Consolidated Statement of Cash Flows

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2016

	Notes	FY2015 (Nine months ended December 31, 2015) (Millions of Yen)	FY2016 (Year ended December 31, 2016) (Millions of Yen)	FY2016 (Year ended December 31, 2016) (Millions of U.S. Dollars)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		¥106,043	¥132,918	$1,141
ADJUSTMENTS FOR:				
Depreciation and amortization		41,453	45,860	394
Impairment loss		2,489	522	4
Interest and dividend income		(4,136)	(4,326)	(37)
Interest expense		6,840	7,491	64
Share of results of associates		(3,911)	(3,362)	(29)
Increase (decrease) in liability for retirement benefits		1,670	(3,055)	(26)
Other — net		1,838	2,481	21
Cash flows from operating activities before adjusting changes in working capital and others		152,288	178,528	1,533
CHANGES IN WORKING CAPITAL:				
(Increase) decrease in trade and other receivables		(73,141)	(49,992)	(429)
(Increase) decrease in inventories		7,367	649	6
(Increase) decrease in other current assets		(4,179)	(19)	(0)
Increase (decrease) in trade and other payables		28,483	41,035	352
Increase (decrease) in other current liabilities		4,578	13,175	113
Change in working capital		(36,891)	4,847	42
Subtotal		115,396	183,376	1,574
Interest received		2,044	1,776	15
Dividends received		5,722	5,137	44
Interest paid		(6,781)	(7,623)	(65)
Income taxes paid		(46,828)	(39,080)	(335)
Net cash flows from operating activities		69,554	143,585	1,233
CASH FLOWS FROM INVESTING ACTIVITIES				
Payment for purchase of property, plant and equipment, intangible assets and investment property	6	(19,652)	(22,234)	(191)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		869	12,006	103
Net cash (paid) received on acquisition of subsidiaries	7	(41,996)	(170,419)	(1,463)
Net cash (paid) received on disposal of subsidiaries		25	121	1
Payments for purchases of securities		(6,755)	(13,610)	(117)
Proceeds from sales of securities		9,469	40,430	347
Other — net		(3,163)	(2,456)	(21)
Net cash flows from investing activities		(61,203)	(156,161)	(1,341)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in short-term borrowings		(12,949)	99,683	856
Proceeds from long-term borrowings		91	28,511	245
Repayment of long-term borrowings		(29,246)	(89,257)	(766)
Repayments of bonds		(11,936)	–	–
Payment for acquisition of interest in a subsidiary from non-controlling interests		(2,735)	(6,093)	(52)
Proceeds from sales of interest in a subsidiary to non-controlling interests		2,952	–	–
Payments for purchase of treasury shares		(20,024)	(13)	(0)
Dividends paid	25	(20,072)	(22,811)	(196)
Dividends paid to non-controlling interests		(2,917)	(4,121)	(35)
Other — net		1,171	(3,359)	(29)
Net cash flows from financing activities		(95,666)	2,539	22
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(14,741)	(10,874)	(93)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(102,057)	(20,911)	(180)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8	365,379	263,322	2,260
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8	¥263,322	¥242,410	$2,081

Notes to Consolidated Financial Statements

Dentsu Inc. and Consolidated Subsidiaries

1. REPORTING ENTITY

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

The addresses of the Company's registered corporate headquarters and principal business offices are available on the Company's website (http://www.dentsu.co.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, 2016 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Shoichi Nakamoto, Senior Executive Vice President & CFO, on March 30, 2017.

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 ¥116.49 to U.S.$1, the approximate rate of exchange at the end of December 31, 2016. 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 of less than one million yen have been rounded down to the nearest million yen and 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 Application of New Standards

The Group has early applied IFRS 9 "Financial Instruments" (revised in October 2010) effective the date of transition to IFRS (April 1, 2013).

(5) Change in Fiscal Year End

Effective from the previous fiscal year, the Company and its subsidiaries with fiscal year ends other than December 31 changed their fiscal year ends to December 31 in order to enhance and improve the efficiency of the account closing and management system on a Group-wide basis by unifying the fiscal year end with the Group's overseas consolidated subsidiaries.

As a result of this change of fiscal year end from March 31 to December 31, the previous fiscal year was the nine-month period from April 1, 2015 to December 31, 2015.

The fiscal year end date of Dentsu Aegis Network Ltd. and subsidiaries under control (hereinafter, collectively "Dentsu Aegis Network"), which operate the Group's international advertising business, continued to be December 31 as before, hence the Group consolidated financial results of Dentsu Aegis Network for the twelve-month period from January 1, 2015 to December 31, 2015 into the consolidated financial results for the nine-month period ended December 31, 2015.

For pro forma information of the consolidated statement of income assuming that the previous fiscal year of the Group had been the twelve-month period from January 1, 2015 to December 31, 2015, please refer to Note "39. CONSOLIDATED STATEMENT OF INCOME (2015 JANUARY–DECEMBER)".

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 and attributed to the 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 subtracted from investments, with the Company's share in an investee company as its upper limit.

(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 fiscal year 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 change in fair value of contingent consideration after the acquisition is reflected as an adjustment to the consideration transferred when the change occurs during the above 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 effect a business combination are recognized as expenses when incurred, with the exception of costs related to the issuance of debt instruments and equity instruments.

(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 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 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 at the 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.

(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.

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

Equity financial assets 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 with the addition of transaction costs that are directly attributable to the 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 fiscal year end. Changes in fair value and 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 declines 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 Measured at Amortized Cost

The Group assesses whether objective evidence of impairment exists at each reporting date. Financial assets are determined to be impaired when there is objective evidence that loss events occurred subsequent to initial recognition of the financial assets and when negative effects on estimated future cash flows of the financial assets from those events can be reasonably estimated.

Objective evidence of impairment for a financial asset measured at amortized cost includes, but is not limited to; default or delinquency by the borrower, reductions of repayment amounts or extensions of repayment periods, significant financial difficulty of the borrower, and bankruptcy of the borrower.

The existence of objective evidence of impairment is assessed individually and collectively for financial assets measured at amortized cost.

Impairment losses for a financial asset measured at amortized cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the financial asset, and recognized as losses. If the amount of impairment losses decreases due to an event occurring after the impairment losses were recognized, the previously recognized impairment losses are reversed by the amount of the decrease through profit.

The impairment losses are recognized through an allowance for doubtful accounts, and the carrying amount of a receivable is directly reduced by an offset against the allowance for doubtful accounts when it is considered uncollectible.

C. Non-derivative Financial Liabilities

(i) Initial Recognition and Measurement

The Group initially recognizes debt securities on the date of issue. 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.

(ii) Subsequent measurements

After initial recognition, financial liabilities are measured based on the classification as follows:

(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 fiscal year 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 an assessment of the hedging instrument's effectiveness.

These hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine whether they have actually been highly effective throughout the periods for which they were designated.

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:

(i) Fair Value Hedge

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

The change in the fair value of the hedged item attributable to the hedged risk is recorded as part of its carrying amount and recognized in profit or loss.

(ii) 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 the hedging designation is revoked.

(iii) 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.

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

(iv) Derivative Financial Instruments not Designated as Hedges

Changes in the 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 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 broadcasting rights and contents related to sports and entertainment. The 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 Leased Assets)

Property, plant and equipment is measured 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.

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

・Buildings and structures: 2 to 100 years

Depreciation methods, useful lives and residual values are reviewed at the end of each fiscal year 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 Leased Assets)

Intangible assets are measured 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 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.

Except for intangible assets with indefinite useful lives, 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:

Except for intangible assets with indefinite useful lives, 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 18 years)

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

(9) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership are transferred to the Group. All other leases are classified as operating leases.

A. Finance Leases

Leased assets and lease obligations are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Leased assets are depreciated using the straight-line method over the shorter of their estimated useful lives or lease terms. Total minimum lease payments are apportioned between the finance costs and the reduction of the outstanding liability, and the finance costs allocated to each reporting period are calculated using the effective interest rate method.

B. Operating Leases

Lease payments are recognized as expenses using the straight-line method over the lease terms.

(10) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is measured 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. Estimated useful lives are between 6 and 50 years.

The depreciation methods, useful lives and residual values of investment property are reviewed at the end of each fiscal year 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 fiscal year 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 and intangible assets with indefinite useful lives are not amortized. Impairment tests for such assets 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 fiscal year 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

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 discount period which is set for the projected period until the expected date of benefit payments 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. 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.

(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.

(15) Revenue

Revenue consists primarily of commissions received for the placement of advertising into different media and consideration received from advertisers and others for providing services, such as assistance in the production of advertising, including creative, and various content-related services.

Revenue from the production of advertising and other advertising related services is recorded based on the consideration paid as compensation for such service to the Group by advertisers and others less costs incurred. In some cases, revenue is also recorded based on a fixed fee or another compensation.

Revenue from commissions received from advertisers for the placement of advertising is generally recognized when the media is placed. Other revenue is generally recorded when the service is complete, an estimate of the amount of compensation can be reasonably determined and it is probable that the future economic benefits will flow to the Group.

Revenue and cost arising from transactions relating to services other than advertising services are presented on a gross basis.

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.

(16) Finance Income and Finance Costs

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 costs 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 fiscal year.

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 fiscal year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the fiscal year 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.

(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 dilutive potential ordinary shares.

(20) Share-based Payments
Certain subsidiaries of the Company grant cash-settled share-based payment plans.

For cash-settled share-based payments, services acquired and the liability incurred are measured at the fair value of the liability. The Company recognizes the services received as an expense, and a liability to pay for them, 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 from operating profit certain adjusting items such as amortization of intangible assets incurred in acquisition, impairment losses, gain or loss on sale of property, plant and equipment, intangible assets and investment property and costs incurred due to acquisition and is used by management for the purpose of measuring constant business performance.

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) Reclassification
Certain reclassifications have been made to the consolidated financial statements for the nine months ended December 31, 2015 to conform to the presentation of the consolidated financial statements for the year ended December 31, 2016.

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

The 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 judgements 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")

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 ("35. 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

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

The implications from adoption of these standards and interpretations are assessed by the Group at the time of preparing the consolidated financial statements.

Standards	Name of standards	Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending December 2018	Amendments for accounting treatment for recognizing revenue
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending December 2018	Amendments for financial instrument classification and measurement, impairment requirements and hedge accounting
IFRS 2	Share-based Payment	January 1, 2018	Fiscal year ending December 2018	Clarification of classification and measurement of shared-based payment transactions
IAS 40	Investment Property	January 1, 2018	Fiscal year ending December 2018	Requirements for transfers to, or from, investment properties
IFRS 16	Leases	January 1, 2019	Fiscal year ending December 2019	Amendments for accounting treatment for lease arrangements

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 communications-related services focusing on advertising, and manages its Japan business and international business separately.

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

(2) Information on reportable segments

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

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

Intersegment revenues are based on the prevailing market price.

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

	Japan business	International business	Total	Reconciliations	Consolidated
Turnover (Note1)	¥1,369,732	¥3,156,328	¥4,526,061	¥(12,105)	¥4,513,955
Revenue (Note 2)	302,237	416,337	718,574	(12,105)	706,469
Gross profit (Note 3)	255,746	414,066	669,812	(323)	669,489
Segment profit (underlying operating profit) (Note 3)	63,293	70,156	133,450	(121)	133,328
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(22,798)
Other adjusting items (selling, general and administrative expenses) (Note 5)	–	–	–	–	(2,454)
Other adjusting items (other income) (Note 5)	–	–	–	–	4,565
Other adjusting items (other expenses) (Note 5)	–	–	–	–	(5,376)
Operating profit	–	–	–	–	107,265
Share of results of associates	–	–	–	–	3,911
Finance income	–	–	–	–	4,926
Finance costs	–	–	–	–	10,059
Profit before tax	–	–	–	–	106,043
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	8,951	9,702	18,654	–	18,654
Segment assets (Note 4)	1,212,941	1,957,884	3,170,825	(104,749)	3,066,075
(Other asset items)					
Investments accounted for using the equity method	46,819	3,461	50,281	–	50,281
Capital expenditures	¥4,136	¥15,516	¥19,652	–	¥19,652

FY2016: Year ended December 31, 2016

(Millions of Yen)

	Japan business	International business	Total	Reconciliations	Consolidated
Turnover (Note1)	¥1,890,445	¥3,046,532	¥4,936,977	¥(12,044)	¥4,924,933
Revenue (Note 2)	420,387	430,016	850,404	(12,044)	838,359
Gross profit (Note 3)	363,242	426,014	789,257	(213)	789,043
Segment profit (underlying operating profit) (Note 3)	97,362	69,059	166,421	143	166,565
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(24,506)
Other adjusting items (selling, general and administrative expenses) (Note 5)	–	–	–	–	(8,762)
Other adjusting items (other income) (Note 5)	–	–	–	–	7,522
Other adjusting items (other expenses) (Note 5)	–	–	–	–	(3,137)
Operating profit	–	–	–	–	137,681
Share of results of associates	–	–	–	–	3,362
Finance income	–	–	–	–	5,104
Finance costs	–	–	–	–	13,230
Profit before tax	–	–	–	–	132,918
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	10,805	10,547	21,353	–	21,353
Segment assets (Note 4)	1,224,733	2,083,491	3,308,224	(152,993)	3,155,230
(Other asset items)					
Investments accounted for using the equity method	53,879	1,812	55,691	–	55,691
Capital expenditures	¥7,081	¥15,152	¥22,234	–	¥22,234

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

	Japan business	International business	Total	Reconciliations	Consolidated
Turnover (Note1)	$16,228	$26,153	$42,381	$(103)	$42,278
Revenue (Note 2)	3,609	3,691	7,300	(103)	7,197
Gross profit (Note 3)	3,118	3,657	6,775	(2)	6,773
Segment profit (underlying operating profit) (Note 3)	836	593	1,429	1	1,430
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(210)
Other adjusting items (selling, general and administrative expenses) (Note 5)	–	–	–	–	(75)
Other adjusting items (other income) (Note 5)	–	–	–	–	65
Other adjusting items (other expenses) (Note 5)	–	–	–	–	(27)
Operating profit	–	–	–	–	1,182
Share of results of associates	–	–	–	–	29
Finance income	–	–	–	–	44
Finance costs	–	–	–	–	114
Profit before tax	–	–	–	–	1,141
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	93	91	183	–	183
Segment assets (Note 4)	10,514	17,886	28,399	(1,313)	27,086
(Other asset items)					
Investments accounted for using the equity method	463	16	478	–	478
Capital expenditures	$61	$130	$191	–	$191

(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) Reconciliations for revenue are due to eliminations of intersegment transactions (same amount as for turnover).
(Note 3) Reconciliations for gross profit and segment profit (underlying operating profit) are due to eliminations of intersegment transactions.
(Note 4) Reconciliations for segment assets are due to eliminations of intersegment transactions.
(Note 5) The breakdown of "Other adjusting items (selling, general and administrative expenses)," "Other adjusting items (other income)" and "Other adjusting items (other expenses)" is as follows:
(Note 6) The fiscal year end date of Dentsu Aegis Network, which operates the Group's international advertising business, continued to be December 31 as before, hence the Group consolidated financial results of Dentsu Aegis Network for the twelve-month period from January 1, 2015 to December 31, 2015 into the consolidated financial results for the nine-month period ended December 31, 2015.

	FY2015 (Nine months ended December 31, 2015) (Millions of Yen)	FY2016 (Year ended December 31, 2016) (Millions of Yen)	FY2016 (Year ended December 31, 2016) (Millions of U.S. Dollars)
Other adjusting items (selling, general and administrative expenses)			
Early retirement benefits	¥813	¥5,183	$44
Costs associated with merger and acquisitions	1,610	3,579	31
Other	29	0	0
Total	¥2,454	¥8,762	$75
Other adjusting items (other income)			
Gain on sale of property, plant and equipment, intangible assets and investment property	¥700	¥6,506	$56
Gain on sale of subsidiaries and associates shares	954	664	6
Other	2,910	351	3
Total	¥4,565	¥7,522	$65
Other adjusting items (other expenses)			
Loss on sale of property, plant and equipment, intangible assets and investment property	¥50	¥130	$1
Impairment losses (Note)	2,489	522	4
Other	2,836	2,483	21
Total	¥5,376	¥3,137	$27

(Note) Impairment losses by segment are ¥46 million (Japan business) and ¥2,442 million (International business) for nine months ended December 31, 2015 and ¥216 million ($2 million) (Japan business) and ¥306 million ($3 million) (International business) for the year ended December 31, 2016.

(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, outdoor events, 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 services such as information services and information-related products.

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:

	FY2015 (Nine months ended December 31, 2015) (Millions of Yen)	FY2016 (Year ended December 31, 2016) (Millions of Yen)	FY2016 (Year ended December 31, 2016) (Millions of U.S. Dollars)
Advertising Services	¥655,161	¥767,867	$6,592
Information Services	47,099	66,443	570
Other Services	4,208	4,048	35
Total	¥706,469	¥838,359	$7,197

(4) Geographical information for non-current assets (property, plant and equipment, goodwill, intangible assets and investment property)

	FY2015 (As of December 31, 2015) (Millions of Yen)	FY2016 (As of December 31, 2016) (Millions of Yen)	FY2016 (As of December 31, 2016) (Millions of U.S. Dollars)
Japan	¥226,159	¥213,617	$1,834
Overseas (mainly the United Kingdom)	926,119	1,010,768	8,677
Total	¥1,152,278	¥1,224,386	$10,511

Non-current assets are allocated according to the location of each group entity.

(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

For the year ended December 31, 2016

Acquisition of Merkle Group Inc.

(1) Outline of the business combination

A. Name of acquired company: Merkle Group Inc.

B. Line of business: advertising and marketing business

C. Reason for the business combination:

Merkle Group Inc. (hereinafter referred to as "Merkle") is a leading independent firm specializing in the provision of data-driven and technology-enabled marketing solutions, based in the U.S., and offers services to clients who pursue enhancement of customer engagement, strengthening of competitiveness and maximization of marketing return on investment (ROI). The Company has determined Merkle's scale of business and capability would help Dentsu Aegis Network Ltd. significantly strengthen its competitiveness and ability to propose solutions to clients in the business fields of strategic consulting, data analytics, CRM and customer experience.

D. Date of the business combination: September 1, 2016

E. Percentage of voting equity interests acquired: 68.3%

(Note) The remaining shares may be acquired partially or wholly.

F. Legal form of the business combination: share acquisition by cash

(2) Period for which the operating results of the business acquired are included in the consolidated statements of income

The operating results from September 1 to December 31, 2016 were included.

(3) Acquisition cost of the acquired business and the breakdown thereof Acquisition cost of the acquired business: ¥101,218 million ($869 million)

Breakdown of the acquisition cost:

Consideration (cash) for shares ¥101,218 million ($869 million)

(4) Acquisition-related costs and the line item

The amount of acquisition-related costs incurred in said business combination was ¥1,526 million ($13 million), recognized in "selling, general and administrative expenses" in the consolidated statement of income.

(5) Fair values of assets and liabilities, consideration paid, non-controlling interests, and goodwill at the date of the business combination

	(Millions of Yen)	(Millions of U.S. Dollars)
	Date of acquisition of control (September 1, 2016)	Date of acquisition of control (September 1, 2016)
Current assets (Note 1)	¥22,092	$190
Non-current assets	63,288	543
Total assets	¥85,380	$733
Current liabilities	18,723	161
Non-current liabilities	53,133	456
Total liabilities	¥71,856	$617
Fair value of identifiable net assets	13,523	116
Consideration paid	101,218	869
Non-controlling interests (Note 2)	11,778	101
Goodwill (Note 3)	¥99,472	$854

(Note 1) Cash and cash equivalents of ¥2,986 million ($26 million) were included. In addition, fair values of acquired trade and other receivables were ¥16,730 million ($144 million), the gross contractual amounts receivable was ¥16,889 million ($145 million), while the amount not expected to be collected is ¥158 million ($1 million).

(Note 2) Non-controlling interests were measured by multiplying the fair values of identifiable net assets of the acquired company at the date of acquisition of control, excluding the portion individually attributable to non-controlling shareholders, by the shareholding ratio after the business combination.

(Note 3) Goodwill reflected the expected future excess earning power. The total amount of goodwill that is expected to be deductible for tax purposes is ¥3,315 million ($28 million).

(Note 4) Consideration paid is allocated to the assets acquired and liabilities assumed on the basis of their relative fair values at the date of acquisition of control. During the three months ended December 31, 2016, the allocation of consideration paid was completed. Followed by additional analysis on the fair value of Merkle, Intangible assets, Deferred tax liabilities and Non-controlling interests increased by ¥58,882 million ($505 million), ¥21,786 million ($187 million) and ¥17,601 million ($151 million), respectively, from the initial provisional amount. Consequently, Goodwill decreased by ¥17,815 million ($153 million).

(6) Amount allocated to intangible assets other than goodwill, the breakdown and amortization period

Type	Amortization period (year)	Amount (Millions of Yen)	Amount (Millions of U.S. Dollars)
Brand	15	¥24,911	$214
Relationship with clients	10	22,465	193
Others	6 to 7	11,505	99
Total		¥58,882	$505

(7) Impact of the business combination on cash flows
Payment of acquisition costs: ¥(101,218) million ($(869) million)
Cash and cash equivalents accepted at the date of the business combination: ¥2,986 million ($26 million)
Payment for share acquisition: ¥(98,231) million ($(843) million)

(8) Revenue and profit of the acquired business
Revenue and profit of Merkle for the period after the date of acquisition of control included in the consolidated statement of income are ¥23,588 million ($202 million) and ¥195 million ($2 million), respectively.

(Pro forma information)
Assuming that the business combination was executed at the beginning of the current fiscal year, revenue and profit/(loss) included in the consolidated statement of income for the year ended December 31, 2016 would be ¥62,722 million ($538 million) and ¥(2,124) million ($(18) million), respectively.
This pro forma information is not subject to the audit. Furthermore, the information herein 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 as of December 31, 2015 and 2016 is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Cash and time deposits due within three months	¥263,322	¥242,410	$2,081

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 as of December 31, 2015 and 2016 is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Notes and accounts receivable trade	¥1,229,430	¥1,245,919	$10,696
Other	37,887	29,469	253
Allowance for doubtful accounts	(4,000)	(345)	(3)
Total	¥1,263,317	¥1,275,044	$10,946

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 as of December 31, 2015 and 2016 is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Work-in-process	¥17,441	¥17,408	$149
Other	1,282	1,453	12
Total	¥18,724	¥18,862	$162

The amount of write-down of inventories recognized as an expense was ¥179 million for the nine months ended December 31, 2015 and ¥609 million ($5 million) for the year ended December 31, 2016. There was no reversal of a write-down of inventories for the nine months ended December 31, 2015 and for the year ended December 31, 2016.

11. OTHER FINANCIAL ASSETS

(1) The breakdown of other financial assets as of December 31, 2015 and 2016 is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Derivative assets	¥22,519	¥26,240	$225
Equity securities	185,463	180,720	1,551
Debt securities	715	5	0
Other	47,922	53,739	461
Allowance for doubtful accounts	(17,592)	(18,167)	(156)
Total	¥239,028	¥242,538	$2,082
Current assets	20,945	17,814	153
Non-current assets	218,083	224,723	1,929
Total	¥239,028	¥242,538	$2,082

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

Derivative assets are classified as financial assets measured at fair value through profit or loss excluding those accounted for under hedge accounting, equity securities are classified as financial assets measured at fair value through other comprehensive income, and debt securities are classified as financial assets measured at amortized cost. "Other" includes financial assets measured at fair value through profit or loss of ¥3,005 million and ¥3,309 million ($28 million) as of December 31, 2015 and 2016, respectively.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of December 31, 2015 and 2016 are as follows:

	(Millions of Yen)
Investees	FY2015 (As of December 31, 2015)
Recruit Holdings Co., Ltd.	¥106,800
Digital Garage, Inc.	7,167
Tokyo Broadcasting System Holdings, Inc.	4,940
Asahi Group Holdings, Ltd.	3,489
TV Asahi Holdings Corporation	3,011

Investees	(Millions of Yen) FY2016 (As of December 31, 2016)
Recruit Holdings Co., Ltd.	¥98,490
Digital Garage, Inc.	6,669
Perform Group Limited	5,012
Tokyo Broadcasting System Holdings, Inc.	4,787
Lion Corporation	3,444
Asahi Group Holdings, Ltd.	3,388
TV Asahi Holdings Corporation	3,311

Investees	(Millions of U.S. Dollars) FY2016 (As of December 31, 2016)
Recruit Holdings Co., Ltd.	$845
Digital Garage, Inc.	57
Perform Group Limited	43
Tokyo Broadcasting System Holdings, Inc.	41
Lion Corporation	30
Asahi Group Holdings, Ltd.	29
TV Asahi Holdings Corporation	28

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 pursue the efficiency of assets held and to use them effectively, sales of financial assets (derecognition) measured at fair value through other comprehensive income have been carried out.

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

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
¥7,976	¥1,592

FY2016: Year ended December 31, 2016

(Millions of Yen)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
¥35,508	¥17,938

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
$305	$154

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 the decline in its fair value compared to its cost is significant.

12. OTHER CURRENT ASSETS

Advanced payments included in other current assets which are expected to be recognized in profit or loss after more than 12 months as of December 31, 2015 and 2016 are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Advanced payments which are expected to be recognized in profit and loss after more than 12 months	¥4,289	¥9,298	$80

13. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The breakdown of non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale as of December 31, 2015 and 2016 is as follows.

Components of Non-current assets classified as held for sale and liabilities directly associated with non-current assets classified as held for sale.

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Non-current assets classified as held for sale			
Property, plant and equipment	–	¥3,357	$29
Goodwill	¥2,536	–	–
Investments accounted for using the equity method	2,976	–	–
Total	¥5,513	¥3,357	$29
Liabilities directly associated with non-current assets classified as held for sale			
Other financial liabilities	¥307	¥8	$0
Total	¥307	¥8	$0

Non-current assets classified as held for sale as of December 31, 2015 consist of assets and liabilities related to an equity-method associate located in China.

Non-current assets classified as held for sale as of December 31, 2016 consist of assets and liabilities related to real estate in Japan held by the Company and its subsidiaries.

14. PROPERTY, PLANT AND EQUIPMENT

(1) Schedule of property, plant and equipment

The schedule of the carrying amount at the beginning and end of each fiscal year is as follows:

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	¥68,546	¥114,034	¥16,456	¥199,037
Additions	4,361	–	5,999	10,360
Acquisitions through business combinations	77	–	482	559
Sales or disposals	(123)	(0)	(92)	(216)
Depreciation	(5,911)	–	(5,488)	(11,399)
Impairment losses	–	(2)	–	(2)
Exchange differences on translation of foreign operations	(654)	(36)	(785)	(1,475)
Other	(71)	45	(54)	(80)
Balance at the end of the year	¥66,224	¥114,040	¥16,518	¥196,782

FY2016: Year ended December 31, 2016

(Millions of Yen)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	¥66,224	¥114,040	¥16,518	¥196,782
Additions	7,971	–	6,538	14,510
Acquisitions through business combinations	1,578	–	2,275	3,854
Sales or disposals	(1,541)	(755)	(351)	(2,648)
Depreciation	(6,711)	–	(6,218)	(12,929)
Impairment losses	(22)	–	(2)	(24)
Exchange differences on translation of foreign operations	(650)	(157)	(782)	(1,589)
Other	(1,815)	(1,863)	(518)	(4,196)
Balance at the end of the year	¥65,033	¥111,263	¥17,460	¥193,757

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	$568	$979	$142	$1,689
Additions	68	–	56	125
Acquisitions through business combinations	14	–	20	33
Sales or disposals	(13)	(6)	(3)	(23)
Depreciation	(58)	–	(53)	(111)
Impairment losses	(0)	–	(0)	(0)
Exchange differences on translation of foreign operations	(6)	(1)	(7)	(14)
Other	(16)	(16)	(4)	(36)
Balance at the end of the year	$558	$955	$150	$1,663

The acquisition cost, accumulated depreciation and impairment losses, and carrying amount of property, plant and equipment as of December 31, 2015 and 2016 are as follows:

(Millions of Yen)

	Buildings and structures	Land	Other	Total
FY2015 (As of December 31, 2015)				
Acquisition cost	¥140,195	¥114,836	¥53,310	¥308,342
Accumulated depreciation and impairment losses	73,971	796	36,792	111,560
Carrying amount	66,224	114,040	16,518	196,782
FY2016 (As of December 31, 2016)				
Acquisition cost	¥130,905	¥112,059	¥55,923	¥298,888
Accumulated depreciation and impairment losses	65,872	796	38,462	105,131
Carrying amount	65,033	111,263	17,460	193,757

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
FY2016 (As of December 31, 2016)				
Acquisition cost	$1,124	$962	$480	$2,566
Accumulated depreciation and impairment losses	565	7	330	902
Carrying amount	558	955	150	1,663

The carrying amount of property, plant and equipment above includes the carrying amount of the following leased assets as of December 31, 2015 and 2016.

(Millions of Yen)

Leased assets	Buildings and structures	Other	Total
FY2015 (As of December 31, 2015)	¥8	¥2,135	¥2,144
FY2016 (As of December 31, 2016)	8	1,736	1,744

(Millions of U.S. Dollars)

Leased assets	Buildings and structures	Other	Total
FY2016 (As of December 31, 2016)	$0	$15	$15

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."

(2) Impairment Losses

Property, plant and equipment is grouped by the smallest cash-generating unit that generates cash inflows that are largely independent according to each reportable segment.

The Group recognized impairment losses of ¥2 million and ¥24 million ($0 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively, in the Consolidated Statement of Income as "Other expenses."

Impairment losses for the nine months ended December 31, 2015 represent the losses incurred to reduce the carrying amounts of land to its recoverable amounts due to the assets becoming idle.

Impairment losses for the year ended December 31, 2016 represent the losses incurred to reduce the carrying amounts of buildings, structures and others to their recoverable amounts due to the assets becoming idle.

15. GOODWILL AND INTANGIBLE ASSETS

(1) Schedule of goodwill and intangible assets

The schedule of the carrying amount at the beginning and end of each fiscal year is as follows:

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

	Goodwill	Customer relation-ships	Software	Other	Total
Balance at the beginning of the year	¥656,565	¥196,867	¥24,459	¥53,417	¥931,310
Additions	–	–	8,980	617	9,597
Acquisitions through business combinations	35,811	14,684	66	3,726	54,288
Sales or disposals	(1,905)	(391)	(503)	(55)	(2,855)
Amortization	–	(17,080)	(6,250)	(6,126)	(29,457)
Impairment losses	–	(2,060)	(143)	(278)	(2,482)
Exchange differences on translation of foreign operations	(31,015)	(10,091)	(555)	(2,251)	(43,912)
Other	(2,592)	–	(2)	(40)	(2,635)
Balance at the end of the year	¥656,862	¥181,929	¥26,052	¥49,009	¥913,853

FY2016: Year ended December 31, 2016

(Millions of Yen)

	Goodwill	Customer relation-ships	Software	Other	Total
Balance at the beginning of the year	¥656,862	¥181,929	¥26,052	¥49,009	¥913,853
Additions	–	–	9,446	458	9,905
Acquisitions through business combinations	162,023	37,574	472	41,865	241,935
Sales or disposals	–	–	(290)	(32)	(323)
Amortization	–	(17,197)	(7,278)	(7,727)	(32,202)
Impairment losses	–	–	(498)	0	(498)
Exchange differences on translation of foreign operations	(102,753)	(30,646)	(2,199)	(6,348)	(141,948)
Other	2,585	1,052	(1,566)	(1)	2,071
Balance at the end of the year	¥718,717	¥172,712	¥24,138	¥77,223	¥992,791

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

	Goodwill	Customer relation-ships	Software	Other	Total
Balance at the beginning of the year	$5,639	$1,562	$224	$421	$7,845
Additions	–	–	81	4	85
Acquisitions through business combinations	1,391	323	4	359	2,077
Sales or disposals	–	–	(2)	(0)	(3)
Amortization	–	(148)	(62)	(66)	(276)
Impairment losses	–	–	(4)	0	(4)
Exchange differences on translation of foreign operations	(882)	(263)	(19)	(54)	(1,219)
Other	22	9	(13)	(0)	18
Balance at the end of the year	$6,170	$1,483	$207	$663	$8,523

The acquisition cost, accumulated amortization and impairment losses, and carrying amount of goodwill and intangible assets as of December 31, 2015 and 2016 are as follows:

(Millions of Yen)

	Goodwill	Customer relationships	Software	Other	Total
FY2015 (As of December 31, 2015)					
Acquisition cost	¥656,862	¥229,645	¥104,424	¥73,070	¥1,064,002
Accumulated amortization and impairment losses	–	47,716	78,371	24,060	150,148
Carrying amount	656,862	181,929	26,052	49,009	913,853
FY2016 (As of December 31, 2016)					
Acquisition cost	¥718,717	¥229,606	¥103,100	¥106,777	¥1,158,200
Accumulated amortization and impairment losses	–	56,893	78,961	29,553	165,409
Carrying amount	718,717	172,712	24,138	77,223	992,791

(Millions of U.S. Dollars)

	Goodwill	Customer relationships	Software	Other	Total
FY2016 (As of December 31, 2016)					
Acquisition cost	$6,170	$1,971	$885	$917	$9,942
Accumulated amortization and impairment losses	–	488	678	254	1,420
Carrying amount	6,170	1,483	207	663	8,523

The carrying amount of intangible assets above includes the carrying amount of the following leased assets as of December 31, 2015 and 2016.

(Millions of Yen)

Leased assets	Software
FY2015 (As of December 31, 2015)	¥421
FY2016 (As of December 31, 2016)	230

(Millions of U.S. Dollars)

Leased assets	Software
FY2016 (As of December 31, 2016)	$2

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" and "Selling, general and administrative expenses."

(2) Significant goodwill and intangible assets

The significant portion of goodwill as of December 31, 2015 and 2016, arose from the international business segment which forms a cash generating unit, and amounted to ¥656,590 million and ¥718,447 million ($6,167 million) as of December 31, 2015 and 2016, respectively.

Significant intangible assets other than goodwill as of December 31, 2015 and 2016, consist of customer relationships in the international business segment, which amounted to ¥181,929 million and ¥172,712 million ($1,483 million) as of December 31, 2015 and 2016, respectively.

(3) Impairment testing of goodwill

Recoverable amounts of the international business segment to which significant goodwill was allocated are determined by the value in use based on the financial budget for the next fiscal year approved by management and the management forecast for the subsequent four years. The continuing growth rate of 2.0% (3.4% as of December 31, 2015) is set for cash flows beyond the four-year period.

The pre-tax discount rates used for determining value in use are 8.1% and 7.5% as of December 31, 2015 and 2016, respectively.

For the goodwill above, the recoverable amount of the cash-generating unit sufficiently exceeds its carrying amount. Therefore, it is unlikely that the recoverable amount of the cash-generating unit will fall below the carrying amount even with reasonable changes in the key assumptions.

(4) Impairment losses

Intangible assets are grouped by the smallest cash-generating unit that generates cash inflows that are largely independent according to each reportable segment.

The Group recognized impairment losses of ¥2,482 million and ¥498 million ($4 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively, in the Consolidated Statement of Income as "Other expenses."

Impairment losses for the nine months ended December 31, 2015, represent the losses incurred to reduce the carrying amounts of customer relationships, software and other intangible assets to their recoverable amounts due to a decline in profitability.

Impairment losses for the year ended December 31, 2016, represent the losses incurred to reduce the carrying amounts of software and other intangible assets to their recoverable amounts due to a decline in profitability.

16. LEASES

The Group leases buildings, software and other assets as a lessee. The lease contracts include those with renewal options, while they do not include significant contracts with escalation clauses.

There are no restrictions on additional debt, further leasing and others imposed by the lease contracts.

(1) Present value of finance lease obligations

The total of future minimum lease payments for leased assets recognized based on the finance lease contracts, their future financial costs and present value as of December 31, 2015 and 2016 are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Not later than 1 year			
Total of future minimum lease payments	¥1,138	¥964	$8
Future finance costs	22	13	0
Present value	¥1,116	¥951	$8
Later than 1 year and not later than 5 years			
Total of future minimum lease payments	¥1,595	¥1,168	$10
Future finance costs	18	12	0
Present value	¥1,576	¥1,155	$10
Later than 5 years			
Total of future minimum lease payments	¥6	¥15	$0
Future finance costs	0	0	0
Present value	¥6	¥15	$0
Total			
Total of future minimum lease payments	¥2,740	¥2,148	$18
Future finance costs	41	26	0
Present value	¥2,699	¥2,122	$18

(2) Future minimum lease payments under non-cancellable operating leases

The total of future minimum lease payments under non-cancellable operating leases as of December 31, 2015 and 2016 are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Not later than 1 year	¥25,470	¥24,347	$209
Later than 1 year and not later than 5 years	59,637	65,075	559
Later than 5 years	43,985	32,684	281
Total	¥129,093	¥122,106	$1,048

(3) Total of minimum lease payments

The total of minimum lease payments of operating lease contracts for the nine months ended December 31, 2015 and for the year ended December 31, 2016 are ¥24,404 million and ¥25,689 million ($221 million), respectively.

17. INVESTMENT PROPERTY

(1) Schedule of investment property.

The schedule of the carrying amount of investment property at the beginning and end of each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Balance at the beginning of the year	¥42,160	¥41,642	$357
Additions	40	50	0
Depreciation	(555)	(637)	(5)
Sales or disposals	(4)	(3,215)	(28)
Other	1	0	0
Balance at the end of the year	¥41,642	¥37,837	$325
Acquisition cost (balance at the beginning of the year)	¥53,854	¥50,950	$437
Accumulated depreciation and impairment losses (balance at the beginning of the year)	11,694	9,308	80
Acquisition cost (balance at the end of the year)	¥50,950	¥46,253	$397
Accumulated depreciation and impairment losses (balance at the end of the year)	9,308	8,416	$72

(2) Fair value

The carrying amount and fair value of investment property as of March 31, 2015 and December 31, 2015 are as follows:

	(Millions of Yen)				(Millions of U.S. Dollars)	
	FY2015 (As of December 31, 2015)		FY2016 (As of December 31, 2016)		FY2016 (As of December 31, 2016)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property (Level 3)	¥41,642	¥48,593	¥37,837	¥46,820	$325	$402

The fair value of investment property is mainly based on real estate appraisal value. The valuation techniques are based on the 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 the 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 for each fiscal year are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Rental income	¥1,833	¥2,331	$20
Direct operating expenses	1,307	1,154	10

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of investments in associates and joint ventures as of December 31, 2015 and 2016 is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Total of carrying amount	¥50,281	¥55,691	$478

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Profit for the year	¥3,911	¥3,362	$29
Other comprehensive income	(178)	(723)	(6)
Comprehensive income for the year	¥3,733	¥2,639	$23

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)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Unrecognized losses	¥82	¥42	$0

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Cumulative unrecognized losses	¥347	¥334	$3

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 as of December 31, 2015 and 2016 is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Deferred tax assets			
Liability for retirement benefits	¥33,481	¥29,904	$257
Accrued expenses	7,969	10,729	92
Carryforwards of tax losses	7,373	7,851	67
Other	6,441	6,316	54
Total of deferred tax assets	¥55,265	¥54,801	$470
Deferred tax liabilities			
Gain on establishment of retirement benefit trust	¥(14,701)	¥(13,079)	$(112)
Unrealized gain on securities	(36,879)	(36,521)	(314)
Valuation differences on intangible assets	(50,187)	(63,483)	(545)
Other	(7,614)	(1,476)	(13)
Total of deferred tax liabilities	¥(109,383)	¥(114,561)	$(983)
Net deferred tax assets (liabilities)	¥(54,118)	¥(59,759)	$(513)

Changes in net deferred tax assets (liabilities) for each fiscal year are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Net deferred tax assets (liabilities)			
Balance at the beginning of the year	¥(58,737)	¥(54,118)	$(465)
Deferred income taxes	6,444	4,691	40
Deferred taxes related to components of other comprehensive income			
Exchange differences on translation of foreign operations	(35)	1	0
Effective portion of the change in the fair value of cash flow hedges	840	1,601	14
Net change in financial assets measured at fair value through other comprehensive income	(734)	(6,966)	(60)
Remeasurements of defined benefit plans	(1,220)	1,492	13
Changes in deferred tax assets (liabilities) arising from business combinations, and others	(675)	(6,462)	(55)
Balance at the end of the year	¥(54,118)	¥(59,759)	$(513)

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 as of December 31, 2015 and 2016, 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)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Deductible temporary differences	¥10,977	¥12,859	$110
Carryforwards of tax losses	60,604	64,152	551

The breakdown of carryforwards of tax losses by expiry date as of December 31, 2015 and 2016, 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)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
1st year	¥12,668	¥16,040	$138
2nd year	354	202	2
3rd year	206	379	3
4th year	783	723	6
5th year	355	501	4
After the 5th year	3,118	3,932	34
No definite term for expiry	43,118	42,372	364
Total	¥60,604	¥64,152	$551

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 ¥142,738 million and ¥126,014 million ($1,082 million) as of December 31, 2015 and 2016, 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 for each fiscal year is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Current income taxes	¥34,784	¥48,264	$414
Deferred income taxes	(6,444)	(4,691)	(40)

Deferred income taxes decreased by ¥3,038 million due to a change in the tax rate in England in the nine months ended December 31, 2015.

Deferred income taxes increased by ¥1,217 million ($10 million) due to a change in the income tax rate in Japan and decreased by ¥1,063 million ($9 million) due to a change in the tax rate in England in the fiscal year ended December 31, 2016.

(3) Reconciliation of effective tax rate

The breakdown of major items that caused differences between the effective statutory tax rate and income tax rate following the adoption of deferred tax accounting for each fiscal year is as follows:

The Company is subject mainly to corporate tax, inhabitant tax and enterprise tax. The effective statutory tax rates calculated based on these taxes are 33.0% and 33.0% for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively. Foreign subsidiaries are subject to income taxes at their locations.

		(%)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)
Effective statutory tax rate	33.0	33.0
(Reconciliation items)		
Permanently non-deductible items, including entertainment expenses	1.3	3.2
Permanently non-taxable items, including dividend income	(2.9)	(5.3)
Share of results of associates	(1.2)	(0.8)
Reduction of deferred tax assets (liabilities) at fiscal year end due to tax rate changes	(2.8)	0.1
Other	(0.7)	2.5
Income tax rate following the adoption of deferred tax accounting	26.7	32.8

20. TRADE AND OTHER PAYABLES

(1) The breakdown of trade and other payables as of December 31, 2015 and 2016 is as follows:

	FY2015 (As of December 31, 2015) (Millions of Yen)	FY2016 (As of December 31, 2016) (Millions of Yen)	FY2016 (As of December 31, 2016) (Millions of U.S. Dollars)
Notes and accounts payable—trade	¥1,157,663	¥1,172,829	$10,068
Other	49,684	57,667	495
Total	¥1,207,347	¥1,230,496	$10,563

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 as of December 31, 2015 and 2016 are as follows:

Assets pledged as collateral	FY2015 (As of December 31, 2015) (Millions of Yen)	FY2016 (As of December 31, 2016) (Millions of Yen)	FY2016 (As of December 31, 2016) (Millions of U.S. Dollars)
Other financial assets (current assets)	¥72	¥169	$1

Corresponding liabilities	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Notes and accounts payable	¥509	¥493	$4

Other than the above corresponding liabilities, the assets are pledged as collateral for guarantee transactions that are released in the "Official Gazette" (*Kanpou*) and for opening checking accounts.

21. BORROWINGS (INCLUDING OTHER FINANCIAL LIABILITIES)

Breakdown of financial liabilities

The breakdown of borrowings (including other financial liabilities) as of December 31, 2015 and 2016 is as follows:

	FY2015 (As of December 31, 2015) (Millions of Yen)	FY2016 (As of December 31, 2016) (Millions of Yen)	Date of maturity	FY2016 (As of December 31, 2016) (Millions of U.S. Dollars)
Derivative liabilities	¥34,971	¥112,046	–	$962
Short-term borrowings	32,190	127,768	–	1,097
Current portion of long-term borrowings	34,615	2,722	–	23
Long-term borrowings	286,977	273,108	2018–2023	2,344
Other	82,752	80,951	–	695
Total	¥471,506	¥596,597	–	$5,121
Current liabilities	¥111,794	¥157,272		$1,350
Non-current liabilities	359,712	439,325		3,771
Total	¥471,506	¥596,597		$5,121

Derivative liabilities are classified as financial liabilities measured at fair value through profit or loss excluding those accounted for under hedge accounting.

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, 2016 are 2.94% and 1.25%, respectively.

"Other" includes financial liabilities measured at fair value through profit or loss of ¥59,269 million and ¥66,067 million ($567 million) as of December 31, 2015 and 2016, respectively.

There are no financial covenants on borrowings that have a significant effect on the Group's financial activities.

22. PROVISIONS

The breakdown and schedule of provisions for each fiscal year are as follows:

FY2015: Nine months ended December 31, 2015

(Millions of Yen)

	Provisions for asset retire-ment obligations	Provisions for loss on order received	Other provisions	Total
Balance at the beginning of the year	¥1,110	¥132	¥3,593	¥4,836
Additional provisions in the year	23	989	1,372	2,385
Interest expense incurred over the discount period	11	–	–	11
Provisions used	(90)	(132)	(127)	(349)
Provisions reversed	–	–	(1,111)	(1,111)
Exchange differences on translation of foreign operations	–	–	(1,008)	(1,008)
Other	–	–	152	152
Balance at the end of the year	¥1,056	¥989	¥2,871	¥4,916
Current liabilities	¥–	¥989	¥830	¥1,819
Non-current liabilities	1,056	–	2,040	3,096
Total	¥1,056	¥989	¥2,871	¥4,916

FY2016: Year ended December 31, 2016

(Millions of Yen)

	Provisions for asset retire-ment obligations	Provisions for loss on order received	Other provisions	Total
Balance at the beginning of the year	¥1,056	¥989	¥2,871	¥4,916
Additional provisions in the year	188	64	1,523	1,777
Interest expense incurred over the discount period	15	–	–	15
Provisions used	(12)	(989)	(76)	(1,077)
Provisions reversed	–	–	(489)	(489)
Exchange differences on translation of foreign operations	–	–	287	287
Other	–	–	45	45
Balance at the end of the year	¥1,247	¥64	¥4,162	¥5,475
Current liabilities	¥167	¥64	¥946	¥1,179
Non-current liabilities	1,080	–	3,215	4,295
Total	¥1,247	¥64	¥4,162	¥5,475

FY2016: Year ended December 31, 2016

(Millions of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Other provisions	Total
Balance at the beginning of the year	$9	$8	$25	$42
Additional provisions in the year	2	1	13	15
Interest expense incurred over the discount period	0	–	–	0
Provisions used	(0)	(8)	(1)	(9)
Provisions reversed	–	–	(4)	(4)
Exchange differences on translation of foreign operations	–	–	2	2
Other	–	–	0	0
Balance at the end of the year	$11	$1	$36	$47
Current liabilities	$1	$1	$8	$10
Non-current liabilities	9	–	28	37
Total	$11	$1	$36	$47

(1) Provisions for asset retirement obligations
The probable amount to be paid in the future is recognized based on past performance in settling restoration obligations in lease contracts for offices that the Group uses.

These expenses are primarily expected to be paid after one year or more, subject to possible changes due to future events such as business plan changes.

(2) Provisions for loss on order received
If losses are expected to be incurred from the performance of contracts related to orders received from customers for the subsequent fiscal years and such losses can be reasonably estimated, loss provisions are recognized in the amounts expected to be incurred in the subsequent fiscal years.

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.

The Company voluntarily operates 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 some overseas consolidated subsidiaries operate defined contribution retirement benefit plans.

The Company, on April 1, 2015, and regional Dentsu subsidiaries (Dentsu East Inc., Dentsu West Inc., Dentsu Kyushu Inc., and Dentsu Hokkaido Inc.), on January 1, 2016, partially shifted from a defined benefit corporate pension plan to a defined contribution pension plan.

(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 as of December 31, 2015 and 2016 is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Funded defined benefit obligations	¥122,840	¥118,043	$1,013
Plan assets	(107,123)	(101,369)	(870)
Subtotal	15,717	16,674	143
Unfunded defined benefit obligations	14,141	13,757	118
Total	¥29,859	¥30,431	$261
Balance recognized in the Consolidated Statement of Financial Position			
Liabilities for retirement benefits	¥30,557	¥31,377	$269
Assets for retirement benefits	(697)	(945)	(8)
Net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position	¥29,859	¥30,431	$261

(2) Schedule of defined benefit obligations

The schedule of defined benefit obligations for each fiscal year is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Balance at the beginning of the year	¥178,550	¥136,982	$1,176
Current service cost (Note 1)	5,366	6,752	58
Interest expense (Note 1)	855	1,015	9
Actuarial gains and losses (Note 2)	257	3,868	33
Benefits paid	(9,711)	(11,529)	(99)
Past service cost	162	(52)	(0)
Changes due to termination (curtailment or settlement) of a defined benefit plans	(38,316)	(4,533)	(39)
Exchange differences on translation of foreign operations	(185)	(702)	(6)
Effects of business combinations and disposals	3	–	–
Balance at the end of the year	¥136,982	¥131,800	$1,131

(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 costs."

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

The weighted average duration of defined benefit obligations as of December 31, 2015 and 2016 is as follows:

	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016) (Years)
Weighted average duration	9.7	9.7

(3) Schedule of plan assets

The schedule of plan assets for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Balance at the beginning of the year	¥149,463	¥107,123	$920
Interest income	668	848	7
Return on plan assets (excluding amounts included in interest income)	4,219	(1,260)	(11)
Contributions by the employer	586	193	2
Contributions (refunds) associated with the shift to defined contribution pension plans	(3,211)	2,136	18
Benefits paid	(6,219)	(2,963)	(25)
Changes due to termination (curtailment or settlement) of a defined benefit plans	(38,316)	(4,533)	(39)
Exchange differences on translation of foreign operations	(67)	(174)	(1)
Balance at the end of the year	¥107,123	¥101,369	$870

The Group plans to pay contributions of ¥180 million ($2 million) in the year ending December 31, 2017.

(4) Major breakdown of plan assets

The major breakdown of the total of plan assets as of December 31, 2015 and 2016 is as follows:

	(Millions of Yen)						(Millions of U.S. Dollars)		
	FY2015 (As of December 31, 2015)			FY2016 (As of December 31, 2016)			FY2016 (As of December 31, 2016)		
	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	¥72,291	¥0	¥72,291	¥70,931	¥4	¥70,936	$609	$0	$609
Debt instruments	1,148	52	1,200	1,151	80	1,231	10	1	11
General account of life insurance companies	–	18,300	18,300	–	15,716	15,716	–	135	135
Other	–	15,330	15,330	–	13,485	13,485	–	116	116
Total	¥73,439	¥33,684	¥107,123	¥72,082	¥29,286	¥101,369	$619	$251	$870

(Note) Plan assets above include retirement benefit trusts established for defined benefit corporate pension plans and retirement lump-sum payment plans of ¥72,563 million and ¥70,841 million ($608 million), as of December 31, 2015 and 2016, respectively.
Both as of December 31, 2015 and as of December 31, 2016, equity instruments are mainly those issued in Japan and debt instruments are mainly those issued in overseas.

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.

(5) Actuarial assumptions

The major items of actuarial assumptions as of December 31, 2015 and 2016 are as follows:

	(%)	
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)
Discount rate	0.8	0.5

(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	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Discount rate	Increase by 0.5%	¥(6,298)	¥(6,074)	$(52)
	Decrease by 0.5%	¥6,840	¥6,572	$56

(6) Defined contribution plans

Expenses recognized due to contributions to defined contribution plans by the Company and consolidated subsidiaries amounted to ¥6,534 million and ¥7,560 million ($65 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, 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, 2015 and 2016 is 1,100,000,000 ordinary shares.

B. Fully paid issued shares

The number of issued shares as of December 31, 2015 and 2016 are as follows:

	Number of ordinary issued shares (Shares)
FY2015 (As of December 31, 2015)	288,410,000
Increase (decrease)	–
FY2016 (As of December 31, 2016)	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

The number of treasury shares as of December 31, 2015 and 2016 are as follows:

	Number of shares (Shares)
FY2015 (As of December 31, 2015)	3,270,939
Increase (decrease)	2,320
FY2016 (As of December 31, 2016)	3,273,259

(Note) 2,320 shares represent an increase due to repurchase of shares less than one unit.

(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 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 that do not result in a loss of control

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

The Company recognized financial liabilities at the fair value of the contract as of the contract date and reduced retained earnings by the same amount.

25. DIVIDENDS

(1) Dividends paid

FY2015: Nine months ended December 31, 2015

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (June 26, 2015)	Ordinary shares	¥10,092	¥35.00	March 31, 2015	June 29, 2015
Board of Directors (November 11, 2015)	Ordinary shares	¥9,979	¥35.00	September 30, 2015	December 4, 2015

FY2016: Year ended December 31, 2016

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (March 30, 2016)	Ordinary shares	¥11,405	¥40.00	December 31, 2015	March 31, 2016
Board of Directors (August 12, 2016)	Ordinary shares	¥11,405	¥40.00	June 30, 2016	September 2, 2016

FY2016: Year ended December 31, 2016

Resolution	Class of shares	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Annual Shareholders Meeting (March 30, 2016)	Ordinary shares	$98	$0.34	December 31, 2015	March 31, 2016
Board of Directors (August 12, 2016)	Ordinary shares	$98	$0.34	June 30, 2016	September 2, 2016

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

FY2015: Nine months ended December 31, 2015

Resolution	Class of shares	Dividends resource	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Annual Shareholders Meeting (March 30, 2016)	Ordinary shares	Retained earnings	¥11,405	¥40.00	December 31, 2015	March 31, 2016

FY2016: Year ended December 31, 2016

Resolution	Class of shares	Dividends resource	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 14, 2017)	Ordinary shares	Retained earnings	¥12,831	¥45.00	December 31, 2016	March 9, 2017

FY2016: Year ended December 31, 2016

Resolution	Class of shares	Dividends resource	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 14, 2017)	Ordinary shares	Retained earnings	$110	$0.39	December 31, 2016	March 9, 2017

26. 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)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Staff costs	¥376,274	**¥444,657**	**$3,817**
Depreciation and amortization	39,092	**43,576**	**374**
Other	151,120	**171,652**	**1,474**
Total	¥566,487	**¥659,885**	**$5,665**

(Note) "Other" includes research and development costs of ¥596 million and ¥936 million ($8 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

27. STAFF COSTS

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Salaries, bonuses and allowances	¥328,386	¥388,417	$3,334
Welfare expenses	50,279	56,840	488
Post-employment benefits costs	12,335	14,590	125
Other	813	5,183	44
Total	¥391,815	¥465,031	$3,992

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

28. OTHER INCOME

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Profit distributions	¥7,134	¥6,262	$54
Foreign exchange gains	422	1,453	12
Gain on sale of property, plant and equipment, intangible assets and investment property	700	6,506	56
Gain on sale of subsidiaries and associates shares	954	664	6
Gain on step acquisitions and gain on remeasurement of residual interests on loss of control or significant influence	2,905	339	3
Other	912	1,361	12
Total	¥13,030	¥16,588	$142

29. OTHER EXPENSES

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Amortization of long-term prepaid expenses	¥2,377	¥3,684	$32
Loss on sale of property, plant and equipment, intangible assets and investment property	50	130	1
Impairment losses	2,489	522	4
Loss on liquidation of subsidiaries and associates	2,617	–	–
Other	1,231	3,725	32
Total	¥8,766	¥8,063	$69

30. FINANCE INCOME AND FINANCE COSTS

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Interest income			
Financial assets measured at amortized cost	¥1,884	¥1,743	$15
Dividend income			
Financial assets measured at fair value through other comprehensive income	2,251	2,583	22
Dividend income and asset management gains from insurance	505	559	5
Other (Note)	284	218	2
Total	¥4,926	¥5,104	$44

(Note) "Other" includes finance income arising from financial instruments measured at fair value through profit or loss of ¥29 million and ¥17 million ($0 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

The breakdown of dividend income is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Financial assets derecognized during the fiscal year	¥2	¥477	$4
Financial assets held at the end of the fiscal year	2,248	2,105	18

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Interest expense			
Financial liabilities measured at amortized cost	¥6,840	¥7,474	$64
Other	195	211	2
Changes in fair value of contingent consideration	1,662	3,400	29
Valuation loss on derivatives (related to share purchase option)	187	1,444	12
Foreign exchange losses (Note 1)	66	325	3
Other (Note 2)	1,107	375	3
Total	¥10,059	¥13,230	$114

(Note 1) Valuation loss on foreign currency derivatives is included in the foreign exchange lossess.
(Note 2) "Other" includes finance costs arising from financial instruments measured at fair value through profit or loss of ¥62 million and ¥160 million ($1million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

31. 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)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Exchange differences on translation of foreign operations			
Amount arising during the year	¥(35,232)	¥(132,961)	$(1,141)
Reclassification adjustments	(170)	(715)	(6)
Before tax effects	(35,403)	(133,676)	(1,148)
Tax effects	(35)	1	0
Exchange differences on translation of foreign operations	¥(35,439)	¥(133,674)	$(1,148)
Effective portion of the change in the fair value of cash flow hedges			
Amount arising during the year	¥(1,034)	¥(3,929)	$(34)
Reclassification adjustments	(1,756)	(774)	(7)
Before tax effects	(2,790)	(4,703)	(40)
Tax effects	840	1,601	14
Effective portion of the change in the fair value of cash flow hedges	¥(1,950)	¥(3,101)	$(27)
Net change in financial assets measured at fair value through other comprehensive income			
Amount arising during the year	¥4,089	¥24,538	$211
Before tax effects	4,089	24,538	211
Tax effects	(734)	(6,966)	(60)
Net change in financial assets measured at fair value through other comprehensive income	¥3,354	¥17,571	$151
Remeasurements of defined benefit plans			
Amount arising during the year	¥4,069	¥(5,147)	$(44)
Before tax effects	4,069	(5,147)	(44)
Tax effects	(1,220)	1,492	13
Remeasurements of defined benefit plans	¥2,849	¥(3,655)	$(31)
Share of other comprehensive income of investments accounted for using the equity method			
Amount arising during the year	¥(178)	¥(723)	$(6)
Share of other comprehensive income of investments accounted for using the equity method	¥(178)	¥(723)	$(6)

32. EARNINGS PER SHARE

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

	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	(U.S. Dollars) FY2016 (Year ended December 31, 2016)
Basic earnings per share (Yen)	¥254.05	¥292.85	$2.51
Diluted earnings per share (Yen)	¥254.03	¥292.84	$2.51

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

	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	(Millions of U.S. Dollars) FY2016 (Year ended December 31, 2016)
Profit for the year used for calculation of basic earnings per share and diluted earnings per share			
Profit for the year attributable to owners of the parent (Millions of Yen)	¥72,653	¥83,501	$717
Amounts not attributable to ordinary equity holders of the parent (Millions of Yen)	–	–	–
Profit for the year used for calculation of basic earnings per share (Millions of Yen)	72,653	83,501	717
Adjustment			
Share-based payment held by associates (Millions of Yen)	(5)	(2)	(0)
Profit for the year used for calculation of diluted earnings per share (Millions of Yen)	¥72,647	¥83,499	$717
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings per share and diluted earnings per share			
Weighted average number of ordinary shares outstanding used for the calculation of basic earnings per share (Thousands of shares)	285,984	285,138	
Effect of dilutive potential ordinary shares (Thousands of shares)	–	–	
The weighted average number of ordinary shares outstanding used for the calculation of diluted earnings per share (Thousands of shares)	285,984	285,138	

33. SIGNIFICANT NON-CASH TRANSACTIONS

In the nine months ended December 31, 2015, the Company dissolved a retirement benefit trust for corporate pension fund plans and established a retirement benefit trust for retirement lump-sum payment plans. As a result, other non-current assets and liabilities for retirement benefits decreased by ¥12,787 million each.

34. SHARE-BASED PAYMENTS

Certain subsidiaries of the Company adopted cash-settled share-based payment plans for employees, under which the eligible employees receive compensation in the form of cash-settled payments based on the difference between the exercise price and the share price as of the exercise date. Rights to cash-settled share-based payments vest over five years from the grant date and the exercise period is 10 years from the grant date. Expenses recognized in relation to the cash-settled shared-based payment plans granted to employees is ¥446 million ($4 million) for the year ended December 31, 2016, and the corresponding liability as of December 31, 2016 is ¥6,877 million ($59 million).

The following table provides a summary of the status of cash-settled share-based payment plans.

			(U.S. Dollars)
		FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
	Shares	Weighted Average Exercise Price	Weighted Average Exercise Price
Balance at the beginning of the year	–	¥–	$–
Increase due to business combination	624,732	6,304	54.12
Granted	171,375	15,091	129.55
Exercised	(1,610)	7,095	60.91
Forfeited	(8,300)	7,852	67.40
Repurchased	(14,926)	5,959	51.15
Balance at the end of the year	771,271	8,821	75.72
Exercisable at the end of the year	300,850	¥5,892	$50.58

1. The weighted average remaining life of the cash-settled share-based payments plans is 8.19 years as of December 31, 2016.
2. The weighted average share price upon exercise is ¥15,091 ($129.55) for the year ended December 31, 2016.
3. The intrinsic value of the cash-settled share-based payments vested in the year ended December 31, 2016 is ¥3,918 million ($34 million).
4. There were no share-based payment plans in place for the nine months ended December 31, 2015.

35. 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.

Indicators for monitoring the capital management include 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).

The balances as of December 31, 2015 and 2016 are as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Total equity attributable to owners of the parent	¥1,068,216	¥932,742	$8,007
Underlying ROE (%)	10.6	11.3	

(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 earnout liabilities / M&A related put-option liabilities, related tax effects, profit or loss attributable to non-controlling interests, and other one-off items. While the previous fiscal year was the nine-month period from April 1, 2015 to December 31, 2015, the underlying ROE for the fiscal year ended December 31, 2015 is determined based on the results for the period from January 1, 2015 to December 31, 2015. 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)
	FY2015 (From January 1,2015 to December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Profit for the year (attributable to owners of the parent)	¥83,090	¥83,501	$717
(Adjustment items)			
Adjustment items related to operating profit	32,226	28,883	248
Revaluation of earnout liabilities / M&A related put-option liabilities	3,198	4,844	42
Tax expenses related to the above items and effects from tax regulation changes	(5,167)	(3,637)	(31)
Others	40	(620)	(5)
Underlying profit for the year (attributable to owners of parent)	¥113,388	¥112,972	$970

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

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

Derivative transactions for speculative purposes or short-term trading purposes are prohibited and limited to transactions based on the actual demands.

(3) Credit risk

A. Credit risk management

Trade receivables, such as notes and accounts receivable, are exposed to customer credit risk. The Group aims to reduce these risks based on credit management rules and guidelines.

The Company conducts review of new counterparties and credit management based on credit management rules and guidelines. With respect to trade receivables, 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 represented by the carrying amounts of financial assets in the Consolidated Statement of Financial Position.

Maximum exposure to credit risk associated with guarantee obligations amounted to ¥1,745 million and ¥2,360 million ($20 million) as of December 31, 2015 and 2016, respectively.

C. Financial assets that are past due

The analysis of the age of trade and other receivables that are past due but not impaired as of December 31, 2015 and 2016 is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Within 30 days	¥116,612	¥120,917	$1,038
Over 30 days, within 60 days	40,285	39,659	340
Over 60 days, within 90 days	31,371	19,132	164
Over 90 days	18,421	24,986	214
Total	¥206,690	¥204,696	$1,757

D. Schedule of allowance for doubtful accounts

The schedule of allowance for doubtful account for each fiscal year is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Balance at the beginning of the year	¥20,073	¥21,593	$185
Addition	6,247	4,541	39
Decrease (intended use)	(489)	(3,193)	(27)
Decrease (reversal)	(2,761)	(1,203)	(10)
Other	(1,476)	(3,226)	(28)
Balance at the end of the year	¥21,593	¥18,512	$159

(4) Liquidity risk

A. Liquidity risk management

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

The Group raises working capital through internal funds, commercial paper and short-term borrowings.

The Group has established credit facilities (commitment lines) to ensure liquidity.

B. Financial liability balance (including derivative financial instruments) by maturity

The financial liability balance (including derivative financial instruments) by maturity as of December 31, 2015 and 2016 is as follows:

FY2015: As of December 31, 2015

(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	¥1,207,347	¥1,207,347	¥1,207,347	¥–	¥–	¥–	¥–	¥–
Contingent consideration on acquisition and others	59,226	59,226	26,205	9,743	8,459	7,121	3,708	3,987
Borrowings	353,783	366,499	70,352	5,341	53,268	60,202	81,958	95,375
Subtotal	1,620,357	1,633,073	1,303,905	15,084	61,728	67,323	85,667	99,363
Derivative liabilities	34,971	34,971	4,935	3,345	5,322	4,196	4,558	12,612
Total	¥1,655,328	¥1,668,044	¥1,308,841	¥18,429	¥67,051	¥71,520	¥90,225	¥111,976

FY2016: As of December 31, 2016

(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	¥1,230,496	¥1,230,496	¥1,230,496	¥–	¥–	¥–	¥–	¥–
Contingent consideration on acquisition and others	66,021	66,021	17,725	14,104	13,651	9,688	6,933	3,917
Borrowings	403,599	415,447	135,244	51,868	52,738	80,263	33,388	61,943
Subtotal	1,700,117	1,711,965	1,383,466	65,973	66,390	89,952	40,322	65,860
Derivative liabilities	112,046	112,046	1,823	8,134	27,613	17,907	46,473	10,094
Total	¥1,812,163	¥1,824,012	¥1,385,290	¥74,107	¥94,003	¥107,859	¥86,795	¥75,955

FY2016: As of December 31, 2016

(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	$10,563	$10,563	$10,563	$–	$–	$–	$–	$–
Contingent consideration on acquisition and others	567	567	152	121	117	83	60	34
Borrowings	3,465	3,566	1,161	445	453	689	287	532
Subtotal	14,595	14,696	11,876	566	570	772	346	565
Derivative liabilities	962	962	16	70	237	154	399	87
Total	$15,556	$15,658	$11,892	$636	$807	$926	$745	$652

C. Undrawn committed facilities

Undrawn committed facilities amounted to ¥291,313 million and ¥281,113 million ($2,413 million) as of December 31, 2015 and 2016, 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 fluctuations risks. The Company uses forward foreign exchange contracts to hedge its foreign exchange fluctuation risks identified for each currency in each month.

In addition, forward foreign exchange contracts and others are used to hedge foreign currency transactions that exceed a specified amount in accordance with accounting rules and guidelines.

Some of the consolidated subsidiaries use forward foreign exchange contracts to hedge significant foreign exchange fluctuation risks.

B. Foreign currency derivatives to which hedge accounting is applied

The details of foreign currency derivatives to which hedge accounting is applied as of December 31, 2015 and 2016 are as follows:

						(Millions of Yen)			(Millions of U.S. Dollars)
			FY2015 (As of December 31, 2015)			FY2016 (As of December 31, 2016)			FY2016 (As of December 31, 2016)
	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
Foreign exchange contracts	¥68,548	¥51,893	¥17,423	¥53,830	¥42,011	¥13,913	$462	$361	$119

The foreign exchange contracts above are designated as cash flow hedges.

The amounts either included in or deducted from the initial cost of a non-financial asset or non-financial liability as a result of execution of a highly probable forecasted transaction in which an acquisition or incurrence of such non-financial asset or liability is designated as a hedged item are ¥1,986 million (deduction) and ¥942 million ($8 million) (deduction) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

C. 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 US Dollar or Euro assuming all other variables remain unchanged, the effect on profit before tax as of each fiscal year end is as follows:

The impact from the translation of functional currency-denominated financial assets as well as assets and liabilities of foreign operations into yen is not included.

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
US Dollars	¥368	¥406	$3
Euros	(3)	155	1

(6) Interest rate risk

A. Interest rate risk management

A portion of the Group's borrowings is issued with floating interest rates and is exposed to interest rate fluctuation risk. For interest rate fluctuation risks associated with borrowings, interest expenses are fixed using interest rate swap contracts.

B. Interest rate derivatives to which hedge accounting is applied

The details of interest rate derivatives to which hedge accounting is applied as of December 31, 2015 and 2016 are as follows:

						(Millions of Yen)			(Millions of U.S. Dollars)
			FY2015 (As of December 31, 2015)			FY2016 (As of December 31, 2016)			FY2016 (As of December 31, 2016)
	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
Interest rate swap contracts	¥230,246	¥230,246	¥1,536	¥220,115	¥220,115	¥7,990	$1,890	$1,890	$69

The interest rate swap contracts above are designated as fair value hedges or cash flow hedges.

There is no gains or losses on hedging instruments designated as fair value hedges for the nine months ended December 31, 2015 and for the fiscal year ended December 31, 2016.

The gains or losses associated with hedged items are approximately the same as the gains or losses associated with hedging instruments.

(7) 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, 2015 and 2016 is as follows:

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

	FY2015 (As of December 31, 2015)		FY2016 (As of December 31, 2016) (Millions of Yen)		FY2016 (As of December 31, 2016) (Millions of U.S. Dollars)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	321,592	326,130	275,831	277,518	$2,368	$2,382

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

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

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

(8) Fair value hierarchy of financial instruments

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

The fair value hierarchy is defined as follows:

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

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

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

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

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

There are no transfers between Level 1 and Level 2 for the nine months ended December 31, 2015 and for the year ended December 31, 2016.

FY2015: As of December 31, 2015

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	¥–	¥22,519	¥–	¥22,519
Equity securities	172,235	–	13,228	185,463
Other	513	2,507	6,756	9,777
Total	¥172,749	¥25,026	¥19,984	¥217,760
Financial liabilities				
Derivative liabilities	¥–	¥3,777	¥31,194	¥34,971
Other	–	–	59,226	59,226
Total	¥–	¥3,777	¥90,421	¥94,198

FY2016: As of December 31, 2016

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	¥–	¥26,240	¥–	¥26,240
Equity securities	168,406	–	12,314	180,720
Other	514	2,397	9,337	12,250
Total	¥168,920	¥28,637	¥21,652	¥219,211
Financial liabilities				
Derivative liabilities	¥–	¥4,478	¥107,568	¥112,046
Other	–	–	66,021	66,021
Total	¥–	¥4,478	¥173,589	¥178,067

FY2016: As of December 31, 2016

(Millions of U.S. Dollars)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	$–	$225	$–	$225
Equity securities	1,446	–	106	1,551
Other	4	21	80	105
Total	$1,450	$246	$186	$1,882
Financial liabilities				
Derivative liabilities	$–	$38	$923	$962
Other	–	–	567	567
Total	$–	$38	$1,490	$1,529

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.

In addition, the fair values for some of the derivative financial instruments included in derivative liabilities are categorized within Level 3 as they are valuated based on the discounted cash flow method using unobservable inputs.

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 values are measured using observable market data are categorized within Level 2, while stocks whose fair values are measured based mainly on market approaches using unobservable inputs are categorized within Level 3.

Significant unobservable inputs mainly include the price/net asset value multiples, and fair value increases (decreases) based on the increase (decrease) of the price/net asset value multiples.

The price/net asset value multiples used at December 31, 2015 and 2016, are 0.73 and 0.68, respectively.

The fair values of other (financial liabilities) are categorized within Level 3 as they are valuated based on the discounted cash flow method using unobservable inputs.

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 for each fiscal year is as follows:

Financial assets	FY2015 (Nine months ended December 31, 2015)	(Millions of Yen) FY2016 (Year ended December 31, 2016)	(Millions of U.S. Dollars) FY2016 (Year ended December 31, 2016)
Balance at the beginning of the year	¥18,278	¥19,984	$172
Other comprehensive income (Note 1)	(1,415)	(1,352)	(12)
Purchases	3,908	4,564	39
Sales or settlements	(4,253)	(1,192)	(10)
Transfers out of Level 3 (Note 2)	(354)	–	–
Other	3,821	(351)	(3)
Balance at the end of the year	¥19,984	¥21,652	$186

Financial liabilities	FY2015 (Nine months ended December 31, 2015)	(Millions of Yen) FY2016 (Year ended December 31, 2016)	(Millions of U.S. Dollars) FY2016 (Year ended December 31, 2016)
Balance at the beginning of the year	¥88,099	¥90,421	$776
Profit or loss (Note 3)	1,849	4,844	42
Purchases	28,319	105,490	906
Sales or settlements	(25,559)	(31,362)	(269)
Other	(2,287)	4,195	36
Balance at the end of the year	¥90,421	¥173,589	$1,490

(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) "Transfers out of Level 3" recognized for the nine months ended December 31, 2015 is due to investees listed on exchanges.
(Note 3) "Profit or loss" is associated with financial liabilities at fair value through profit or loss and included in finance costs.
Profit or loss arising from financial instruments held at fiscal year end amounted to ¥1,849 million and ¥4,844 million ($42 million) for the nine months ended December 31, 2015 and for the year ended December 31, 2016, respectively.

36. RELATED PARTIES

(1) Remuneration for the Company's directors

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2015 (Nine months ended December 31, 2015)	FY2016 (Year ended December 31, 2016)	FY2016 (Year ended December 31, 2016)
Remuneration and bonuses	¥469	¥418	$4

(2) Major subsidiaries

The Company's significant subsidiaries are as follows:

Company name	Location	Ownership percentage of voting rights (%)
Dentsu East Japan Inc.	Tokyo, Japan	100.0
Dentsu West Japan Inc.	Osaka, Japan	100.0
Dentsu Kyushu Inc.	Fukuoka, Japan	100.0
Dentsu Hokkaido Inc.	Sapporo, Japan	100.0
Dentsu Meitetsu Communications Inc.	Nagoya, Japan	50.0
The Goal Inc.	Tokyo, Japan	100.0
Dentsu Ad-Gear Inc.	Tokyo, Japan	66.7
Dentsu Young & Rubicam Inc.	Tokyo, Japan	51.0
Cyber Communications Inc.	Tokyo, Japan	100.0
Carat Japan Inc.	Tokyo, Japan	100.0
Dentsu Digital Inc.	Tokyo, Japan	100.0
Dentsu Tec Inc.	Tokyo, Japan	100.0
Information Services International-Dentsu, Ltd.	Tokyo, Japan	61.8
Dentsu Works Inc.	Tokyo, Japan	100.0
Dentsu Aegis Network Ltd.	London, the United Kingdom	100.0
Dentsu Aegis London Ltd.	London, the United Kingdom	100.0
Aegis International Ltd.	London, the United Kingdom	100.0
Portman Square US Holdings Ltd.	London, the United Kingdom	100.0
Aegis Group Participations Ltd.	London, the United Kingdom	100.0
Aegis Toriton Ltd.	London, the United Kingdom	100.0
Aegis GPS Holdings Ltd.	London, the United Kingdom	100.0
Aegis Finance Ltd.	London, the United Kingdom	100.0
Dentsu Aegis Network Central Europe Holding GmbH	Wiesbaden, Federal Republic of Germany	100.0
Dentsu Aegis Network Central Europe GmbH	Wiesbaden, Federal Republic of Germany	100.0
Dentsu Aegis Network France SAS	Paris, France	100.0
Dentsu McGarry Bowen, LLC	New York, the United States	100.0
360i LLC	Atlanta, the United States	100.0
Dentsu Aegis Network US Holdings, Inc.	New York, the United States	100.0
Merkle Group Inc.	Columbia, the United States	73.4
Dentsu Aegis (Shanghai) Investment Co., Ltd.	Shanghai, China	100.0
Beijing Dentsu Advertising Co., Ltd.	Beijing, China	70.0

37. CONTINGENT LIABILITIES

The contingent liabilities as of December 31, 2015 and 2016 are as follows:

Guarantees of loans and other liabilities

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2015 (As of December 31, 2015)	FY2016 (As of December 31, 2016)	FY2016 (As of December 31, 2016)
Liabilities on guarantees resulting from a loan scheme for housing funds for employees	¥492	¥309	$3
Liabilities for guarantees of bank loans and others	1,252	2,051	18
Total	¥1,745	¥2,360	$20

38. SUBSEQUENT EVENTS

(1) Purchase of treasury shares

At a meeting of its Board of Directors on February 14, 2017, the Company resolved to authorize a share repurchase pursuant to the Company's 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 share repurchase

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

B. Details of matters related to the share repurchase

(i) Class of shares to be repurchased: Ordinary shares of the Company
(ii) Total number of shares to be repurchased: 5,000,000 shares (maximum)
(iii) Total repurchase cost: 20 billion yen (maximum)
(iv) Repurchase period: From February 20, 2017 to May 31, 2017
(v) Method of repurchase: Open market purchase on the Tokyo Stock Exchange

(2) Financing for the acquisition of Merkle

Aegis Group Holdings Ltd. (a wholly owned subsidiary of Dentsu Aegis Network Ltd.) received the following borrowings from financial institutions, as the fund for the acquisition of Merkle, which the Company acquired on September 1, 2016.

A. Borrower: Aegis Group Holdings Ltd.
B. The amount of Borrowings: $1,300 million
C. Interest rate: floating interest (LIBOR + Spread)
D. Financial institutions: The Bank of Tokyo-Mitsubishi UFJ, Ltd. and two other banks
E. Date of borrowing: March 15, 2017
F. Repayment date and amount: $1,100 million (March 15, 2024)
$200 million (March 15, 2022)
G. Collateral or guarantee: Guaranteed by Dentsu Aegis Network Ltd.
H. Other: None

Short-term borrowings of $770 million made for the acquisition of Merkle was repaid on March 15, 2017, using the above borrowings.

39. CONSOLIDATED STATEMENT OF INCOME (2015 JANUARY–DECEMBER)

Consolidated statement of income assuming that the fiscal year of the Group had been the twelve-month period from January 1, 2015 to December 31, 2015 is as follows:

	(Millions of Yen) (From January 1, 2015 to December 31, 2015)
(Turnover (Note 1))	¥4,990,854
Revenue	818,566
Cost	56,570
Gross profit	761,996
Selling, general and administrative expenses	636,268
Other income	15,455
Other expenses	12,970
Operating profit	128,212
Share of results of associates	4,515
Profit before interest and tax	132,727
Finance income	6,125
Finance costs	12,114
Profit before tax	126,739
Income tax expense	37,637
Profit for the year	¥89,101
Profit attributable to:	
Owners of the parent	¥83,090
Non-controlling interests	¥6,011
Earnings per share	(Yen)
Basic earnings per share	¥289.95
Diluted earnings per share	¥289.92

Reconciliation from operating profit to underlying operating profit

	(Millions of Yen) (From January 1, 2015 to December) 31, 2015
Operating profit	¥128,212
Amortization of intangible assets incurred in acquisitions	22,798
Other adjusting items (selling, general and administrative expenses)	6,225
Other adjusting items (other income)	(5,180)
Other adjusting items (other expenses)	8,382
Underlying operating profit	¥160,438

(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, please refer to "3. SIGNIFICANT ACCOUNTING POLICIES (21) Underlying Operating Profit."

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Dentsu Inc.:

We have audited the accompanying consolidated statement of financial position of Dentsu Inc. and its consolidated subsidiaries as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the fiscal year from January 1, 2016 to December 31, 2016, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dentsu Inc. and its consolidated subsidiaries as of December 31, 2016, and the consolidated results of their operations and their cash flows for the fiscal year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in "2. BASIS OF PREPARATION—(3) Functional Currency and Presentation Currency." Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

March 30, 2017

Member of
Deloitte Touche Tohmatsu Limited