Items for Disclosure on the Internet Pursuant to Laws, Regulations, and the Articles of Incorporation Regarding the Notice of Convocation of the 172nd Ordinary General Meeting of Shareholders

Dentsu Group Inc.

Pursuant to laws and regulations and Article 19 of the Company's Articles of Incorporation, the above items are provided to shareholders on the Company's website (https://www.group.dentsu.com/en/ir/stockandratings/shareholdersmeeting.html).

II Shares and Subscription Rights to Shares

1. Items Related to Shares

(1) Total number of authorized shares Common shares **1,100,000,000** shares

(2) Types of issued shares and total number of shares Common shares **288,410,000** shares
(Of which treasury shares **6,695,819** shares)

(3) Number of shareholders **45,601** persons

(4) Major Shareholders (Top 10)

Shareholder	No. of Shares Held	Percentage of Total Shares Issued
	(Shares)	(%)
The Master Trust Bank of Japan, Ltd. (Trust accounts)	**40,883,000**	**14.51**
Kyodo News	**18,988,800**	**6.74**
Jiji Press, Ltd.	**16,028,680**	**5.69**
Custody Bank of Japan, Ltd. (Trust accounts)	**11,557,600**	**4.10**
SMBC Nikko Securities Inc.	**7,723,400**	**2.74**
Merkle Group Inc.	**7,324,500**	**2.60**
Group Employees' Stockholding Association	**6,292,703**	**2.23**
Yoshida Hideo Memorial Foundation	**4,984,808**	**1.77**
Recruit Holdings Co., Ltd.	**4,929,900**	**1.75**
Custody Bank of Japan, Ltd. (Trust account 9)	**4,389,300**	**1.56**

(Notes) 1. The number of shares held by each trust bank includes shares related to trust services.
2. The Company holds 6,695,819 treasury shares but is excluded from the major shareholders listed above.
3. The Percentage of Total Shares Issued is calculated excluding treasury shares.
4. Of the shares registered in the name of Merkle Group Inc. on the shareholder list (7,324,500 shares), (1) 4,736,425 shares are those granted to former shareholders of Merkle (about 300 shareholders) when the company became a wholly owned subsidiary on April 15, 2020, and (2) 2,581,200 shares are those granted as share compensation to the key members of the Merkle's management team (25 people) on April 17, 2020 when the company became a wholly owned subsidiary. The shares in both categories of (1) and (2) have been merely deposited in the account maintained under the name of Merkle. Hence, the former shareholders or key management team members of Merkle are the effective owners of these shares and reserve the authority to exercise voting rights. The actual number of shares owned by Merkle is 6,875 shares excluding these shares.

2. Items Related to Subscription Rights to Shares, etc.

(1) Summary of contents of subscription rights to shares held by company executives, etc. as of the final day of the fiscal year under review that were issued as compensation for business execution

No items to report.

(2) Summary of contents of subscription rights to shares that were issued to employees, etc., during the

fiscal year under review as compensation for business execution

No items to report.

(3) Other important items regarding subscription rights to shares

No items to report.

III Items Related to the Company Executives

2. Situation of Important Concurrent Posts

Name	Organization of Concurrent Post	Position
Directors who are not members of the Audit and Supervisory Committee		
Toshihiro Yamamoto	Kyodo Television, Ltd.	Corporate Auditor
	Dentsu International Limited	Non-executive Director
	Rakuten Data Marketing, Inc.	Outside Director
Shun Sakurai	Dentsu Aegis Network Ltd. (currently Dentsu International Limited)	Non-executive Director
Timothy Andree	Dentsu International Limited	Executive Chairman & CEO
	Dentsu International Limited	Executive Chairman
	Dentsu Holdings USA, LLC.	President & CEO
Hiroshi Igarashi	Dentsu Inc.	Representative Director, President and CEO
	FRONTAGE INC.	Director
Arinobu Soga	Dentsu International Limited	Non-executive Director
	CARTA HOLDINGS, INC.	Corporate Auditor
Nick Priday	Dentsu International Limited	Director, CFO
	Merkle Group Inc.	Non-executive Director
Gan Matsui	Yaesu Sogo Law Office	Attorney
	Orient Corporation	Outside Corporate Auditor
	Nagase & Co., Ltd.	Outside Corporate Auditor
	Totetsu Kogyo Co.	Outside Corporate Auditor
	Globeride, Inc.	Outside Director, Member of the Audit and Supervisory Committee
Directors who are members of the Audit and Supervisory Committee		
Toshiaki Hasegawa	T. Hasegawa & Co. Law Offices	Attorney
Kentaro Koga	Hitotsubashi University Business School School of Business Administration	Associate Professor
Etsuko Katsu	Meiji University School of Political Science and Economics	Professor
	Mitsui O.S.K. Lines, Ltd.	Outside Director
Simon Laffin	Simon Laffin Business Services Ltd	Director
	Watkin Jones plc	Non-Executive Director
	Dentsu International Limited	Chairman of the Audit Committee

(Notes)

1. Dentsu Aegis Network Ltd. changed its trade name to Dentsu International Limited on September 30, 2020.
2. Director who is not a member of the Audit and Supervisory Committee Shun Sakurai resigned Non-executive Director of Dentsu Aegis Network Ltd. on February 7, 2020.
3. Director who is not a member of the Audit and Supervisory Committee Timothy Andree resigned Executive Chairman & CEO and assumed the office of Executive Chairman of Dentsu Aegis Network Ltd. on September 1, 2020. Furthermore, he retired from the office of President & CEO of Dentsu Holdings USA, LLC on January 31, 2020.
4. Director who is not a member of the Audit and Supervisory Committee Arinobu Soga assumed the office of Corporate Auditor of CARTA HOLDINGS, INC. on March 28, 2020.
5. There are no items to report for Director who is a member of the Audit and Supervisory Committee Izumi Okoshi.
6. Director who is a member of the Audit and Supervisory Committee Simon Laffin resigned Director of Simon Laffin Business Services Ltd. on July 27, 2020.

4. Items Related to Outside Directors

(1) Status of Major Activities in the Fiscal Year under Review

Category / Name	Status of Major Activities
Outside Director Gan Matsui	Attended 12 out of 13 meetings of the Board of Directors held in the fiscal year under review after assuming office of Outside Director. Made remarks from an objective and professional perspective as an Outside Director with his expertise and abundant knowledge on laws.
Outside Director Toshiaki Hasegawa	Attended all 18 meetings of the Board of Directors and all 16 meetings of the Audit and Supervisory Committee held in the fiscal year under review. Made remarks from an objective and professional perspective as an Outside Director, mainly utilizing his rich experience as an international business lawyer.
Outside Director Kentaro Koga	Attended all 18 meetings of the Board of Directors and all 16 meetings of the Audit and Supervisory Committee held in the fiscal year under review. Made remarks from an objective and professional perspective as an Outside Director, mainly utilizing his rich experience as a university associate professor (accounting).
Outside Director Etsuko Katsu	Attended all 18 meetings of the Board of Directors and all 16 meetings of the Audit and Supervisory Committee held in the fiscal year under review. Made remarks from an objective and professional perspective as an Outside Director with her expertise and abundant knowledge on finance, international economics, economic policy, and global human resources development.
Outside Director Simon Laffin	Attended all 13 meetings of the Board of Directors and all 11 meetings of the Audit and Supervisory Committee held in the fiscal year under review after assuming office of Outside Director. Made remarks from an objective and professional perspective as an Outside Director mainly with his expertise and abundant knowledge on accounting and finance.

(2) Important Concurrent Posts and Relationship with Dentsu

Category / Name	Organization of Concurrent Post / Description	Relationship with Said Organization
Outside Director Gan Matsui	Yaesu Sogo Law Office Attorney	There is no special relationship with Yaesu Sogo Law Office.
	Orient Corporation Outside Corporate Auditor	There is a business relationship between Orient Corporation and the Company's subsidiary Dentsu Inc.
	Nagase & Co., Ltd. Outside Corporate Auditor	There is a business relationship between Nagase & Co., Ltd. and the Company's subsidiary Dentsu Inc.
	Totetsu Kogyo Co. Outside Corporate Auditor	There is no special relationship with Totetsu Kogyo Co.
	Globeride, Inc. Outside Director, Member of the Audit and Supervisory Committee	There is no special relationship with Globeride, Inc.
Outside Director Toshiaki Hasegawa	T. Hasegawa & Co. Law Offices Attorney	There is no special relationship with T. Hasegawa & Co. Law Offices.
Outside Director Kentaro Koga	Hitotsubashi University Business School Associate Professor, School of Business Administration	There is a business relationship between Hitotsubashi University and the Company's subsidiary Dentsu Inc.

Outside Director Etsuko Katsu	Meiji University Professor, School of Political Science and Economics	There is a business relationship between Meiji University and the Company's subsidiary Dentsu Inc.
	Mitsui O.S.K. Lines, Ltd. Outside Director	There is a business relationship between Mitsui O.S.K. Lines, Ltd. and the Company's subsidiary Dentsu Inc.
Outside Director Simon Laffin	Simon Laffin Business Services Ltd	The Company's subsidiary Dentsu International Limited paid the compensation for his duty of the chairman of the Audit Committee of Dentsu International Limited to Simon Laffin Business Services Ltd.
	Watkin Jones plc	There is no special relationship with Watkin Jones plc.
	Dentsu International Limited Chairman of the Audit Committee	There is no business execution conducted by Outside Director Simon Laffin at Dentsu International Limited, which is a subsidiary of the Company.

IV Items Related to the Accounting Auditor

1. Name of the Accounting Auditor

KPMG AZSA LLC

2. Remuneration to the Accounting Auditor

(1) Fee for Accounting Auditor relating to this fiscal year 129 million yen

(Note 1) The total amount of fees to be paid to the Accounting Auditor is stated since fees in relation to audit attestation based on the Companies Act and those based on the Financial Instruments and Exchange Act are not clearly classified under the terms of the audit contract concluded between the Company and the Accounting Auditor.

(Note 2) The Audit and Supervisory Committee of the Company, in observance of the "Practical Guidelines for Cooperation with Accounting Auditors" published by the Japan Audit & Supervisory Board Members Association and in order to assess whether sufficient audit quality is assured, has checked the time required to audit each audit item and the audit fees as well as the audit plans and the results for previous fiscal years, and upon considering the appropriateness of the time required for audit and the audit fee quotations for the fiscal year under review, agrees to the fees of the Accounting Auditor under Article 399, Item 1 and Item 3 of the Companies Act.

(2) Amount of cash and other financial benefits to be paid by Dentsu and its subsidiaries

448 million yen

(Note) The Company paid the Accounting Auditor for services such as advisory services related to accounting and internal controls of domestic subsidiaries, which are not included within the scope of work of Article 2, Paragraph 1 of the Certified Public Accountants Act.

3. Status of Audits of Subsidiaries by Entities Other than Dentsu's Accounting Auditor

Dentsu International Limited, which is an important Dentsu overseas subsidiary, and certain other overseas subsidiaries are audited (limited to provisions under foreign laws and regulations corresponding to the Companies Act or Financial Instruments and Exchange Act) by KPMG firms (those with certification corresponding to a certified public accountant or accounting auditor overseas), which belong to the same network as the Company's accounting auditor.

4. Policy on Dismissal or Non-reappointment of the Accounting Auditor

(1) The Audit and Supervisory Committee may dismiss the Accounting Auditor upon unanimous approval from all Audit and Supervisory Committee Members if it is determined that any of the reasons stipulated in Article 340, Paragraph 1 of the Companies Act applied and dismissal is appropriate.

(2) Considering factors such as the independence and business execution of the Accounting Auditor, the Audit and Supervisory Committee may submit a proposal to a General Meeting of Shareholders to dismiss or refuse to reappoint the Accounting Auditor if it is found that there is a possibility of a significant threat to the auditing operations of the Company, such as difficulty by the Accounting Auditor to execute business appropriately, and in the event that it is determined that such action is required from the viewpoint of effectiveness and efficiency, etc., of audit implementation, as stipulated in Article 399-2, Paragraph 3 of the Companies Act.

V Company System and Policy

1. Basic Policy on Internal Control

The Internal Control System is designed to encourage compliance among directors, executive officers, and employees while it supports continuous corporate development as the Company strives to meet its social responsibilities.

The Company (Dentsu Group Inc.) has chosen the Dentsu Group Code of Conduct to define the parameters of acceptable behavior, which ensures that directors, executive officers and employees of the Company and its subsidiaries (hereafter the Group) comply with all laws, regulations, and the Articles of Incorporation during the course of their duties and that business is conducted appropriately. The Internal Control and Risk Committee is charged with creating, operating, and improving the System.

1. System to Ensure the Appropriateness of Operations throughout the Group

The Company will define matters that subsidiaries must establish and operate as members of the Group, starting with the following items, and will ensure the appropriateness of operations throughout the Group through proper support, oversight, and management by the Company as a holding company.

(1) The Dentsu Group Code of Conduct was drafted as the standard for acceptable corporate behavior and embraces the entire Group, including subsidiaries. Each subsidiary passes a resolution on the adoption of the Code.

(2) Subsidiaries will define standards pursuant to the Dentsu Group Code of Conduct, and by resolution of a meeting of the Board of Directors, etc., will ensure compliance and risk management as members of the Group.

(3) In addition to receiving periodic reports from subsidiaries concerning the business operations, business results, and other significant matters that may have significant effect on the business operation or business results of the Company, subsidiaries will request advance approval or report to the Company.

(4) In order to ensure efficient and appropriate decision-making and business execution of the businesses, the Dentsu Japan Network is responsible for the management and oversight of the Japan business and Dentsu International Limited for the international business.

(5) The Company will enforce the establishment and the operation of the system described in the followings on subsidiaries.

2. Compliance System for Directors, Executive Officers and Employees

(1) Directors and executive officers of the Group must perform their duties appropriately, in accordance with rules such as the Board of Directors' Rules, Rules for the Operation of the Important Committees, Directors' Rules, and Executive Officers' Rules.

(2) If a director or an executive officer of the Group discovers a violation of the prevailing laws or comes across any other serious compliance-related issue, it is imperative that he/she reports it without delay to the Board of Directors or the important committees. The Audit and Supervisory Committee of the Company or the Audit Committees or Audit Officers of each subsidiary must also be immediately advised of the circumstances.

(3) The relevant departments create internal policies and manuals and conduct training to improve and enhance the compliance system for employees of the Group.

(4) The Company has set up an internal reporting and proposal system to respond appropriately in the event a law is broken or some other internal compliance issue arises.

(5) If the Audit and Supervisory Committee of the Company or the Audit Committees or Audit Officers of each subsidiary states opinions on the compliance system or require steps to improve the system,

directors and executive officers of the Group must respond without delay and make the recommended improvements.

(6) The Company has established a department to facilitate the termination of business relationships with organized crime groups and elements thereof—termed "antisocial forces"— when a link is discovered and to resolutely refuse any and all future transactions. This department functions as the liaison between the affected in-house divisions and the relevant authorities to expedite an appropriate course of action.

3. Systems to Ensure Efficient Execution of Duties by Directors and Executive Officers

(1) In addition to meetings of the Board of Directors, the Company and each subsidiary hold meetings of the Board of Directors, Executive Management Meetings, and various committees in order to make decisions on important matters pertaining to management policy and strategy appropriately and expeditiously.

(2) Items resolved at such meetings are transmitted to all employees through the corporate structure for prompt reflection in the execution of duties. Urgent items are posted on the internal electronic bulletin board in the interest of rapid dissemination.

4. Storage and Management of Information Related to the Execution of Duties by Directors and Executive Officers

Information concerning the execution of duties by directors and executive officers of the Group is stored and managed appropriately, in accordance with the Company's Documentation Management Rules and Information Management Rules etc.

5. Risk Management System

(1) The Group establishes risk management regulations to maintain and improve a structure that precludes the spread of damage or loss and minimizes the impact of risk progression in the event risks become reality. The Company performs self-checks with regard to the situation of risk management under the Group Internal Control and Risk Committee, selects material risks to be handled, and implements risk management based on concrete response plans.

(2) The response policy for material risks in management and other material items concerning risk management are reported to the Board of Directors and the Audit and Supervisory Committee of the Company or the Audit Committees or Audit Officers of each subsidiary.

6. Internal Structure to Support the Audit and Supervisory Committee and their Independent Status

The Company maintains an Audit and Supervisory Committee Office, which consists of employees who assist the Audit and Supervisory Committee in their duties.

This office reports directly to the Audit and Supervisory Committee, thereby preserving its independence from directors (excluding Directors who are members of the Audit and Supervisory Committee) and executive officers and effectiveness of instructions from Audit and Supervisory Committee.

7. System for Reporting to the Audit and Supervisory Committee and Improving Audit Effectiveness

(1) Policies are in place to define issues that directors (excluding directors who are Audit and Supervisory Committee members), executive officers, and employees (hereinafter called “executives and employees”) of the Group are required to report to the Audit and Supervisory Committee, while at the same time, the system ensures that significant matters that have an impact on the Group’s business operations or business results are reported by executives and employees to the Audit and Supervisory

Committee in a certain and prompt manner.

(2) In the event that the Audit and Supervisory Committee request information other than that indicated above, executives and employees of the Group are still required to respond without delay.

(3) It will be ensured that parties who report under the condition of the previous items do not receive harmful treatment as a result of reporting.

(4) Pursuant to laws and regulations, a policy will be defined to account for expenses, etc., incurred during the course of execution of duties by the Audit and Supervisory Committee, and this information will be disseminated to concerned parties.

(5) To enhance audit effectiveness, the Internal Audit Functions and External Auditors collaborate.

8. System to Ensure Appropriateness of Financial Reporting

(1) Through the Group's Internal Control and Risk Committee, Dentsu continually supports a system that ensures appropriateness in financial reporting by the Group.

(2) Subsidiaries and departments involved in business activities perform self-checks through the course of day-to-day operations to determine if internal controls are functioning properly.

(3) The Group Risk & Internal Audit Office monitors the Internal Control System from a perspective free of operational bias to assess the effectiveness of internal controls related to financial reporting.

2. Summary of Operational Status of Internal Control

In adherence with the Basic Policy on Internal Control stated in 1. above which has been resolved by the Board of Directors, the Company is promoting the development and operation of an Internal Control System upon establishing risk management policy, document handling regulations, and other internal regulations, holding meetings of the Internal Control and Risk Committee and other committees, and with the department in charge of internal control serving as the core. The summary of operational status is as follows: (1) To provide that the Group's operations are appropriate, the Company identifies applicable companies in advance, sets the rules to be followed as a corporate group, and requests each company to comply with them. At the end of a fiscal year, the Company checks whether applicable companies in Japan and overseas are performing operations in accordance with the aforementioned rules and calls for improvement if there are any issues. (2) The Company promotes risk management based on the "Risk Management Policy," through the steps of 1) identifying risks that impedes the Company's efforts to achieve its management targets, 2) evaluating identified risks, 3) specifying "material risk," which may have a significant impact on the Company, 4) formulating a plan to minimize such "material risk," and 5) reporting progress in dealing with such "material risk." Formulation and implementation of plans to deal with risks are led by each specialized department on a companywide level. (3) Regarding structures to ensure the appropriateness of financial reporting, in April 2020, in response to the "Internal Control Reporting System" stipulated in Article 24-4-4 of the Financial Instruments and Exchange Act, the Company formulated the "Basic Plan" which provides the companies and business processes applicable for evaluation and the evaluation system, etc., upon discussion with the Accounting Auditor. Following the Basic Plan, the departments executing the business applicable for evaluation and applicable companies confirm that internal control is implemented appropriately and functioning effectively in daily operations and such companies make reports on such confirmation to the Company.

Notes to Consolidated Financial Statements（The following is the web disclosure section）

1. Significant matters for preparing consolidated financial statements

(1) Basis of preparation of consolidated financial statements

The consolidated financial statements of Dentsu Group Inc. (hereinafter the "Company") are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") under the Paragraph 1 of Article 120 of the Ordinance on Company Accounting. Under the provisions of the second sentence of the same paragraph of the same Ordinance, some disclosure items required under IFRS are omitted.

(2) Scope of consolidation

Number of consolidated subsidiaries, including Dentsu International Limited, is 1,007.

(Note) Dentsu Aegis Network Ltd. changed its trade name to Dentsu International Limited effective September 30, 2020.

(3) Scope of equity method

Number of associates, including Video Research Ltd., accounted for using the equity method is 93.

(4) Accounting policies

1) Basis and method of valuation for significant assets

i Non-derivative financial assets

a. Financial assets measured at amortized cost

Non-derivative financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met.

・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.

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

The Group recognizes allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost.

Determination of significant increase in credit risk

At the end of each fiscal year, the Group compares the risk of a default occurring on financial assets as of the end of the fiscal year with the risk of a default occurring at the date of initial recognition and assesses whether the credit risk on the financial assets has increased significantly after the initial recognition.

The Group determines whether the credit risk on the financial assets has increased significantly based on the changes in the risk of a default after the initial recognition. In assessing whether there is any change in the risk of default, the Group primarily takes into account the past due information, in addition to the following matters.

・Significant change in a credit risk rating of the financial assets by external rating agencies

・Downgrading of an internal credit risk rating

・Deterioration of the borrower's operating results

Expected credit loss approach

Expected credit losses are the present value of the difference between contractual cash flows the Group has a right to receive pursuant to a contract and the cash flows expected to be received by the Group. If the credit risk on financial assets has increased significantly after initial recognition, the Group measures the allowance for doubtful accounts for the financial assets at an amount equal to the lifetime expected credit losses. If the credit risk has not increased significantly, the Group measures the allowance for doubtful accounts for the financial assets at an amount equal to 12-month expected credit losses.

Notwithstanding the above, the Group always measures the allowance for doubtful accounts at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant finance component.

In measuring expected credit losses, the Company uses reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available at the reporting date. The expected credit losses of individually significant financial assets are assessed on an individual basis, and the expected credit losses of the remaining financial assets are assessed collectively in groups that share similar credit risk characteristics such as the geographical location, the number of days that the asset is past due, the status of the protection of the asset, the external credit ratings, and allowance for expected credit losses is recorded.

In a case when it is determined that it is impossible or extremely difficult to collect all or part of a financial asset, e.g. a case when the debtor does not make the payment within 90 days from the due date, the Company decides that the financial asset is in default.

When a financial asset is in default or when the issuer or the debtor of a financial asset is experiencing significant financial difficulty, the Company determines that the credit is impaired.

The provision of the allowance for doubtful accounts for financial assets is recognized in profit or loss. The reversal of the allowance for doubtful accounts, if any, is recognized in profit or loss.

If the collection is not reasonably assured, such as when obligor cannot perform repayment plan that was agreed with the Group, financial assets are directly amortized. Generally, this action is taken when the Group judges that a borrower does not have assets or source of income that can generate enough cash flows to repay the amount of the financial assets subject to direct amortization. The Group continues enforcement activities for directly amortized financial assets in order to collect past due receivables.

b. Financial assets measured at fair value through profit or loss

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

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are remeasured at fair value at each fiscal year-end, and changes in fair value subsequent to initial recognition and revenue such as dividends are recognized in profit or loss.

c. Financial assets measured at fair value through other comprehensive income

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.

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income are measured at fair value. 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 declines significantly. Dividends derived from these financial assets are recognized in profit or loss for the year.

ii 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 between hedging instruments and hedged items, 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 an assessment of the hedge effectiveness.

These hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows, and the hedging relationships are assessed on an ongoing basis to determine whether they actually have 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 the fair value are accounted for as follows.

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

a. Cash flow hedge

For the effective portion of gains or losses on hedging instruments, changes in the fair value are recognized in other comprehensive income. The amounts recognized in other comprehensive income are recognized in profit or loss when the cash flows from the hedged items affect profit or loss.

For the ineffective portion, changes in the fair value are recognized in profit or loss.

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

b. Hedge of net investment in foreign operations

Translation differences resulting from the hedges of a net investment in a foreign operation 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.

On disposal of the foreign operation, the cumulative gains or losses recognized in equity as other comprehensive income are reclassified to profit or loss.

c. Derivative financial instruments not designated as hedges

Changes in the fair value of derivative financial instruments are recognized in profit or loss.

iii Inventories

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

2) Depreciation method for significant depreciable assets

i Property, plant and equipment

Property, plant, and equipment is presented at acquisition cost using the cost model subsequent to initial recognition less accumulated depreciation and accumulated impairment losses. The 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 that are not depreciated, property, plant, and equipment are depreciated mainly using the straight-line method over their estimated useful lives.

However, right-of-use assets are depreciated using the straight-line method over the shorter of their estimated useful lives or lease terms.

ii Intangible assets

Intangible assets are presented at acquisition cost using the cost model subsequent to initial recognition less accumulated amortization and accumulated impairment losses. Intangible assets acquired separately are measured at acquisition cost for their 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.

However, right-of-use assets are amortized using the straight-line method over the shorter of their estimated useful lives or lease terms.

iii Investment property

Investment property is presented at acquisition cost using the cost model subsequent to initial recognition 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.

3) Goodwill

Goodwill is presented at acquisition cost less accumulated impairment losses. Goodwill is not amortized. Impairment tests for goodwill are performed once a year, irrespective of whether there is any indication that it may be impaired, and in cases where there is an indication of impairment.

4) Recognition of significant 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.

5) Post-employment 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 difference between the present value of defined benefit obligations and the fair value of any plan assets as either liabilities or assets. For each of the 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. Discount rate is determined based on high quality corporate bonds yield rate at fiscal year-end for the discount period which is set for the projected period until the expected date of benefit payment in each fiscal year.

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 are immediately transferred to retained earnings. Past service costs are recognized in profit or loss in the period incurred.

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

6) Foreign currency translation

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

At each fiscal year-end, 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 closing rate, and the resulting translation differences are recognized in profit or loss.

Non-monetary items measured at foreign currency-denominated costs are translated at exchange rate at the date of transaction.

For financial statements of foreign operations, assets and liabilities are translated into Japanese yen at closing rate for a reporting period, and revenue and expenses are translated into Japanese yen using the average rate for 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.

7) Revenue

Revenues are recognized based on the following five-step approach.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize the revenue when a performance obligation is satisfied

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

In the advertising business, the Group primarily places advertisements to various media and provides services such as advertisement production and various content services including creative services. Revenue from advertisement placement to various media is recognized primarily when the advertisement is placed to the media because the control over the service is transferred to a client, and the performance obligation of the Group is satisfied at that point of time. Regarding provision of services such as advertisement production and various content services, the control over the product or service is transferred to a client, and the performance obligation of the Group is satisfied primarily when the product is delivered or the service is rendered. Hence, revenue from provision of services such as advertisement production and various content services is recognized according to the satisfaction of the performance obligation. In the rights business such as marketing rights of sporting events, the timing of revenue recognition depends on the content of the right granted to the client. When the right to use the right is transferred to the client at one point of time, the revenue is recognized at that point of time. When the right is available to the client for a certain period of time, the revenue is recognized over that period of time. In this case, the performance obligation is primarily satisfied over time during the contract period, and the revenue is recognized on a pro-rata basis over the contract period during which the performance obligation is satisfied.

For the advertising business, as the Group determines that it acts justifiably as an agent given the principal responsibility for the performance of commitments, inventory risk, and discretion over pricing among others, it records the revenue primarily at the price the client pays as the remuneration for the services it renders net of relevant cost, or at a certain remuneration price paid in the form of a commission. However, for some transactions in which the Group determines that it acted justifiably as a principal, the price the client paid and the cost are reported on a gross basis.

In the advertising business, the price for a transaction is received primarily within one year after the satisfaction of the performance obligations, and does not contain a significant finance component.

In the information services business, the Group mainly provides services including sale of software products, commissioned system development, outsourcing and operation and maintenance services. Revenue from sale of software products is recognized at the time of delivery to the clients when the control over the products is transferred to the clients, and the Group's performance obligations are satisfied. Revenue from software developed by commission is recognized depending on the progress of the development because, as the development progresses, the value of the clients' assets increase, the clients gain the control over the assets, and the Group's performance obligations are satisfied. The progress of the development is calculated based on the ratio of the inputs (incurred costs) already used to satisfy the performance obligations to the total inputs expected to be used until the performance obligations are completely satisfied. In connection with the operation and maintenance services, as the performance obligations are satisfied over time during the contract period, revenue is recorded on a pro-rata basis over the contract period during which the performance obligations are satisfied.

The Group determines revenue from the information services business by deducting discounts and others from a price as provided in a sales agreement. As the Group determines that it acts justifiably as an agent given the principal responsibility for the performance of commitments, inventory risk, and discretion over pricing among others, it records the revenue and the cost on a gross basis.

In the information services business, the price for a transaction is received primarily within one year after the satisfaction of the performance obligations, and does not contain a significant finance component.

In other businesses, the Group is engaged in businesses including office leasing, building management services, and commissioned computing operation businesses.

The turnover disclosed in the Consolidated Statement of Income is the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of turnover is not required under IFRS.

8) Accounting method for consumption taxes

Consumption taxes are accounted for using tax-excluding method.

9) All figures are rounded down to the nearest million yen.

2. Changes in accounting policies

The main accounting standards that the Group has applied from the fiscal year ended December 31, 2020 are as follows.

Accounting Standard	Title	Summary of new standards or amendments
IFRS 9	Financial Instruments	Requirements for certain hedge accounting were amended to mitigate the potential impact of uncertainties caused by the IBOR reform.
IAS 39	Financial Instruments: Recognition and Measurement	
IFRS 7	Financial Instruments: Disclosures	

The above accounting standards were applied in accordance with transitional provisions. The application had no major impact on the consolidated financial statements.

3. Additional Information

（Accounting estimates for the spread of COVID-19）

The spread of COVID-19 is an event that has a wide range of impacts on the economy and corporate activities, and it also affects the business activities of the Group.

The International Olympic Committee and the Tokyo 2020 Organizing Committee announced in March 2020 that the Tokyo 2020 Olympic and Paralympic Games will be postponed to July 2021. For accounting estimates related to the valuation of inventories, provisions and contingent liabilities etc., the best estimates are based on the information available at the time of preparation of the consolidated financial statements, assuming that the competition will be held in July 2021.

4. Notes to consolidated statement of financial position

(1) Assets pledged as collateral

Other financial assets (current assets)	**54** million yen

Other than the above, other financial assets (current assets) of **8** million yen are pledged as collateral for guarantee transactions that are disclosed in the “Official Gazette” (Kanpou) and related to other operations.

(2) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables	**5,854** million yen
Other financial assets (non-current assets)	**12,236** million yen

(3) Accumulated depreciation and impairment losses of property, plant and equipment (except for right-of-use assets)	**130,542** million yen
(4) Accumulated depreciation and impairment losses of investment property	**9,816** million yen

(5) Contingent liabilities

Guarantees of loans and other liabilities

Liabilities on guarantees resulting from a loan scheme for housing funds for employees	**52** million yen
Liabilities for guarantees of bank loans and others	**1,328** million yen
Total	**1,380** million yen

5. Notes to consolidated statement of income

(1) Business restructuring expenses

These are expenses that were incurred in connection with the business restructuring.

The primary components of business restructuring expenses incurred in the international business are expected losses from future sub-lease agreements for onerous real estate lease agreements that have been contracted as lessees but have not yet begun, workforce reduction expenses, property optimization expenses, and expenses arising from other related initiatives.

The primary components of business restructuring expenses incurred in the Japan business are additional early retirement bonus related to the early retirement program and unavoidable costs to fulfill obligations in accordance with the outsourcing agreement with retirees who became sole proprietors under the early retirement program.

(2) Impairment losses

These primarily consist of the impairment loss on goodwill related to the international business. As a result of an annual impairment test for goodwill related to the international business that were performed based on the latest business plan formulated on the basis of the most recent results, the Group recognized impairment loss on goodwill of 140,367 million yen in the international business.

In the fiscal year ended December 31, 2019, the Group allocated goodwill related to international business to the APAC (Asia Pacific) region and the other regions in the international business as groups of cash-generating units. However, it became increasingly necessary for the Group to monitor goodwill from a more detailed perspective than ever before as the macro-economic environments in the EMEA and Americas regions deteriorated due to the spread of COVID-19, and the business restructuring was launched in the fiscal year ended December 31, 2020. Under such circumstances, a review was performed on groups of cash-generating units, leading the Group to allocate goodwill to the EMEA and Americas regions, which were included in the other regions in the international business, as a separate group of cash-generating units from the fiscal year ended December 31, 2020.

6. Notes to consolidated statement of changes in equity

(1) Class and total number of issued shares as of December 31, 2020

Ordinary shares: **288,410,000** shares

(2) Cash dividends

1) Dividends paid

Resolution	Class of shares	Total dividends (million yen)	Dividends per share (yen)	Record 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
Total		**26,533**			

(Notes)

1. The total dividends paid based on the resolution of the Board of Directors' meeting held on February 13, 2020 include the dividends of 7 million yen paid out to the shares in the Company held by the trust E account associated with the trust for stock compensation for officers.
2. The total dividends paid based on the resolution of the Board of Directors' meeting held on August 13, 2020 include the dividends of 18 million yen paid out to the shares in the Company held by the trust E account associated with the performance-based stock compensation plan.

2) Dividends for which the record date falls before fiscal year-end, while the effective date falls in the following fiscal year:

Dividends paid based on the resolution of the Board of Directors' meeting held on February 15, 2021

i Total dividends 6,690 million yen

ii Dividends per share 23.75 yen

iii Record date December 31, 2020

iv Effective date March 5, 2021

Retained earnings are reserved as a source of dividends.

7. Financial instruments

(1) Status of financial instruments

The Group limits the use of capital to short-term deposits and others, and raises working capital through borrowings from bank and other financial institution.

The Group aims to reduce customer credit risk associated with trade receivables, such as notes and accounts receivables, based on credit management rules and guidelines. Fair value for equity securities included in other financial assets or financial liabilities measured at fair value included in other financial liabilities are obtained and analyzed every quarter.

Notes payable-trade, electronically recorded obligations-operating, and accounts payable-trade, which are categorized as trade payables, have payment due within one year.

The use of the borrowings ranges from capital investment to investment and working capital. For interest rate fluctuation risks associated with a portion of long-term borrowings, interest expenses are fixed using interest rate swap contracts. In addition, derivative transactions are limited to those based on the actual demands in line with the internal management rules.

The use of the proceeds from issuance of corporate bonds includes investments, repayment of borrowings and working capital.

(2) Fair value of financial instruments

The carrying amount on the consolidated statement of financial position and the fair value as of December 31, 2020 are as follows. The following table excludes financial instruments measured at fair value and financial instruments whose fair value approximates their carrying amount on the consolidated statement of financial position, as well as lease obligations.

(Unit: Million yen)

	Carrying amount	Fair value
(Financial liabilities)		
Long-term borrowings	**345,636**	**349,013**
Corporate bonds	**199,478**	**200,133**

(Notes) The calculation method of fair value for financial instruments is as follows:

1. Long-term borrowings

   Current portion of long-term borrowings is included in the above. 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.

2. Corporate bonds

   Fair value of corporate bonds is based on the market price.

8. Investment property

(1) Status of investment property

The Company and its certain subsidiaries own some rental properties such as office buildings and commercial facilities in Tokyo Prefecture and other areas.

(2) Fair value of investment property

The carrying amount on the consolidated statement of financial position and the fair value as of December 31, 2020 are as follows:

(Unit: Million yen)

	Carrying amount	Fair value
Investment property	**36,362**	**51,388**

(Notes)

1. The carrying amount on the consolidated statement of financial position is the acquisition cost less accumulated depreciation and accumulated impairment losses, if any.
2. The fair value of investment property is mainly based on a valuation conducted by independent real estate appraisers. The valuation techniques are based on discounted cash flow model or observable quoted prices for similar properties and others.

9. Per share information

(1) Equity attributable to owners of the parent per share **2,690.36** yen

(2) Basic loss per share (attributable to owners of the parent) **(571.19)** yen

10. Significant subsequent events

(1) Acquisition of own shares

The Company convend a meeting of its Board of Directors on February 15, 2021. The Board resolved to authorize the acquisition of the Company's own 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.

1) Reason for acquisition of own 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.

2) Details of matters related to the acquisition

i Class of shares to be acquired: Common stock of the Company

ii Total number of shares that may be acquired: 15,000,000 (maximum) shares (5.32% of the total number of shares issued (excluding treasury stock))

iii Total acquisition cost: 30 billion yen (maximum)

iv Acquisition period: From February 16, 2021 to December 23, 2021

v Method of acquisition: Market purchase on the Tokyo Stock Exchange

Through a discretionary trading authorization agreement (planned)

(2) The Structural Reform of the Dentsu Group's Japan Business and Expected Expenses

The decision was reached on February 15th, 2021, at Board of Directors meeting of Dentsu Group Inc., to approve the structural reform of the Dentsu Group's Japan business. The aim of the structural reform is to rebuild the foundations to update the value proposition of Dentsu Japan Network (DJN) that operates the Group's Japan business.

In August 2020 the Company announced a comprehensive review to accelerate the transformation of our business and the Company has already made significant progress against each of the four aims. In August 2020 the Company announced a comprehensive review to accelerate the business structural reform required to return the Group to growth and deliver margin improvement. The review launched with four clear objectives: (1) Creating a simplified structure, benefitting both clients and internal operations, (2) Structurally and permanently lowering operating expenses, (3) Enhancing the efficiency of our balance sheet, and (4) Maximizing long-term shareholder value.

In line with these aims, on February 15th, 2021 the Company approved the structural reform plan for the Group's Japan business. This plan will drive the change of the business structure to support the "Dentsu Group Medium-term Management Plan — Sustainable Growth through Transformation —" that covers the four-year period from FY2021 to FY2024, announced on February 15th, 2021.

Through this structural reform, DJN will create an optimal business formation, review the human resources formation, and further develop the working environment. DJN is committed to the sustainable growth of our clients and will accelerate its evolution to become an "Integrated Growth Partner" that contributes to the solving of social issues. Specifically, DJN will implement the following three measures for the structural reform of the Group's Japan business.

1) Business formation

In order to become an "Integrated Growth Partner" that provides clients with the highest quality work combined with efficiency, DJN will transform its current 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). DJN aims to complete the transformation by the end of FY2021.

・AX: Advertising transformation domain to maximize the sophistication and efficiency of advertising
・BX: Business transformation domain to support the business transformation of client companies
・CX: Customer experience transformation domain to design and deliver the optimum customer experience
・DX: Digital transformation domain to facilitate transformation of the marketing infrastructure

In order to enhance the value of the four new business domains and to bolster the competitiveness of DJN by maximizing the strength of individual companies, corporate functions will be optimized to each of the four groups (the AX group, BX group, CX group and DX group). This will generate synergies by creating areas of expertise including the establishment of a virtual organization. In addition, DJN aims to rebuild the platform business and establish a new company with the aim of more enhanced and efficient DJN-wide corporate functions.

2) Human resources formation

With the aim of contributing to the growth of business and society, DJN will develop an optimal human resources formation within the Group to foster an environment in which diverse human resources who are willing to change and continue to grow are able to gather together and flourish. To this end, DJN will consider a lot of initiatives including considering reassigning human resources in terms of expertise and synergy generation and the implementation of a review of its human resources recruitment strategy with an eye on the personnel needed for new growth. In addition, as measures to support the pursuit of a variety of career opportunities, DJN will consider multiple measures for supporting employees' growth in line with the business formation changes and voluntary early retirement programs for supporting employees who seek new careers. As a step toward this optimization, Dentsu Inc. has already implemented a voluntary early retirement program linked to the provision of new career options to employees in FY2020, and other measures will be implemented during FY2021. DJN companies will announce these implementations as necessary when the details have been finalized.

3) Working environment development

With the Dentsu Headquarters Building in Shiodome, Tokyo as its core business base, DJN will evolve it into a place where each company can connect with each other, driving revenue synergies and new business opportunities. By arranging the office and shared spaces of each DJN company under a design suitable for a new way of working, DJN will reduce fixed costs and at the same time create an environment where employees can work in a more lively and efficient manner. As part of the work style reforms we have been conducting since 2017, the Group has been improving the office and IT environment in conjunction with promoting personnel measures. Furthermore, with regard to COVID-19, we have responded swiftly to the ever-changing social environment, such as the transition to a remote work system at an early stage and office design changes. This time, we will further evolve the office environment from the viewpoint of business emergence and efficient working styles. Although the plan is scheduled to be completed by the end of FY2024, we will continue to evolve the working experience for our people by responding swiftly to the changes in the social environment.

Expected costs and effects of the structural reform of the Group's Japan business

The total cost of the structural reform of the Group's Japan business is estimated to be approximately 50.0 billion yen. Of this amount, approximately 24.0 billion yen was already recorded as expenses related to the voluntary early retirement program in FY2020, 23.0 billion yen will be used in FY2021, and the remaining 3.0 billion yen will be allocated to FY2022 and beyond. It is expected that the costs for FY2021 will be related to the voluntary early retirement program, expenses related to business and organizational enhancement, and expenses related to working environment development. Compared to FY2019, an average annual cost reduction of approximately 21.0 billion yen from FY2022 onward is anticipated as an effect of the structural reform of the Group's Japan business.

By steadily implementing these structural reform measures in our domestic business, the Company aims to achieve business transformation that will serve as the basis for growth, achieve the Medium-term Management Plan, and further enhance our corporate value.

11. Other notes

(Transactions under common control, etc.)

With the intention of shifting to a holding company structure, the Company resolved at the Board of Directors' meeting held on February 19, 2019 and at the General Meeting of Shareholders held on March 28, 2019 to execute an absorption-type company split agreement, and the Company's business was succeeded by a successor company effective January 1, 2020, through an absorption-type company split in which the Company was the splitting company and the Company's wholly-owned subsidiary, Dentsu Successor Preparatory Corporation Inc., whose trade name changed to Dentsu Inc. effective January 1, 2020, was the successor company (hereinafter referred to as the absorption-type company split). For details, please refer to "7. Business Combinations, etc." in Notes to Nonconsolidated Financial Statements.

The absorption-type company split was accounted for as a transaction under common control. The accounting treatment of the transaction under common control was based on the book value recorded in the consolidated financial statements of Dentsu Group Inc. as of the date of the actual transaction.

Notes to Nonconsolidated Financial Statements（The following is the web disclosure section）

1. Summary of significant accounting policies

(1) Valuation basis and method for securities

1) Subsidiaries' and associates' shares

Stated at cost determined by the moving-average method

2) Other securities of subsidiaries and associates

Stated at cost determined by the moving-average method

Investments in investment business limited liability partnerships and similar associations (those deemed as securities under Paragraph 2 of Article 2 of the Financial Instruments and Exchange Act) are stated at net amount equivalent to the Company's equity on the basis of the most recent financial statements available as of the financial reporting date stipulated in respective partnership contracts.

3) Other securities

Available-for-sale securities with fair values

Stated at fair value as of the fiscal year-end date, based on quoted market prices (Unrealized gains and losses are reported, net of applicable taxes, in a separate component of net assets. The cost of securities sold is determined by the moving-average method.)

Available-for-sale securities without fair values

Stated mainly at cost determined by the moving-average method

(2) Valuation basis and method for derivative instruments

Stated at fair value

(3) Depreciation method for non-current assets

1) Property, plant and equipment

Depreciation of property, plant and equipment is calculated by the declining-balance method based on the fixed rates, while the straight-line method is applied to buildings (excluding building improvements) acquired on or after April 1, 1998 and building improvements and structures acquired on or after April 1, 2016.

The range of useful lives is principally as follows:

Buildings:	2-50 years
Structures:	5-50 years
Vehicles:	6 years
Tools, furniture and fixtures:	2-20 years

2) Intangible assets

Amortization of intangible assets is calculated by the straight-line method. Software for internal use is amortized by the straight-line method over the estimated useful lives (5 years).

(4) Accounting policy for provisions

1) Allowance for doubtful accounts

To prepare for losses from bad debts such as operating receivables, the Company provides an allowance for doubtful accounts at an amount corresponding to possible losses from uncollectible trade receivables based on the actual rate of losses from bad debt for ordinary receivables, and on the estimated recoverability for specific doubtful receivables.

2) Provision for share-based remuneration

The Company accounts for the liability for the future benefits for officers, etc. based on the amount of benefits corresponding to the projected number of points granted to officers, etc. in accordance with the Officers Stock Benefit Regulations, etc.

(5) Derivatives and hedging activities

1) Hedge accounting methods

The Company uses the deferred-hedge accounting method. The interest rate swaps which qualify for hedge accounting and which meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, from the end of the fiscal year ended December 31, 2020, the Company has applied "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR (PITF No. 40; September 29, 2020)."

2) Hedging instruments and hedged items

Hedging instrument: Interest rate swaps

Hedged item: Interest on loans payable

3) Hedging policy

The Company uses derivative financial instruments to manage its exposures to interest rate fluctuations on loans payable. The Company does not enter into derivatives for trading or speculative purposes.

4) Method of evaluating hedge effectiveness

The evaluation of hedge effectiveness for interest rate swaps which qualify for hedge accounting and which meet specific matching criteria is omitted since the above exceptional treatment is adopted.

(6) Accounting method for consumption taxes

Consumption taxes are accounted for using tax-excluding method.

(7) All figures are rounded down to the nearest million yen.

2. Changes in presentation

(Nonconsolidated balance sheet)

1 "Short-term loans receivable from subsidiaries and associates" (24,213 million yen in the fiscal year ended December 31, 2019), which was included in "Other" under "Current assets" in the fiscal year ended December 31, 2019, has been independently disclosed from the fiscal year ended December 31, 2020 due to an increase in its monetary significance.

2 "Notes payable-trade" (5,824 million yen in the fiscal year ended December 31, 2019), "Advances received" (16,425 million yen in the fiscal year ended December 31, 2019), "Deposits received" (1,560 million yen in the fiscal year ended December 31, 2019), and "Unearned revenue" (88 million yen in the fiscal year ended December 31, 2019), which were independently disclosed under "Current liabilities" in the fiscal year ended December 31, 2019, have been included in "Other" under "Current liabilities" from the fiscal year ended December 31, 2020 due to a decrease in its monetary significance. For the fiscal year ended December 31, 2020, the Company recorded "Notes payable-trade" of 23 million yen, "Advances received" of 70 million yen, "Deposits received" of 29 million yen, and "Unearned revenue" of 0 million yen.

(Nonconsolidated statement of income)

1 Since the Company shifted to a holding company structure on January 1, 2020, our main businesses were changed to manage subsidiaries and associates and real estate leasing from that date onward. Therefore, the revenues and expenses generated by these businesses were displayed as "operating revenues" and "operating expenses". Thereby, dividends from subsidiaries and associates" (14,247 million yen in the fiscal year ended

December 31, 2019), which was included in “Interest and dividend income” under “Non-operating income” in the fiscal year ended December 31, 2019, and “Real estate lease revenue” (2,352 million yen in the fiscal year ended December 31, 2019), which was included in “Other” under “Non-operating income” in the fiscal year ended December 31, 2019, have been identified as revenue from principal business activities and included in “Operating revenue” from the fiscal year ended December 31, 2020. The Company recorded “Dividends from subsidiaries and associates” of 17,825 million yen and “Real estate lease revenue” of 11,781 million yen for the fiscal year ended December 31, 2020.

2 “Interest on bonds” (192 million yen in the fiscal year ended December 31, 2019), which was included in “Other” under “Non-operating expenses” in the fiscal year ended December 31, 2019, has been independently disclosed from the fiscal year ended December 31, 2020 due to an increase in its monetary significance.

3 “Loss on investments in investment partnerships” (1,300 million yen in the fiscal year ended December 31, 2019), which was independently disclosed under “Non-operating expenses” in the fiscal year ended December 31, 2019, has been included in “Other” under “Non-operating expenses” from the fiscal year ended December 31, 2020 due to a decrease in its monetary significance. For the fiscal year ended December 31, 2020, the Company recorded “Loss on investments in investment partnerships” of 12 million yen.

3. For nonconsolidated balance sheets

(1) Accumulated depreciation of property, plant and equipment **67,945** million yen

(2) Contingent liabilities

Guarantee obligations outstanding

Liabilities on guarantees of bank loans taken out by the following companies:

Dentsu International Limited and Aegis Group Holdings Ltd.	
(Line of credit for operating funds: GBP 500 million)	**69,910** million yen
Total of 3 companies including iProspect Japan	**645** million yen
Total	**70,555** million yen

(3) Monetary claims/obligations to associated companies (excluding those separately presented)

Short-term monetary claims	**2,095** million yen
Long-term monetary claims	**89,300** million yen
Short-term monetary obligations	**129,196** million yen
Long-term monetary obligations	**274** million yen

(4) The Company revalued the land used for its business in accordance with the “Law Concerning Revaluation of Land (Act No. 34; March 31, 1998).” The revaluation difference after deducting the related tax has been included in “Net assets” as “Revaluation reserve for land,” and the related tax is included in “Liabilities” as “Deferred tax liabilities for land revaluation.”

Revaluation method set forth in Paragraph 3 of Article 3 of said law

The value of land is determined using two methods. One is to compute the property value based on the assessed value of the property, which becomes the basis of calculation of the property tax amounts as stipulated in Article 16 of the Property Tax Act, computed by a method determined and announced by the Director-General of the National Tax Agency Japan, adjusted reasonably, as stipulated in Item 4 of Article 2 of the Ordinance for Enforcement of the Act on Revaluation of Land (Government ordinance No. 119; March 31, 1998). The other method is calculation by appraisal and evaluation by a real estate appraiser as stipulated in Item 5 of Article 2 of the Ordinance for Enforcement of the Act on Revaluation of Land.

Date of revaluation **March 31, 2001**

Total fair values of revaluated properties as of the end of the fiscal year ended December 31, 2020 were not below the book value after the revaluation.

4. For nonconsolidated statement of income

(1)Volume of transactions with associated companies

Operating revenue	**35,854** million yen
Operating expenses	**8,015** million yen
Other than operating transactions	**1,051** million yen

(2) Loss on valuation of shares of subsidiaries and associates

"Loss on valuation of shares of subsidiaries and associates" is mainly related to a subsidiary, Dentsu International Limited shares. The related loss is recognized as the fair value significantly decreased compared to the book value.

5. For nonconsolidated statement of changes in net assets

Classes and number of treasury shares at the end of the fiscal year ended December 31, 2020

Common stock	**7,075,819** shares

(Note) The number of treasury shares includes the number of the shares in the Company held by the trust account associated with the performance-based stock compensation plan.

6. Tax effect accounting

The main factor resulting in deferred tax assets is Revaluation reserve for land, and accrued enterprise tax.

The main factors resulting in deferred tax liabilities are valuation difference on available-for-sale securities and reserve for advanced depreciation of non-current assets.

7. Business Combinations, etc.

With the intention of shifting to a holding company structure, the Company resolved at the Board of Directors' meeting held on February 19, 2019 and at the General Meeting of Shareholders held on March 28, 2019 to execute an absorption-type split agreement, and the Company's business was succeeded by a successor company effective January 1, 2020.

As a result, effective January 1, 2020, the Company's trade name was changed to "DENTSU GROUP INC., and the Company became a holding company.

(1) Outline of the transaction

1) Name or description of the business involved in the transaction
Advertising and advertising-related businesses

2) Date of the business combination
January 1, 2020

3) Legal form of the business combination
An absorption-type split in which the Company was the splitting company and the Company's wholly-owned subsidiary, DENTSU SUCCESSOR PREPARATORY CORPORATION INC., whose trade name changed to DENTSU INC. effective January 1, 2020, was the successor company.

4) Name of the company after the combination
Splitting company: DENTSU GROUP INC.
Successor company: DENTSU INC.

5) Other facts associated with the transaction outline
The business and the operating environment of the Company and its Group have been changing radically. In order to respond appropriately and promptly to this series of changes and to achieve the sustainable growth of the Group going forward, there is an urgent need to realize the acquisition and allocation of internal and external management resources on a timely basis from a Group-wide and global perspective, to further promote the management of richly diverse human resources and foster an open organizational culture, and to establish the most appropriate group governance structure.
In recognizing the above, the Company has shifted to a pure holding company structure in order to drive sustainable growth for the Dentsu Group as a whole, including promotion of business transformation in Japan, and maintenance and further development of the growth momentum of the overseas business headed by its headquarters, Dentsu Internatioal Limited.

(2) Outline of the accounting treatment
Based on the “Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21; January 16, 2019)” and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10; January 16, 2019),” the transaction was accounted for as a transaction under common control.

The amounts of assets and liabilities involved in the split and succession are stated below:

Current assets	**440,570** million yen
Non-current assets	**47,473** million yen
Current liabilities	**397,105** million yen
Non-current liabilities	**21,930** million yen

8. Transactions with related parties

Subsidiaries and associates

Category	Name of company	Ratio of voting rights	Relationship with affiliated entity	Description of transactions	Transaction sum (mil. yen)	Item	Ending balance (mil. yen)
Subsidiary company	Dentsu International Ltd.	Dentsu Group has voting rights Direct; **100%**	Entrusted management of overseas business operation and guarantee of bank line of credit Concurrently serving officers	Underwriting capital increase[1] Guarantee of bank line of credit[2]	**111,701** **69,910**	- -	- -
Subsidiary company	Aegis Group Holdings Ltd.	Dentsu Group has voting rights Indirect; **100%**	Lending of working capital and guarantee of bank line of credit and bank loans	Loans receivable[3] Receipt of loans interest[3] Loans receivable[3] Receipt of loans interest[3] Guarantee of bank line of credit[2]	**85,000** **261** **44,000** **257** **69,910**	Short-term loans receivable from subsidiaries and associates Other (Accrued income) Long-term loans receivable Other (Accrued income) -	**85,000** **56** **88,000** **114** **-**
Subsidiary company	OrangeCo Merger Sub, Inc.	Dentsu Group has voting rights Indirect; **100%**	Disposal of treasury shares	Disposal of treasury shares[4] Total disposal value Loss on disposal	 **11,701** **11,360**	 - -	 **-** **-**

Category	Name of company	Ratio of voting rights	Relationship with affiliated entity	Description of transactions	Transaction sum (mil. yen)	Item	Ending balance (mil. yen)
Subsidiary company	Dentsu Inc.	Dentsu Group has voting rights Direct; **100%**	Lease of real estate Providing and receiving services Concurrently serving officers	Transfer of assets due to company split[5]	**488,044**	-	**-**
				Transfer of liabilities due to company split[5]	**419,036**	-	**-**
				Lease of real estate[6]	**9,528**	-	**-**
				Receiving management support fees[7]	**5,200**	Other (Trade accounts receivable)	**220**
				Outsourcing corporate management operations[8]	**2,094**	Other payables	**682**
Subsidiary company	Dentsu Works Inc.	Dentsu Group has voting rights Direct; **100%**	Lease of real estate Providing and receiving services	Outsourcing corporate management operations[8]	**2,192**	Other payables	**210**
Subsidiary company	Dentsu Management Services Inc.	Dentsu Group has voting rights Direct; **100%**	Lending operational fund to Dentsu Management Services Inc. for its factoring operations and providing and receiving factoring services	Loans receivable[9]	**-**	Short-term loans receivable from subsidiaries and associates	**16,743**
				Receipt of loans interest[9]	**11**	Other (Accrued income)	**0**
Subsidiary company	Dentsu Live Inc.	Dentsu Group has voting rights Direct; **100%**	Lease of real estate Providing and receiving services	Loans payable via cash management system[10]	**-**	Short-term loans payable	**15,192**
				Payment of loans interest[10]	**4**	Accrued expenses	**0**
Subsidiary company	Information Services International-Dentsu, Ltd.	Dentsu Group has voting rights Direct; **61.8%**	Providing and receiving services	Loans payable via cash management system[10]	**-**	Short-term loans payable	**36,373**
				Payment of loans interest[10]	**7**	Accrued expenses	**0**

Remarks

1. The underwriting of the capital increase is the full underwriting of the capital increase made by Dentsu International Limited.
2. A guarantee was made for a bank line of credit (GBP 500 million, seven-year period) with Dentsu International Ltd. and Aegis Group Holdings Ltd. as counterparties.
3. The interest rates for the loaned funds are determined reasonably with reference to market interest rates. No collateral has been accepted.
4. Based on the Board of Director's resolution to dispose of treasury shares, the Company disposed of 4,743,300 treasury shares. The disposal price was the average closing price of the Company's common shares on Tokyo Stock Exchange, Inc. for the one-month period immediately preceding the date of the resolution of the Board of Directors.
5. For details of the company split, please refer to "7. Business Combinations, etc."
6. Terms and conditions for lease of real estate were determined with reference to market prices, etc. in the same way as for terms and conditions for general transactions. The transaction sum excludes consumption tax. The ending balance includes consumption tax.
7. Terms and conditions for receipt of management support fees were determined with reference to details of the services provided. The transaction sum excludes consumption tax. The ending balance includes consumption tax.
8. Terms and conditions for outsourcing of corporate management operations were determined with reference to details of the outsourced operations. The transaction sum excludes consumption tax. The ending balance includes consumption tax.
9. Because the balance of the loaned funds fluctuates daily based on the basic contract, only the ending balance is stated here. Interest rates are determined with reference to market interest rates.
10. Because the balance for the loans payable via cash management system fluctuates daily based on the basic contract, only the ending balance is stated here. Interest rates are determined with reference to market interest rates.

9. Per share information

(1) Net assets per share	**2,191.08 yen**
(2) (Loss) per share	**(996.05) yen**

(Note) As the shares in the Company held by the trust account associated with the performance-based stock compensation plan are accounted for as treasury shares, 380,000 shares and 339,781 shares were deducted from the number of shares at the end of the fiscal year ended December 31, 2020 and the average number of shares during the fiscal year ended December 31, 2020, respectively, at the calculation of the per share information.

10. Significant subsequent events

Purchase of treasury shares

The Company resolved at the Board of Directors' meeting held on February 15, 2021 to authorize a share repurchase pursuant to Article 156 of the Companies Act, as applied by replacing certain terms under the provisions of Article 165, Paragraph 3 of the Act. Details are provided in "10. Significant subsequent events" in Notes to Consolidated Financial Statements.

Disposal of the general reserve fund

The Company resolved at the Board of Directors' meeting held on February 15, 2021 to authorize disposal of the general reserve fund pursuant to Article 452 of the Companies Act and Article 459, Paragraph 1 of the Act.

(1) Items of retained earnings to decrease and their amount   General reserve   25,000 million yen

(2) Items of retained earnings to increase and their amount   Retained earnings brought forward   25,000 million yen

(3) Purpose	To realize the sustainable dividend payment .
(4) Effective date	March 5, 2021

11. Additional information

(Stock compensation plan for directors, etc.)

The Company has introduced a performance-based stock compensation plan that uses a scheme called a trust for stock compensation for officers with the objective of further clarifying the link between officers' compensation and business performance and corporate value and heightening the awareness of the officers who are supposed to contribute to sustainable growth of the Dentsu Group and the enhancement of the corporate value over the medium to long term.

The Company has adopted "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (PITF No. 30; revised on March 26, 2015)" for accounting treatment associated with this trust, and the shares in the Company remaining in the trust are included in treasury shares at the book value at the trust (excluding the amount of incidental expenses).

The book value and the number of these treasury shares are 1,472 million yen and 380,000 shares, respectively, at the end of the fiscal year ended December 31, 2020.