenue increased by 19.2% to ¥415,915 million primarily because client spend on advertising increased and the digital solution domain remained strong amid the recovery trend from the COVID-19 pandemic.

DI's organic growth rates for FY2021 were positive in all of the three regions, and net revenue for the full year increased by 15.4% year on year (9.6% year on year after factoring out the effects of foreign exchange rates) to ¥560,978 million.

The contribution ratio of Customer Transformation & Technology to net revenue was 29.1% (year-on-year increase by 160 bp, or 10 bp after factoring out the effects of foreign exchange rates) on a consolidated basis, 24.4% (year-on-year decrease by 0 bp) in DJN and 32.6% (year-on-year increase by 290 bp, or 30 bp after factoring out the effects of foreign exchange rates) in DI.

Underlying operating profit increased by 44.4% year on year (41.3% year on year after factoring out the effects of foreign exchange rates) to ¥ ¥179,028 million. Underlying operating profit in DJN increased by 52.0% year on year to ¥95,361 million due to the increase in revenue and the effect of cost control, and the operating margin was 22.9% (18.0% in the previous fiscal year). As a result of restructuring and cost-control efforts that the Group has implemented since December 2020 in addition to the increase in revenue, underlying operating profit in DI increased by 33.8% year on year (28.4% year on year after factoring out the effects of foreign exchange rates) to ¥88,975 million. The operating margin was 15.9% (13.7% in the previous fiscal year). As a result, underlying net profit attributable to owners of the parent increased by 56.2% to ¥109,203 million.

Primarily due to the decrease in impairment loss and the recognition of a gain on sale of non-current asset, operating profit and profit attributable to owners of the parent significantly increased to ¥241,841 million (operating loss of \140,625 million in the previous fiscal year) and ¥108,389 million (loss attributable to owners of the parent of ¥159,596 million in the previous fiscal year), respectively.

Restructuring cost for this fiscal year

The Group forecast restructuring cost of approximately ¥56 billion for FY2021 on a consolidated basis in February 2021. The Group recorded restructuring cost of ¥19.5 billion.

The total restructuring cost for the international business in FY2021 was estimated to be approximately £230 million (approximately ¥31.5 billion at the exchange rate of ¥136.8 per GBP) at the time of decision on the structural reform program in December 2020, and DI recorded restructuring cost of £44 million (¥6.7 billion at the average exchange rate from Jan. to Dec. 2021 of ¥151.1 per GBP). This was primarily because the provision for costs related to the integration of businesses and companies and associated personnel reduction was partially offset by the reversal of the provision for unfavorable real estate lease contracts worth ¥13.4 billion recorded in FY2020.

The total restructuring cost for the Japan business in FY2021 was estimated to be approximately ¥23 billion at the time of decision on the structural reform program in February 2021, and DJN recorded restructuring cost of ¥12.7 billion. The main cause of this difference is that as a result of prioritizing the stable operation of Dentsu Corporate One Inc. from day one, a new company specializing in corporate functions, some of the personnel who had been supposed to transfer to the new company during FY2021 were temporarily seconded, and therefore the timing of personnel transfer and recording of associated costs were carried over to FY2022 and beyond.

Segment Overview

Dentsu Japan Network

Net revenue in Japan increased by 19.2% year on year due to a recovery in mass advertising placement by corporate clients, the digital solutions field which remained strong, and expanded offerings of integrated solutions which was strengthened through business transformation. Looking at net revenue by company, the Group saw significant growth of group companies that are driving the digital domain, including Dentsu Digital Inc. (41.0% increase year on year) and Carta Holdings, Inc. (17.5% increase year on year), and the net revenue of Dentsu Inc., which forms a major part of Group revenue, also increased by 18.3% year on year, contributing to the increase in revenue of DJN. Due to the increase in revenue and cost control, underlying operating profit and operating margin significantly increased by 52.0% and 490 bps, respectively.

DJN implemented business transformation in FY2021 based on the Medium-term Management Plan. The reorganization of multiple domestic subsidiaries and the changes in strategic capital and business alliances were announced and implemented to accelerate DJN's evolution into an Integrated Growth Partner (IGP) that is committed to the sustainable growth of all clients and society. Among the business transformation initiatives announced during the period, in January 2022, the Group made Septeni Holdings Co., Ltd. its consolidated subsidiary to enhance the digital marketing field, and Dentsu Corporate One Inc., a new company specializing in corporate functions, was established, and Dentsu Inc. launched its new executive structure led by Norihiro Kuretani who concurrently serves as the President and CEO of DJN. To turn the Dentsu Headquarters Building into the central base for the entire DJN, more than 20 DJN companies will be or have already been headquartered in the building, ready to bring about business innovation and sophistication.

In addition, DJN has further enhanced multiple initiatives to promote sustainability of itself and society. More recently, DJN published the "Sustainability Communication Guide," announced its fifth "Consumer Survey on Carbon Neutrality," and established a new position, Chief Diversity Officer (CDO) of DJN to enhance the promotion of Diversity, Equity & Inclusion (DE&I).

DJN: net revenue by company (IFRS base; in millions of yen)

IFRS base	FY2021 (January-December)	Year-on-year increase (decrease)	Organic growth rate
Dentsu Inc.	221,422	18.3%	18.3%
Information Services International-Dentsu, Ltd. (ISID)	40,016	6.8%	6.8%
Dentsu Digital Inc.	35,390	41.0%	31.2%
Carta Holdings, Inc.	23,827	17.5%	17.5%
Dentsu Tec Inc.	19,081	31.7%	31.7%
Dentsu Live Inc.	11,388	15.0%	15.0%
Other/internal transactions, etc.	64,788	23.7%	–
Japan business total	415,915	19.2%	17.9%

Dentsu International

As a result of strong performance of all of the three regions, net revenue from the international business increased by 15.4% year on year (9.6% year on year after factoring out the effects of foreign exchange rates), and underlying operating profit increased by 33.8% year on year (28.4% year on year after factoring out the effects of foreign exchange rates) mainly as a result of the increase in net revenue as well as effects of restructuring and cost-control efforts that have been implemented since December 2020.

EMEA: net revenue for the full year increased by 18.3% year on year (10.8% year on year after factoring out the effects of foreign exchange rates) and organic growth rate was 11.1%.

By country, Denmark, France, Poland, Spain and Switzerland posted double-digit organic growth and the UK also grew at 8.2%.

Americas: net revenue for the full year increased by 14.5% year on year (12.4% year on year after factoring out the effects of foreign exchange rates) and organic growth rate was 10.6%.

By country, positive organic growth of 9.9% in the US and 22.9% in Canada was partially offset by negative growth of 8.9% in Brazil, and organic growth rate in Americas as a whole was 10.6%. By service line, the Creative business performed strongly throughout the second half, while the Media business posted organic growth of 18% as a result of the recovery of the advertising market. The CXM business remained strong in the Commerce and Experiential Marketing domains with the growing demand for marketing utilizing data, analysis, and technologies.

APAC: net revenue for the full year increased by 11.3% year on year (4.7% year on year after factoring out the effects of foreign exchange rates) and organic growth rate was 4.7%.

The region's organic growth was driven by the strong growth in Singapore at 24.0%, in Indonesia at 20.8% and Australia at 12.1%, but was partially offset by the negative growth in India, China and Thailand. In China, the Creative service line fell in the negative territory from the third quarter onward, which contributed to the weak growth in China at negative 2.0%.

DI: organic growth rate by region (parentheses indicate negative growth)

	FY2021 (January-December)	FY2021 4Q (October-December)	FY2021 3Q (July-September)	FY2021 2Q (April-June)	FY2021 1Q (January-March)
EMEA	11.1%	12.6%	12.9%	22.0%	(2.9)%
Americas	10.6%	15.4%	16.3%	15.5%	(4.1)%
APAC	4.7%	3.8%	7.6%	10.2%	(3.1)%
Dentsu International total	9.7%	12.1%	13.4%	17.0%	(3.5)%

DI: net revenue and organic growth rate by service line
FY2021 (January-December)

	Net revenue (proportion of total) (in millions of yen)	Organic growth rate
Media	280,077 (49.9%)	12.6%
Creative	98,229 (17.5%)	3.7%
CXM*	182,664 (32.6%)	8.9%

* Customer Experience Management

Financial Position and Cash Flows

Financial Position

As of December 31, 2021, total assets increased by ¥356,172 million year on year to ¥3,720,536 million primarily due to the increases in cash and cash equivalents and trade and other receivables, despite the decrease in property, plant and equipment due to the sale of the real estate in Shiodome Zone A, which includes the Dentsu Headquarters Building. Meanwhile, total current liabilities increased by ¥251,003 million to ¥2,811,062 million, primarily due to the increase in trade and other payables. Total equity increased by ¥105,169 million to ¥909,474 million, primarily due to the recording of profit attributable to owners of the parent.

During the fiscal year ended December 31, 2021, the Company sold the real estate in Shiodome Zone A, which includes the Dentsu Headquarters Building, and started the lease of the Dentsu Headquarters Building. For details, refer to "Part 2. State of Our Business, 4 Material Contracts, etc." and "Part 5. Financial Section - Notes on the Consolidated Financial Statements 16. Leases, (5) Sale and leaseback transaction."

As described in "1. Management Policies, Management Environment and Issues to be Addressed," it is imperative to maintain a sound and flexible balance sheet, and therefore the Group will operate its balance sheet by setting the upper limit of 1.5x for the net debt/underlying EBITDA ratio at year end and keeping the indicative medium-term range of 1.0 to 1.5x (after factoring out the effects of applying IFRS 16).

Cash flows

As of December 31, 2021, cash and cash equivalents (hereinafter "cash") amounted to ¥723,541 million compared to the ¥530,692 million posted at the end of the previous fiscal year. Cash at the end of the fiscal year under review increased by ¥192,849 million from the end of the previous fiscal year, primarily due to cash provided by investing activities.

Net cash flow from operating activities

Net cash provided by operating activities increased by ¥51,401 million year on year to ¥139,715 million. This was primarily due to an increase in profit before tax. In addition, the increased net cash provided by operating activities was due to the year-on-year decrease in working capital. Working capital decreased by ¥69,155 million in the fiscal year ended December 31, 2021 compared to the previous year when working capital increased by ¥22,540 million.

Net cash flow from investing activities

Net cash provided by investing activities increased by ¥125,213 million year on year to ¥262,226 million. This was primarily due to proceeds from sale and leaseback transactions. Proceeds from sale and leaseback transactions was due to the sale of the real estate in Shiodome Zone A, which includes the Dentsu Headquarters Building, and the start of the lease of the Dentsu Headquarters Building during the fiscal year ended December 31, 2021. Based on a Comprehensive Review of our business operations and capital efficiency that the Group launched in August 2020, the Group conducted these transactions to raise capital efficiency, improve balance sheet and secure funds for investment in future growth. Refer to "Part 5. Financial Section - Notes on the Consolidated Financial Statements 16. Leases, (5) Sale and leaseback transaction" for details.

Net cash flow from financing activities

Net cash used in financing activities increased by ¥135,567 million year on year to ¥232,189 million. This was primarily due to a decrease in proceeds from issuance of corporate bonds and an increase in payment for acquisition of interest in a subsidiary from non-controlling interests. The repurchase of treasury shares up to ¥30 billion was approved at the meeting of the Board of Directors held on February 15, 2021, and the repurchase of treasury shares of ¥30.01 billion was recorded during the fiscal year ended December 31, 2021.

In addition, the repurchase of treasury shares up to ¥40 billion was approved at the meeting of the Board of Directors held on February 14, 2022. (Buyback period: February 15, 2022 through December 23, 2022)

Analysis and discussion of operating results, etc. from the management perspective

Forward-looking matters contained in this section are based on judgments made by the Group as of the date of filing of the annual securities report.

(1) Recognition, analysis and discussion of financial position and operating results

For recognition, analysis and discussion of financial position and operating results for the fiscal year ended December 31, 2021, refer to "(Summary of operating results) (1) Financial position and operating results."

(2) Analysis and discussion of cash flows, financial resources and funding liquidity

(i) Basic approach to capital policy and financial strategy

During the period covered by the Medium-term Management Plan announced in February 2021, the Group seeks to contribute to solutions to social issues and enhance its enterprise and shareholders' value by proactively taking advantage of changes in society and business opportunities brought by digitalization of corporate activities, ensuring management stability and financial soundness of the Group.

Regarding financial soundness, the Group aims to maintain a high credit rating by setting the upper limit of 1.5x for the net debt/underlying EBITDA ratio at year-end and maintaining the indicative medium-term range of 1.0 to 1.5x (each after factoring out the effects of applying IFRS 16). We ensure sufficient liquidity on hand through the use of internal reserves, loans from financial institutions, corporate bonds, commercial paper, receivables factoring, and commitment lines, among others. During FY2021, we also established additional, temporary loan commitments from financial institutions for ensuring liquidity to address a possible impact of the COVID-19 pandemic and other reasons. In this way, we will work to maintain a high degree of resilience against risks, including dramatic changes in the business environment.

We will make our investment in growth, including M&A and capital expenditures, across the Group as a whole, while taking care to ensure management stability and financial soundness.

The Group aims at providing a return to shareholders by appropriately allocating the generated income and improving intrinsic enterprise value; and seeks to progressively enhance the dividend payout ratio, reaching 35% of underlying basic EPS by FY2024.

(ii) Main demands on funds

The Group's main demands on working capital come from selling, general and administrative expenses, primarily the payment of media inventory and production expenses for advertising operations, and personnel expenses.

During the period covered by the Medium-term Management Plan announced in February 2021, demand for funds is expected to relate to the development of new technologies and solutions, and investment in innovation, as well as M&A and investment activities focused on the growth area of Customer Transformation & Technology.

(iii) Cash flows

For cash flows for the fiscal year ended December 31, 2021, refer to "(Summary of operating results) (2) Cash flows."

(iv) Financing and liquidity

The Group flexibly selects the optimal source of funds from among a diverse range of sources including internal reserves, loans from financial institutions, corporate bonds, commercial paper, receivables factoring, etc., based on a consideration of the market environment at each point in time, and the amount of long-term funds repayable each fiscal year. As a rule, long-term funds for the Group are sourced centrally through the Company.

In addition, the Company has established a commitment line of ¥50 billion through a syndicated bank facility, and Dentsu International Limited has established an undrawn 500 million pounds (approximately ¥77.6 billion) commitment line, in order to ensure liquidity, if required. The Company has also established additional, temporary loan commitments from financial institutions for ensuring liquidity to address a possible impact of the COVID-19 pandemic and other reasons.

Moreover, we have introduced a cash management system, where the Company borrows funds from subsidiaries with excess cash and lends these to other subsidiaries in need of funds, for the purposes of centralizing financing within the Group, increasing the efficiency of funds operations and ensuring liquidity.

The Group regards maintaining and enhancing its ability to secure stable external financing as an important management task. It has a long-term rating of AA- and a short-term rating of a-1+ from the credit rating agency Rating and Investment Information, Inc. (R&I). We consider it possible for the Group to maintain and expand its businesses, secure the necessary working capital, and raise funds to invest in growth, with no significant difficulty, based on the broad-reaching and strong relationships that we have built with major financial institutions in Japan and overseas over many years.

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Business and Other Risks

The following is a list of major risks associated with the execution of the Group's strategies, businesses, and other activities that may affect the decisions of investors. However, it is not an exhaustive list of all risks, and the Group may be affected in the future by risks that are not currently foreseen or considered significant. The Group is taking various measures and creating various mechanisms to minimize such management and business risks and take advantage of these risks as opportunities.

Forward-looking statements in the discussion below are based on judgments made by the Group as of the date of filing of the annual securities report.

Our risk management structure

Under the corporate governance structure presented in the diagram below, the Group has established the Group Risk Meeting, which oversees the management of risks as uncertain factors that may impede the achievement of management goals in the future. The Group Risk Meeting is responsible for identifying and assessing material risks to the management of the Group by utilizing the Enterprise Risk Management (ERM) approach. In order to prevent the materialization of identified risks and minimize the impact if they materialize, the meeting has selected risk sponsors and delegated the formulation and implementation of risk response plans to them, and regularly monitored the response status at the Group Executive Management Committee.

In addition, an internal control and risk committee has been established in DJN, which is our Japan business, and a risk committee has been established in DI, which is our international business, and they perform similar risk management activities.

(1) Risks associated with cyclical changes in the global economy and social changes accelerated by the impact of COVID-19

The financial results of the Group tend to be susceptible to economic fluctuations as client budgets are increased or decreased in response to economic conditions. In 2021 the macro economy began its recovery from a slowdown caused by the global spread of COVID-19. However, the impact of COVID-19 has accelerated changes not only in the economy, but also in the consciousness and behavioral patterns of consumers, and companies are being forced to not only respond to these changes, but also to make essential changes in their corporate activities, such as development of a direct to consumer (D2C) e-commerce channel and implementation of digital transformation. Under such circumstances, the needs of clients are becoming more sophisticated and complex, going beyond the conventional advertising and communication fields, and if we are unable to respond appropriately, it may have a negative impact on medium- to long-term business growth.

(2) Risks associated with the development of new businesses from the medium- to long-term perspectives

In February 2021, the Group announced the Medium-term Management Plan which is designed to transform our business in order to promptly respond to the changes in the business environment as described above and to accurately seize new business opportunities, and updated its targets in February in 2022. This plan aims to evolve our know-how cultivated in advertising and marketing by combining it with data and technology, and implement our growth strategy by strengthening Customer Transformation & Technology designed to support client companies in their pursuit of business transformation. However, there is a possibility that due to various reasons such as a lack of innovation within the Group, misreading of consumer attitudes, overly optimistic business plans, and a stalemate in negotiations with joint venture partners, these business development projects cannot be monetized over the medium to long term, negatively affecting the financial results of the Group. Additionally, even when projects can be monetized over the medium to long term, if it takes a longer period of time than we expect to recover the capital invested in them, it may temporarily have a negative impact on the Group's financial results.

(3) Risks related to securing human resources

The Group's growth potential and competitiveness depend on attracting and retaining highly skilled talent.

Therefore, if the Group is unable to secure the necessary personnel due to a shortage of human resources attributable to the tight labor market and other reasons, the Group's delivery of high value-added services to clients could be negatively affected, which could lead to a negative impact on the Group's financial results.

In addition, employee engagement is imperative to achieve the goals of the Medium-term Management Plan. If we fail to implement the vision and values including diversity, equity and inclusion within the Group and to maintain employee motivation, there will be a risk that employee loyalty will diminish, and it may become difficult to attract and retain highly skilled talent.

Under the new Dentsu vision and values with the tagline "an invitation to the never before." as its long-term direction and "THE 8 WAYS" as its guiding principles, Dentsu Group companies and individuals around the world promote and accelerate teaming with each other as well as with external partners for the creation of value. By doing so, the Group aims to build an inclusive corporate environment where everyone can work fully demonstrating their potential regardless of gender, nationality, age, sexual orientation, disability, years of service and other attributes, and works to widely permeate the corporate culture that leverages diversity to enhance competitiveness. In addition, since FY2021 the Group has conducted the group-wide engagement survey to listen to the voice of employees and identify and resolve organizational problems.

(4) Risk related to the business transformation

In order to respond to the rapid changes in the business and competitive environment, the Group has decided to implement an accelerated transformation. Our plan to consolidate more than 160 agency brands into six global leadership brands within DI over a two-year period has made good progress. At DJN, we are promoting three structural reforms: "Business Reformation," "Human Resources Reformation," and "Working Environment Development." With these structural reforms, the Group aims to accelerate the introduction of new business models and provide services of higher quality to clients, in order to increase employee satisfaction, expand revenue, and improve operating margin. However, if the structural reforms do not proceed as expected, the financial results of the Group could be negatively impacted.

(5) Risks associated with the competitive environment and structural changes in the existing advertising industry

(i) Risk of price competition with competitors

The Group faces competition from competing advertising agency groups and digital agency groups at home and abroad. As clients look to drive efficiency within their marketing budgets, this can lead to price competition, especially in the media planning and buying fields.

The Group provides solutions that are integrated with consumer insights cultivated over many years of experience and believes that the continuous provision of such high added value will enable the Group to differentiate itself from competitors, maintain solid relationships with clients, and avoid excessive price competition.

(ii) Risk of loss of global clients

Many of the Group's clients operate on a global scale. From the perspective of ensuring uniformity in advertising campaigns and efficient operation, in some cases these clients conduct a global pitch (a bidding process on a global level or a regional level such as APAC) to select advertising agencies that handle these campaigns. Global pitches tend to involve larger media spends.

If the Company loses global pitches conducted by existing clients of the Group, it may lead to a decrease in the Group's revenue. Or, if price competition becomes a feature of the market, this may negatively affect the operating margin of the Group.

(iii) Risks associated with structural changes in the media environment

The media environment surrounding consumers is undergoing a major shift to digitalization against the backdrop of technological innovation in the internet and digital devices. Taking these structural changes in the media environment as business opportunities, the Group flexibly allocates and invests its resources in next-generation media and constantly provides client companies with marketing solutions tailored to the latest consumer behavior principles.

However, if the Group fails to respond swiftly and appropriately to the structural changes in the media environment, it may result in loss of revenue from the media, deterioration of relationships with clients and other unfavorable events, which may negatively affect the financial results of the Group. In addition, given that these structural changes in the media environment are progressing in different forms and timeframes in each country and region, there is a risk that the Group will be unable to follow this trend in some countries and regions.

(iv) Expanded competition with companies in other industries

In addition to competing with advertising agency groups and digital agency groups in the same industry, the Group has faced new competition with players in other industries, such as consultancies or tech companies, in the past few years. With a growing client demand for more efficient and optimized advertising and marketing activities and a greater demand for Marketing Communication customized for each consumer, there are increasing cases where the Group competes with players in the domains of data analytics, customer experience (CX), and consulting.

If the boundary between the advertising and marketing domain, which is the Group's existing core business, and other domains gets increasingly blurred, and in turn competition with players in other industries intensifies, some of the Group's revenue may be lost to these competitors.

Taking these changes in the industry structure as business opportunities, we will evolve the know-how we have cultivated in advertising and marketing by combining it with data and technology to establish a model for providing integrated solutions that leverage consumer intelligence.

(6) Risks related to the content business

The Group is engaged in content businesses, such as investment in the production of movies and the purchase and sale of broadcasting rights for sports events, both in Japan and overseas. Many of these content businesses involve advance payments before income is earned, and their revenue and expenditure plans may extend over many fiscal years. In addition, some of the projects to acquire sponsorship and broadcasting rights for large sports events require substantial amounts of financial commitments.

Having long been engaged in these content businesses, the Group has the insight to formulate revenue and expenditure plans with a certain degree of accuracy and strives to diversify risks in the content business by managing many content business projects as a single portfolio.

However, occasionally it can be harder to reliably predict consumer response, which determines revenue from the content business. If some projects do not progress in line with their revenue and expenditure plans, or if the Group is forced to sell sponsorship and broadcasting rights at a price lower than their purchase cost, the financial results of the Group could be adversely affected.

(7) Impairment risk of DI goodwill and intangible assets

In March 2013, the Company acquired Aegis Group plc (hereinafter "Aegis"), a UK-based major advertising company, to integrate the Group's international business promotion function into Aegis and reorganize it as the current Dentsu International Limited (DI; former Dentsu Aegis Network Ltd.).

With the acquisition of Aegis and the subsequent acquisitions of many companies made by DI on a global scale, the Group recorded large amounts of goodwill and intangible assets.

The Group conducted impairment tests and recorded an impairment loss of approximately ¥140.3 billion on goodwill related to DI in FY2020 in light of heightened uncertainty in the business environment due to lingering COVID-19 pandemic.

If future impairment tests for each cash generating unit result in additional impairment losses, the Group's financial results and financial position could be adversely affected.

(8) Risks related to information security and cyber security

The Group frequently receives undisclosed information on products, services, and business strategies of client companies in the course of doing business. The Group takes all possible measures to ensure appropriate information management, such as obtaining certification to the international standard on information security management system. Nevertheless, in the event of an information leak or other incident, the Group's credibility could be damaged, which in turn could adversely affect the financial results of the Group.

In addition, unexpected external cyberattacks and actions of employees or suppliers may threaten the confidentiality, integrity, or availability of critical business systems and data, resulting in significant operational, regulatory, financial, or reputational impact, or impact on clients.

The Group has established the group security function supervising cyber security departments in Japan and overseas to ensure that security risks are effectively managed and continuously assess the state of evolving threats, and evaluate the effectiveness of risk management and control in line with the ERM approach.

(9) Risk associated with sustainability agenda

The Group set "Social Impact & ESG" as one of the four pillars of the Medium-term Management Plan, and in January 2021 launched the "2030 Sustainability Strategy" for Dentsu Group to create truly sustainable value for the lasting good of everyone. The strategy centers on three priority themes: "sustainable world," "fair and open society," and "digital for good," and we are taking measures to achieve environmental and social targets under this strategy.

However, any failure or delay in the achievement of these targets due to external environmental factors in terms of society or economy may negatively affect the Group's reputation or trust.

The Group has established the Sustainable Business Board steered by senior management, and under its governance, puts sustainability at the heart of our growth strategy, culture, and operations and is promoting activities to integrate the Group's business growth and sustainability strategy.

(10) Risks related to laws and regulations, litigation, etc.

(i) Risks related to violations of labor laws and regulations

The Group works on establishing a work environment that enables individual employees to constantly enjoy pleasant working conditions as one of its top management priorities. However, if the Group is unable to sustain a supportive work environment, a decline in motivation and performance of the Group's employees, a brain drain of skilled employees, and difficulties in attracting diverse human resources may arise and adversely affect the financial results of the Group. In addition, Dentsu Inc., a wholly-owned subsidiary of the Company, has been continuously engaged in work environment reforms since FY2017. These reforms have steadily improved the work environment for the Group's employees in Japan, but nevertheless, in the event of recurrence of labor management problems, the reputation of the Group may deteriorate.

(ii) Risk related to personal and other information

The Group receives the personal information of existing and prospective customers for client companies in the course of doing business. Additionally, with a growing client demand for Marketing Communication customized for each consumer, the Group is engaged in developing products and services using personal data and providing them to client companies.

The Group complies with laws and regulations, both in Japan and abroad, including the Act on the Protection of Personal Information and the EU General Data Protection Regulation, and responds promptly to amendments to these laws and regulations. At present the Group does not anticipate that these laws or regulations will negatively affect the Group's businesses. However, in the event of a personal information leak or other incident, the Group's credibility could be damaged, which in turn could adversely affect the financial results of the Group. In addition, if these laws or regulations are amended and if any restrictions are imposed on the use of personal data by the Group from an ethical point of view, making it impossible to provide some of our products and services to client companies, the Group's businesses could be negatively impacted.

(iii) Risks related to litigation, etc.

A claim against any of the businesses that the Group operates in a wide range of areas whether in Japan or abroad may be filed by government agencies, clients, media companies, subcontractors, and other entities arising from investigation, litigation, media audit or other reasons.

For contingent liabilities, etc. in India, refer to "Part 5. Financial Section - Notes on the Consolidated Financial Statements 38. Contingent Liabilities: Contingent Liabilities, etc. in India."

(11) Risks related to unforeseen incidents, disasters, accidents, etc.

In the event of natural disasters, failures in electricity and other social infrastructure, communication and broadcasting disruptions, distribution disruptions, large-scale accidents, infectious diseases, recurrent outbreaks of the pandemic, war, terrorism, political or social unrest, or other incidents in the areas where the Group operates or develops business, they could negatively affect the business activities of the Group or its clients and in turn the financial results of the Group.

The Group regularly reviews crisis management and business continuity plans (BCP) at the risk committees of DJN and DI to address the above issues that are expected in each region and market.

For the impact of Russian troops' invasion of Ukraine in February 2022 on our business, please refer to "Part 5. Financial Section - Notes on the Consolidated Financial Statements 39. Subsequent Events (Russia and Ukraine Situation)."

Consolidated Financial Statements

Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2021

ASSETS	Notes	FY2020 (As of December 31, 2020)	(Millions of Yen) FY2021 (As of December 31, 2021)	(Millions of U.S. Dollars) FY2021 (As of December 31, 2021)
CURRENT ASSETS:				
Cash and cash equivalents	8, 36	¥530,692	¥723,541	$6,291
Trade and other receivables	9, 26, 36	1,293,370	1,500,020	13,041
Inventories	10	23,848	20,661	180
Other financial assets	11, 20, 36	12,162	19,455	169
Other current assets	12	64,739	66,376	577
Subtotal		1,924,814	2,330,056	20,258
Non-current assets classified as held for sale	13	2	13,059	114
Total current assets		1,924,816	2,343,115	20,371
NON-CURRENT ASSETS:				
Property, plant and equipment	14, 16	280,196	173,681	1,510
Goodwill	7, 15	593,369	670,749	5,832
Intangible assets	7, 15, 16	191,133	187,999	1,634
Investment property	16, 17	36,362	100	1
Investments accounted for using the equity method	6, 18	50,906	56,423	491
Other financial assets	11, 26, 36	216,750	205,956	1,791
Other non-current assets	23	16,202	18,243	159
Deferred tax assets	19	54,624	64,266	559
Total non-current assets		1,439,547	1,377,421	11,975
TOTAL ASSETS	6	¥3,364,364	¥3,720,536	$32,347

Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2021

LIABILITIES AND EQUITY	Notes	(Millions of Yen) FY2020 (As of December 31, 2020)	(Millions of Yen) FY2021 (As of December 31, 2021)	(Millions of U.S. Dollars) FY2021 (As of December 31, 2021)
LIABILITIES:				
CURRENT LIABILITIES:				
Trade and other payables	20, 36	¥1,247,172	¥1,465,110	12,738
Borrowings	21, 36	72,533	93,067	809
Other financial liabilities	16, 21, 36	149,737	99,087	861
Income tax payables		71,228	60,960	530
Provisions	22	28,745	16,059	140
Other current liabilities	26	189,654	237,587	2,066
Total current liabilities		1,759,071	1,971,873	17,144
NON-CURRENT LIABILITIES:				
Bonds and borrowings	21, 36	512,274	486,122	4,226
Other financial liabilities	16, 21, 36	149,305	204,966	1,782
Liability for retirement benefits	23	25,421	30,201	263
Provisions	22	48,013	37,340	325
Other non-current liabilities	26, 35	10,970	12,009	104
Deferred tax liabilities	19	55,002	68,547	596
Total non-current liabilities		800,987	839,188	7,296
Total liabilities		2,560,059	2,811,062	24,440
EQUITY:				
Share capital	24	74,609	74,609	649
Share premium account	24	75,596	77,864	677
Treasury shares	24	(34,592)	(64,603)	(562)
Other components of equity		42,216	81,423	708
Retained earnings	24	582,991	675,739	5,875
Total equity attributable to owners of the parent	36	740,821	845,034	7,347
Non-controlling interests	7, 24	63,483	64,440	560
Total equity		804,305	909,474	7,907
TOTAL LIABILITIES AND EQUITY		¥3,364,364	¥3,720,536	$32,347

Consolidated Statement of Income

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2021

	Notes	FY2020 (Year ended December 31, 2020) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of U.S. Dollars)
(Turnover (Note 1))	6	¥4,498,216	¥5,256,492	$45,701
Revenue	6, 17, 26	939,243	1,085,592	9,438
Cost of sales	14, 15, 16,17, 23, 28	104,201	109,014	948
Net revenue	6	835,042	976,577	8,490
Selling, general and administrative expenses	14, 15,16, 23, 27, 28, 35	740,383	833,914	7,250
Provision (reversal) of allowance for doubtful accounts	36	5,979	(580)	(5)
Restructuring cost	22, 28	78,394	19,516	170
Gain (loss) on sale and retirement of non-current assets	16	(218)	118,960	1,034
Impairment loss	14, 15	144,720	1,353	12
Other income	17, 29	6,592	8,445	73
Other expenses	30	12,564	7,938	69
Operating profit (loss)	6	(140,625)	241,841	2,103
Share of profits of investments accounted for using the equity method	18	1,680	2,448	21
Impairment loss of investments accounted for using the equity method	18	958	–	–
Gain on sale of investments in associates	18	144	35	0
Revaluation gain on step acquisition	18	44	–	–
Profit (loss) before interest and tax		(139,714)	244,325	2,124
Finance income	31	18,871	4,749	41
Finance expenses	16, 23, 28, 31	20,290	40,240	350
Profit (loss) before tax		(141,133)	208,833	1,816
Income tax expenses	19	11,162	93,979	817
Profit (loss) for the year		¥(152,296)	¥114,853	$999
Profit (loss) attributable to:				
Owners of the parent		¥(159,596)	¥108,389	$942
Non-controlling interests		¥7,299	¥6,463	$56
Profit (loss) per share		(Yen)	(Yen)	(U.S.Dollars)
Basic profit (loss) per share	33	¥(571.19)	¥388.79	$3.38
Diluted profit (loss) per share	33	¥(571.21)	¥387.11	$3.37

Reconciliation from operating profit (loss) to underlying operating profit

	Notes	FY2020 (Year ended December 31, 2020) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of U.S. Dollars)
Operating profit (loss)		¥(140,625)	¥241,841	$2,102.60
Amortization of intangible assets incurred in acquisitions		31,877	29,409	256
Selling, general and administrative expenses		4,109	5,621	49
Restructuring cost		78,394	19,516	170
Loss (gain) on sale and retirement of non-current assets		218	(118,960)	(1,034)
Impairment loss		144,720	1,353	12
Other income		(83)	(1,638)	(14)
Other expenses		5,369	1,884	16
Underlying operating profit (Note 2)	6	¥123,979	¥179,028	$1,556

(Note 1) Turnover represents the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of turnover information is not required under IFRS; however, it is voluntarily disclosed in the Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.
(Note 2) For the definition of underlying operating profit, refer to "3. SIGNIFICANT ACCOUNTING POLICIES (21) Underlying Operating Profit."

Consolidated Statement of Comprehensive Income

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2021

	Notes	FY2020 (Year ended December 31, 2020)	(Millions of Yen) FY2021 (Year ended December 31, 2021)	(Millions of U.S. Dollars) FY2021 (Year ended December 31, 2021)
PROFIT (LOSS) FOR THE YEAR		¥(152,296)	¥114,853	$999
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	32, 36	(15,077)	(4,955)	(43)
Remeasurements of defined benefit plans	23, 32	(3,478)	(104)	(1)
Share of other comprehensive income of investments accounted for using the equity method	18, 32	(172)	6	0
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:				
Exchange differences on translation of foreign operations	32	(24,897)	29,210	254
Effective portion of the change in the fair value of cash flow hedges	32	(8,352)	17,595	153
Share of other comprehensive income of investments accounted for using the equity method	18, 32	(14)	110	1
Other comprehensive income, net of tax		(51,993)	41,861	364
COMPREHENSIVE INCOME FOR THE YEAR		¥(204,289)	¥156,715	$1,363
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:				
Owners of the parent		¥(210,638)	¥151,766	$1,319
Non-controlling interests		¥6,348	¥4,948	$43

Consolidated Statement of Changes in Equity

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2021

(Millions of Yen)

	Notes	Share capital	Share premium account	Treasury shares	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges	Net change in financial assets measured at fair value through other comprehensive income
		Total equity attributable to owners of the parent			Other components of equity		
As of January 1, 2020		¥74,609	¥100,102	¥(60,202)	¥26,559	¥2,952	¥177,137
Cumulative effects of changes in accounting policies					¥425		
Restated balance as of January 1, 2020		74,609	100,102	(60,202)	26,985	2,952	177,137
Profit (loss) for the year							
Other comprehensive income	32				(23,396)	(8,351)	(15,814)
Comprehensive income for the year		–	–	–	(23,396)	(8,351)	(15,814)
Repurchase of treasury shares	24			(10,004)			
Disposal of treasury shares	24		(26,197)	35,613			
Dividends	25						
Transactions with non-controlling interests	24						
Transfer from other components of equity to retained earnings							(117,296)
Other			1,691				
Transactions with owners–total		–	(24,505)	25,609	–	–	(117,296)
As of December 31, 2020		¥74,609	¥75,596	¥(34,592)	¥3,588	¥(5,398)	¥44,026
Profit for the year							
Other comprehensive income	32				27,876	17,597	(1,991)
Comprehensive income for the year		–	–	–	27,876	17,597	(1,991)
Repurchase of treasury shares	24			(30,010)			
Dividends	25						
Transactions with non-controlling interests	24						
Transfer from other components of equity to retained earnings							(4,275)
Other			2,267				
Transactions with owners–total		–	2,267	(30,010)	–	–	(4,275)
As of December 31, 2021		¥74,609	¥77,864	¥(64,603)	¥31,465	¥12,199	¥37,759

(Millions of U.S. Dollars)

	Notes	Share capital	Share premium account	Treasury shares	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges	Net change in financial assets measured at fair value through other comprehensive income
		Total equity attributable to owners of the parent			Other components of equity		
As of December 31, 2020		$649	$657	$(301)	$31	$(47)	$383
Profit for the year							
Other comprehensive income	32				242	153	(17)
Comprehensive income for the year		–	–	–	242	153	(17)
Repurchase of treasury shares	24			(261)			
Dividends	25						
Transactions with non-controlling interests	24						
Transfer from other components of equity to retained earnings							(37)
Other			20				
Transactions with owners–total		–	20	(261)	–	–	(37)
As of December 31, 2021		$649	$677	$(562)	$274	$106	$328

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent: Other components of equity: Remeasurements of defined benefit plans	Other components of equity: Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2020		–	¥206,649	¥653,818	¥974,977	¥77,556	¥1,052,533
Cumulative effects of changes in accounting policies			425	(16,474)	(16,048)	–	(16,048)
Restated balance as of January 1, 2020		–	207,075	637,344	958,928	77,556	1,036,485
Profit (loss) for the year			–	(159,596)	(159,596)	7,299	(152,296)
Other comprehensive income	32	(3,479)	(51,042)		(51,042)	(951)	(51,993)
Comprehensive income for the year		(3,479)	(51,042)	(159,596)	(210,638)	6,348	(204,289)
Repurchase of treasury shares	24		–		(10,004)		(10,004)
Disposal of treasury shares	24		–		9,416		9,416
Dividends	25		–	(26,508)	(26,508)	(2,927)	(29,436)
Transactions with non-controlling interests	24		–	16,195	16,195	(17,316)	(1,121)
Transfer from other components of equity to retained earnings		3,479	(113,816)	113,816	–		–
Other			–	1,740	3,431	(177)	3,254
Transactions with owners–total		3,479	(113,816)	105,243	(7,468)	(20,421)	(27,890)
As of December 31, 2020		–	¥42,216	¥582,991	¥740,821	¥63,483	¥804,305
Profit for the year			–	108,389	108,389	6,463	114,853
Other comprehensive income	32	(105)	43,376		43,376	(1,515)	41,861
Comprehensive income for the year		(105)	43,376	108,389	151,766	4,948	156,715
Repurchase of treasury shares	24		–		(30,010)		(30,010)
Dividends	25		–	(20,888)	(20,888)	(2,541)	(23,430)
Transactions with non-controlling interests	24		–	197	197	(1,383)	(1,186)
Transfer from other components of equity to retained earnings		105	(4,169)	4,169	–		–
Other			–	879	3,146	(65)	3,081
Transactions with owners–total		105	(4,169)	(15,642)	(47,554)	(3,990)	(51,545)
As of December 31, 2021		–	¥81,423	¥675,739	¥845,034	¥64,440	¥909,474

(Millions of U.S. Dollars)

	Notes	Total equity attributable to owners of the parent: Other components of equity: Remeasurements of defined benefit plans	Other components of equity: Total	Retained earnings	Total	Non-controlling interests	Total equity
As of December 31, 2020		–	$367	$5,069	$6,441	$552	$6,993
Profit for the year			–	942	942	56	999
Other comprehensive income	32	(1)	377		377	(13)	364
Comprehensive income for the year		(1)	377	942	1,319	43	1,363
Repurchase of treasury shares	24		–		(261)		(261)
Dividends	25		–	(182)	(182)	(22)	(204)
Transactions with non-controlling interests	24		–	2	2	(12)	(10)
Transfer from other components of equity to retained earnings		1	(36)	36	–		–
Other			–	8	27	(1)	27
Transactions with owners–total		1	(36)	(136)	(413)	(35)	(448)
As of December 31, 2021		–	$708	$5,875	$7,347	$560	$7,907

Consolidated Statement of Cash Flows

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2021

	Notes	FY2020 (Year ended December 31, 2020)	(Millions of Yen) FY2021 (Year ended December 31, 2021)	(Millions of U.S. Dollars) FY2021 (Year ended December 31, 2021)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax		¥(141,133)	¥208,833	$1,816
ADJUSTMENTS FOR:				
Depreciation and amortization	6, 14, 15, 16, 17, 27	85,968	74,876	651
Share-based compensation expenses attributable to the acquiree	30	3,094	–	–
Impairment loss	14, 15	144,720	1,353	12
Interest and dividend income	31	(4,569)	(3,151)	(27)
Interest expense	31	18,529	17,197	150
Share of profits of investments accounted for using the equity method		(1,680)	(2,448)	(21)
Impairment loss of investments accounted for using the equity method		958	–	–
Revaluation (gain) loss on contingent consideration and put option put option liabilities	31	(13,678)	20,293	176
Loss (gain) on sales and retirement of non-current assets		218	(118,960)	(1,034)
Increase (decrease) in liability for retirement benefits		(4,919)	3,620	31
Increase (decrease) in provision of restructuring cost		55,818	(28,409)	(247)
Other – net		15,352	11,743	102
Cash flows from operating activities before adjusting changes in working capital and others		158,679	184,949	1,608
CHANGES IN WORKING CAPITAL:				
(Increase) decrease in trade and other receivables		135,807	(129,293)	(1,124)
(Increase) decrease in inventories		(2,815)	(779)	(7)
(Increase) decrease in other current assets		(4,294)	1,755	15
Increase (decrease) in trade and other payables		(143,110)	141,372	1,229
Increase (decrease) in other current liabilities		(8,126)	56,101	488
Change in working capital		(22,540)	69,155	601
Subtotal		136,138	254,104	2,209
Interest received		2,421	2,144	19
Dividends received		3,061	4,344	38
Interest paid	16	(18,441)	(17,064)	(148)
Income taxes paid		(34,866)	(103,813)	(903)
Net cash flows from operating activities		88,313	139,715	1,215
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for purchase of property, plant and equipment, intangible assets and investment property	6	(21,474)	(21,036)	(183)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		1,526	33,971	295
Proceeds from sale-and-leaseback	16	–	305,200	2,653
Net cash (paid) received on acquisition of subsidiaries	7	(26,585)	(47,415)	(412)
Net cash (paid) received on liquidation of subsidiaries		–	(2,256)	(20)
Payments for purchases of securities		(13,124)	(7,209)	(63)
Proceeds from sales of securities		197,287	5,342	46
Other – net		(616)	(4,368)	(38)
Net cash flows from investing activities		137,013	262,226	2,280
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in short-term borrowings	21	(9,174)	(3,334)	(29)
Proceeds from long-term borrowings	21	1,364	2,998	26
Repayments of long-term borrowings	21	(127,137)	(37,368)	(325)
Proceeds from issuance of bonds	21	119,629	–	–
Repayments of lease obligations	16, 21	(33,666)	(31,967)	(278)
Payments for acquisition of interest in subsidiaries from non-controlling interests	21	(10,892)	(107,000)	(930)
Payments for repurchase of treasury shares	24	(10,004)	(30,010)	(261)
Dividends paid	25	(26,508)	(20,888)	(182)
Dividends paid to non-controlling interests		(3,066)	(2,584)	(22)
Other – net		2,833	(2,031)	(18)
Net cash flows from financing activities		(96,622)	(232,189)	(2,019)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(12,067)	23,095	201
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		116,637	192,849	1,677
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISICAL YEAR	8	414,055	530,692	4,614
CASH AND CASH EQUIVALENTS AT END OF FISICAL YEAR	8	¥530,692	¥723,541	$6,291

Notes to Consolidated Financial Statements

Dentsu Inc. and Consolidated Subsidiaries

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 address of the Company's registered corporate headquarter is available on the Company's website (https://www.group.dentsu.com/jp/).

The details of businesses and principal business activities of the Company and its subsidiaries (hereinafter referred to as the "Group") are stated in "6. SEGMENT INFORMATION."

The consolidated financial statements for the year ended December 31, 2021 were approved by Hiroshi Igarashi, Representative Director and President & CEO, and Arinobu Soga, Representative director, EVP & CFO, on May 16, 2022.

2. BASIS OF PREPARATION

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

The Company's consolidated financial statements meet all of the requirements of Article 1-2 "Designated IFRS Specified Company" stipulated in the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; (the "Ordinance on Consolidated Financial Statements")) and are prepared in accordance with IFRS under the provisions of Article 93 of the Ordinance on Consolidated Financial Statements.

(2) Basis of Measurement

The consolidated financial statements are prepared on the historical cost basis, except for financial instruments and others stated in "3. SIGNIFICANT ACCOUNTING POLICIES."

(3) Functional Currency and Presentation Currency

The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company.

For the convenience of readers outside Japan, the accompanying Consolidated Financial Statements are also presented in United States dollars by translating Japanese yen amounts at the exchange rate of ¥115.02 to U.S.$1, the approximate rate of exchange at the end of December 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into United States dollars at the above or any other rate.

Amounts less than one million yen have been rounded down to the nearest million yen and those less than one million U.S. dollars have been rounded to the nearest million U.S. dollars in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

(4) Early adoption of New Standards

There are no early adoption of standards.

(5) Change in presentation

(Consolidated Statement of Income)

"Gain (loss) on sale and retirement of non-current assets," which had been presented under "Other income" and "Other expenses" in the fiscal year ended December 31, 2020, are presented separately in the fiscal year ended December 31, 2021, due to an increase in their quantitative materiality. To reflect this change in the presentation, the Consolidated Statement of Income for the fiscal year ended December 31, 2020 has been reclassified.

As a result, ¥6,604 million presented under "Other income" and ¥12,793 million presented under "Other expenses" in the Consolidated Statement of Income for the fiscal year ended December 31, 2020 have been reclassified as ¥(218) million under "Gain (loss) on sale and retirement of non-current assets," ¥6,592 million under "Other income," and ¥12,564 million under "Other expenses."

(Consolidated Statement of Cash Flows)

"(Gain) loss on sale and retirement of non-current assets," which had been presented under "Other-net" in "Cash flows from operating activities" in the fiscal year ended December 31, 2020, is presented separately in the fiscal year ended December 31, 2021, due to an increase in its quantitative materiality. To reflect this change in the presentation, the Consolidated Statement of Cash Flows for the fiscal year ended December 31, 2020 has been reclassified.

As a result, ¥15,571 million presented under "Other-net" in "Cash flows from operating activities" in the Consolidated Statement of Cash Flows for the fiscal year ended December 31, 2020 has been reclassified as ¥218 million under "(Gain) loss on sale and retirement of non-current assets" and ¥15,352 million under "Other-net."

3. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Consolidation

A. Subsidiaries

A subsidiary is an entity controlled by the Group. An entity is treated as a subsidiary if the Group is deemed, in principle, to have control over that entity when it holds a majority of the voting rights of that entity. An entity is treated as a subsidiary even if the Group holds less than a majority of the voting rights of the entity, where control is deemed to be achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. In cases where the accounting policies adopted by a subsidiary are different from those adopted by the Group, adjustments are made to the subsidiary's financial statements, as necessary, to conform with the accounting policies adopted by the Group.

A change in the ownership interest in a subsidiary without a loss of control is accounted for as an equity transaction, and any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as equity attributable to owners of the Company.

When the Group loses control of a subsidiary, any resulting gain or loss is recognized in profit or loss.

B. Associates and Joint Ventures

An associate is an entity over which the Group has significant influence in respect to the financial and operating policies but does not have control. When the Group holds between 20% and 50% of the voting rights, the entity is, in principle, treated as an associate.

When the Group holds less than 20% of the voting rights of the entity but is determined to have significant influence over the entity, such as through delegation of officers, the entity is treated as an associate.

A joint venture is an entity in which two or more parties, including the Group, have contractually agreed to sharing of control of an arrangement and have rights to the net assets of the joint venture, and in which unanimous consent of the controlling parties is required to make decisions on relevant business activities.

The Group's investments in associates and joint ventures are accounted for using the equity method. The investments are measured as the carrying amount (including goodwill recognized upon acquisition) determined using the equity method less accumulated impairment losses.

The consolidated financial statements include the Group's share of changes in profit or loss and other comprehensive income of an associate and joint venture from the date of acquisition of significant influence or joint control until the date such influence or control is lost. In cases where the accounting policies adopted by an associate or joint venture are different from those adopted by the Group, adjustments are made to the associate or joint venture's financial statements, as necessary, to conform with the accounting policies adopted by the Group.

If application of the equity method ceases as a result of the loss of significant influence on associates or joint ventures, gain or loss on the sales of shares is recognized in profit or loss, and the valuation difference arising from remeasurement of the residual shares at fair value is recognized in profit or loss in the same period the significant influence is lost.

C. Transactions Eliminated Under Consolidation

All intragroup balances, transactions, and unrealized gains resulting from intragroup transactions are eliminated on consolidation. Unrealized gains resulting from transactions with associates and joint ventures are deducted from investments, to the extent it does not exceed Company's share in an investee.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the assets transferred, the liabilities assumed and equity instruments issued by the Company in exchange for control over an acquiree and includes contingent consideration when appropriate.

At the acquisition date, the identifiable assets and liabilities are recognized at their fair value, except that:

(i) Deferred tax assets or liabilities, and assets or liabilities, which are related to employee benefit arrangements, are recognized and measured in accordance with International Accounting Standards (hereinafter referred to as "IAS") 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively.

(ii) Assets or disposal groups that are classified as held-for-sale under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with such standard.

Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized in profit.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts of incomplete items are measured based on best estimates. Provisional amounts are adjusted retrospectively to reflect new information obtained during the measurement period, within one year from the date of acquisition, that, if known, would have affected the amounts recognized at that date.

The contingent consideration is recognized at fair value at the time of acquisition and the change in fair value after acquisition is reflected as an adjustment to the consideration transferred when the change qualifies as adjustment during the measurement period, otherwise the change is recognized in profit or loss.

The Group elects to measure non-controlling interests at either fair value or based on the proportionate share in the recognized identifiable net asset amounts for each business combination transaction.

Acquisition-related costs incurred to achieve a business combination are recognized as expenses when incurred, with the exception of costs related to the issuance of debt instruments and equity instruments.

The Group continuously accounts for all business combinations under common control based on carrying amounts. A business combination under common control is a business combination in which all of the combining companies or businesses are ultimately controlled by the same company, both before and after the combination, and the control is not temporary.

(3) Foreign Currency Translation

A. Translation of Foreign Currency Transactions

Foreign currency transactions are translated into each functional currency of the group entity using the exchange rate at the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies, and non-monetary assets and liabilities denominated in foreign currencies carried at fair value are translated into the functional currency at the closing rate, and the resulting translation differences are recognized in profit or loss.

Non-monetary items denominated in foreign currencies are translated at the exchange rate at the date of transaction.

B. Translation of Foreign Operations
For financial statements of foreign operations such as subsidiaries, assets and liabilities are translated into Japanese yen using the closing rate of the reporting period, and revenue and expenses are translated into Japanese yen using the average rate of the reporting period unless there are significant changes in the exchange rate. Resulting translation differences are recognized in other comprehensive income, and cumulative differences are recognized in other components of equity.

When a foreign operation of the Group is disposed of, cumulative translation differences relating to that foreign operation are transferred to profit or loss.

(4) Financial Instruments
A. Non-derivative Financial Assets
(i) Initial Recognition and Measurement
The Group initially recognizes trade and other receivables on the date of occurrence. All other financial assets are initially recognized on the transaction date when the Group became the contracting party for the financial asset.

Trade and other receivables which do not include significant financial components are measured at transaction price upon initial recognition.

Non-derivative financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met at the time of initial recognition of financial assets. Otherwise, they are classified as financial assets measured at fair value.

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value are classified as financial assets in which changes in fair value subsequent to initial recognition are recognized in profit or loss (hereinafter referred to as "financial assets measured at fair value through profit or loss") and financial assets in which changes in fair value subsequent to initial recognition are recognized in other comprehensive income (hereinafter referred to as "financial assets measured at fair value through other comprehensive income").

At the time of initial recognition, debt financial instruments that do not satisfy amortized cost criteria are classified as financial assets measured at fair value through profit or loss.

Equity financial instruments not held-for-sale, in principle, are designated as financial assets measured at fair value through other comprehensive income at the time of initial recognition.

All financial assets are measured at fair value plus transaction costs that are directly attributable to such financial assets, except for when they are classified as financial assets measured at fair value through profit or loss.

(ii) Subsequent Measurement
After initial recognition, financial assets are measured based on the classification as follows:
(a) Financial Assets Measured at Amortized Cost
Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest rate method.
(b) Financial Assets Measured at Fair Value through Profit or Loss
Subsequent to initial recognition, financial assets are remeasured at fair value at each reporting period end. Changes in fair value and income such as dividends are recognized in profit or loss.
(c) Financial Assets Measured at Fair Value through Other Comprehensive Income
Changes in fair value subsequent to initial recognition are recognized in other comprehensive income, and are transferred to retained earnings if a financial asset is derecognized or the fair value declined significantly. Dividends derived from these financial assets are recognized in profit or loss.

(iii) Derecognition
Financial assets are derecognized when the contractual rights to receive cash flows expire, or when substantially all risks and rewards of ownership are transferred to another entity.

B. Impairment of Financial Assets
The Group recognizes an allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost.

Determination of Significant Increase in Credit Risk
At each reporting date, the Group compares the risk of financial asset defaults as of the reporting date and the initial recognition date to assess whether the credit risk associated with the financial asset has increased significantly since the initial recognition.

The Group assesses whether there has been a significant increase in credit risk based on changes in the risk of default since the initial recognition. In assessing whether there has been a change in the risk of default, the Group considers overdue information, as well as the following factors.

- Significant changes in external credit ratings of financial assets
- Downgrade of internal credit ratings
- Deterioration in borrowers' operating results

Expected Credit Loss Approach
Expected credit losses are the present value of the difference between the contractual cash flows to be received by the Group under the contracts and the cash flows expected to be received.
If the credit risk associated with a financial asset has increased significantly since the initial recognition, the allowance for doubtful accounts related to the financial asset is measured at an amount

equal to the expected credit loss for the entire period, and if it has not increased significantly, it is measured at an amount equal to the expected credit loss for the 12-month period.

Notwithstanding the foregoing, for trade receivables that do not include significant financial components, the allowance for doubtful accounts is always measured at an amount equal to the expected credit losses for the entire period.

In measuring expected credit losses, the Group uses reasonable and corroborating information available at the reporting date that is relevant to historical events, current conditions and projections of future economic conditions. For individually significant financial assets, the Group evaluates expected credit losses individually, and for other financial assets, the Group establishes an allowance for doubtful accounts by grouping financial assets with similar credit risk characteristics based on location, number of days past due, security status, and external credit ratings.

Defaults are recognized when the obligor is unable to recover all or part of the financial assets or is determined to be extremely difficult to recover, such as when the obligor fails to make payments within 90 days after the due date.

In the event of default or significant financial difficulties of the issuer or the obligor, the Group determines that the credit impairment is deemed to exist.

Provisions for doubtful accounts related to financial assets are recognized in profit or loss. Reversal of the allowance for doubtful accounts is recognized in profit or loss.

Financial assets are written off directly when collection is not reasonably expected, such as the debtor's inability to execute the repayment plan agreed with the Group.

This typically applies when the Group determines that the borrower does not have an asset or revenue source that generates sufficient cash flow to repay the amount directly written off. The Group continues to enforce performance against directly written-off financial assets so that past due receivables can be collected.

C. Non-derivative Financial Liabilities (Including put option liabilities. Refer to "(2) Business combination" for contingent consideration.)

(i) Initial Recognition and Measurement

The Group initially recognizes debt securities on the date of issue. Contingent consideration arising from a business combination and put option liabilities to acquire interests from non-controlling interests are recognized on the date the Group acquires control of the acquired entity. All other financial liabilities are initially recognized on the transaction date when the Group becomes the contracting party for the financial liability.

Non-derivative financial liabilities are classified as financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at cost, net of transaction costs that are directly attributable to the financial liabilities. In addition, put option liabilities are measured based on the present value of future redemption amount.

(ii) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the classification as follows. However, put option liabilities are measured at the present value of the redemption amount, with changes recognized as profit or loss.

(a) Financial Liabilities Measured at Amortized Cost

Subsequent to initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest rate method.

(b) Financial Liabilities Measured at Fair Value Through Profit or Loss

Subsequent to initial recognition, financial liabilities measured at fair value through profit or loss are remeasured at fair value at each reporting period end and changes in fair value are recognized in profit or loss.

(iii) Derecognition

A financial liability is derecognized when the obligation is fulfilled, discharged, or expired.

D. Derivative Financial Instruments and Hedge Accounting

The Group utilizes derivative financial instruments, such as foreign exchange contracts and interest rate swap contracts, to hedge its foreign currency risks and interest rate risks, respectively.

At the inception of the hedge, the Group designates and documents the relationship to which hedge accounting is adopted, as well as the objectives and strategies of risk management for undertaking the hedge. The documentation includes hedging relationships, the risk management objective, strategies for undertaking the hedge and assessments of hedge effectiveness.

These hedges are expected to be highly effective in offsetting changes in fair value or cash flows, however are assessed on an ongoing basis to determine whether hedge relationship have actually been highly effective throughout the hedging periods.

Derivative financial instruments are initially recognized at fair value. In addition, derivatives are measured at fair value after initial recognition and changes in fair value are accounted for as follows:

As for hedge accounting, the Group elected to apply IAS 39 in accordance with the transitional measure.

(i) Cash Flow Hedge

Regarding gains or losses on hedging instruments where hedges are effective, changes in fair value are recognized in other comprehensive income, and are reclassified from other comprehensive income to profit or loss when the cash flows from the hedged items affect profit or loss. If a hedged item results in the recognition of non-financial assets or non-financial liabilities, the amount recognized as other components of equity is treated as an adjustment to the initial carrying amount of the non-financial assets or non-financial liabilities through other comprehensive income.

Where hedges are ineffective, changes in fair value are recognized in profit or loss.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, when the hedge no longer meets the criteria for hedge accounting, or when the hedging designation is revoked.

(ii) Hedge of Net Investment in Foreign Operations
Translation differences resulting from the hedges of net investment in foreign operations are accounted for similarly to cash flow hedges.

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while those for the ineffective portion are recognized in profit or loss.

Cumulative gains or losses recognized in equity as other comprehensive income are reclassified to profit or loss upon disposal of foreign operations.

(iii) Derivative Financial Instruments not Designated as Hedges
Changes in fair value of derivative financial instruments are recognized in profit or loss.

E. Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and presented on a net basis if, and only if, there is a currently enforceable legal right to offset the recognized amounts, and if there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(5) Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(6) Inventories
Inventories are mainly comprised of rights and contents related to sports and entertainment. Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined mainly by the specific identification method.

(7) Property, Plant and Equipment (Excluding right-of-use asset)
Cost model is applied for subsequent measurement of property, plant and equipment, and is measured at acquisition cost less accumulated depreciation and accumulated impairment losses.

Acquisition cost includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs.

Except for assets such as land which are not depreciated, property, plant and equipment are depreciated mainly using the straight-line method over their estimated useful lives.

The estimated useful lives of major property, plant and equipment items are as follows:

- Buildings and structures: 0 to 100 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and changes are made as necessary.

(8) Goodwill and Intangible Assets
A. Goodwill
Goodwill is not amortized and is measured at acquisition cost less accumulated impairment losses.

B. Intangible Assets (Excluding right-of-use asset)
Cost model is applied for subsequent measurement of intangible assets, and are measured at acquisition cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at acquisition cost for initial recognition, and the costs of intangible assets acquired in business combinations are recognized at fair value at the acquisition date.

The acquisition cost for internally generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets all of the capitalization criteria.

Intangible assets are amortized using the straight-line method over their estimated useful lives.

The estimated useful lives of major intangible asset items are as follows:

- Software: 3 to 5 years
- Customer relationships: Effective period (mainly 5 to 18 years)

Amortization methods and useful lives of intangible assets with finite useful lives are reviewed at the end of each reporting period and changes are made as necessary.

(9) Leases
A. Leases as a lessee
The Group determines upon inception of the contracts whether such contracts are leases or contain leases.

If the contracts transfer the right to control the use of the identified asset over a period of time in exchange for consideration, the contracts are leases or contain leases.

Right-of-use assets and a lease obligation are recognized at the beginning of the lease. Right-of-use assets are measured at cost the beginning of the lease. During the lease period, the cost model is applied and measured at cost less accumulated depreciation and accumulated impairment losses.

After initial recognition, right-of-use asset is depreciated on a straight-line basis from the beginning of the lease period to the useful life of the right-of-use asset or to the end of the lease period, whichever occurs first.

Lease obligations are measured at the present value of remaining lease payments of the beginning of the lease period.

During the lease period, the carrying amount of the lease obligation is adjusted to reflect the interest rate on the lease obligation and the lease payments made. If the lease obligations are revised or the lease terms are changed, lease obligations is remeasured and right-of-use assets are adjusted. For short-term leases and leases of low-value assets, IFRS 16 Paragraph 6 is applied, and lease payments are recognized as expenses over the lease period using the straight-line method.

B. Sale and Leaseback Transaction

The Group determines, based on IFRS 15, whether the transfer of an asset from the seller-lessee to the buyer-lessor is accounted for as a sale in a sale and leaseback transaction. When the transfer corresponds to a sale of an asset, the seller-lessee measures right-of-use asset arising from the leaseback by the proportion of the previous carrying amount of the asset relating to the right of use retained by the seller-lessee, and recognizes only the gain or loss of the portion that was not leased back. When the transfer does not correspond to a sale of an asset, the seller-lessee continues to recognize the transferred asset, and financial liabilities equal to the amount of the transfer proceeds are recognized, and the transfer is accounted for as a financial transaction.

(10) Investment Property

Investment property is property held to earn rental income, for capital appreciation or for both.

Cost model is applied for subsequent measurement of investment property, and is measured at acquisition cost less accumulated depreciation and accumulated impairment losses.

Except for assets that are not depreciated, such as land, investment property is depreciated mainly using the straight-line method over its estimated useful life. Estimated useful lives are between 6 and 50 years.

Depreciation methods, useful lives and residual values of investment property are reviewed at the end of each reported period and changes are made as necessary.

(11) Impairment of Non-financial Assets

Except for inventories and deferred tax assets, the Group assesses at the end of the reporting period whether there is any indication that a non-financial asset may be impaired. If such an indication exists, an impairment test is performed based on the recoverable amount of the asset.

Goodwill is not amortized. Impairment tests for goodwill are performed once a year, irrespective of whether there is any indication that they may be impaired, or in cases where there is an indication of impairment. Refer to Note "15. GOODWILL AND INTANGIBLE ASSETS" for details of impairment testing of goodwill.

Except for assets that generally do not generate independent cash flows from other assets or asset groups, the recoverable amount of an asset or a cash-generating unit is determined individually by asset at the higher of its fair value less costs of disposal or its value in use.

Where the carrying amount of the asset or cash-generating unit exceeds its recoverable amount, the asset is written down to its recoverable amount and impairment losses are recognized.

An impairment loss recognized for goodwill is not reversed in a subsequent period. For assets excluding goodwill, an assessment is made at reporting period end to determine whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If any such indication exists, the recoverable amount of the asset is estimated. In cases that the recoverable amount exceeds the carrying amount of the asset, a reversal of impairment losses is recognized. The amount of the reversal of the impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

Because goodwill that forms part of the carrying amount of an investment in entities accounted for using the equity method is not separately recognized, it is not tested for impairment separately. If there is any indication that an investment in entities accounted for using the equity method may be impaired, the entire carrying amount of the investment is tested as a single asset.

(12) Non-current Assets Classified as Held for Sale

A non-current asset or asset group whose carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use is classified as held-for-sale if the non-current asset or asset group is available for immediate sale in its present condition, Group management is committed to a sales plan and its sale is expected to be completed within one year.

The Group measures a non-current asset or asset group classified as held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(13) Post-employment Benefits

A. Employee retirement benefits

The Group has set up defined benefit plans and defined contribution plans as employee retirement benefit plans.

For defined benefit plans, the Group recognizes the present value of defined benefit obligations less the fair value of any plan assets as liabilities or assets.

For defined benefit plans, the Group determines the present value of defined benefit obligations, related current service cost and past service cost using the projected unit credit method. The discount rate is determined based on high quality corporate bond yield rates at fiscal year end for the corresponding discount period based on projected period until the expected benefit payment date.

Service costs and interest costs of defined benefit plans are recognized in profit or loss, and net interest is determined using the discount rate described above. Remeasurements of defined benefit plans are recognized in other comprehensive income in the period when they are incurred and reclassified to retained earnings immediately. Past service costs are recognized in profit or loss in the period incurred.

The cost for defined contribution plans is recognized in profit or loss in the period in which the employees render the related services.

B. Termination Benefits

The Group provides termination benefits if the Group terminates the employment of an employee before the normal retirement date along with restructuring, or if an employee of some domestic consolidated subsidiaries voluntarily retires in exchange for the benefits. If the Group has a detailed official plan for terminating an employee and there is no possibility for the plan to be cancelled, the termination benefit is recorded as an expense as of the time of the commitment of the termination of employment.

(14) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the obligation will be required to be settled and a reliable estimate can be made for the amount of the obligation.

Where the effect of the time value of money is material, provisions are measured based on the present value using a discount rate reflecting the risks specific to the liability.

Provision for restructuring is recognized when the Group has a detailed official plan for the restructuring and parties concerned who are expected to be affected are made to expect that restructuring will surely be implemented through the actual implementation or disclosure of the plan.

(15) Revenue

The Group recognizes revenue under the five-step approach described below.

Step 1: Identify contracts with customers
Step 2: Identify performance obligations in a contract
Step 3: Calculate the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies its performance obligations.

The Group provides advertising, information services and other businesses to its customers.

In the advertising business, the Group mainly provides services such as placement of advertising into various media, production of advertising including creative services, and various content-related services. With regards to placement of advertising into various media, revenue is recognized when the media is placed, mainly because control of the service is transferred to the customer when the advertisement is placed on the media and the performance obligations of the Group are satisfied. Regarding the provision of services such as advertising production and various content-related services, revenue is recognized in accordance with the fulfillment of the performance obligations, as the delivery of the work or the provision of services transfers control of the goods or services to the customer and satisfies the performance obligations of the Group.

With regards to right-related business such as marketing rights for sports events, revenue is recognized at a point in time when such rights is transferred to the customer at a certain point in time, or is recognized over a period of time when such rights can be used by the customer over a period time, depending on the nature of the rights granted to the customer. With regards to revenue that are recognized over a period of time, performance obligation is primarily satisfied over the life of the contract, and the revenue is recorded on a pro rata basis over the contract period in which the performance obligation is satisfied.

The Group determines that it primarily acts as an agent considering the primary responsibility for the performance of commitments, inventory risk, pricing discretion and other factors in the transaction.

Transactions related to the advertising business are principally recorded based on the net amount of consideration received from customers, less related costs, or a certain amount of fee received as a commission, for services provided by the Group. For certain transactions which the Group determined that it is acting as a principal, consideration received from customers and costs are presented on a gross basis.

Consideration for transactions in the advertising business is received primarily within one year of satisfying performance obligations and does not include significant financing components.

In the information services business, the Group is mainly involved in sales of software products, development of systems, and outsourcing/operation/maintenance services.

Regarding sales of software products and products, revenue is recognized at the time of delivery to the customer because control of the product is transferred to the customer and the Group's performance obligations are satisfied. Regarding software development, the customer's asset will enhance as the development progresses, and the customer will gain control of the asset, and the Group's performance obligations are satisfied accordingly. Therefore, revenue is recognized based on the progress of development. Development progress is calculated based on the ratio of inputs used to satisfy performance obligations (costs incurred) to total expected inputs until such performance obligations are fully satisfied. As for the operation and maintenance services, performance obligations are satisfied as the contract period elapses, and revenue is recorded on a pro rata basis over the contract period in which the performance obligations are satisfied.

Revenues from the information service industry are calculated by deducting discounts, etc., from the consideration in sales contracts. Considering the primary responsibility for fulfilling the commitments, inventory risk, pricing discretion and other factors, the Group is deemed to have a strong basis as a principal, therefore revenues and costs are recorded on a gross basis. Consideration for transactions in the information services business is received mainly within one year after fulfillment of the performance obligation and does not include any significant financing components.

Other businesses include office leasing, building services, and calculation services.

Turnover represents the total amount billed and billable to customers by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of turnover information is not in accordance with IFRS.

(16) Finance Income and Finance Expenses
Finance income mainly consists of interest and dividend income. Interest income is recognized as accrued using the effective interest rate method while dividend income is recognized when the shareholder's right to receive payment is established.

Finance expenses mainly consist of interest expenses on borrowings and bonds. Interest expenses are recognized as incurred using the effective interest rate method.

(17) Income Taxes
Income taxes consist of current income taxes and deferred income taxes. Income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and taxes arising from business combinations.

Current income taxes are measured at the amount which is expected to be paid to or refunded from the taxation authorities. The tax rates and tax laws used to calculate the amount are those that are enacted or substantively enacted, by the end of the reporting period.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of assets and liabilities in the Consolidated Statement of Financial Position and their tax basis amount. Deferred tax assets or liabilities are not recognized for differences arising from the initial recognition of assets or liabilities in transactions that are not business combinations and affect neither accounting profit or loss nor taxable profit or loss. Deferred tax liabilities are also not recognized for taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures. However, deferred tax liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent the Group controls the timing of the reversal of the temporary difference and it is probable the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the reporting period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the reporting period end.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which carryforwards of unused tax losses, tax credit carryforwards and deductible temporary differences can be utilized. Deferred tax assets are reassessed at the end of the fiscal year and reduced by the amount of any tax benefits that are not expected to be realized.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

(18) Equity
A. Share Capital and Share Premium Account
Equity instruments issued by the Company are recorded in share capital and share premium account. Transaction costs directly attributable to the issuance of an equity instrument are deducted from equity.

B. Treasury Shares
Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of treasury shares.

When treasury shares are sold, any difference between their carrying amount and consideration received is recognized in the share premium account.

C. Put options written over non-controlling interests
Non-controlling interests are recognized when the Group writes a put option over equity shares held by non-controlling interests in a subsidiary, and are not included in the calculation of goodwill.

In addition, the written put option is initially recognized at the present value of the redemption amount as other financial liabilities, and the same amount is deducted from retained earnings.

(19) Earnings per Share
Basic earnings per share are calculated by dividing profit for the year attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares. Diluted earnings per share are calculated by adjusting the effects of all potential ordinary shares with dilutive effect.

(20) Share-based Payments
The Company and certain subsidiaries grant equity-settled and cash-settled share-based payment plans.

For equity-settled share-based payments, services received and the corresponding increase in equity are measured at the fair value of the equity instruments at the date of grant and are recorded as an expense over the vesting period and recognized as an increase in equity.

For cash-settled share-based payments, services received and the liability incurred are measured at the fair value of the liability. The Group recognizes expense and liability, as the employees render services during the vesting period. The fair value of the liability is remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss.

(21) Underlying Operating Profit
The underlying operating profit is calculated by eliminating M&A related items and one-off items from operating profit, and is used by management for the purpose of measuring constant business performance.

M&A related items: amortization of intangible assets incurred in acquisitions, acquisition costs, share-based compensation expenses attributable to the acquiree, share-based compensation expense issued following the acquisition of 100% ownership of a subsidiary

One-off items: items such as restructuring cost, impairment loss and gain/loss on sale of non-current assets

The underlying operating profit is not defined under IFRS; however, it is voluntarily disclosed in the Consolidated Statement of Income and Note "6. SEGMENT INFORMATION" since management has concluded that the information is useful for users of the financial statements.

(22) Change in significant accounting policies
The Group has traditionally recognized configuration or customization costs in cloud computing contracts as intangible assets by applying IAS 38 "Intangible Assets." However, based on the discussions that led to the agenda decision by the IFRS Interpretations Committee announced in April 2021, the method has been changed so as to recognize the costs as expenses when receiving configuration or customization services.

That change in accounting policies applies retrospectively, and the consolidated financial statements for the previous fiscal year reflect this retrospective application.

As a result, in the Consolidated Statement of Financial Position for the previous fiscal year, intangible assets and retained earnings decreased by ¥16,048 million and ¥16,474 million, respectively, and other components of equity increased by ¥425 million, compared to the amounts before the retrospective application.

Reflecting the cumulative impact on net assets at the beginning of the previous fiscal year, the balances at the beginning of the fiscal year of retained earnings and other components of equity after retrospective application show a decrease of ¥16,474 million and an increase of ¥425 million, respectively, in the Consolidated Statement of Changes in Equity for the previous fiscal year. The effect on the Consolidated Statement of Income for the previous fiscal year was immaterial.

On the Consolidated Statement of Financial Position for the fiscal year ended December 31, 2021, intangible assets were ¥16,848 million($146 million) lower, retained earnings were ¥15,530 million($135 million) lower, and other components of equity were ¥1,318 million($11 million) lower than without the change in accounting policies. On the Consolidated Statement of Income for the fiscal year ended December 31, 2021, selling, general and administrative expenses were ¥943 million($8 million) lower, and operating profit and profit for the year were each ¥943 million($8 million) higher than without the change in accounting policies.

The effects of this change in accounting policies on segment information and on earnings per share are described in "6. SEGMENT INFORMATION" and "33. GAIN (LOSS) PER SHARE," respectively.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS
The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the adoption 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 estimate and underlying assumptions are continuously reviewed. The effects of a change in estimate are recognized in the period of the change and future periods.

Information relating to judgments carried out in the process of the application of accounting policies that have a material impact on the consolidated financial statements, is mainly as follows:

- Scope of subsidiaries, associates and joint ventures ("3. SIGNIFICANT ACCOUNTING POLICIES (1) Basis of Consolidation")
- Revenue recognition ("3. SIGNIFICANT ACCOUNTING POLICIES (15) Revenue")
- Allocation of goodwill to cash-generating unit groups ("15. GOODWILL AND INTANGIBLE ASSETS")
- Sale and leaseback transaction: determination on whether the transfer of an asset from the seller-lessee to the buyer-lessor is a sale or not ("3. SIGNIFICANT ACCOUNTING POLICIES (9) Leases B. Sale and Leaseback Transaction")

Estimates and assumptions that may have a material effect on the amounts recognized in the consolidated financial statements are as follows:

- Impairment of property, plant and equipment, goodwill, intangible assets and investment properties ("14. PROPERTY, PLANT AND EQUIPMENT," "15. GOODWILL AND INTANGIBLE ASSETS," and "17. INVESTMENT PROPERTY")
- Valuation of financial instruments(including contingent consideration and put option liabilities) ("36. FINANCIAL INSTRUMENTS")
- Valuation of defined benefit obligations ("23. POST-EMPLOYMENT BENEFITS")
- Provisions ("22. PROVISIONS")
- Recoverability of deferred tax assets ("19. INCOME TAXES")

5. NEW ACCOUNTING STANDARDS NOT YET ADOPTED BY THE GROUP

New accounting standards, amended standards and new interpretations that have been issued by the date of approval of the consolidated financial statements, but have not been subject to early adoption by the Group are as follows:

The impact of applying the new IFRS standards on the Group is currently being assessed and cannot be estimated at this time.

Standards	Name of standards	Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	January 1, 2022	Fiscal year ending December 31, 2022	The amendments clarify the costs to be included when assessing whether a contract is onerous.
IAS 1	Presentation of Financial Statements	January 1, 2023	Fiscal year ending December 31, 2023	The amendment clarifies how to classify debt and other liabilities as current or non-current.
IAS 1 IAS 8	Presentation of Financial Statements Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2023	Fiscal year ending December 31, 2023	The amendments help companies improve accounting policy disclosures and clarify distinction between accounting policies and accounting estimates.
IAS 12	Income Taxes	January 1, 2023	Fiscal year ending December 31, 2023	The amendments clarify how companies account for deferred tax related to assets and liabilities arising from a single transaction.

6. SEGMENT INFORMATION

(1) Description of reportable segments

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

The Group is mainly engaged in providing communication-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

Accounting methods for reportable segments are identical to those described in "3. SIGNIFICANT ACCOUNTING POLICIES."

Segment profit is based on operating profit, adjusted by "Adjusting items" such as "Amortization of intangible assets incurred in acquisitions."

Intersegment revenues are based on the prevailing market price.

FY2020: Year ended December 31, 2020

(Millions of Yen)

	Japan business	International business	Total	Eliminations/ Central costs (Note6)	Consolidated
Turnover (Note1)	¥1,725,278	¥2,777,306	¥4,502,585	¥(4,368)	¥4,498,216
Revenue (Note 2)	423,987	519,624	943,611	(4,368)	939,243
Net revenue (Note 3)	348,902	486,302	835,205	(163)	835,042
Segment profit (underlying operating profit) (Note 4)	62,746	66,518	129,264	(5,284)	123,979
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(31,877)
Selling, general and administrative expenses (Note 10)	–	–	–	–	(4,109)
Restructuring cost (Note 7)	–	–	–	–	(78,394)
Loss on sale and retirement of non-current assets (Note 8)	–	–	–	–	(218)
Impairment loss (Note 9)	–	–	–	–	(144,720)
Other income	–	–	–	–	83
Other expenses (Note 10)	–	–	–	–	(5,369)
Operating loss	–	–	–	–	(140,625)
Share of profits of investments accounted for using the equity method	–	–	–	–	1,680
Impairment loss of investments accounted for using the equity method	–	–	–	–	958
Gain on sale of investments in associates	–	–	–	–	144
Revaluation gain on step acquisition	–	–	–	–	44
Finance income	–	–	–	–	18,871
Finance expenses	–	–	–	–	20,290
Loss before tax	–	–	–	–	(141,133)
Segment assets (Note 5, 6)	1,262,241	2,057,387	3,319,629	44,734	3,364,364
(Other items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	20,274	33,816	54,091	–	54,091
Investments accounted for using the equity method	50,397	508	50,906	–	50,906
Capital expenditures	10,499	10,974	21,474	–	21,474
Increase in right-of-use assets	¥4,196	¥6,983	¥11,179	–	¥11,179

FY2021: Year ended December 31, 2021

(Millions of Yen)

	Japan business	International business	Total	Eliminations/ Central costs	Consolidated
Turnover (Note1)	¥1,885,697	¥3,385,765	¥5,271,462	¥(14,970)	¥5,256,492
Revenue (Note 2)	501,933	598,629	1,100,562	(14,970)	1,085,592
Net revenue (Note 3)	415,915	560,978	976,893	(316)	976,577
Segment profit (underlying operating profit) (Note 4)	95,361	88,975	184,337	(5,309)	179,028
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(29,409)
Selling, general and administrative expenses (Note 10)	–	–	–	–	(5,621)
Restructuring cost (Note 7)	–	–	–	–	(19,516)
Gain on sales and retirement of non-current assets (Note 8)	–	–	–	–	118,960
Impairment loss (Note 9)	–	–	–	–	(1,353)
Other income	–	–	–	–	1,638
Other expenses (Note 10)	–	–	–	–	(1,884)
Operating income	–	–	–	–	241,841
Share of profits of investments accounted for using the equity method	–	–	–	–	2,448
Gain on sale of investments in associates	–	–	–	–	35
Finance income	–	–	–	–	4,749
Finance expenses	–	–	–	–	40,240
Loss before tax	–	–	–	–	208,833
Segment assets (Note 5)	1,239,808	2,275,179	3,514,987	205,549	3,720,536
(Other items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	18,452	27,015	45,467	–	45,467
Investments accounted for using the equity method	55,915	507	56,423	–	56,423
Capital expenditures	8,381	12,655	21,036	–	21,036
Increase in right-of-use assets	¥56,410	¥13,366	¥69,776	–	¥69,776

FY2021: Year ended December 31, 2021

(Millions of U.S. Dollars)

	Japan business	International business	Total	Eliminations/ Central costs (Note 6)	Consolidated
Turnover (Note1)	$16,395	$29,436	$45,831	$(130)	$45,701
Revenue (Note 2)	4,364	5,205	9,568	(130)	9,438
Net revenue (Note 3)	3,616	4,877	8,493	(3)	8,490
Segment profit (underlying operating profit) (Note 4)	829	774	1,603	(46)	1,556
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(256)
Selling, general and administrative expenses (Note 10)	–	–	–	–	(49)
Restructuring cost (Note 7)	–	–	–	–	(170)
Gain on sales and retirement of non-current assets (Note 8)	–	–	–	–	1,034
Impairment loss (Note 9)	–	–	–	–	(12)
Other income	–	–	–	–	14
Other expenses (Note 10)	–	–	–	–	(16)
Operating income	–	–	–	–	2,103
Share of profits of investments accounted for using the equity method	–	–	–	–	21
Gain on sale of investments in associates	–	–	–	–	0
Finance income	–	–	–	–	41
Finance expenses	–	–	–	–	350
Loss before tax	–	–	–	–	1,816
Segment assets (Note 5)	10,779	19,781	30,560	1,787	32,347
(Other items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	160	235	395	–	395
Investments accounted for using the equity method	486	4	491	–	491
Capital expenditures	73	110	183	–	183
Increase in right-of-use assets	$490	$116	$607	–	$607

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

(Note 2) Eliminations/central costs for revenue are due to eliminations of intersegment transactions (same amount as for turnover).

(Note 3) Eliminations/central costs for net revenue are due to eliminations of intersegment transactions.

(Note 4) Eliminations/central costs for segment profit (underlying operating profit) are due to central costs attributable to the holding company and eliminations of intersegment transactions. Central costs attributable to the holding company include personnel expenses at the holding company.

(Note 5) Eliminations/central costs for segment assets are due to central assets attributable to the holding company and eliminations of intersegment transactions. Central assets attributable to the holding company are the Company's cash (cash and deposits) and loans, etc. to Group companies.

(Note 6) As stated in "3. SIGNIFICANT ACCOUNTING POLICIES (22) Change in significant accounting policies," the change in accounting policies in the fiscal year ended December 31, 2021 applies retrospectively, and the consolidated financial statements for the fiscal year ended December 31, 2020 reflect the retrospective application.
As a result of this change, for the fiscal year ended December 31, 2020, segment assets in the international business segment decreased by ¥16,048 million compared to the amounts before the retrospective application.

(Note 7) Restructuring cost by segment is ¥24,278 million (Japan business) and ¥54,115 million (International business) for the year ended December 31, 2020 and ¥12,765 million($111 million) (Japan business) and ¥6,750 million($59 million) (International business) for the year ended December 31, 2021. An impairment loss of ¥2,214million and ¥482million($4 million) are included in the restructuring cost for the International business segment in the year ended December 31, 2020 and 2021, respectively.

(Note 8) The loss on sale and retirement of non-current assets for the fiscal year ended December 31, 2020 and the gain on sale and retirement of non-current assets for the fiscal year ended December 31, 2021 are attributable to the Japan business.

(Note 9) The breakdown of impairment loss by segment was ¥4,352 million for Japan business and ¥140,367 million for international business for the year ended December 31, 2020 and ¥1,353 million($12 million) for Japan business and nil for International business for the year ended December 31, 2021.

(Note 10)The breakdown of selling, general and administrative expenses and other expenses is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Selling, general and administrative expenses			
Costs associated with merger and acquisitions	701	787	$7
Share-based compensation expenses (Note 1)	1,178	1,540	13
Other	2,228	3,293	29
Total	¥4,109	¥5,621	$49
Other expenses			
Share-based compensation expenses attributable to the acquiree(Note 1)	3,094	–	–
Other	2,274	1,884	16
Total	¥5,369	¥1,884	$16

(Note 1) Share-based compensation expenses included in "Selling, general and administrative expenses" were incurred from a stock compensation plan using the Company's shares that was developed when Merkle Group Inc. ("Merkle") became a wholly owned subsidiary.
Share-based compensation expenses related to acquired companies included in "Other expenses" were incurred specifically for the stock option program that had existed at Merkle before it was acquired in 2016. Although share-based compensation expenses are generally presented under "Selling, general and administrative expenses," share-based compensation expenses related to acquired companies are presented under "Other expenses," given their special nature that they are measured including post-acquisition changes in fair value of related payables, similar to stock purchase obligations.

(3) Information about products and services

With regard to advertising services, the Group provides various advertising through media including newspapers, magazines, radio, television, internet, sales promotion, movies, out-of-home, public transportation, and others. The Group also provides clients with event marketing, creative services, marketing, public relations, contents services, and other services.

With regard to information services, the Group provides information services, sales of information-related products and other services.

The Group also provides other services such as office rentals, building maintenance and fiduciary services of computation.

Revenues from external customers for each product and service are as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Advertising services	¥854,688	¥992,856	$8,632
Information services	81,330	89,528	778
Other services	3,224	3,207	28
Total	¥939,243	¥1,085,592	$9,438

(4) Regional information

A. Revenue from external customers

Revenue attributable to the United States within the overseas is ¥209,381 million for the year ended December 31, 2020 and ¥233,642 million($2,031 million) for the year ended December 31, 2021. In general, the amount is based on the customer's location.

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Japan	¥263,898	**¥124,762**	**$1,085**
International (mainly the United Kingdom and the United States)	837,164	**907,768**	**7,892**
Total	¥1,101,063	**¥1,032,530**	**$8,977**

(Note 1) Non-current assets are allocated according to the location of each group entity.
(Note 2) Within the international, goodwill and intangible assets not tied to a specific country amounted to ¥588,553 million and ¥162,947 million, respectively, as of December 31, 2020, and ¥666,032 million ($5,791 million) and ¥160,125 million($1,392 million), respectively, as of December 31, 2021.

(5) Information about major customers

Information about major customers is omitted as the Group does not have a single external customer that contributes 10% or more to Group revenue in the Consolidated Statement of Income.

7. BUSINESS COMBINATIONS

FY2020: Year ended December 31, 2020

The main companies acquired by the Group in the year ended December 31, 2020 are as follows. Additionally, the Group acquired some businesses from Casley Consulting, Inc.

Name of acquiree	Place of incorporation
4Cite	USA
Digital Pi	USA
Media Storm	USA
Dentsu elfto architect Inc. (formerly Elfto Inc.)	Japan
IPG Inc.	Japan

The business combinations were performed to strengthen the Group's operations, expand its share particularly in fast-growing regions, and enhance its capabilities in the media and digital domains.

The Group acquired shares of several companies and businesses in the year ended December 31, 2020, but as the impact of each individual transaction on the consolidated financial statements is not material, the following amounts are not provided for each transaction.

The acquisition cost of businesses acquired by the Group in the year ended December 31, 2020 is ¥12,774 million. The acquisition cost consists of ¥9,999 million in cash, ¥444 million in shares, and ¥2,331 million in contingent considerations.

The amount of ¥444 million in shares was determined using the acquisition-date fair value of the equity interest in IPG, Inc. The amount of ¥44 million in revaluation gain on step acquisition was recognized in the consolidated statement of income after remeasuring at acquisition-date fair value of the equity interest in IPG, Inc. already held by the Company at the time of acquisition during the year ended December 31, 2020.

Conditional consideration is calculated according to the performance of the acquired company, and may pay up to ¥6,202 million and a minimum of ¥184 million. Acquisition-related expenses are ¥701 million.

The fair value of assets, liabilities, consideration paid, non-controlling interests and goodwill at the business combination-date are as follows.

	(Millions of Yen)
Total assets	**¥18,278**
Total liabilities	**14,489**
Fair value of identifiable net assets	**3,788**
Total consideration	**12,774**
Non-controlling interests (Note 1)	**613**
Goodwill (Note 2)	**¥9,599**

(Note 1) Non-controlling interests were measured by multiplying the shareholding ratio after the business combination by the fair values of identifiable net assets of the acquiree at the date of acqusition of control, excluding the portion individually attributable to non-controlling shareholders.
(Note 2) Goodwill reflects the expected future excess earning power. The total amount of goodwill that is expected to be deductible for tax purposes is ¥8,349 million.

The above amounts, which are fair values based on the best estimate at present, may change within one year from the acquisition dates when additional information is obtained related to facts and circumstances that existed as of the acquisition dates.

Post-acquisition revenue and profit of acquisitions during the year ended December 31, 2020 were ¥6,409 million and ¥883 million, respectively.

(Pro forma information)

Assuming that the business combinations were executed at the beginning of the previous fiscal year revenue and loss of the consolidated statement of income for the year ended December 31, 2020 would be ¥940,219 million and ¥152,427 million, respectively.

This pro forma information is unaudited. Furthermore, such information does not necessarily indicate possible future events, nor reflect the operating results of the Group should the actual equity investment have occurred as of the beginning of the fiscal year.

FY2021: Year ended December 31, 2021

Acquisition of LiveArea

(1) Details of business combination

A. Name of the acquiree

LiveArea (a division of PFSweb, Inc.)

B. Description of acquired business

U.S. advertising agency

C. Main reason for business combination

LiveArea is a global customer experience management ("CXM") and commerce agency based out of the United States. The main reason for the business combination is to expand the scale of the CXM and commerce businesses and to strengthen service functions in the B2C field of Merkle Group Inc. ("Merkle"), headquartered in Maryland, United States. Merkle, one of the six leadership brands that the Group is developing overseas, is a technology-enabled, data-driven marketing company.

D. Date of the business combination

August 27, 2021

E. Ratio of acquired equity interest with voting rights

100%

F. Legal form of the business combination

Acquisition of shares in exchange for cash

(2) The period of performance of the acquired business included in the Consolidated Statement of Income

Performance from August 27, 2021 to December 31, 2021 are included.

(3) Acquisition costs of the acquired business and breakdown thereof

Acquisition cost of the acquired business: ¥27,435 million($239 million)

Breakdown of acquisition costs

Consideration (cash) for shares: ¥27,435 million($239 million)

(4) Amount and item entry of acquisition-related expenses

The acquisition-related expenses pertaining to said business combination were ¥513 million($4 million) and included under "Selling, general and administrative expenses" in the Consolidated Statement of Income.

(5) Fair value of assets and liabilities on the date of business combination, total consideration and goodwill

	(Millions of Yen)	(Millions of U.S. Dollars)
Current assets (Note 1)	¥3,263	$28
Non-current assets	10,832	94
Total assets	14,095	123
Current liabilities	1,797	16
Non-current liabilities	423	4
Total liabilities	2,220	19
Fair value of identifiable net assets	11,874	103
Total consideration	27,435	239
Goodwill (Note 2)	¥15,560	$135

(Note 1) Cash and cash equivalents of ¥589 million($5 million) are included. The fair value of acquired trade and other receivables is ¥2,674 million($23 million), the total amount of the contractual outstanding balance is ¥2,738 million($24 million), and the amount that is not expected to be recovered is ¥75 million($1 million).
(Note 2) Goodwill reflects the expected future excess earning power. The total amount of goodwill that is expected to be deductible for tax purposes is ¥15,560 million($135 million).
(Note 3) For some of the above amounts, allocation of the acquisition costs has not been completed. Therefore, provisional fair values are calculated based upon reasonable information currently available.

(6) Allocated amount, breakdown, and the amortization period of intangible assets other than goodwill

	(Millions of Yen)		(Millions of U.S. Dollars)
Asset classes	Amount	Amortization period(year)	Amount
Customer relationships	¥10,161	5	$88
Others	21	1-10	0
Total	¥10,182		$89

(7) Impact of business combination on cash flowsAllocated amount, breakdown, and the amortization period of intangible assets other than goodwill

Payment of acquisition costs: (¥27,435) million(($239) million)

Cash and cash equivalents received on the date of business combination: ¥589 million($5 million)

Payment for acquisition of shares: (¥26,845) million(($233) million)

(8) Revenue and profit of the acquired business

The post-acquisition revenue and loss before tax of LiveArea, the acquiree, included in the Consolidated Statement of Income were ¥3,897 million($34 million) and ¥438 million($4 million), respectively.

(Pro forma information)

Assuming that the business combinations were executed at the beginning of the current fiscal year, revenue and loss of the consolidated statement of income for the year ended December 31, 2021 would be ¥1,095,665 million($9,526 million) and ¥207,892 million($1,807 million), respectively.

This pro forma information is unaudited. Furthermore, such information does not necessarily indicate possible future events, nor reflect the operating results of the Group should the actual equity investment have occurred as of the beginning of the fiscal year.

8. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Cash and time deposits due within three months	¥530,692	¥723,541	$6,291

Cash and cash equivalents are classified as financial assets measured at amortized cost.

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

	FY2020 (As of December 31, 2020)	(Millions of Yen) FY2021 (As of December 31, 2021)	(Millions of U.S. Dollars) FY2021 (As of December 31, 2021)
Notes and accounts receivable–trade	¥1,248,732	¥1,471,586	$12,794
Other	50,493	36,341	316
Allowance for doubtful accounts	(5,854)	(7,907)	(69)
Total	¥1,293,370	¥1,500,020	$13,041

Trade and other receivables are presented net of allowance for doubtful accounts in the Consolidated Statement of Financial Position.

Trade and other receivables are classified as financial assets measured at amortized cost.

10. INVENTORIES

The breakdown of inventories is as follows:

	FY2020 (As of December 31, 2020)	(Millions of Yen) FY2021 (As of December 31, 2021)	(Millions of U.S. Dollars) FY2021 (As of December 31, 2021)
Work-in-process	¥15,588	¥18,661	$162
Other	8,260	1,999	17
Total	23,848	20,661	180
Of the above, inventories scheduled to be sold for more than 12 months	¥697	¥4,015	$35

The amount of inventories recognized as expense by sales was ¥61,272 million and ¥60,918 million ($530 million) for the years ended December 31, 2020 and 2021, respectively. In addition, the amount of write-down of inventories recognized as expense was ¥4,196 million and ¥5,459 million ($47 million) for the years ended December 31, 2020 and 2021, respectively. There was no reversal of write-down of inventories for the years ended December 31, 2020 and 2021.

11. OTHER FINANCIAL ASSETS

(1) The breakdown of other financial assets is as follows:

	FY2020 (As of December 31, 2020)	(Millions of Yen) FY2021 (As of December 31, 2021)	(Millions of U.S. Dollars) FY2021 (As of December 31, 2021)
Derivative assets	¥8,333	¥9,608	$84
Equity securities	165,442	145,237	1,263
Debt securities	4,455	4,997	43
Other	62,917	76,523	665
Allowance for doubtful accounts	(12,236)	(10,954)	(95)
Total	¥228,913	¥225,412	$1,960
Current assets	12,162	19,455	169
Non-current assets	216,750	205,956	1,791
Total	¥228,913	¥225,412	$1,960

Other financial assets are presented net of allowance for doubtful accounts in the Consolidated Statement of Financial Position.

In addition, derivative assets include those which hedge accounting is applied.

Derivative assets are classified as financial assets measured at fair value through profit or loss, equity securities are classified as financial assets measured at fair value through other comprehensive income. Debt securities and the "Other," ¥4,585 million and ¥9,206 million ($80 million), respectively as of December 31, 2020 and 2021 are classified as financial assets measured at fair value through profit or loss, ¥21,105 million and ¥23,760 million ($207 million), respectively as of December 31, 2020 and 2021 are classified as financial assets measured at fair value through other comprehensive income, remainder is classified as financial assets measured at amortized cost.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their respective fair values are as follows:

(Millions of Yen)

Investees	FY2020 (As of December 31, 2020)
DAZN Group Limited	¥53,572
Recruit Holdings Co., Ltd.	15,339
Digital Garage, Inc.	14,041
Tokyo Broadcasting System Holdings, Inc.	4,638
Lion Corporation	4,481
Asahi Group Holdings, Ltd.	3,897
Fighters Sports & Entertainment Co., Ltd.	3,740
TOHO CO., LTD.	3,518
Others	83,322
Total	¥186,548

Investees	FY2021 (As of December 31, 2021)
DAZN Group Limited	¥37,035
Recruit Holdings Co., Ltd.	24,750
Digital Garage, Inc.	16,153
Tokyo Broadcasting System Holdings, Inc.	4,272
Fighters Sports & Entertainment Co., Ltd.	3,448
TOHO CO., LTD.	3,983
Others	79,357
Total	¥168,998

(Millions of U.S. Dollars)

Investees	FY2021 (As of December 31, 2021)
DAZN Group Limited	$322
Recruit Holdings Co., Ltd.	215
Digital Garage, Inc.	140
Tokyo Broadcasting System Holdings, Inc.	37
Fighters Sports & Entertainment Co., Ltd.	30
TOHO CO., LTD.	35
Others	690
Total	$1,469

Equity securities are designated as financial assets measured at fair value through other comprehensive income since they are held mainly for strengthening relationships with investees.

In order to enhance the efficiency of assets held and to use them effectively, sales (derecognition) of financial assets measured at fair value through other comprehensive income are being carried out.

The fair value and cumulative gain or loss that was recognized in as other comprehensive income (before tax) at the date of sales within equity for each fiscal year is as follows:

FY2020: Year ended December 31, 2020

(Millions of Yen)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
¥194,803	¥179,310

FY2021: Year ended December 31, 2021

(Millions of Yen)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
¥4,364	¥167

FY2021: Year ended December 31, 2021

(Millions of U.S. Dollars)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
$38	$1

The cumulative gain or loss recognized in equity as other components of equity are transferred to retained earnings when an equity instrument is sold or its fair value declined significantly. The cumulative gain or loss (after tax) transferred to retained earnings was ¥117,296 million and ¥4,275 million ($37 million) for the years ended December 31, 2020 and 2021, respectively.

12. OTHER CURRENT ASSETS

Advance payments included in other current assets which are expected to be recognized in profit or loss after more than 12 months are as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Advance payments which are expected to be recognized in profit and loss after more than 12 months	¥10,232	¥5,130	$45

13. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The breakdown of non-current assets held for sale as of December 31, 2020 and 2021 is as follows.

Components of non-current assets classified as held for sale

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Non-current assets classified as held for sale			
Property, plant and equipment	–	2,050	18
Other financial assets (non-current)	2	11,008	96
Total	¥2	¥13,059	$114

Non-current assets classified as held for sale as of December 31, 2020 consist of assets related to shares held by the Company in the Japan business.

In addition to the above, non-current assets held for sale as of December 31, 2021 include property, plant and equipment, such as land, buildings and structures held by the Company and its consolidated subsidiaries in the Japan business, which have been decided to be sold and are expected to be sold during the year ending December 31, 2022. Therefore, the said assets are classified as held for sale.

14. PROPERTY, PLANT AND EQUIPMENT

The schedule of the carrying amount during the period is as follows:

FY2020: Year ended December 31, 2020

(Millions of Yen)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	¥66,453	¥111,443	¥17,532	¥195,429
Additions	5,042	160	3,543	8,746
Acquisitions through business combinations	42	–	107	150
Sales or disposals	(1,115)	(22)	(550)	(1,688)
Depreciation	(7,340)	–	(6,144)	(13,484)
Impairment losses	(269)	–	(659)	(928)
Exchange differences on translation of foreign operations	(612)	(16)	(381)	(1,011)
Other	(53)	–	(85)	(138)
Balance at the end of the year	¥62,147	¥111,565	¥13,362	¥187,075

FY2021: Year ended December 31, 2021

(Millions of Yen)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	¥62,147	¥111,565	¥13,362	¥187,075
Additions	4,504	–	4,736	9,240
Acquisitions through business combinations	0	–	147	147
Sales or disposals	(40,416)	(105,099)	(2,969)	(148,485)
Reclassification to non-current assets held for sale	(1,621)	(424)	(5)	(2,050)
Depreciation	(5,605)	–	(4,871)	(10,477)
Impairment losses	(245)	–	(26)	(272)
Exchange differences on translation of foreign operations	1,073	67	829	1,971
Other	(263)	–	(214)	(478)
Balance at the end of the year	¥19,572	¥6,109	¥10,988	¥36,670

FY2021: Year ended December 31, 2021

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	$540	$970	$116	$1,626
Additions	39	–	41	80
Acquisitions through business combinations	0	–	1	1
Sales or disposals	(351)	(914)	(26)	(1,291)
Reclassification to non-current assets held for sale	(14)	(4)	(0)	(18)
Depreciation	(49)	–	(42)	(91)
Impairment losses	(2)	–	(0)	(2)
Exchange differences on translation of foreign operations	9	1	7	17
Other	(2)	–	(2)	(4)
Balance at the end of the year	$170	$53	$96	$319

(Note) This is mainly attributable to the transfer of the real estate in Shiodome, Zone A, which includes the Dentsu Headquarters Building during the year ended December 31, 2021. For details, please refer to "16. LEASES (5) Sale and leaseback transaction."

The acquisition cost, accumulated depreciation and impairment losses, and carrying amount of property, plant and equipment are as follows:

(Millions of Yen)

	Buildings and structures	Land	Other	Total
FY2020 (As of December 31, 2020)				
Acquisition cost	¥148,873	¥111,570	¥57,173	¥317,617
Accumulated depreciation and impairment losses	86,726	4	43,810	130,542
Carrying amount	62,147	111,565	13,362	187,075
FY2021 (As of December 31, 2021)				
Acquisition cost	¥59,819	¥6,114	¥54,038	¥119,972
Accumulated depreciation and impairment losses	40,247	4	43,050	83,302
Carrying amount	19,572	6,109	10,988	36,670

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
FY2021 (As of December 31, 2021)				
Acquisition cost	$520	$53	$470	$1,043
Accumulated depreciation and impairment losses	350	0	374	724
Carrying amount	170	53	96	319

There is no property, plant and equipment whose title is restricted or pledged as security for liabilities.

Depreciation is recorded in the Consolidated Statement of Income as "Cost" and "Selling, general and administrative expenses."

Property, plant and equipment consist of proprietary assets that do not meet the definition of investment property, and right-of-use assets.

The carrying amount of the assets are as follows.

(Millions of Yen)

	Total
FY2020 (As of December 31, 2020)	
Property, plant and equipment owned by the Group	¥187,075
Right-of-use assets	93,121
Carrying amount	¥280,196
	Total
FY2021 (As of December 31, 2021)	
Property, plant and equipment owned by the Group	¥36,670
Right-of-use assets	137,010
Carrying amount	¥173,681

(Millions of U.S. Dollars)

	Total
FY2021 (As of December 31, 2021)	
Property, plant and equipment owned by the Group	$319
Right-of-use assets	1,191
Carrying amount	$1,510

15. GOODWILL AND INTANGIBLE ASSETS

(1) Schedule of goodwill and intangible assets

The schedule of the carrying amount during the period is as follows:

FY2020: Year ended December 31, 2020

(Millions of Yen)

	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	¥754,796	¥147,780	¥22,724	¥58,694	¥983,995
Additions	–	–	13,648	224	13,873
Acquisitions through business combinations (Note 1)	12,395	(3,158)	142	5,136	14,516
Sales or disposals	(369)	–	(1,724)	(356)	(2,450)
Amortization	–	(21,715)	(9,187)	(10,655)	(41,557)
Impairment losses (Note 2)	(142,904)	(73)	(887)	(2,141)	(146,006)
Exchange differences on translation of foreign operations	(30,827)	(5,142)	(588)	(2,007)	(38,565)
Other	279	(42)	89	(626)	(299)
Balance at the end of the year	¥593,369	¥117,647	¥24,217	¥48,270	¥783,504

FY2021: Year ended December 31, 2021

(Millions of Yen)

	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	¥593,369	¥117,647	¥24,217	¥48,270	¥783,504
Additions	–	–	7,231	76	7,307
Acquisitions through business combinations (Note 1)	14,985	8,816	11	730	24,543
Sales or disposals	(266)	–	(718)	(105)	(1,090)
Amortization	–	(21,201)	(6,946)	(8,673)	(36,821)
Impairment losses (Note 2)	(193)	–	(946)	(2)	(1,142)
Exchange differences on translation of foreign operations	63,077	12,521	1,411	4,667	81,677
Other	(222)	(60)	151	76	(54)
Balance at the end of the year	¥670,749	¥117,722	¥24,412	¥45,040	¥857,924

FY2021: Year ended December 31, 2021

(Millions of U.S. Dollars)

	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	$5,159	$1,023	$211	$420	$6,812
Additions	–	–	63	1	64
Acquisitions through business combinations (Note 1)	130	77	0	6	213
Sales or disposals	(2)	–	(6)	(1)	(9)
Amortization	–	(184)	(60)	(75)	(320)
Impairment losses (Note 2)	(2)	–	(8)	(0)	(10)
Exchange differences on translation of foreign operations	548	109	12	41	710
Other	(2)	(1)	1	1	(0)
Balance at the end of the year	$5,832	$1,023	$212	$392	$7,459

(Note 1) Acquisitions through business combinations include measurement period adjustments that have not been applied retrospectively due to immateriality.
(Note 2) Impairment loss is recorded under impairment loss and restructuring cost in the consolidated statement of income.

The acquisition cost, accumulated amortization and impairment losses, and carrying amount of goodwill and intangible assets are as follows:

(Millions of Yen)

	Goodwill	Customer relationships	Software	Other	Total
FY2020 (As of December 31, 2020)					
Acquisition cost	¥806,731	¥260,543	¥123,805	¥118,436	¥1,309,517
Accumulated amortization and impairment losses	213,361	142,896	99,587	70,166	526,012
Carrying amount	593,369	117,647	24,217	48,270	783,504
FY2021 (As of December 31, 2021)					
Acquisition cost	¥884,304	¥296,468	¥126,408	¥130,716	¥1,437,897
Accumulated amortization and impairment losses	213,554	178,746	101,995	85,675	579,972
Carrying amount	670,749	117,722	24,412	45,040	857,924

(Millions of U.S. Dollars)

	Goodwill	Customer relationships	Software	Other	Total
FY2021 (As of December 31, 2021)					
Acquisition cost	$7,688	$2,578	$1,099	$1,136	$12,501
Accumulated amortization and impairment losses	1,857	1,554	887	745	5,042
Carrying amount	5,832	1,023	212	392	7,459

There are no intangible assets whose title is restricted or pledged as security for liabilities.

Amortization is recorded in the Consolidated Statement of Income as “Cost of sales” and “Selling, general and administrative expenses.”

Intangible assets consist of proprietary assets that do not meet the definition of investment property, and right-of-use assets.

The carrying amount of goodwill and intangible assets are as follows.

(Millions of Yen)

	Total
FY2020 (As of December 31, 2020)	
Goodwill and intangible assets owned by the Group	¥783,504
right-of-use assets	998
Carrying amount	¥784,503
FY2021 (As of December 31, 2021)	
Goodwill and intangible assets owned by the Group	¥857,924
right-of-use assets	824
Carrying amount	¥858,749

(Millions of U.S. Dollars)

	Total
FY2021(As of December 31, 2021)	
Goodwill and intangible assets owned by the Group	$7,459
right-of-use assets	7
Carrying amount	$7,466

(2) Significant goodwill and intangible assets

Significant goodwill as of December 31, 2021 was ¥181,000 million ($1,574 million) in the EMEA region, ¥433,039 million ($3,765 million) in the Americas region, and ¥51,993 million ($452 million) in the APAC region in the International business segment. Significant goodwill as of December 31, 2020 was ¥165,879 million in the EMEA region, ¥376,618 million in the Americas region, and ¥46,055 million in the APAC region in the International business segment.

Significant intangible assets other than goodwill consist of customer relationships in the international business segment, which amounted to ¥57,442 million($499 million) in the EMEA, ¥45,337 million($394 million) in the Americas and ¥14,942million($130 million) in the APAC region as of December 31, 2021. Customer relationships in the international business segment as of December 31, 2020 amounted to ¥60,575 million in the EMEA, ¥40,919 million in the Americas and ¥16,151 million in the APAC. Among them, the amount recognized when the Company acquired Dentsu Aegis Network Ltd. (currently “Dentsu International Limited”) in March 2013 was ¥79,825 million and ¥79,766 million ($693 million) as of December 31, 2020 and 2021, respectively, which the remaining amortization period at December 31, 2021 is 9 years.

(3) Impairment testing of goodwill

A. Results of impairment test of goodwill

Based on the latest business plan compiled using the most recent results, the Group conducted an annual impairment test of goodwill related to the International business segment during the year ended December 31, 2021. As a result, the Group didn't recognize impairment losses in the International business segment as a whole or each group of cash-generating units.

In the year ended December 31, 2020, the Group recognized impairment loss on goodwill of ¥140,367 million in the International business as a whole (including individual impairment losses of ¥46,143 million for the EMEA region and ¥6,209 million for the APAC region).

B. Overview of impairment test of goodwill

In the International business segment, the Company confirms the necessity of recognizing impairment on the International business segment as a whole, including unallocated corporate assets and overhead costs, in addition to the impairment test of goodwill for each group of cash-generating units. The recoverable amounts are calculated using the value in use based on the budget for the year ending December 31, 2022 approved by management and the forecast for the additional four subsequent fiscal years. The key assumptions and inputs adopted to calculate the value in use are as follows.

- Operating margin: Operating margin is estimated to be approximately the same level as the actual value (15.9%) in the year ended December 31, 2021.
- Estimate of net working capital: The Company estimates the long-term expected net working capital based on past averages.
- Perpetual growth rate: The perpetual growth rate set for cash flows for a period exceeding five years ranges from 1.5% to 2.0% (year ended December 31, 2020: 1.5% to 1.75%) for the entire International business segment.
- Discount rate: The pre-tax discount rate adopted to calculate the value in use for each group of cash-generating units and overhead costs included in the International business segment as a whole ranges from 8.8% to 11.3% (year ended December 31, 2020: 9.6% to 12.4%).
- The allocation ratio of overhead costs: In the impairment test of goodwill for each group of cash-generating units, overhead costs of the International business segment are allocated to each group of cash-generating units based on reasonable and consistent calculation. The ratio of overhead costs allocated to each group of cash-generating units is 73.7% (year ended December 31, 2020: 72.5%).

C. Sensitivity analysis

In the impairment test for the year ended December 31, 2021, assuming all other variables are constant, the changes in the numerical values of the main assumptions required for impairment in each region are as follows.

(Millions of Yen)

	Amount in which the recoverable amount exceeds the carrying amount	Fluctuation value required for impairment if all other variables are assumed to be constant		
		Discount rate	Perpetual growth rate	Operating margin
EMEA	183,305	+5.28pt	(9.58) pt	(6.63) pt
Americas	247,099	+3.69pt	(5.87) pt	(6.58) pt
APAC	22,780	+2.23pt	(3.65) pt	(2.41) pt
The International business segment as a whole	302,063	+2.72pt	(4.23) pt	(4.05) pt

(Millions of U.S. Dollars)

	Amount in which the recoverable amount exceeds the carrying amount
EMEA	$1,594
Americas	$2,148
APAC	$198
The International business segment as a whole	$2,626

16. LEASES

(1) Lease costs and cash flows

Lease costs and cash flows are as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Depreciation expenses by type of right-of-use asset			
Buildings and structures	¥30,058	¥26,809	$261
Software	254	244	2
Others	220	361	2
Total depreciation expenses	30,533	27,414	265
Interest expense on lease obligations	3,665	3,463	32
Expenses for short-term leases and leases of low-value assets	5,406	5,472	47
Total cash outflows related to leases	¥42,737	¥40,902	$372

(2) Right-of-use assets included in the carrying amount of fixed assets

The carrying amount and increase of right-of-use assets included in the carrying amount of fixed assets are as follows.

	Buildings and structures	Others (property, plant and equipment)	Software	Total
As of December 31, 2020	¥88,672	¥4,449	¥998	¥94,120
As of December 31, 2021	¥133,645	¥3,365	¥824	¥137,836

(Millions of U.S. Dollars)

	Buildings and structures	Others (property, plant and equipment)	Software	Total
As of December 31, 2020	$771	$39	$9	$818
As of December 31, 2021	$1,162	$29	$7	$1,198

The increase in right-of-use assets for the year ended December 31, 2020 and the year ended December 31, 2021 was ¥11,179 million and ¥69,776 million ($607 million) , respectively.

(3) Lease obligation

The maturity analysis of the lease obligation is described in "36. FINANCIAL INSTRUMENTS (4) Liquidity risk"

(4) Nature of leasing activity

The Group leases buildings primarily as offices. The lease period for the building is between 1 and 20 years, in some cases, the lessee has the option to extend the term of the lease for one year or the same period as the original contract.

In the Japan business in particular, many lease contracts for buildings allow the lessee to repeatedly exercise the extension option, and the option to terminate the contract early if the written notice is given to the other party six months in advance. However, only lease payments for the period for which it is reasonably certain that the option will be exercised are included in the measurement of the lease obligation. These option are used as needed by the leasing entity to utilize the building for its business.

(5) Sale and leaseback transaction

In the year ended December 31, 2021, the Company sold the real estate in Shiodome, Zone A, which includes the Dentsu Headquarters Building, and began the lease of the Dentsu Headquarters Building.

In August 2020, the Group launched a comprehensive review of business operations and capital efficiency and carried out the transaction with the aim of improving capital efficiency, strengthening the company's financial position, and securing growth investment funds.

The main details with regard to the sold and leased assets are as follows:

Asset details and location	Gain on sale	Carrying amount	Current situation
• Location: 1-8-1 Higashi-shimbashi, Minato-ku, Tokyo • Land: 17,244 m2 • Site area: 17,244 m2 • Height: 213.3 m • No. of floors: 48 floors above ground, 5 floors below ground • (additional one building)	¥89,186 million ($775 million)	¥177,137 million ($1,540 million)	Used as an office/ commercial/cultural facility

1. The fixed term building lease agreement for the building covers the office sections, Dentsu Hall, studios, etc. used by the Company and Group companies except for commercial facilities.
2. The term of the lease is 11 years from the date the sale was executed and has no options for extensions or cancellations.
3. Due to an arrangement with the purchaser, the Company refrains from disclosing the sale price and lease fee; however, the price is an appropriate one that reflects the market price arrived at by competitive bidding.
4. The gain on sale is included in "Gain (loss) on sale and retirement of non-current assets" in the Consolidated Statement of Income.
5. Carrying amount of ¥177,137 million($1,540 million) is broken down as ¥141,390 million($1,229 million) for property, plant and equipment and ¥35,747 million($311 million) for investment property.

The total lease payment under the lease agreement is ¥90,596 million($788 million) and there is no option to repurchase the leased portions.

As a result of the transaction, ¥52,802 million($459 million) and ¥88,633 million($771 million) were recorded for right-of-use assets and for lease obligations, respectively, in the year ended December 31, 2021. For details on the impact on cash flows, please refer to "Proceeds from sale and leaseback" under "Cash flows from investing activities" in the Consolidated Statement of Cash Flows.

(6) Potentially exposed future cash outflows not reflected in the measurement of the lease obligation
In the international business, the Group has lease contracts for buildings that have already been contracted as of December 31, 2020, but not yet started, and the lease period of the main transactions is 16 years. Non-cancellable lease payments total ¥61,708 million($536 million). These are not reflected in the measurement of lease obligations.

17. INVESTMENT PROPERTY

(1) Schedule of investment property
The schedule of the carrying amount of investment property during the period is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Balance at the beginning of the year	¥36,835	¥36,362	$316
Additions	–	152	1
Transfer to property, plant and equipment	(53)	–	–
Transfer to non-current assets held for sale	–	(253)	(2)
Depreciation	(394)	(164)	(1)
Sales or disposals (Note)	(25)	(36,071)	(314)
Other	–	76	1
Balance at the end of the year	¥36,362	¥100	$1
Acquisition cost (balance at the beginning of the year)	¥46,269	¥46,164	$401
Accumulated depreciation and impairment losses (balance at the beginning of the year)	9,433	9,801	85
Acquisition cost (balance at the end of the year)	¥46,164	¥439	$4
Accumulated depreciation and impairment losses (balance at the end of the year)	9,801	338	3

(Note) This is mainly attributable to the transfer of the real estate in Shiodome, Zone A, which includes the Dentsu Headquarters Building during the year ended December 31, 2021. For details, please refer to "16. LEASES (5) Sale and leaseback transaction."

(2) Fair value
The carrying amount and fair value of investment property are as follows:

	(Millions of Yen)				(Millions of U.S. Dollars)	
	FY2020 (As of December 31, 2020)		FY2021 (As of December 31, 2021)		FY2021 (As of December 31, 2021)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property (Level 3)	¥36,362	¥51,388	¥100	¥561	$1	$5

The fair value of investment property is determined by real estate appraisal value mainly based on discounted cash flow model and observable quoted prices for similar properties and others.

The investment property that is measured at fair value is categorized into the three levels of fair value hierarchy according to observability and significance of the inputs used in the 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

The fair value of investment property for each fiscal year end is categorized within level 3 of the fair value hierarchy.

(3) Income and expenses from investment property

The rental income from investment property and direct operating expenses associated with the investment property are as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Rental income	¥2,032	¥1,455	$13
Direct operating expenses	754	468	4

There are no investment properties that do not generate rental income and direct operating expenses associated with the investment property.

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of investments in associates and joint ventures is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Total carrying amount	¥50,906	¥56,423	$491

The financial information of associates and joint ventures is as follows. These amounts take into account the Group's ownership ratio.

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Profit for the year	¥1,680	¥2,448	$21
Other comprehensive income	(186)	116	1
Comprehensive income for the year	¥1,493	¥2,564	$22

In addition to the above, impairment loss of investments accounted for using the equity method of ¥958 million, gain on sale of investments in associates of ¥144 million and revaluation gain on step acquisition of ¥44 million were recognized for the year ended December 31, 2020.

Gain on sale of investments in associates of ¥35 million($0 million) was recognized for the year ended December 31, 2021.

The Group does not recognize the share of the cumulative amount of losses exceeding the carrying amounts incurred in certain investees accounted for using the equity method.

Unrecognized losses for each fiscal year and cumulative unrecognized losses for the investments are as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Unrecognized losses	¥201	¥251	$2

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Cumulative unrecognized losses	¥235	¥437	$4

19. INCOME TAXES

(1) Deferred tax assets and deferred tax liabilities

The breakdown of deferred tax assets and deferred tax liabilities by major causes of their occurrence is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Deferred tax assets			
Liability for retirement benefits	¥26,749	¥29,929	$260
Accrued expenses	8,845	14,230	124
Carryforwards of tax losses	14,110	6,036	52
Other	31,446	37,269	324
Total deferred tax assets	¥81,152	¥87,465	$760
Deferred tax liabilities			
Gain on establishment of retirement benefit trust	¥(13,074)	¥(10,974)	$(95)
Unrealized gain on securities	(19,663)	(25,195)	(219)
Valuation differences on intangible assets	(44,079)	(51,902)	(451)
Other	(4,712)	(3,673)	(32)
Total deferred tax liabilities	¥(81,530)	¥(91,746)	$(798)
Net deferred tax assets (liabilities)	¥(377)	¥(4,281)	$(37)

Changes in net deferred tax assets (liabilities) are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Net deferred tax assets (liabilities)			
Balance at the beginning of the year	¥(81,141)	¥(377)	$(3)
Deferred income taxes	16,488	1,202	10
Deferred taxes related to components of other comprehensive income			
Exchange differences on translation of foreign operations	8	0	0
Effective portion of the change in the fair value of cash flow hedges	2,184	(3,260)	(28)
Net change in financial assets measured at fair value through other comprehensive income	(133)	(2,591)	(23)
Remeasurements of defined benefit plans	1,556	508	4
Changes in deferred tax assets (liabilities) arising from business combinations, and others (Note)	60,659	(106)	(1)
Balance at the end of the year	¥(377)	¥(4,281)	$(37)

(Note) A decrease in deferred tax liabilities of ¥58,911 million, which resulted from a reclassification into retained earnings due to a sale of financial assets measured through other comprehensive income during the fiscal year, is included in the year ended December 31, 2020.

Taxable temporary differences, future taxable income determinations and tax planning are taken into account when recognizing deferred tax assets.

The breakdown of deductible temporary differences and carryforwards of tax losses, for which deferred tax assets are not recognized in the Consolidated Statement of Financial Position, is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Deductible temporary differences	¥55,953	¥91,064	$792
Carryforwards of tax losses	123,137	139,063	1,209

The breakdown of carryforwards of tax losses by expiry date as of December 31, 2020 and 2021, for which deferred tax assets are not recognized in the Consolidated Statement of Financial Position, is as follows:

	FY2020 (As of December 31, 2020) (Millions of Yen)	FY2021 (As of December 31, 2021) (Millions of Yen)	FY2021 (As of December 31, 2021) (Millions of U.S. Dollars)
Within 1 year	¥1,524	¥1,630	$14
Within 2 years	428	324	3
Within 3 years	1,035	1,423	12
Within 4 years	873	1,328	12
Within 5 years	3,284	3,052	27
Over 5 years	21,821	24,552	213
Indefinite periods	94,169	106,751	928
Total	¥123,137	¥139,063	$1,209

The total amount of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, for which deferred tax liabilities are not recognized amounted to ¥130,340 million and ¥157,929 million ($1,373 million) as of December 31, 2020 and 2021, respectively.

Deferred tax liabilities are not recognized for these differences since the Group is able to control the timing of the reversal of the temporary difference and it is probable the temporary difference will not reverse in the foreseeable future.

(2) Income tax expense

The breakdown of income tax expense is as follows:

	FY2020 (Year ended December 31, 2020) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of U.S. Dollars)
Current income taxes	¥27,651	¥95,182	$828
Deferred income taxes	(16,488)	(1,202)	(10)

(3) Reconciliation of effective tax rate

The breakdown of major items that caused differences between the effective statutory tax rate and income tax rate after applying deferred tax accounting is as follows:

The Company is mainly subject to corporate tax, inhabitant tax and enterprise tax. The effective statutory tax rates calculated based on these taxes are 31.0% for the years ended December 31, 2020 and 2021. Foreign subsidiaries are subject to income taxes at their respective locations.

(%)

	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)
Effective statutory tax rate	31.0	31.0
(Reconciliation)		
Non-deductible items, such as entertainment expenses	(0.5)	0.2
Non-taxable items, such as dividend income	0.2	(0.1)
Changes in contingent consideration	2.0	0.6
Changes in put option liabilities	(0.1)	0.0
Share of profits of investments accounted for using the equity method	0.4	(0.4)
Reduction of deferred tax assets (liabilities) at fiscal year end due to tax rate changes	0.1	1.0
Changes in unrecognized deferred tax assets	(12.4)	17.1
Impairment of goodwill	(31.4)	0.0
Difference in tax rates of foreign subsidiaries	1.3	(5.1)
Other	1.5	0.7
Income tax rate after applying of deferred tax accounting	(7.9)	45.0

20. TRADE AND OTHER PAYABLES

(1) The breakdown of trade and other payables is as follows:

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021) (Millions of Yen)	FY2021 (As of December 31, 2021) (Millions of U.S. Dollars)
Notes and accounts payable–trade	¥1,179,065	¥1,397,281	$12,148
Other	68,106	67,829	590
Total	¥1,247,172	¥1,465,110	$12,738

Trade and other payables are classified as financial liabilities measured at amortized cost.

(2) Assets pledged as collateral for liabilities

Assets pledged as collateral and corresponding liabilities are as follows:

Assets pledged as collateral	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021) (Millions of Yen)	FY2021 (As of December 31, 2021) (Millions of U.S. Dollars)
Other financial assets (current assets)	¥54	¥54	$0

Corresponding liabilities	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Notes and accounts payable	–	–	–

In addition to the above, other financial assets (current assets) of ¥8 million and ¥8 million ($0 million) are pledged as collateral for guarantee transactions related to the "Official Gazette" (Kanpou), sales etc. as of December 31, 2020 and 2021, respectively.

21. BONDS, BORROWINGS, AND OTHER FINANCIAL LIABILITIES

(1) Breakdown of financial liabilities

The breakdown of bonds, borrowings, and other financial liabilities are as follows:

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	Date of maturity redemption (Millions of Yen)	FY2021 (As of December 31, 2021) (Millions of U.S. Dollars)
Derivative liabilities	¥17,093	¥15,178	–	$132
Put option liabilities	33,963	34,029	–	296
Bonds(Note)	199,478	199,569	2023～2030	1,735
Short-term borrowings	39,692	40,007	–	348
Current portion of long-term borrowings	32,840	53,060	–	461
Short-term lease obligations	29,414	33,928	–	295
Long-term borrowings	312,795	286,553	2023～2030	2,491
Long-term lease obligations	80,125	158,154	2023～2034	1,375
Other (Contingent consideration, etc.)	138,445	62,764	–	546
Total	¥883,850	¥883,244	–	$7,679
Current liabilities	¥222,270	¥192,155		$1,671
Non-current liabilities	661,579	691,089		6,008
Total	¥883,850	¥883,244		$7,679

Derivative liabilities include those to which hedge accounting is applied.

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss.

Borrowings are classified as financial liabilities measured at amortized cost. The average interest rates of short-term borrowings and long-term borrowings (including the current portion of long-term borrowings) for year ended December 31, 2021 are 4.28% and 1.78%, respectively.

Conditional consideration is calculated based on the performance of the acquired company and may range from a minimum of ¥1,142 million to a maximum of ¥359,187 million and from a minimum of zero to a maximum of ¥220,523 million($1,917 million) in the year ended December 31, 2020 and 2021, respectively.

"Other(contingent consideration, etc)" includes financial liabilities measured at fair value through profit or loss of ¥42,258 million and ¥49,446 million ($430 million) as of December 31, 2020 and 2021, respectively. Remaining amounts are classified as financial liabilities measured at amortized cost. Other (Contingent consideration, etc.) as of December 31, 2020 includes ¥85,730 million of Markle's stock purchase obligations that was transferred to other current liabilities in the year ended December 31, 2020.

Financial covenants are attached to certain borrowings as of December 31, 2020 and 2021. The Group has complied with these covenants. The Group monitors these covenants to maintain the required level.

(Note) A summary of the terms of the bonds issued is as follows:

Company name	Bonds	Date of issue	(Millions of yen) FY2020 (As of December 31, 2020)	(Millions of yen) FY2021 (As of December 31, 2021)	(Millions of U.S. Dollars) FY2021 (As of December 31, 2021)	Interest rate (%)	Collateral	Date of redemption
Dentsu Group Inc.	First unsecured bond	October 25, 2018	¥34,945	¥34,964	$304	0.110	N/A	October 25, 2023
Dentsu Group Inc.	Second unsecured bond	October 25, 2018	19,951	19,961	174	0.240	N/A	October 24, 2025
Dentsu Group Inc.	Third unsecured bond	October 25, 2018	24,928	24,937	217	0.424	N/A	October 25, 2028
Dentsu Group Inc.	Fourth unsecured bond	July 8, 2020	49,880	49,906	434	0.220	N/A	July 8, 2025
Dentsu Group Inc.	Fifth unsecured bond	July 8, 2020	9,968	9,973	87	0.320	N/A	July 8, 2027
Dentsu Group Inc.	Sixth unsecured bond	July 8, 2020	59,807	59,828	520	0.490	N/A	July 8, 2030
Total	–	–	¥199,478	¥199,569	$1,735	–	–	–

(2) Changes in liabilities arising from financing activities

FY2020: Year ended December 31, 2020

(Millions of Yen)

	Balance at the beginning of the year	Changes from cash flows from financing activities	Non-cash changes: Newly recognized	Non-cash changes: Changes from remeasurements	Non-cash changes: Increase due to business combination	Non-cash changes: Exchange differences and others	Balance at the end of the year
Short-term borrowings	¥60,944	¥(9,174)	–	–	–	¥(12,077)	¥39,692
Long-term borrowings (Note 1)	483,197	(125,773)	–	–	154	(11,943)	345,636
Lease obligations (Note 1)	133,063	(33,666)	10,907	–	272	(1,037)	109,539
Put option liabilities (Note 1, 2, 3)	140,488	(3,395)	1,972	(4,480)	–	(100,621)	33,963
Bonds	79,785	119,629	–	–	–	63	199,478
Total	¥897,479	¥(52,379)	¥12,879	¥(4,480)	¥426	¥(125,615)	¥728,310

(Note 1) The above includes current liabilities due within one year.
(Note 2) Changes from remeasurements includes interest expense from the passage of time.
(Note 3) An absorption-type merger of OrangeCo Merger Sub, Inc., which was a wholly-owned subsidiary of the Company, was conducted with Merkle as the surviving company through a so-called reverse triangular merger under U.S. law effective April 15, 2020. In conjunction, the rights (put option) that allow shareholders of Merkle to request the purchase of their shares in Merkle were exercised early. Consequently, the payment amount was finalized and put option liabilities decreased by ¥85,730 million as a change in "other."

FY2021: Year ended December 31, 2021

(Millions of Yen)

	Balance at the beginning of the year	Changes from cash flows from financing activities	Non-cash changes				Balance at the end of the year
			Newly recognized	Changes from remeasurements	Increase due to business combination	Exchange differences and others	
Short-term borrowings	¥39,692	¥(3,334)	–	–	–	¥3,649	¥40,007
Long-term borrowings (Note 1)	345,636	(34,370)	–	–	–	28,347	339,613
Lease obligations (Note 1, 4)	109,539	(31,967)	105,613	–	–	8,898	192,082
Put option liabilities (Note 1, 2, 3)	33,963	(2,944)	–	(158)	–	3,168	34,029
Bonds	199,478	–	–	–	–	90	199,569
Total	¥728,310	¥(72,617)	¥105,613	¥(158)	–	¥44,154	¥805,302

FY2021: Year ended December 31, 2021

(Millions of U.S. Dollars)

	Balance at the beginning of the year	Changes from cash flows from financing activities	Non-cash changes				Balance at the end of the year
			Newly recognized	Changes from remeasurements	Increase due to business combination	Exchange differences and others	
Short-term borrowings	$345	$(29)	–	–	–	$32	$348
Long-term borrowings (Note 1)	3,005	(299)	–	–	–	246	2,953
Lease obligations (Note 1, 4)	952	(278)	918	–	–	77	1,670
Put option liabilities (Note 1, 2, 3)	295	(26)	–	(1)	–	28	296
Bonds	1,734	–	–	–	–	1	1,735
Total	$6,332	$(631)	$918	$(1)	–	$384	$7,001

(Note 1) The above includes current liabilities due within one year.
(Note 2) Changes from remeasurements includes interest expense from the passage of time.
(Note 3) In addition to the above fluctuations due to cash flows from financing activities, there was a payment of ¥89,536 million($778 million) for the Markle's stock purchase obligation transferred to other current liabilities as described in Note 3 of the year ended December 31, 2020.
(Note 4) ¥88,633 million($771 million) of ¥105,613 million($918 million) in Newly recognized was due to the transfer of the real estate in Shiodome, Zone A, which includes the Dentsu Headquarters Building. For details, please refer to "16. LEASES (5) Sale and leaseback transaction."

22. PROVISIONS

The breakdown and schedule of provisions are as follows:

FY2020: Year ended December 31, 2020

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provision for restructuring	Other provisions	Total
Balance at the beginning of the year	¥2,205	¥575	¥6,673	¥3,490	¥12,943
Additional provisions in the year	1,576	1,166	62,699	3,022	68,465
Interest expense incurred over the discount period	4	–	–	–	4
Provisions used	(29)	(301)	(1,709)	(122)	(2,162)
Provisions released	(135)	–	(2,800)	(357)	(3,293)
Exchange differences on translation of foreign operations	0	–	652	(347)	305
Other	90	–	(372)	778	495
Balance at the end of the year	¥3,711	¥1,441	¥65,143	¥6,463	¥76,758
Current liabilities	¥551	¥1,441	¥23,637	¥3,115	¥28,745
Non-current liabilities	3,159	–	41,506	3,347	48,013
Total	¥3,711	¥1,441	¥65,143	¥6,463	¥76,758

FY2021: Year ended December 31, 2021

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provision for restructuring	Other provisions	Total
Balance at the beginning of the year	¥3,711	¥1,441	¥65,143	¥6,463	¥76,758
Additional provisions in the year	1,380	515	8,505	749	11,151
Interest expense incurred over the discount period	5	–	–	–	5
Provisions used	(778)	(1,167)	(16,731)	(501)	(19,179)
Provisions released	–	–	(21,266)	(1,530)	(22,796)
Exchange differences on translation of foreign operations	(4)	–	4,114	512	4,622
Other	(153)	–	1,179	1,811	2,837
Balance at the end of the year	¥4,160	¥789	¥40,944	¥7,504	¥53,399
Current liabilities	¥658	¥789	¥10,128	¥4,483	¥16,059
Non-current liabilities	3,502	–	30,816	3,021	37,340
Total	¥4,160	¥789	¥40,944	¥7,504	¥53,399

FY2021: Year ended December 31, 2021

(Millions of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provision for restructuring	Other provisions	Total
Balance at the beginning of the year	$32	$13	566	$56	$667
Additional provisions in the year	12	4	74	7	97
Interest expense incurred over the discount period	0	–	–	–	0
Provisions used	(7)	(10)	(145)	(4)	(167)
Provisions released	–	–	(185)	(13)	(198)
Exchange differences on translation of foreign operations	(0)	–	36	4	40
Other	(1)	–	10	16	25
Balance at the end of the year	$36	$7	$356	$65	$464
Current liabilities	$6	$7	$88	$39	$140
Non-current liabilities	30	–	268	26	325
Total	$36	$7	$356	$65	$464

(1) Provisions for asset retirement obligations

The probable amount to be paid in the future, taking past results in consideration is recognized in order to settle restoration obligations in lease contracts for offices that the Group uses.

These expenses are primarily expected to be paid after one year, however may change due to future events such as changes in business plan.

(2)Provisions for loss on order received

If losses are expected to be incurred in subsequent years from the performance of contracts related to orders received from customers and such losses can be reasonably estimated, loss provisions are recognized at the amounts expected to be incurred in subsequent years.

(3)Provision for restructuring

The provision for restructuring for the Japan business is ¥15,198 million and ¥12,896 million($112 million) as of December 31, 2020 and 2021, respectively. It primarily consists of the provision for unavoidable costs to fulfill the obligations of an outsourcing agreement with retired employees who became sole proprietors through the early retirement program.

The Company’s subsidiary, Dentsu Inc., implemented an early retirement program connected to the provision of new career options to the retiring employees in the year ended December 31, 2020. Employees retiring through this program became sole proprietors and entered into an outsourcing agreement for up to 10 years with the Company’s subsidiary, New Horizon Collective G.K. In connection with the early retirement program, the Company recorded provision for restructuring for unavoidable costs to fulfill obligations under the above outsourcing agreement expected to be incurred in the future (over a period of 10 and 9 years as of December 31, 2020 and 2021, respectively).

The provision for restructuring for the International business is ¥49,944 million and ¥28,047 million($244 million) as of December 31, 2020 and 2021, respectively. It primarily consists of the provisions for anticipated losses from future subleases of onerous real estate lease agreements that have been entered into by the Group as a lessee but have not yet commenced, workforce reduction expenses, property optimization expenses, and expenses arising from other related initiatives.

For the onerous real estate lease agreements that have been entered into by the Group as a lessee but have not yet commenced, losses are still expected even if the future sublease income from the relevant real estate is taken into account. Therefore, based on IAS 37, the Company recorded the current obligations under the contract as a provision for the onerous real estate lease agreements.

Key assumptions adopted in the calculation of the provision include the base sublease rentals, expected rate of increase in rental payments over the lease term (16 – 20 years as of December 31, 2020 and 16 years as of December 31, 2021), lease incentives and void periods, which aggregate to an estimated expected total sublease income on the onerous space. There is uncertainty to the timing and value of any subrental income the Group will receive on the impacted properties. While this provision is calculated at its best estimate considering uncertainty at the balance sheet date, the actual result may differ from the estimate. The provision for restructuring related to onerous real estate lease agreements was ¥29,072 million and ¥20,178 million($175 million) as of December 31, 2020 and 2021, respectively. If the total amount of revenues expected from subleases were to decrease by 10%, the provision would increase by 5,285 million and ¥4,579 million($40 million) as of December 31, 2020 and 2021, respectively.

During the year ended December 31, 2021, the Group canceled some onerous real estate lease agreements and no longer expects losses from sublease agreements. As a result, the Company released part of the provision that had been recorded for the onerous real estate lease agreements in our international business in the year ended December 31, 2020. Due to these changes, provision for non-current liabilities decreased by ¥13,847 million($120 million) and restructuring cost decreased by ¥13,475 million($117 million) for the year ended December 31, 2021.

23. POST-EMPLOYMENT BENEFITS

The Group operates defined benefit corporate pension plans and retirement lump-sum payment plans as defined benefit plans.

The Group and asset managers are required by law to act in the best interests of the plan participants, and is responsible for managing the plan assets in accordance with the designated policy.

Certain domestic consolidated subsidiaries voluntarily operate a retirement benefits trust for defined benefit corporate pension plans and retirement lump-sum payment plans.

In addition, the Company and certain domestic consolidated subsidiaries operate defined contribution pension plans while certain overseas consolidated subsidiaries operate defined contribution retirement benefit plans.

(1) Reconciliation of defined benefit obligations and plan assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Funded defined benefit obligations	¥116,680	¥105,649	$919
Plan assets	111,022	(94,613)	(823)
Subtotal	5,657	11,035	96
Unfunded defined benefit obligations	15,225	11,375	99
Total	¥20,883	¥22,411	$195
Balance recognized in the Consolidated Statement of Financial Position			
Liabilities for retirement benefits	¥25,421	¥30,201	$263
Assets for retirement benefits	4,538	(7,789)	(68)
Net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position	¥20,883	¥22,411	$195

(2) Schedule of defined benefit obligations

The schedule of defined benefit obligations is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Balance at the beginning of the year	¥139,469	¥131,905	$1,147
Current service cost (Note 1)	7,548	6,767	59
Interest expense (Note 1)	445	510	4
Actuarial gains and losses (Note 2)	(659)	(4,104)	(36)
Benefits paid	(14,662)	(17,245)	(150)
Exchange differences on translation of foreign operations	(235)	1,559	14
Impact of business combination and disposal	–	(2,367)	(21)
Balance at the end of the year	¥131,905	¥117,025	$1,017

(Note 1) Current service cost is recognized in “Cost” and “Selling, general and administrative expenses.” Interest expenses, net of interest income, are recognized in “Finance expenses.”

(Note 2) Actuarial gains and losses arise from changes in financial assumptions, etc.

The weighted average duration of defined benefit obligations as of December 31, 2020 and 2021 is as follows:

		(Years)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Weighted average duration	9.0	9.2

(3) Schedule of plan assets

The schedule of plan assets is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Balance at the beginning of the year	¥118,089	¥105,328	$916
Interest income	376	411	4
Return on plan assets (excluding amounts included in interest income)	(5,694)	(4,717)	(41)
Contributions by the employer	995	1,414	12
Benefits paid	(2,522)	(8,723)	(76)
Exchange differences on translation of foreign operations	(221)	899	8
Balance at the end of the year	¥111,022	¥94,613	$823

The Group plans to pay contributions of ¥116 million ($1 million) in the year ending December 31, 2022.

(4) Major breakdown of plan assets

The major breakdown of the total of plan assets is as follows:

	(Millions of Yen)						(Millions of U.S. Dollars)		
	FY2020 (As of December 31, 2020)			FY2021 (As of December 31, 2021)			FY2021 (As of December 31, 2021)		
	Plan assets with quoted market price in an active market	Plan assets without quoted market price in an active market	Total	Plan assets with quoted market price in an active market	Plan assets without quoted market price in an active market	Total	Plan assets with quoted market price in an active market	Plan assets without quoted market price in an active market	Total
Equity instruments	¥77,027	–	¥77,027	¥52,016	–	¥52,016	$452	–	$452
Debt instruments	3,818	85	3,904	3,691	88	3,780	32	1	33
General account of life insurance companies	–	5,886	5,886	–	2,224	2,224	–	19	19
Other	–	24,204	24,204	–	36,592	36,592	–	318	318
Total	¥80,846	¥30,175	¥111,022	¥55,707	¥38,906	¥94,613	$484	$338	$823

(Note) Plan assets above include retirement benefit trusts established for defined benefit corporate pension plans and retirement lump-sum payment plans of ¥74,038 million and ¥59,032 million ($513 million), as of December 31, 2020 and 2021, respectively.

The objectives of plan asset investments are to reduce long-term contribution obligations and improve benefits within a tolerable risk while securing sufficient assets to grant benefits. To achieve these objectives, medium- to long-term future estimates of pension finance are taken into account, and the effect of uncertainty in the plan asset management on plan assets financing (such as the possibility of fund shortages) and tolerable levels of uncertainty in the rates of return on plan assets are adequately reviewed.

In addition, asset investments are managed to achieve these objectives by establishing a policy for future optimal asset composition ratios (hereinafter referred to as "policy asset allocation"), selecting an asset manager and monitoring asset allocation, after setting forecasts of expected rates of returns on appropriate assets for investment.

The policy asset allocation is verified annually and reviewed as necessary if any changes are made to the terms and conditions set at the time of the policy's establishment.

In addition risk corresponding contributions have been made to prepare for future financial deterioration from the year ended December 31, 2020.

(5) Actuarial assumptions

The major items of actuarial assumptions are as follows:

(%)

	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)
Discount rate	0.4	0.4

(Note) The sensitivities of the defined benefit obligations due to changes in major assumptions as of each fiscal year are as follows. Each of these analyses assumes that other variables remain fixed; however, they do not always change independently. Negative figures indicate a decrease in defined benefit obligations, while positive figures indicate an increase.

			(Millions of Yen)	(Millions of U.S. Dollars)
	Change in assumptions	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Discount rate	Increase by 0.5%	¥(5,151)	¥(4,828)	$(42)
	Decrease by 0.5%	¥5,566	¥5,220	$45

(6) Defined contribution plans

Expenses recognized due to contributions to defined contribution plans by the Company and consolidated subsidiaries amounted to ¥8,942 million and ¥11,519 million ($100 million) for the years ended December 31, 2020 and 2021, respectively.

Such amounts are recognized in "Cost" and "Selling, general and administrative expenses."

24. EQUITY AND OTHER EQUITY ITEMS

(1) Share capital

A. Authorized shares

The number of authorized shares as of December 31, 2020 and 2021 is 1,100,000,000 ordinary shares.

B. Fully paid and issued shares

The number of issued shares is as follows:

	Number of ordinary issued shares (Shares)
FY2019 (As of December 31, 2019)	288,410,000
Increase (decrease)	-
FY2020 (As of December 31, 2020)	**288,410,000**

	Number of ordinary issued shares (Shares)
FY2020 (As of December 31, 2020)	288,410,000
Increase (decrease)	-
FY2021 (As of December 31, 2021)	**288,410,000**

All the shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(2) Treasury shares

A. Number of treasury shares is as follows:

	Number of shares (Shares)
FY2020 (As of December 31, 2020)	7,082,694
Increase (decrease)	7,690,727
FY2021 (As of December 31, 2021)	**14,773,421**

(Note 1) The increase and decrease during the year ended December 31, 2021 consisted of 7,498,700 shares acquired by resolution of the Board of Directors, 196,100 shares acquired free of charge from retired employees of Markle based on transfer-restricted stock-based compensation agreement, 2,802 shares increased due to repurchase of shares less than one unit, and 6,875 shares decreased due to the disposal of shares held by subsidiaries.

(Note 2) The above includes 380,000 shares of the Company held by Trust E in relation to the performance-linked stock compensation plan as of December 31, 2021.

B. Repurchase of treasury shares

FY2020: Year ended December 31, 2021

The Company executed the repurchase of treasury shares as follows for the year ended December 31, 2020, based on the resolution by the Board of Directors on August 7, 2019, in accordance with article 156 of the Companies Act applied with article 165, paragraph 3 of the Companies Act, and the articles of incorporation of the Company. The repurchase of treasury shares was completed on February 14, 2020.

(i) Type of shares repurchased : Ordinary shares of the Company
(ii) Total number of repurchased shares : 2,727,300 shares
(iii) Total amount of repurchased shares : ¥9,999 million
(iv) Repurchase period : From January 6, 2020 to February 14, 2020
(v) Repurchase method : Market purchase at Tokyo Stock Exchange

FY2021: Year ended December 31, 2021

The Company executed the repurchase of treasury shares as follows for the year ended December 31, 2021, based on the resolution by the Board of Directors on February 15, 2021, in accordance with article 156 of the Companies Act applied with article 165, paragraph 3 of the Companies Act, and the articles of incorporation of the Company.

(i) Type of shares repurchased : Ordinary shares of the Company
(ii) Total number of repurchased shares : 7,498,700 shares
(iii) Total amount of repurchased shares : ¥29,999 million ($261 million)
(iv) Repurchase period : From July 1, 2021 to December 6, 2021
(v) Repurchase method : Market purchase at Tokyo Stock Exchange

C. Disposal of treasury stock

FY2020: Year ended December 31, 2020

Effective April 15, 2020, OrangeCo Merger Sub, Inc., which was a wholly-owned subsidiary of the Company, implemented an absorption-type merger with Merkle as the surviving company through a so-called reverse triangular merger under U.S. law. As consideration for the merger, a certain amount of cash and the Company's treasury shares (4,736,425 shares) were delivered to the shareholders of Merkle excluding the Group, and the disposal price resolved at the meeting of the Board of Directors was ¥2,467 per share.

Additionally, effective April 17, 2020, for the purpose of retaining the key members of Merkle's management team after the merger, the Company's treasury shares (2,581,200 shares) were granted as share compensation to them, and payment procedures for the shares granted were completed on the same date. The disposal price resolved at the meeting of the Board of Directors was ¥2,467 per share. For details, please refer to "35. Share-Based Compensation"

(3) Reserves

A. Share premium account

Under the Companies Act of Japan, at least 50% of the proceeds upon issuance of equity instruments shall be credited to share capital, while the remainder of the proceeds shall be credited to capital reserves included in share premium account.

B. Retained earnings

The Companies Act of Japan provides that 10% of the dividends of retained earnings shall be appropriated as capital reserves or as retained earnings reserves until their aggregate amount equals 25% of share capital.

(4) Transactions with non-controlling interests in subsidiaries

FY2020: Year ended December 31, 2020

As described in "(2) Treasury Shares, (iii) Disposal of treasury shares" above, with the aim of making Merkle a wholly-owned subsidiary, OrangeCo Merger Sub, Inc., which was a wholly-owned subsidiary of the Company, implemented an absorption-type merger with Merkle as the surviving company through a so-called reverse triangular merger under U.S. law effective April 15, 2020. As a result, the carrying amount of non-controlling interests decreased by ¥17,953 million. In addition, retained earnings increased by ¥17,953 million as the difference between the decrease in non-controlling interests and the change in retained earnings recognized at the time of the initial acquisition in 2016 was accounted for as a change in retained earnings.

FY2021: Year ended December 31, 2021

The Group enters into a contract with non-controlling interests, mainly those of a newly acquired company, to purchase their shares under certain condition in the future.

The Group recognizes financial liabilities at the present value of redemption amount based on the contract, and reduces retained earnings by the same amount upon execution of the contract.

25. DIVIDENDS

(1) Dividends paid

FY2020: Year ended December 31, 2020

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 13, 2020)	Ordinary shares	¥13,152	¥47.50	December 31, 2019	March 5, 2020
Board of Directors (August 13, 2020)	Ordinary shares	¥13,381	¥47.50	June 30, 2020	September 4, 2020

(Note) The total amount of dividends based on a resolution of the Board of Directors held on February 13, 2020 includes a dividend of ¥7 million for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.
The total amount of dividends based on a resolution of the Board of Directors held on August 13, 2020 includes a dividend of ¥18 million for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.

FY2021: Year ended December 31, 2021

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 15, 2021)	Ordinary shares	¥6,690	¥23.75	December 31, 2020	March 5, 2021
Board of Directors (August 11, 2021)	Ordinary shares	¥14,226	¥50.50	June 30, 2021	September 9, 2021

FY2021: Year ended December 31, 2021

Resolution	Class of shares	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 15, 2021)	Ordinary shares	$58	$0.21	December 31, 2020	March 5, 2021
Board of Directors (August 11, 2021)	Ordinary shares	$124	$0.44	June 30, 2021	September 9, 2021

(Note) The total amount of dividends based on a resolution of the Board of Directors held on February 15, 2021 includes a dividend of ¥9 million ($0 million) for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.
The total amount of dividends based on a resolution of the Board of Directors held on August 11, 2021 includes a dividend of ¥19 million ($0 million) for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.

(2) Dividends for which the basis date falls before fiscal year end, while the effective date falls in the following fiscal year

FY2020: Year ended December 31, 2020

Resolution	Class of shares	Source of dividends	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 15, 2021)	Ordinary shares	Retained earnings	¥6,690	¥23.75	December 31, 2020	March 5, 2021

(Note) The total amount of dividends includes a dividend of ¥9 million for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.

FY2021: Year ended December 31, 2021

Resolution	Class of shares	Source of dividends	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 14, 2022)	Ordinary shares	Retained earnings	¥18,359	¥67.00	December 31, 2021	March 16, 2022

FY2021: Year ended December 31, 2021

Resolution	Class of shares	Source of dividends	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 14, 2022)	Ordinary shares	Retained earnings	$160	$1	December 31, 2021	March 16, 2022

(Note) The total amount of dividends includes a dividend of ¥25 million ($0 million) for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.

26. Revenue

The Group provides advertising, information services and other businesses to our customers.

Please refer to "3. Significant Accounting Policies (15) Revenues" for details.

(1) Disaggregation of revenue

The breakdown of revenue recognized from contracts with customers is as follows:

FY2020: Year ended December 31, 2020

(Millions of Yen)

	Reporting segment			Intercompany transaction adjustments	Total
	Japan Business	International Business	Subtotal		
Major services					
Advertising business	¥339,371	¥519,624	¥858,995	–	–
Information service business	81,146	–	81,146	–	–
Other business	3,470	–	3,470	–	–
Total	423,987	519,624	943,611	(4,368)	939,243
Breakdown by regions					
Japan	423,987	–	423,987	–	–
EMEA (Europe, Middle East and Africa)	–	200,644	200,644	–	–
Americas (Americas)	–	229,554	229,554	–	–
APAC (Asia Pacific)	–	89,425	89,425	–	–
Total	¥423,987	¥519,624	¥943,611	¥4,368	¥939,243

FY2021: Year ended December 31, 2021

(Millions of Yen)

	Reporting segment			Intercompany transaction adjustments	Total
	Japan Business	International Business	Subtotal		
Major services					
Advertising business	¥409,136	¥598,629	¥1,007,765	–	–
Information service business	88,955	–	88,955	–	–
Other business	3,841	–	3,841	–	–
Total	501,933	598,629	1,100,562	(14,970)	1,085,592
Breakdown by regions					
Japan	501,933	–	501,933	–	–
EMEA (Europe, Middle East and Africa)	–	240,780	240,780	–	–
Americas (Americas)	–	257,837	257,837	–	–
APAC (Asia Pacific)	–	100,011	100,011	–	–
Total	¥501,933	¥598,629	¥1,100,562	¥14,970	¥1,085,592

FY2021: Year ended December 31, 2021

(Millions of U.S. Dollars)

	Reporting segment			Intercompany transaction adjustments	Total
	Japan Business	International Business	Subtotal		
Major services					
Advertising business	$3,557	$5,205	$8,762	–	–
Information service business	773	–	773	–	–
Other business	33	–	33	–	–
Total	4,364	5,205	9,568	(130)	9,438
Breakdown by regions					
Japan	4,364	–	4,364	–	–
EMEA (Europe, Middle East and Africa)	–	2,093	2,093	–	–
Americas (Americas)	–	2,242	2,242	–	–
APAC (Asia Pacific)	–	870	870	–	–
Total	$4,364	$5,205	$9,568	$(130)	$9,438

(2) Contract balance

The balances of receivables and contractual liabilities arising from signings with customers are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Receivables arising from contracts with customers	¥1,242,600	¥1,474,909	$12,823
Notes and accounts receivable-trade	1,231,181	1,464,874	12,736
Others	11,418	10,034	87
Contract assets	17,550	6,712	$58
Contract liabilities	¥69,623	¥82,465	$717

Notes and accounts receivable-trade are included in trade and other receivables, others are included in other financial assets in non-current assets, contract assets are included in trade and other receivables and contract liabilities are included in other current liabilities and other non-current liabilities, in the Consolidated Statements of Financial Position.

The amount of revenue recognized in the years ended December 31, 2020 and 2021 that was included in contract liabilities at the beginning of the period was ¥58,145 million and ¥64,066 million($557 million), respectively. In addition, the amount of revenue recognized during the years ended December 31, 2020 and 2021 from performance obligations satisfied (or partially satisfied) in prior periods is immaterial. There were no material changes in the balance of contract liabilities during the years ended December 31, 2020 and 2021.

Contract assets are recognized as rights to consideration recorded through the recognition of revenue based on the progress towards completion in service contracts, mainly for advertisement production and system development. They are reclassified as receivables when rights to consideration become unconditional.

Contract liabilities primarily relate to advances received from customers in the advertising business.

(3) Calculation of the transaction price allocated to the remaining performance obligations

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Within 1 year	¥8,700	¥6,847	$60
Over 1 year and below 2 years	5,526	2,214	19
Over 2 years and below 3 years	1,565	2,111	18
Over 3 years	6,609	6,494	56
Total	¥22,402	¥17,668	$154

The amount represents transaction prices allocated to the remaining performance obligations (related to the rights business) expected to exceed one year on individual contract basis.

(4) Assets recognized from costs to obtain or fulfill contracts with customers

The Group has no assets recognized from costs incurred to obtain or fulfill contracts with customers.

27. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of selling, general and administrative expenses for each fiscal year is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Staff costs	¥492,702	¥579,504	$5,038
Depreciation and amortization	83,012	71,669	623
Other	164,668	182,740	1,589
Total	¥740,383	¥833,914	$7,250

"Other" includes research and development expenses of ¥1,952 million and ¥1,735 million ($15 million) for the years ended December 31, 2020 and 2021, respectively.

28. STAFF COSTS

The breakdown of staff costs for each fiscal year is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Salaries, bonuses and allowances	¥437,780	¥517,057	$4,495
Welfare expenses	64,416	73,034	635
Post-employment benefits costs	16,559	18,385	160
Termination benefits associated with restructuring	24,024	14,699	128
Stock-based compensation expenses (excluding those attributable to the acquiree)	1,456	3,623	31
Total	¥544,235	¥626,799	$5,449

Staff costs are recorded in "Cost of sales," "Selling, general and administrative expenses," "Restructuring cost" and "Finance expenses" in the Consolidated Statement of Income.

29. OTHER INCOME

The breakdown of other income for each fiscal year is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Foreign exchange gains	–	¥681	$6
Profit distributions	4,590	3,694	32
Rent income	779	1,631	14
Other	1,222	2,437	21
Total	¥6,592	¥8,445	$73

30. OTHER EXPENSES

The breakdown of other expenses for each fiscal year is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Amortization of long-term prepaid expenses	¥4,655	¥3,781	$33
Cash-settled share-based payment	3,094	–	–
Foreign exchange losses	761	–	–
Other	4,052	4,156	36
Total	¥12,564	¥7,938	$69

31. FINANCE INCOME AND FINANCE EXPENSES

(1) The breakdown of finance income for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Interest income			
Financial assets measured at amortized cost	¥2,123	¥1,876	$16
Dividend income			
Financial assets measured at fair value through other comprehensive income	2,445	1,275	11
Changes in fair value of contingent consideration	9,197	–	–
Revaluation of put option liabilities	4,480	158	1
Dividend income and asset management gains from insurance	531	417	4
Foreign exchange gains (Note1)	66	151	1
Other (Note2)	25	870	8
Total	¥18,871	¥4,749	$41

(Note1) Foreign exchange gains include valuation gain on currency derivatives.
(Note2) "Other" includes finance income arising from financial instruments measured at fair value through profit or loss of ¥6 million and ¥259 million ($2 million) for the years ended December 31, 2020 and 2021, respectively.

The breakdown of dividend income is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Financial assets derecognized during the fiscal year	¥1,226	¥2	$0
Financial assets held at the end of the fiscal year	1,218	1,272	11

(2) The breakdown of finance expenses for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Interest expense			
Financial liabilities measured at amortized cost	¥18,508	¥17,287	$150
Other	73	103	1
Changes in fair value of contingent consideration	–	20,451	178
Other (Note 1)	1,708	2,398	21
Total	¥20,290	¥40,240	$350

(Note 1) "Other" includes finance expenses arising from financial instruments measured at fair value through profit or loss of ¥711 million and ¥2,336 million ($20 million) for the years ended December 31, 2020 and 2021, respectively.

32. OTHER COMPREHENSIVE INCOME

Amount arising during the year, reclassification adjustments to profit or loss and income tax effects for each component of other comprehensive income for each fiscal year are as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Exchange differences on translation of foreign operations			
Amount arising during the year	¥(24,896)	¥29,210	$254
Reclassification adjustments	(9)	–	–
Pre-tax effects	(24,906)	29,210	254
Tax effects	8	–	–
Exchange differences on translation of foreign operations	¥(24,897)	¥29,210	$254
Effective portion of the change in the fair value of cash flow hedges			
Amount arising during the year	¥(12,986)	¥5,836	$51
Reclassification adjustments	2,449	15,019	131
Pre-tax effects	(10,536)	20,856	181
Tax effects	2,184	(3,260)	(28)
Effective portion of the change in the fair value of cash flow hedges	¥(8,352)	¥17,595	$153
Net change in financial assets measured at fair value through other comprehensive income			
Amount arising during the year	¥(14,943)	¥(2,364)	$(21)
Pre-tax effects	(14,943)	(2,364)	(21)
Tax effects	(133)	(2,591)	(23)
Net change in financial assets measured at fair value through other comprehensive income	¥(15,077)	¥(4,955)	$(43)
Remeasurements of defined benefit plans			
Amount arising during the year	¥(5,035)	¥(613)	$(5)
Pre-tax effects	(5,035)	(613)	(5)
Tax effects	1,556	508	4
Remeasurements of defined benefit plans	¥(3,478)	¥(104)	$(1)
Share of other comprehensive income of investments accounted for using the equity method			
Amount arising during the year	¥(186)	¥116	$1
Share of other comprehensive income of investments accounted for using the equity method	¥(186)	¥116	$1

33. LOSS PER SHARE

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

		(Yen)	(U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Basic profit (loss) per share	(¥571.19)	¥388.79	$3.38
Diluted profit (loss) per share	(¥571.21)	¥387.11	$3.37

(Note) As described in "3. SIGNIFICANT ACCOUNTING POLICIES (22) Change in significant accounting policies," due to changes in accounting policy in the year ended December 31, 2021, Basic profit per share for the year ended December 31, 2021 increased by ¥3.39 ($0) compared to before the change. In addition, diluted profit per share for the year ended December 31, 2021 increased by ¥3.37 ($0).

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Profit (loss) for the year used for calculation of basic profit (loss) per share and diluted profit (loss) per share			
Profit (loss) for the year attributable to owners of the parent	¥(159,596)	¥108,389	$942
Amounts not attributable to ordinary equity holders of the parent	–	–	–
Profit (loss) for the year used for calculation of basic profit (loss) per share	(159,596)	108,389	942
Adjustment			
Share options issued by associates	(3)	(11)	(0)
Profit (loss) for the year used for calculation of diluted profit (loss) per share	¥(159,599)	¥108,378	$942
Weighted average number of ordinary shares outstanding used for the calculation of basic Profit (loss) per share and diluted profit (loss) per share			
Weighted average number of ordinary shares outstanding used for the calculation of basic profit (loss) per share (Thousands of shares)	279,408	278,786	
Effect of dilutive potential ordinary shares (Thousands of shares) : performance-linked stock compensation plan	–	1,183	
Weighted average number of ordinary shares outstanding used for the calculation of diluted profit (loss) per share (Thousands of shares)	279,408	279,969	

34. Significant non-cash transactions

During the year ended December 31, 2020, the Company's treasury shares were granted to the non-controlling shareholders of Merkle, excluding the Group, as consideration for the absorption-type merger of OrangeCo Merger Sub, Inc., which was a wholly-owned subsidiary of the Company, with Merkle as the surviving company through a so-called reverse triangular merger under U.S. law. For details, please refer to "24. Equity and Other Equity Items."

During the year ended December 31, 2021, the Company sold the real estate in Shiodome, Zone A, which includes the Dentsu Headquarters Building, and began the lease of the Dentsu Headquarters Building. For details, please refer to "16. LEASES (5) Sale and leaseback transaction"

35. SHARE-BASED PAYMENTS

(1) Performance-linked stock compensation plan of the Company and Dentsu Inc.

The Company and Dentsu Inc. have introduced a performance-linked stock compensation plan (hereinafter referred to as the "Plan") for executive officers (including directors and executive officers; the same applies hereinafter).

The Plan provides executive officers with a number of points calculated in accordance with the formula specified in the officers' share benefit rules established by Board of Directors of the Company and Dentsu Inc. in consideration of the execution of duties in each fiscal year in office, The number will be determined according to the following indicators during the three consecutive fiscal years starting from the fiscal year to which the units were awarded.

Before the fiscal year ended December 31, 2020, the simple three-year average of the Group's consolidated net revenue organic growth rate was used as an indicator for calculating performance-linked stock compensation.

In the fiscal year ended December 31, 2021, the Company adopted a combination of total shareholder return (TSR) and the consolidated underlying operating profit of the Dentsu Group as indicators for calculating performance-linked stock compensation as follows.

Performance Indicator	Benchmark Indicator	Composition (*1)
Total shareholder return (TSR)	Tokyo Stock Price Index (TOPIX)	30%
	Average total shareholder return (TSR) among peer group (*2)	20%
Consolidated underlying operating profit of the Group	Compound annual growth rate (CAGR)	50%

*1 The ratios represent the percentage constituting performance-linked stock compensation (medium- to long-term bonus) on the assumption that each performance indicator is identical to their benchmark indicators.

*2 Six companies comprising WPP plc, Omnicom Group Inc., Publicis Groupe S.A., Interpublic Group of Companies Inc., Accenture plc, and Hakuhodo DY Holdings Inc. were selected as peer competitors of the Group.

The Company's shares will be paid out for the number of shares calculated based on 50% of the vested units, and cash equivalent for the market value of the number of shares calculated based on the remaining 50% of the vested units, using the closing price per share on the Tokyo Stock Exchange on the day of the calculation (or the closing price on the day immediately before if there are no closing price). The former is accounted for as an equity-settled share-based payment, and the latter is accounted for as an cash-settled share-based payment.

Executive officers receive benefits of the Company's shares, etc., in principle, after three consecutive fiscal years has elapsed.

Regarding this Plan, the costs recognized for the equity-settled share-based payment plan and cash-settled share-based payment plan were ¥411 million and (¥133) million for the year ended December 31, 2020, and ¥257 million($2 million) and ¥1,092 million($9 million) for the year ended December 31, 2021, respectively.

Regarding the cash-settled share-based payment plan, there is no liability balance as of December 31, 2020. The liability balance as of December 31, 2021 was ¥1,092 million($9 million).

An overview of the cash-settled stock compensation plan is as follows.

	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)
	Number of rights	Number of rights
Balance at the beginning of the year	74,746	184,956
Granted	115,081	119,018
Forfeitured	4,871	–
Balance at the end of the year	184,956	303,974
Exercisable at the end of the year	–	–

(Note) 1. There is no exercise price in this plan.
2. The weighted-average remaining term of this plan is 1.8 years and 1.3 years for the years ended December 31, 2020 and 2021, respectively.

The fair value for units granted during the year ended December 31, 2020 is ¥3,775 per unit. The share price on the date of grant was used, as it was determined to be close to the share price of the Company's shares on the date of grant.

The fair value for units granted during the year ended December 31, 2021 is ¥2,167 ($19) per unit. The fair value is measured by calculating the market value of the Company's shares using the valuation method and key inputs, as described below, and adjusting this based on the performance indicators during the business performance evaluation period.

	FY2021 (Year ended December 31, 2021)
Valuation method	Monte Carlo simulation model
Key inputs and assumptions:	
Measurement date share price	¥3,065 ($27)
Expected volatility (Note)	40.2%
Option life	3.2 years
Dividend yield	2.4%
Risk-free interest rate	(0.1)%

(Note) Volatility of the stock price is calculated based on the past performance of the share price depending on the period until maturity.

An overview of the cash-settled stock compensation plan is as follows.

	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)
	Number of rights	Number of rights
Balance at the beginning of the year	74,746	184,956
Granted	115,081	119,018
Forfeitured	4,871	–
Balance at the end of the year	184,956	303,974
Exercisable at the end of the year	–	–

(Note) 1. There is no exercise price in this plan.
2. The weighted-average remaining term of this plan is 1.8 years and 1.3 years for the years ended December 31, 2020 and 2021, respectively.

The fair value for units granted during the year ended December 31, 2020 and 2021 is ¥0 and ¥5,303 ($46) per unit, respectively.

The fair value for unit is determined by calculating the market value of the Company's shares based on the following evaluation method and key inputs, and adjusting this based on the indicators during the performance evaluation period.

	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)
Valuation method	Black-Scholes model	Monte Carlo simulation model
Key inputs and assumptions:		
Measurement date share price	¥3,065	¥4,100 ($36)
Expected volatility (Note)	41.3%	45.9%
Option life	2.2 years	2.2 years
Dividend yield	2.3%	2.8%
Risk-free interest rate	0.0%	(0.1)%

(Note) Volatility of the stock price is calculated based on the performance of the share price for the most recent period depending on the period to maturity.

(2) Performance-linked stock compensation Plan for senior executives of Dentsu International Limited

The Company introduced a performance-linked stock compensation plan (the "Plan") for senior executives of Dentsu International Limited (DI) in the year ended December 31, 2021.

Under the Plan, senior executives of DI are granted a number of units calculated in accordance with the calculation formula prescribed by the Company as compensation for the performance of their duties during each fiscal year while in office. The number of units is finalized depending on total shareholder return (TSR) and consolidated underlying operating profit of the Group during a business performance evaluation period, which is three consecutive fiscal years, the first fiscal year of which is the fiscal year in which the units are granted.

Performance Indicator	Benchmark Indicator	Composition (*1)
Total shareholder return (TSR)	Tokyo Stock Price Index (TOPIX)	30%
	Average total shareholder return (TSR) among peer group (*2)	20%
Consolidated underlying operating profit of the Group	Compound annual growth rate (CAGR)	50%

*1 The ratios represent the percentage constituting performance-linked stock compensation (medium- to long-term bonus) on the assumption that each performance indicator is identical to their benchmark indicators.

*2 Six companies comprising WPP plc, Omnicom Group Inc., Publicis Groupe S.A., Interpublic Group of Companies Inc., Accenture plc, and Hakuhodo DY Holdings Inc. were selected as peer competitors of the Group.

The Plan is an equity-settled share-based payment plan under which a number of common shares of the Company calculated primarily based on the number of finalized units are granted. In principle, senior executives of DI are granted common shares of the Company after a lapse of three consecutive fiscal years, the first fiscal year of which is the fiscal year in which the units are granted. For the fiscal year ended December 31, 2021, ¥682 million ($6 million) was recognized as expenses related to this equity-settled share-based payment plan.

An overview of the equity-settled share-based payment plan is as follows.

	FY2021 (Year ended December 31, 2021)
	Number of rights
Balance at the beginning of the year	–
Granted	1,265,835
Forfeitured	125,521
Balance at the end of the year	1,140,314
Exercisable at the end of the year	–

(Note) 1. There is no exercise price in this Plan.
2. The grant date is May 10, 2021.
3. The weighted-average remaining term of this plan is 2.2 years for the years ended December 31, 2021.

The fair value for units granted during the year ended December 31, 2021 is ¥2,099 ($18) per unit.

The fair value of unit is determined by calculating the market value of the Company's shares based on the following evaluation techniques and basic figures, and adjusting this based on the indicators during the performance evaluation period.

	FY2021 (Year ended December 31, 2021)
Valuation method	Monte Carlo simulation model
Key inputs and assumptions:	
Measurement date share price	¥3,535 ($31)
Expected volatility (Note)	41.2%
Option life	3.2 years
Dividend yield	2.0%
Risk-free interest rate	(0.1)%

(Note) Volatility of the stock price is calculated based on the performance of the share price for the most recent period depending on the period to maturity.

(3) Restricted stock compensation plan for the key members of Merkle's management team

Starting from the year ended December 31, 2020, for the purpose of retaining the key members of Merkle's management team, the Company adopted an equity-settled restricted stock compensation plan, under which the Company's shares are to be granted to 25 key members of Merkle's management team. Under this plan, a contractual transfer restriction (the transfer restriction period shall be, in principle, the period until December 31, 2023) was set on the Company's 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 Company will acquire the shares granted without consideration.

During the year ended December 31, 2020 and 2021, ¥1,178 million and ¥1,540 million ($13 million) was recognized as expenses related to this plan.

The following table provides a summary of the Restricted stock compensation plan.

	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)
	Number of rights	Number of rights
Balance at the beginning of the year	–	2,581,200
Granted	2,581,200	–
Forfeitured	–	277,100
Balance at the end of the year	2,581,200	2,304,100
Exercisable at the end of the year	–	435,000

(Note)1. The grant date is April 17, 2020.
(Note)2. The fair value on the date of grant was determined using the share price of ¥2,072($20.02) on the date of grant

36. FINANCIAL INSTRUMENTS

(1) Capital management

The Group's basic policy for capital management aims to enhance capital efficiency by the long-term improvement of its value through business growth, while maintaining a sound financial structure.

The balance of total equity attributable to owners of the parent and underlying ROE (ratio of underlying profit for the year to total equity attributable to owners of the parent) that are Indicators for the capital management include are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Total equity attributable to owners of the parent	¥740,821	¥845,034	$7,347
Underlying ROE (%)	8.2	13.8	

(Note) The underlying profit for the year (attributable to owners of the parent), the numerator of underlying ROE, is a KPI used to measure recurring profit attributable to owners of the parent which is calculated as profit for the year (attributable to owners of the parent) adjusted for adjustment items related to operating profit, revaluation of contingent consideration and put option liabilities, related tax effects, profit or loss attributable to non-controlling interests, and other one-off items. Reconciliation from profit for the year (attributable to owners of the parent) to underlying profit for the year (attributable to owners of the parent) is stated below.

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Gain (loss) for the year (attributable to owners of the parent)	¥(159,596)	¥108,389	$942
(Adjustment items)			
Adjustment items related to operating profit	264,605	(62,813)	($546)
Revaluation of contingent consideration and put option liabilities	(13,678)	20,293	$176
Impairment loss of investments accounted for using the equity method	958	–	–
Gain on sale of investments in associates	(144)	(35)	($0)
Revaluation gain on step acquisition	(44)	–	–
Tax expenses related to the above items	(21,223)	43,957	$382
Profit attributable to non-controlling interest related to the above items	(987)	(588)	($5)
Underlying profit for the year (attributable to owners of parent)	¥69,890	¥109,203	$949

(2) Basic policy on risk management associated with financial instruments

The Group is exposed to financial risks in the course of its business activities; and it manages risks based on a specific policy in order to avoid or reduce these risks.

Derivative transactions are conducted within the purpose of avoiding or reducing the above risks according to internal management policy.

(3) Credit risk

A. Credit risk management

Financial assets measured at amortized cost, including trade receivables, such as notes and accounts receivable, are exposed to customers' credit risk. The Group aims to reduce these risks based on credit management rules and guidelines.

The Group conducts review of new counterparties and credit management based on credit management rules and guidelines. Based on accounting rules and guidelines, the relevant controlling departments in each business unit, together with the accounting department, manage due dates and outstanding balances for each counterparty and regularly monitor the status of major counterparties to detect and reduce doubtful receivables due to deteriorating financial conditions or other reasons in a timely manner.

Consolidated subsidiaries perform credit management and receivables management and have management systems in place that require reporting and approval for certain significant transaction and events.

The Group does not have excess concentration of credit risk in specific counterparties.

B. Maximum exposure to credit risk

With the exception of guarantee obligations, maximum exposure to the Group's credit risk is as follows.

Maximum exposure to credit risk associated with guarantee obligations is the balance of the contingent liabilities described in "38. Contingent liabilities."

C. Analysis of trade receivables by due date

(Millions of Yen)

	FY2020 (As of December 31, 2020)				
	Financial assets whose allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit loss	Financial assets whose allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	
None in arrears	¥80,057	–	–	¥1,157,090	¥1,237,148
Within 30 days	–	–	–	63,034	63,034
Over 30 days, within 90 days	–	–	–	22,278	22,278
Over 90 days	–	–	697	17,746	18,443
Total	¥80,057	–	¥697	¥1,260,150	¥1,340,906

(Millions of Yen)

	FY2021 (As of December 31, 2021)				
	Financial assets whose allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit loss	Financial assets whose allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	
None in arrears	¥72,009	–	–	¥1,340,888	¥1,412,898
Within 30 days	–	–	–	88,075	88,075
Over 30 days, within 90 days	–	–	–	35,366	35,366
Over 90 days	–	–	2,849	17,289	20,138
Total	¥72,009	–	¥2,849	¥1,481,621	¥1,556,480

(Millions of U.S. Dollars)

	FY2021 (As of December 31, 2021)				
	Financial assets whose allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit loss	Financial assets whose allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	
None in arrears	$626	–	–	$11,658	12,284
Within 30 days	–	–	–	766	766
Over 60 days, within 90 days	–	–	–	307	307
Over 90 days	–	–	25	150	175
Total	$626	–	$25	$12,881	$13,532

D. Analysis of changes in allowance for doubtful accounts

The Group establishes an allowance for doubtful accounts based on a review of the collectability of trade and other receivables considering the credit standing of the counterparties. Changes in the allowance for doubtful accounts are as follows:

(Millions of Yen)

	FY2020 (Year ended December 31, 2020)				
	12-month expected credit losses	Lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	
Balance at the beginning of the year	¥207	–	¥695	¥22,017	¥22,920
Addition	180	–	67	5,790	6,039
Decrease (intended use)	(2)	–	–	(10,230)	(10,233)
Decrease (reversal)	(10)	–	(10)	(38)	(59)
Other	81	–	(55)	(601)	(575)
Balance at the end of the year	¥456	–	697	16,936	18,090

(Millions of Yen)

	FY2021 (Year ended December 31, 2021)				
	12-month expected credit losses	Lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	
Balance at the beginning of the year	¥456	–	¥697	¥16,936	¥18,090
Addition	13	–	2,479	123	2,615
Decrease (intended use)	(4)	–	(196)	(2,168)	(2,370)
Decrease (reversal)	(183)	–	(178)	(502)	(864)
Other	(46)	–	47	1,388	1,389
Balance at the end of the year	¥235	–	2,849	15,777	18,861

(Millions of U.S. Dollars)

	FY2021 (Year ended December 31, 2021)				
		Lifetime expected credit losses			
	12-month expected credit losses	Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	Total
Balance at the beginning of the year	$4	–	$6	$147	$157
Addition	0	–	22	1	23
Decrease (intended use)	(0)	–	(2)	(19)	(21)
Decrease (reversal)	(2)	–	(2)	(4)	(8)
Other	(0)	–	0	12	12
Balance at the end of the year	$2	–	$25	$137	$164

The following table shows the contractual outstanding balance of financial assets that were directly amortized by the Group but subject to enforcement activities.

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Contractual outstanding balance	¥8,519	¥760	$7

(4) Liquidity risk

A. Liquidity risk management

The Group manages liquidity risk by having the treasury division establish and update a finance plan based on information collected from each division and also by maintaining liquidity based on cash flow status.

The Group raises working capital from internal reserves, loans from financial institutions, corporate bonds, commercial paper, receivables securitization, etc. Since the receivables securitization transaction is a non-recourse agreement, securitized receivables were derecognized.

The Group has also established commitment lines to ensure liquidity, if required, and has established additional, temporary loan commitments from financial institutions to ensure liquidity to mitigate the impact of COVID-19.

B. Balance of financial liability (including derivative financial instruments) by maturity

Balance of financial liability (including derivative financial instruments) by maturity as of December 31, 2020 and 2021 is as follows:

FY2020: As of December 31, 2020

(Millions of Yen)

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	¥1,247,172	¥1,247,172	¥1,247,172	–	–	–	–	–
Contingent consideration on acquisition and others	127,988	127,988	104,225	14,059	5,713	3,990	–	–
Put option liabilities	33,963	33,963	2,121	3,770	2,897	1,925	8,641	14,608
Borrowings	385,328	396,909	73,310	66,155	34,202	120,975	35,549	66,715
Bonds	199,478	204,703	628	628	35,622	590	70,536	96,698
Lease obligations	109,539	120,780	31,956	22,493	16,790	12,311	9,516	27,711
Subtotal	2,103,471	2,131,517	1,459,414	107,107	95,226	139,792	124,242	205,733
Derivative liabilities	17,093	17,093	6,162	1,101	203	1,601	3,868	4,156
Total	¥2,120,565	¥2,148,611	¥1,465,576	¥108,209	¥95,430	¥141,394	¥128,111	¥209,890

FY2021: As of December 31, 2021

(Millions of Yen)

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	¥1,465,110	¥1,465,110	¥1,465,110	–	–	–	–	–
Contingent consideration on acquisition and others	49,446	49,446	36,536	9,310	3,600	–	–	–
Put option liabilities	34,029	34,029	19,719	3,355	5,999	1,325	17	3,611
Borrowings	379,620	393,767	98,939	34,715	145,009	39,705	75,393	2
Bonds	199,569	204,075	628	35,622	590	70,536	432	96,266
Lease obligations	192,082	204,878	36,562	29,837	24,710	21,854	19,944	71,968
Subtotal	2,319,859	2,351,307	1,657,497	112,840	179,909	133,421	95,788	171,849
Derivative liabilities	15,178	15,178	363	1,527	715	8,293	558	3,719
Total	¥2,335,038	¥2,366,485	¥1,657,860	¥114,368	¥180,625	¥141,715	¥96,347	¥175,568

FY2021: As of December 31, 2021

(Millions of U.S. Dollars)

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	$12,738	$12,738	$12,738	–	–	–	–	–
Contingent consideration on acquisition and others	430	430	318	81	31	–	–	–
Put option liabilities	296	296	171	29	52	12	0	31
Borrowings	3,300	3,423	860	302	1,261	345	655	0
Bonds	1,735	1,774	5	310	5	613	4	837
Subtotal	20,169	20,443	14,411	981	1,564	1,160	833	1,494
Derivative liabilities	132	132	3	13	6	72	5	32
Total	$20,301	$20,575	$14,414	$994	$1,570	$1,232	$838	$1,526

C. Undrawn committed facilities

Undrawn committed facilities amounted to ¥547,313 million and ¥584,598 million ($5,083 million) as of December 31, 2020 and 2021, respectively.

The undrawn committed facilities include commitment lines of credit, overdraft lines of credit and commercial paper facilities.

(5) Foreign currency risk

A. Foreign currency risk management

Monetary receivables and payables denominated in foreign currencies are exposed to foreign exchange fluctuation risks. The Group uses forward foreign exchange contracts to hedge its foreign exchange fluctuation risks identified by each currency and by each month.

In addition, with respect to those that are important among transactions denominated in foreign currencies exceeding certain amounts and foreign exchange fluctuation risks, forward foreign exchange contracts and borrowings and others are used to hedge them in accordance with internal management rules.

B. Foreign currency sensitivity analysis

With respect to financial instruments held by the Group, in cases where the functional currency (Yen) increases by 1% in value against the U.S. Dollar or Euro assuming all other variables remain unchanged, the effect on profit before tax as of December 31, 2020 and 2021 is as follows:

The impact from the translation of financial instruments denominated in its functional currencies, as well as assets and liabilities of foreign operations into yen is not included.

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
U.S. Dollars	¥28	¥(58)	$(1)
Euros	(6)	(22)	(0)

(6) Interest rate risk

A. Interest rate risk management

For certain portion of the Group's borrowings, interest expenses are fixed using derivatives transactions (interest rate swap contracts, etc.) to avoid or reduce interest rate fluctuation risks.

B. Interest rate sensitivity analysis

Regarding the financial instruments held by the Group, the table below presents the effect of 100bps increase in interest rates on profit before tax in the Consolidated Statement of Income. The analysis includes the financial instruments (borrowings) that is subject to exchange rate fluctuation and assumes that all other factors, including exchange rate, are unchanged.

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Profit before tax	¥(311)	¥(306)	$(3)

C. Interbank Offered Rate (IBOR) reform

The Group's hedging transactions are impacted by the London Interbank Offered Rate (LIBOR), which is currently undergoing the IBOR reform. The nominal transaction value of hedging instruments referencing LIBOR that will mature after the end of 2021 is ¥188,251 million ($1,637 million) as of December 31, 2021 (GBP LIBOR ¥112,375 million ($977 million), USD LIBOR ¥45,878 million ($399 million), JPY LIBOR ¥30,000 million ($261 million)). These hedging instruments are designated as a means to hedge specific cash flows of borrowings arranged at variable rates indexed to LIBOR.

The Group will continue to apply the amended IAS 39 until the uncertainties associated with the IBOR reform cease. The Group assumes that such uncertainties will remain until alternative benchmark rates are determined and cash flows based on such alternative benchmark rates and related spread adjustments are fixed.

GBP and JPY LIBOR discontinued on December 31, 2021. The contractual terms of hedging instruments and hedged items referencing them have been changed to reference Sterling Overnight Index Average (SONIA) sequentially by the next interest payment date. For hedging instruments and hedged items referencing USD LIBOR, the Group will take actions to ensure a smooth transition to possible alternative benchmark rates such as Secured Overnight Financing Rate (SOFR).

(7) Hedge accounting

The notional amounts and average prices of major hedging instruments were as follows:

		FY2020 (As of December 31, 2020)				
		Content	Notional Amount and Average Price	Within one year	Over one year Within five years	Over five years
Cash flow hedge	Interest rate risk	Interest rate swap	Notional Amount (Millions of Yen)	30,000	30,000	–
			Average fixed rate	0.65%	0.86%	–
			Notional Amount (Millions of U.S. Dollars)	–	400	100
			Average fixed rate	–	2.24%	3.13%
			Notional Amount (Millions of sterling pound)	–	250	400
			Average fixed rate	–	2.10%	1.42%
	Foreign exchange risk	Foreign exchange contracts (buy)	Notional Amount (Millions of U.S. Dollars)	203	321	266
			Average exchange rate (Yen/USD)	80.88	102.31	96.64
			Notional Amount (Millions of sterling pound)	2	1	–
			Average exchange rate (Yen/GBP)	137.99	136.58	–
			Notional Amount (Millions of Euro)	1	5	4
			Average exchange rate (Yen/EUR)	116.18	116.02	114.34

		FY2021 (As of December 31, 2021)				
		Content	Notional Amount and Average Price	Within one year	Over one year Within five years	Over five years
Cash flow hedge	Interest rate risk	Interest rate swap	Notional Amount (Millions of Yen)	30,000	–	–
			Average fixed rate	0.86%	–	–
			Notional Amount (Millions of U.S. Dollars)	200	300	–
			Average fixed rate	2.14%	2.60%	–
			Notional Amount (Millions of sterling pound)	–	650	–
			Average fixed rate	–	1.68%	–
	Foreign exchange risk	Foreign exchange contracts (buy)	Notional Amount (Millions of U.S. Dollars)	126	326	186
			Average exchange rate (Yen/USD)	87.58	101.08	95.4
			Notional Amount (Millions of sterling pound)	1	–	–
			Average exchange rate (Yen/GBP)	136.58	–	–
			Notional Amount (Millions of EUR)	5	5	4
			Average exchange rate (Yen/EUR)	131.67	115.94	114.26
		Cross currency swaps (Note)	Notional Amount (Millions of Yen)	–	117,189	88,517
			Average exchange rate (Yen/GBP)	–	142.57	129.38

Note: Cash flow hedges are applied to foreign currency items between consolidated companies while offsetting hedged items under the Consolidated Statement of Financial Position.

The carrying amounts of the hedging instruments of the Company and certain consolidated subsidiaries are as follows. The amount of ineffectiveness of hedges recognized in profit or loss is not material for the years ended December 31, 2020 and 2021.

(Millions of yen)

	FY2020 (As of December 31, 2020)		FY2021 (As of December 31, 2021)		Item in the consolidated statements of financial position
	Carrying Amount		Carrying Amount		
	Assets	Liabilities	Assets	Liabilities	
Cash flow hedge					
Interest rate risk	–	¥(10,397)	¥947	¥(1,779)	(Note)
Foreign exchange risk	9,374	(7,705)	8,175	(13,176)	(Note)
Total-cash flow hedges	9,374	(18,102)	9,122	(14,955)	
Total financial instruments for which hedge accounting is applied	¥9,374	¥(18,102)	¥9,122	¥(14,955)	

(Millions of U.S. Dollars)

	FY2021 (As of December 31, 2021)		Item in the consolidated statements of financial position
	Carrying Amount		
	Assets	Liabilities	
Cash flow hedge			
Interest rate risk	$8	$(15)	(Note)
Foreign exchange risk	71	(115)	(Note)
Total-cash flow hedges	79	(130)	
Total financial instruments for which hedge accounting is applied	$79	$(130)	

(Note) Included in "Other financial assets (current)," "Other financial assets (non-current)," "Other financial liabilities (current)" and "Other financial liabilities (non-current)."

The amount of cash flow hedges and hedges of net investments in foreign operating activities of the Company and certain consolidated subsidiaries recorded in other comprehensive income in the consolidated statements of comprehensive income for the year (before tax effect) is as follows.

(Millions of Yen)

	FY2020: Year ended December 31, 2020			
	Amount incurred	Reclassification adjustment amount from other comprehensive income to non-financial assets and others (Note)	Reclassification adjustment from other comprehensive income to net income	Item in the consolidated statement of income
Cash flow hedge				
Interest rate risk	¥(6,471)	–	¥452	Finance expenses
Foreign exchange risk	(6,514)	(2,500)	4,497	Revenue
Total-cash flow hedges	(12,986)	(2,500)	4,497	
Hedge of net investment in foreign operations				
Foreign exchange risk	(2,127)	–	–	–
Total-hedge of net investment in foreign operations	¥(2,127)	–	–	

(Millions of Yen)

	FY2021: Year ended December 31, 2021			
	Amount incurred	Reclassification adjustment amount from other comprehensive income to non-financial assets and others (Note)	Reclassification adjustment from other comprehensive income to net income	Item in the consolidated statement of income
Cash flow hedge				
Interest rate risk	¥13,257	–	¥261	Finance expenses
Foreign exchange risk	(7,421)	(2,750)	17,509	Finance Revenue
Total-cash flow hedges	¥5,836	¥(2,750)	¥17,770	

(Millions of U.S. Dollars)

	FY2021: Year ended December 31, 2021			
	Amount incurred	Reclassification adjustment amount from other comprehensive income to non-financial assets and others (Note)	Reclassification adjustment from other comprehensive income to net income	Item in the consolidated statement of income
Cash flow hedge				
Interest rate risk	$115	–	$2	Finance expenses
Foreign exchange risk	(65)	(24)	152	Finance Revenue
Total-cash flow hedges	$51	$(24)	$154	

(Note) As stated in "3. SIGNIFICANT ACCOUNTING POLICIES," if a hedged item results in the recognition of non-financial assets or non-financial liabilities, the amounts recognized as other components of equity will be reclassified through other comprehensive income to the initial carrying amount of the non-financial assets or non-financial liabilities, in accordance with IAS 39.

The components of changes in the amounts recorded in other components of equity in the consolidated statements of financial position for cash flow hedges and hedges of net investments in foreign operations during the year are as follows:

(Millions of Yen)

	FY2020: Year ended December 31, 2020		
	Cash flow hedge		Hedge of net investments in foreign operations
	Interest rate risk	Foreign exchange risk	Foreign exchange risk
Beginning balance	¥(3,036)	¥5,988	¥119
Arising during the year	(5,686)	(5,859)	–
Reclassification adjustments to net income	452	4,467	(119)
Reclassification adjustments for non-financial assets and others	–	(1,725)	–
Ending balance	¥(8,270)	¥2,871	–

(Millions of Yen)

	FY2021: Year ended December 31, 2021	
	Cash flow hedge	
	Interest rate risk	Foreign exchange risk
Beginning balance	¥(8,270)	¥2,871
Arising during the year	11,786	(7,084)
Reclassification adjustments to net income	261	14,532
Reclassification adjustments for non-financial assets and others	–	(1,897)
Ending balance	¥3,777	¥8,421

(Millions of U.S. Dollars)

	FY2021: Year ended December 31, 2021	
	Cash flow hedge	
	Interest rate risk	Foreign exchange risk
Beginning balance	$(72)	$25
Arising during the year	$102	$(62)
Reclassification adjustments to net income	$2	$126
Reclassification adjustments for non-financial assets and others	–	$(16)
Ending balance	$33	$73

(8) 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 2020 is as follows:

The fair value of financial assets and financial liabilities measured at amortized cost other than long-term borrowings and bonds approximates their carrying amount.

	(Millions of Yen)				(Millions of U.S. Dollars)	
	FY2020 (As of December 31, 2020)		FY2021 (As of December 31, 2021)		FY2021 (As of December 31, 2021)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	¥345,636	¥349,013	¥339,613	¥340,578	$2,953	$2,961
Bonds	¥199,478	¥200,133	¥199,569	¥201,018	$1,735	$1,748

(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 as Level 3.

The fair value of bonds is determined based on quoted market prices. The fair value hierarchy is categorized as Level 2.

(9) 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 were no transfers between Level 1 and Level 2 for the years ended December 31, 2020 and 2021.

The followings table includes put option liabilities.

FY2020: As of December 31, 2020

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	¥8,333	–	¥8,333
Equity securities	87,682	–	77,760	165,442
Other	1,697	2,892	21,100	25,691
Total	¥89,380	¥11,226	¥98,861	¥199,467
Financial liabilities				
Derivative liabilities	–	¥17,093	–	¥17,093
Put option liabilities	–	–	33,963	33,963
Other (mainly contingent consideration)	–	–	42,258	42,258
Total	–	¥17,093	¥76,221	¥93,315

FY2021: As of December 31, 2021

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	¥9,608	–	¥9,608
Equity securities	85,811	–	59,425	145,237
Other	1,863	3,092	28,011	32,967
Total	¥87,674	¥12,700	¥87,437	¥187,812
Financial liabilities				
Derivative liabilities	–	¥15,178	–	¥15,178
Put option liabilities	–	–	34,029	34,029
Other (mainly contingent consideration)	–	–	49,446	49,446
Total	–	¥15,178	¥83,475	¥98,653

FY2021: As of December 31, 2021

(Millions of U.S. Dollars)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	$84	–	84
Equity securities	746	–	517	1,263
Other	16	27	244	287
Total	$762	$110	$760	$1,633
Financial liabilities				
Derivative liabilities	–	$132	–	$132
Put option liabilities	–	–	296	296
Other (mainly contingent consideration)	–	–	430	430
Total	–	$132	$726	$858

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 valuated 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 whose fair value is measured using observable market data are categorized within Level 2, while stocks measured based mainly on two income approaches (one using the DCF method by which the perpetual value is calculated using the exit multiple method and the other using a DCF method) and the market approach (the comparable companies analysis) using unobservable inputs are categorized within Level 3.

In the income approach (the DCF method by which the perpetual value is calculated using the exit multiple method), significant unobservable inputs are mainly the level of future revenue and exit multiple (enterprise value/revenue), and discount rate. The fair value increases (decreases) as the level of future revenue increases (decreases); the fair value increases (decreases) as the exit multiple increases (decreases); the fair value decreases (increases) as the discount rate increases (decreases). The exit multiples (enterprise value/revenue) and discount rates used for the years ended December 31, 2020 and December 31, 2021 were 4.6 and 20% and 4.6 and 30%, respectively.

In the income approach (DCF method), significant unobservable inputs are mainly the discount rate. The fair value decreases (increases) as the discount rate increases (decreases). The discount rates used for the fiscal years ended December 31, 2020 and December 31, 2021 were 6.9% and 6.9%, respectively.

Significant unobservable inputs in the market approach (comparable company method) mainly include valuation multiples such as enterprise value/revenue, enterprise value/operating profit. The fair value increases (decreases) as the valuation multiples increase (decrease). Enterprise value/revenue multiples ranging from 0.94 to 2.87 and 0.83 to 1.56 and enterprise value/operating profit multiples ranging from 15.05 to 17.73 and 16.36 to 24.72 were used as valuation multiples in the year ended December 31, 2020 and 2021, respectively.

The fair values, etc. and others of put option liabilities and other (financial liabilities) are categorized within Level 3 as they are valuated based on the discounted cash flow method using unobservable inputs. Significant unobservable inputs are level of future profitability and discount rate. The fair values, etc. increases (decreases) as level of profitability increases (decreases).

If the profit level improves or deteriorates by 100 bps, the fair values, etc, will increase by ¥1,230 million or decrease by ¥1,272 million at December 31, 2020, increase by ¥730 million($6 million) or decrease by ¥963 million($8 million) at December 31, 2021, respectively. If the discount rate increases or decreases by 100 bps, the fair values, etc, will decrease by ¥945 million or increase by ¥983 million at December 31, 2020, decrease by ¥522 million($5 million) or increase by ¥543 million($5 million) at December 31, 2021, respectively.

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:

Financial assets	FY2020 (Year ended December 31, 2020) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of U.S. Dollars)
Balance at the beginning of the year	¥95,977	¥98,861	$860
Other comprehensive income (Note 1)	(10,914)	(10,994)	(96)
Purchases or acquisition	12,847	3,452	30
Sales or settlements	(2,066)	(1,127)	(10)
Other	3,018	(2,755)	(24)
Balance at the end of the year	¥98,861	¥87,437	$760

Financial liabilities	FY2020 (Year ended December 31, 2020) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of Yen)	FY2021 (Year ended December 31, 2021) (Millions of U.S. Dollars)
Balance at the beginning of the year	¥208,959	¥76,221	$663
Profit or loss (Note 2)	(13,678)	20,293	176
Purchases	4,303	625	5
Sales or settlements	(30,533)	(22,499)	(196)
Other (Note 3)	(92,828)	8,834	77
Balance at the end of the year	¥76,221	¥83,475	$726

(Note 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."

(Note 2) "Profit or loss" is associated with financial liabilities at fair value through profit or loss and included in finance income or expenses. Profit or loss arising from financial instruments held at fiscal year end amounted to finance income of ¥13,678 million for the years ended December 31, 2020 and finance income of ¥158 million($1 million) and finance expenses of ¥20,451 million ($178 million) for the years ended December 31, 2021.

(Note 3) In conjunction with the absorption-type merger of Merkle by OrangeCo Merger Sub, Inc., which was a wholly-owned subsidiary of the Company, effective April 15, 2020, the rights (put option) that allow shareholders of Merkle to request the purchase of their shares in Merkle were exercised early. Consequently, the payment amount was finalized and put option liabilities of ¥85,730 million has been excluded from the financial liabilities categorized within Level 3 during the year ended December 31, 2020.

(10) Offsetting of financial assets and liabilities

The amount of financial assets and liabilities as of December 31, 2020 and 2021, that are against the same counterparty and that are offset in accordance with the criteria for offset, are as follows.

	FY2020 (As of December 31, 2020) (Millions of Yen)	FY2021 (As of December 31, 2021) (Millions of Yen)	FY2021 (As of December 31, 2021) (Millions of U.S. Dollars)
	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents
Total recognized financial assets	¥113,577	¥117,340	$1,020
The amount of financial assets and liabilities offset in accordance with the criteria	(87,633)	(74,535)	(648)
Net amount recorded in Consolidated Statement of Financial Position	¥25,944	¥42,805	$372

	FY2020 (As of December 31, 2020) (Millions of Yen)	FY2021 (As of December 31, 2021) (Millions of Yen)	FY2021 (As of December 31, 2021) (Millions of U.S. Dollars)
	Borrowings (current)	Borrowings (current)	Borrowings (current)
Total recognized financial liabilities	¥87,633	¥74,535	$648
The amount of financial assets and liabilities offset in accordance with the criteria	¥(87,633)	¥(74,535)	(648)
Net amount recorded in Consolidated Statement of Financial Position	–	–	-

The amount of financial assets and liabilities that are under enforceable master netting agreements or similar contracts, but are not offset as they do not meet certain or all criteria of offsetting is not material.

37. RELATED PARTIES

(1) Transactions with related parties

The Company and its consolidated subsidiaries purchase advertising-related services from affiliated companies and also provide advertising placement and advertising-related services to them. Arm's length prices are applied in transactions with affiliated companies.

The balance of receivables and payables to affiliated companies as of December 31, 2020 and 2021 are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Receivables	¥50,809	¥22,328	$194
Payables	¥7,423	¥10,241	$89

Transactions with affiliated companies as of December 31, 2020 and 2021 are as follows:
Turnover and Cost of sales are shown in gross amount.

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Turnover	¥109,681	¥82,412	$717
Cost of sales	¥23,412	¥37,712	$328
Selling, general and administrative expenses	¥6,025	¥5,349	$47

(2) Remuneration for the Group's directors

Remuneration for the Group's directors for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (Year ended December 31, 2020)	FY2021 (Year ended December 31, 2021)	FY2021 (Year ended December 31, 2021)
Remuneration and bonuses	¥889	¥4,021	$35
Stock compensation	75	517	4
Total	¥964	¥4,538	$39

(3) Subsidiaries and affiliates

The Company had 907 consolidated subsidiaries and 92 equity method affiliates as of December 31, 2021.

Compared to as of December 31 2020, the number of consolidated subsidiaries and equity method affiliates decreased by 100 and 1, respectively.

38. CONTINGENT LIABILITIES

The contingent liabilities as of December 31, 2020 and 2021 are as follows:

Guarantees of loans and other liabilities

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2020 (As of December 31, 2020)	FY2021 (As of December 31, 2021)	FY2021 (As of December 31, 2021)
Liabilities on guarantees resulting from a loan scheme for housing funds for employees	¥52	¥26	$0
Liabilities for guarantees of bank loans and others	1,328	1,016	9
Total	¥1,380	¥1,042	$9

The business that the Group companies execute over a wide range of areas may be subject to claims, etc. based on investigations, lawsuits, media audits, etc. from government agencies, clients, media companies, partner companies, etc., in both Japan and overseas. As a result of our verification, including consultations with experts and others, we believe that even if obligations arise due to such claims, it would not have a significant impact on the financial position or operating results of the Group.

Contingent liabilities, etc. in India

During the year ended December 31, 2021, the Group investigated certain matters related to transactions entered into by one of the Group's Indian subsidiaries in detail with the assistance of external legal and professional advisors, and reported the results to the appropriate regulatory authorities in India.

Related to the matters reported, the Group has received claims totaling INR5,599 million from parties seeking payment for goods and services which those parties allege had been provided to the subsidiary in question.

Based on legal advice received to date, the Group has rejected these claims. The Group contests the substance of the underlying transactions and is of the view that no bona fide goods or services were actually provided. Consequently, the Group has not recorded a liability in association with these claims. While the Group continues to investigate the matters with the support of its external legal and professional advisors, it is vigorously defending its position with respect to the claims and continues to support the authorities with their enquiries.

Notwithstanding this, the outcome of the legal proceedings and any action by the regulators remains uncertain on account of the fact that the proceedings are in the early stages and involve complex issues in dispute, the uncertainty and unpredictability of the number of potential claims, and the number of parties involved.

39. SUBSEQUENT EVENTS

(Conversion of Septeni Holdings Co., Ltd. to a Subsidiary)

By acquiring additional shares in Septeni Holdings Co., Ltd. (Representative Director: Koki Sato; Head Office: Tokyo; JASDAQ Securities Code: 4293; hereinafter referred to as "Septeni HD"), an equity-method affiliate of the Company, the Company will deepen its capital and business alliance with the Septeni Group, and further strengthen the digital marketing field of the Dentsu Group's domestic business. As of January 4, 2022, the Company acquired additional shares in Septeni HD by conducting a share exchange making Dentsu Direct Inc. (hereinafter referred to as "Dentsu Direct"), a consolidated subsidiary of the Company, into a wholly-owned subsidiary of Septeni HD, subscribing to the issuance of new shares through a third-party allocation by Septeni HD, and partially transferring shares from Dentsu Digital Inc. (hereinafter referred to as "Dentsu Digital") to Septeni HD. As a result, the Company holds 52.01% of Septeni HD's shares on a voting rights basis, making the Septeni Group companies consolidated subsidiaries with Septeni HD as the holding company. On the same day, Dentsu Direct became a wholly-owned subsidiary of Septeni HD, and Dentsu Digital became an equity-method affiliate of Septeni HD. As a listed company, Septeni HD maintains an independent management structure.

A. Overview of the business combination

(i) Name and description of the business of the acquired company

Name of the acquired company: Septeni Holdings Co., Ltd. (listed on JASDAQ)

Description of business: Digital marketing business, media platform business

(ii) Reasons for the business combination

On October 28, 2018, the Company announced that Septeni HD would become an equity-method affiliate through a capital and business alliance, with Dentsu Group Inc. Afrer that, Septeni Group has worked closely with a number of DJN companies (including Dentsu Digital and Dentsu Inc.), and got results through business alliance, such as developing services and acquiring new customers. The welcoming of the Septeni Group into the Dentsu Group will further expand the synergies between the two Groups, strengthening digital marketing capabilities while accelerating DJN's evolution into an Integrated Growth Partner (IGP) that is committed to the sustainable growth of all clients and society.

(iii) Date of the business combination

January 4, 2022

(iv) Legal form of the business combination

A share exchange whereby Dentsu Direct Inc., a consolidated subsidiary of the Company, becomes a wholly-owned subsidiary of Septeni HD (share exchange of 3,900 shares of Dentsu Direct ordinary shares and 12,768,600 shares of Septeni HD ordinary shares); a subscription for new shares issued by Septeni HD through third-party allocation (total 70,118,794 shares of Septeni HD ordinary shares, amount paid per share: ¥465 ($4), total amount paid: ¥32,605 million ($283 million)); and the transfer of a portion of shares of Dentsu Digital ordinary shares to Septeni HD (3,675 shares of Dentsu Digital ordinary shares, voting rights of Dentsu Digital shares: 25.0%, total amount received as consideration for the transfer: ¥31,250 million ($272 million)).

(v) Name following the business combination

There is no change in the trade name due to the acquisition of shares.

(vi) Percentage of voting rights acquired

Percentage of voting rights held prior to the business combination: 20.98%

Percentage of voting rights additionally acquired on the date of the business combination: 31.03%

Percentage of voting rights following acquisition: 52.01%

(vii) Primary reason for selecting the acquired company

The primary reason is for the Company to acquire a majority shareholding in Septeni HD.

B. Fair value of the consideration for acquisition and its breakdown

	(Millions of Yen)	(Millions of U.S. Dollars)
Fair value of the equity interest in Septeni HD immediately prior to the acquisition date (Note 1):	¥13,097	$114
Fair value of the ordinary shares of Dentsu Direct and Dentsu Digital (Note 2):	18,016	157
Cash and deposits (Note 3):	1,355	12
Total consideration for acquisition:	¥32,469	$282

(Note 1) As a result of remeasuring the equity interest in Septeni HD held immediately prior to the acquisition date, "revaluation gain on step acquisition" of ¥5,388 million ($47 million) is expected to be recorded.

(Note 2) Calculated based on the fair value of the equity interest in Septeni HD that was additionally acquired.

(Note 3) Net expenditure of the difference between the payment of ¥32,605 million ($283 million) for the subscription to the new share issuance by Septeni HD through third-party allocation and the amount received of ¥31,250 million ($272 million) due to the transfer of a portion of shares of Dentsu Digital ordinary shares to Septeni HD.

C. Amount and item entry of acquisition-related expenses

Acquisition-related expenses related to the business combination are ¥143 million ($1 million), which are included in "Selling, general and administrative expenses" in consolidated statement of Income.

D. Fair value, consideration and goodwill of assets and liabilities on the date of business combination

	(Millions of Yen)	(Millions of U.S. Dollars)
	Date of acquisition of control (January 4, 2022)	Date of acquisition of control (January 4, 2022)
Current assets (Note 1)	¥34,829	$303
Non-current assets (Note 2)	36,363	316
Total assets	71,193	619
Current liabilities	20,585	179
Non-current liabilities	11,727	102
Total liabilities	32,312	281
Fair value of identifiable net assets	38,880	338
Total consideration	32,469	282
Non-controlling interests (Note 3)	18,668	162
Goodwill (Note 4)	¥12,258	$107

(Note 1) Current assets include cash and cash equivalents of ¥18,744 million($163 million). The fair value of the acquired trade receivables and other receivables is ¥16,856 million($147 million) , the total amount of accounts receivable under the contract is ¥16,879 million($147 million) , and the amount that is not

expected to be collected is ¥23 million($0 million) .
(Note 2) Non-current assets include customer relationship of ¥28,153 million($245 million).
(Note 3) Non-controlling interests were measured by multiplying the shareholding ratio after the business combination by the fair values of identifiable net assets of the acquiree at the date of acquisition of control, excluding the portion individually attributable to non-controlling shareholders.
(Note 4) Goodwill reflects the expected future excess earning power. There is no expected tax deduction.

(Acquisition of Treasury shares)

The Company resolved at a meeting of its Board of Directors held on February 14, 2022 to authorize the acquisition of the Company's Treasury shares pursuant to its Articles of Incorporation in accordance with Article 156 of the Companies Act, as applied mutatis mutandis pursuant to the provisions of Article 165, Paragraph 3 of the Act.

A. Reason for acquisition of Treasury shares

To implement a flexible capital policy in response to changes in the management environment as well as to return further profits to shareholders and further improve capital efficiency.

B. Details of matters related to the acquisition

1) Class of shares to be acquired:	Ordinary shares
2) Total number of shares that may be acquired:	20,000,000 (maximum) shares
3) Total acquisition cost:	¥40,000 million ($348 million)(maximum)
4) Acquisition period:	From February 15, 2022 to December 23, 2022
5) Method of acquisition:	Market purchase on the Tokyo Stock Exchange through a discretionary trading authorization agreement

C. Accumulation of treasury shares after the above authorization of the Board of Directors (as of April 30, 2022)

1) Total number of acquisition shares:	4,412,200 shares
2) Total acquisition cost:	¥19,991 million ($174 million)

(Russia and Ukraine situations)

Following the invasion of Ukraine by Russian troops in 2022, the Company is reviewing the Russian business operated with a local companies by following the international sanctions against Russia as a global company. The Company is in the process of transferring its ownership in the Russian business to its local partner.

Accordingly, in March 2022, the Company classified assets and liabilities related to the Russian business as held for sale and recorded an impairment loss of 13,768 million yen.

Excluding the above, although the geopolitical situation surrounding Russia and Ukraine may affect the Group's consolidated financial statements for the year ending December 31, 2022 and onwards, it is difficult to reasonably estimate the financial impact at this stage, including the impact from the transfer of the Group's ownership in the Russian business.

KPMG

Independent auditor's report

To the Board of Directors of Dentsu Group Inc.:

Opinion

We have audited the accompanying consolidated financial statements of Dentsu Group Inc. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (hereinafter referred to as "IFRS").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the accounting treatments arising from the structural reform and comprehensive review on the Japan business/international business

The key audit matter	How the matter was addressed in our audit
The Company has been undertaking structural reforms restructuring its Japan and international businesses and conducting a comprehensive review of its business operations and capital efficiency (hereinafter, the "Structural Reform and Comprehensive	The primary procedures we performed to assess the reasonableness of the accounting treatments arising from the Structural Reform and Comprehensive Review on the Japan business/international business included the following:

Review”). The Structural Reform and Comprehensive Review have pervasive and complex effects on the consolidated financial statements because they involve a wide variety of measures being implemented in countries and regions across the world, including personnel reduction and optimization of non-business assets such as real estate. In particular, the following two significant accounting issues have arisen: **(1) Recognition of a gain on sale and leaseback transaction** As described in Note 16. “LEASES” to the consolidated financial statements, during the current fiscal year, the Company sold real estate in Shiodome, Zone A, which includes the Dentsu Headquarters Building, and began leasing the Dentsu Headquarters Building (the “sale and leaseback transaction”). An entity shall determine whether the initial transfer of an asset from the seller-lessee to the buyer-lessor is accounted for as a sale by applying the requirements of International Financial Reporting Standard 15: “Revenue from Contracts with Customers” (IFRS 15). The Company determined that the transfer of the assets associated with the sale and leaseback transaction satisfied the requirements of IFRS15, and recorded a gain on sale of ¥89,186 million in the consolidated statement of income, as well as right-of-use assets of ¥52,802 million and lease obligations of ¥88,633 million in the consolidated statement of financial position. (2) Provision for onerous real estate lease agreements As described in Note 22. “PROVISIONS” to the consolidated financial statements, the Company has been optimizing its real estate operations as part of the Structural Reform and Comprehensive Review. For onerous real estate lease agreements that were entered into as a lessee but have not yet commenced, the current obligations from these lease agreements shall be recognized and measured as a provision in accordance with International Accounting Standard 37: “Provisions, Contingent Liabilities, and Contingent Assets” (IAS 37). At the end of the current fiscal year, since losses were still	● We obtained an understanding of the scope and extent of the effects that the Structural Reform and Comprehensive Review had on the Company’s consolidated financial statements by inquiring of several personnel in-charge and executives about the measures being undertaken to restructure the Japan business and the international business and inspecting the relevant documents; ● For the sale and leaseback transaction, we assessed whether the transfer of the assets satisfied the requirements of IFRS 15 by inspecting the agreements and other relevant evidence and evaluating their consistency with the economic substance of the transaction. In addition, we assessed the accuracy of the gain on sale of the assets by tracing the transfer price, the carrying amount and lease liabilities recognized based on the fixed-term building lease agreement to the relevant evidence and verifying the calculations; and ● For the provision for onerous real estate lease agreements, we instructed the component auditor of Dentsu International Limited, a consolidated subsidiary, to perform audit procedures and evaluated their reports to conclude on whether sufficient and appropriate audit evidence was obtained from the following audit procedures, among others: ・ assessed whether key assumptions adopted by management for estimating the provision were appropriate by inquiring of management and the expert used by management about the basis on which those assumptions were developed; and ・ assessed the consistency of key assumptions related to the base sublease rentals, expected rate of increase in rental payments over the lease term, lease incentives and void periods with available information published by external research organizations or market data.

expected for certain real estate leases even if future sublease income from the relevant real estate was taken into account, a provision for onerous real estate lease agreements of ¥20,178 million was recorded in the consolidated statement of financial position. Key assumptions adopted by management as the basis for calculating the provision included the base sublease rentals, expected rate of increase in rental payments over the lease term, lease incentives and void periods. While these assumptions were developed based on the estimates, considering uncertainty, at the balance sheet date, they involved further uncertainties as they may be affected by the occurrence of unforeseen events and changes in conditions. Accordingly, management's estimate and judgment thereon had a significant effect on the estimate of the provision. We, therefore, determined that our assessment of the reasonableness of the accounting treatments arising from the Structural Reform and Comprehensive Review on the Japan business/international business was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	

Reasonableness of the Company's estimate of the recoverable amounts used in the valuation of goodwill for the international business

The key audit matter	How the matter was addressed in our audit
In the consolidated statement of financial position for the current fiscal year, the Company reported goodwill of ¥670,749 million, representing approximately 18% of total assets. As described in Note 15. "GOODWILL AND INTANGIBLE ASSETS" to the consolidated financial statements, the amount included goodwill of ¥181,000 million in the EMEA region, ¥433,039 million in the Americas region and ¥51,933 million in the APAC region within the international business segment.	The primary procedures we performed to assess the reasonableness of the Company's estimate of the recoverable amount used in the valuation of goodwill allocated to the international business are set forth below. The audit procedures included those performed by the component auditor of Dentsu International Limited, a consolidated subsidiary that oversees the international business. We instructed the component auditor to perform audit procedures and evaluated their reports to conclude on whether sufficient and appropriate audit evidence was obtained.

As the Company adopts the International Financial Reporting Standards (IFRSs), impairment tests for goodwill are performed at least annually and whenever it is determined that there is an indication of impairment. The recoverable amount in the impairment test for goodwill is determined at the higher of either the fair value less costs of disposal or the value in use of an asset or a cash-generating unit. When the carrying amount exceeds the recoverable amount, an impairment loss is recognized. In addition to the impairment test for goodwill of each group of cash-generating units, the international business segment, as a whole, including unallocated corporate assets and overhead costs, is also tested for impairment. As described in Note 15. "GOODWILL AND INTANGIBLE ASSETS" to the consolidated financial statements, no impairment loss was recognized for each group of the cash-generating units or the international business segment, as a whole, as a result of the annual impairment test for goodwill allocated to the international business segment. The Company calculated the recoverable amounts in the impairment test for goodwill for the international business using the value in use based on the budget for the following fiscal year approved by management and the forecast for the additional four subsequent fiscal years. Key assumptions adopted by management as the basis for calculating the value in use included operating margins, net working capital, perpetual growth rates, discount rates, and the allocation ratios of overhead costs for each group of cash-generating units. While these assumptions were developed using management's best estimate and judgment made based on the historical business results and the business plans approved by management, they were inherently uncertain as they may be affected by changes in business strategies and market conditions. Accordingly, management's estimate and judgment thereon had a significant effect on the estimate of the value	**(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the measurement of the recoverable amount in the impairment test for goodwill allocated to the international business. **(2) Assessment of the reasonableness of the estimate of the recoverable amount** We assessed the reasonableness of key assumptions adopted by management in calculating the value in use by inquiring of management and personnel responsible for the business plans regarding the basis on which those key assumptions were developed. In addition, we: ● assessed the accuracy of the estimates underlying the key assumptions by comparing the past estimates with actual results, and obtained an understanding of the effect each assumption had on the impairment test by performing a sensitivity analysis; ● evaluated operating margins in the past business plans by analysing the causes of any variance with actual results, and confirmed that the identified causes of variance were appropriately considered and incorporated into management's assumptions through discussions with management and personnel responsible for the business plans; ● assessed the reasonableness of the net working capital assumptions by comparing them with the historical monthly trends; ● assessed the reasonableness of the perpetual growth rate assumptions for each region by tracing them to data published by external research organizations; ● assessed the reasonableness of the discount rates with the assistance of a valuation specialist within our network firms by comparing them with the discount rates that the valuation specialist independently estimated based on external information; and ● assessed the assumptions for the allocation ratios of overhead costs for each group of cash-generating units by inspecting a breakdown of overhead costs and analysing the relationship between each cost element and the generation of cash inflows at the level of the group of cash-generating units.

in use. In addition, selecting appropriate input data for estimating the discount rates required a high degree of expertise in valuation. We, therefore, determined that our assessment of the reasonableness of the Company's estimate of the recoverable amount used in the valuation of goodwill allocated to the international business was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an

opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee , we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note "2. BASIS OF PREPARATION (3) Functional Currency and Presentation Currency" to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Hideaki Koyama

Designated Engagement Partner

Certified Public Accountant

Kentaro Maruta

Designated Engagement Partner

Certified Public Accountant

Shuji Ezawa

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

May 16, 2022

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.