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, 2017 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Arinobu Soga, Director, Executive Officer, on March 29, 2018.

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 ¥113.00 to U.S.$1, the approximate rate of exchange at the end of December 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into United States dollars at the above or any other rate.

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

(4) Early 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).

3. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Consolidation

A. Subsidiaries

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

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

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

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

B. Associates and Joint Ventures

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

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

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

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

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

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

C. Transactions Eliminated Under Consolidation

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

(2) Business Combinations

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

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

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

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

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

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

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

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

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

(3) Foreign Currency Translation

A. Translation of Foreign Currency Transactions

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

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

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

B. Translation of Foreign Operations

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

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

(4) Financial Instruments

A. Non-derivative Financial Assets

(i) Initial Recognition and Measurement

The Group initially recognizes trade and other receivables on the date of occurrence. All other financial assets are initially recognized on the transaction date when the Group became the contracting party for the financial asset.

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

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

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

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

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

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

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

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

B. Impairment of Financial Assets 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 using 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, impairment losses previously recognized are reversed by the amount of such 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 (Including put option liabilities. Refer to "(2) Business combination" for contingent consideration.)
(i) Initial Recognition and Measurement
The Group initially recognizes debt securities on the date of issue. All other financial liabilities are initially recognized on the transaction date when the Group becomes the contracting party for the financial liability.

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

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

(ii) Subsequent Measurement
After initial recognition, financial liabilities are measured based on the classification as follows. However, put option liabilities are measured at the present value of the redemption amount, with changes recognized as profit or loss.
(a) Financial Liabilities Measured at Amortized Cost
Subsequent to initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest rate method.
(b) Financial Liabilities Measured at Fair Value Through Profit or Loss
Subsequent to initial recognition, financial liabilities measured at fair value through profit or loss are remeasured at fair value at each reporting period end and changes in fair value are recognized in profit or loss.
(iii) Derecognition
A financial liability is derecognized when the obligation is fulfilled, discharged, or expired.

D. Derivative Financial Instruments and Hedge Accounting
The Group utilizes derivative financial instruments, such as foreign exchange contracts and interest rate swap contracts, to hedge its foreign currency risks and interest rate risks, respectively.

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

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

Derivative financial instruments are initially recognized at fair value. In addition, derivatives are measured at fair value after initial recognition and changes in fair value are accounted for as follows:
(i) Cash Flow Hedge
Regarding gains or losses on hedging instruments where heages are effective, changes in fair value are recognized in other comprehensive income, and are reclassified from other comprehensive income to profit or loss

when the cash flows from the hedged items affect profit or loss.

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

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

(ii) Hedge of Net Investment in Foreign Operations

Translation differences resulting from the hedges of net investment in foreign operations are accounted for similarly to cash flow hedges.

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

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

(iii) Derivative Financial Instruments not Designated as Hedges

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

E. Offsetting of Financial Instruments

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

(5) Cash and Cash Equivalents

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

(6) Inventories

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

(7) Property, Plant and Equipment (Excluding Leased Assets)

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

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

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

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

・Buildings and structures: 2 to 100 years

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

(8) Goodwill and Intangible Assets

A. Goodwill

Goodwill is not amortized and is measured at acquisition cost less accumulated impairment losses.

B. Intangible Assets (Excluding Leased Assets)

Cost model is applied for subsequent measurement of intangible assets, and are measured at acquisition cost less accumulated amortization and accumulated impairment losses.

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

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

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

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

・Software: 3 to 5 years

・Customer relationships: Effective period (mainly 5 to 18 years)

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

(9) Leases

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 their lease terms.

(10) Investment Property

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

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

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

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

(11) Impairment of Non-financial Assets

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

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

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

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

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

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

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

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

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

(13) Post-employment Benefits

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

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

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

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

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

(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 recorded based on fixed or certain fee.

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 in accordance with IFRS.

(16) Finance Income and Finance Expenses

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

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

(17) Income Taxes

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

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

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

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

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

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

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

(18) Equity

A. Share Capital and Share Premium Account

Equity instruments issued by the Company are recorded in share capital and share premium account. Transaction costs directly attributable to the issuance of an equity instrument are deducted from equity.

B. Treasury Shares

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

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

(19) Earnings per Share

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

(20) Share-based Payments

Certain subsidiaries grant cash-settled share-based payment plans.

For cash-settled share-based payments, services received and the liability incurred are measured at the fair value of the liability. The Group recognizes expense and liability, as the employees render services during the vesting period.

The fair value of the liability is remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss.

(21) Underlying Operating Profit

The underlying operating profit is calculated by eliminating from operating profit certain adjusting items such as amortization of intangible assets incurred in acquisition, cost associated with M&A, share-based compensation expense attributable to the acquiree, impairment, and gain or loss on sale of property, plant and equipment, 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.

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 ("34. FINANCIAL INSTRUMENTS")
・Valuation of defined benefit obligations (“23. POST-EMPLOYMENT BENEFITS”)
・Provisions ("22. PROVISIONS")
・Recoverability of deferred tax assets ("19. INCOME TAXES")

5. NEW ACCOUNTING STANDARDS NOT YET ADOPTED BY THE GROUP

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

The Group does not anicipate that the adoption of IFRS 15 will have a material impact on income.

The adoption of IFRS 9, IFRS 2 and IAS 40 will not have a material impact.

The impact of adoption of IFRS16 and IFRIC23 are being 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 31, 2018	Amendments for accounting treatment for recognizing revenue
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending December 31, 2018	Amendments for impairment requirements and hedge accounting
IFRS 2	Share-based Payment	January 1, 2018	Fiscal year ending December 31, 2018	Clarification of classification and measurement of shared-based payment transactions
IAS 40	Investment Property	January 1, 2018	Fiscal year ending December 31, 2018	Requirements for transfers to, or from, investment properties
IFRS 16	Leases	January 1, 2019	Fiscal year ending December 31, 2019	Amendments for accounting treatment for lease arrangements
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	Fiscal year ending December 31, 2019	Amendments for accounting treatment for uncertainty over income tax treatments

6. SEGMENT INFORMATION

(1) Description of reportable segments

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

The Group is mainly engaged in providing communication-related services focusing on advertising, and manages its Japan business and international business separately.

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

(2) Information on reportable segments

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

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

Intersegment revenues are based on the prevailing market price.

FY2016: Year ended December 31, 2016

(Millions of Yen)

	Japan business	International business	Total	Adjustments	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
Revenue less cost of sales (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 profits of investments accounted for using the equity method	–	–	–	–	3,362
Finance income	–	–	–	–	5,104
Finance expenses	–	–	–	–	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

FY2017: Year ended December 31, 2017

(Millions of Yen)

	Japan business	International business	Total	Adjustments	Consolidated
Turnover (Note1)	¥1,865,117	¥3,329,418	¥5,194,536	¥(7,235)	¥5,187,300
Revenue (Note 2)	416,671	519,405	936,077	(7,235)	928,841
Revenue less cost of sales (Note 3)	361,902	516,052	877,954	(331)	877,622
Segment profit (underlying operating profit) (Note 3)	88,801	75,146	163,948	(1)	163,946
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(31,779)
Other adjusting items (selling, general and administrative expenses) (Note 5)	–	–	–	–	(5,265)
Other adjusting items (other income) (Note 5)	–	–	–	–	15,410
Other adjusting items (other expenses) (Note 5)	–	–	–	–	(4,919)
Operating profit	–	–	–	–	137,392
Share of profits of investments accounted for using the equity method	–	–	–	–	4,222
Finance income	–	–	–	–	20,302
Finance expenses	–	–	–	–	12,254
Profit before tax	–	–	–	–	149,662
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	9,477	14,330	23,807	–	23,807
Segment assets (Note 4)	1,337,776	2,373,085	3,710,862	(148,005)	3,562,857
(Other asset items)					
Investments accounted for using the equity method	55,726	1,026	56,752	–	56,752
Capital expenditures	¥9,659	¥18,108	¥27,767	–	¥27,767

FY2017: Year ended December 31, 2017

(Millions of U.S. Dollars)

	Japan business	International business	Total	Adjustments	Consolidated
Turnover (Note1)	$16,505	$29,464	$45,969	$(64)	$45,905
Revenue (Note 2)	3,687	4,597	8,284	(64)	8,220
Revenue less cost of sales (Note 3)	3,203	4,567	7,770	(3)	7,767
Segment profit (underlying operating profit) (Note 3)	786	665	1,451	(0)	1,451
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(281)
Other adjusting items (selling, general and administrative expenses) (Note 5)	–	–	–	–	(47)
Other adjusting items (other income) (Note 5)	–	–	–	–	136
Other adjusting items (other expenses) (Note 5)	–	–	–	–	(44)
Operating profit	–	–	–	–	1,216
Share of profits of investments accounted for using the equity method	–	–	–	–	37
Finance income	–	–	–	–	180
Finance expenses	–	–	–	–	108
Profit before tax	–	–	–	–	1,324
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	84	127	211	–	211
Segment assets (Note 4)	11,839	21,001	32,839	(1,310)	31,530
(Other asset items)					
Investments accounted for using the equity method	493	9	502	–	502
Capital expenditures	$85	$160	$246	–	$246

(Note 1) Turnover represents the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of turnover information is not required under IFRS; however, it is voluntarily disclosed since management has concluded that the information is useful for users of the financial statements.
(Note 2) Adjustments for revenue are due to eliminations of intersegment transactions (same amount as for turnover).
(Note 3) Adjustments for revenue less cost of sales and segment profit (underlying operating profit) are due to eliminations of intersegment transactions.
(Note 4) Adjustments 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:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Other adjusting items (selling, general and administrative expenses)			
Early retirement benefits	¥5,183	¥366	$3
Costs associated with merger and acquisitions	3,579	1,795	16
Other	0	3,103	27
Total	¥8,762	¥5,265	$47
Other adjusting items (other income)			
Gain on sale of property, plant and equipment, intangible assets and investment property	¥6,506	¥14,441	$128
Gain on sale of investments in subsidiaries and affiliates	664	790	7
Other	351	178	2
Total	¥7,522	¥15,410	$136
Other adjusting items (other expenses)			
Loss on sale of property, plant and equipment, intangible assets and investment property	¥130	¥1,069	$9
Impairment losses (Note)	522	1,093	10
Other	2,483	2,757	24
Total	¥3,137	¥4,919	$44

(Note) Impairment losses in Japan business and International business are ¥216 million and ¥306 million, respectively, for the year ended December 31, 2016, and ¥451 million ($4 million) and ¥641 million ($6 million), respectively, for the year ended December 31, 2017.

(3) Information about products and services

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

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

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

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Advertising Services	¥767,867	¥857,439	$7,588
Information Services	66,443	67,531	598
Other Services	4,048	3,870	34
Total	¥838,359	¥928,841	$8,220

(4) Regional information

A. Revenue from external customers

Revenue attributable to the United States within the international business is ¥133,852 million for the year ended December 31, 2016 and ¥177,156 million ($1,568million) for the year ended December 31, 2017. In general, the amount is based on the customer's location.

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Japan business	¥213,617	¥212,894	$1,884
International business (mainly the United Kingdom and the United States)	1,010,768	1,093,805	9,680
Total	¥1,224,386	¥1,306,700	$11,564

(Note 1) Non-current assets are allocated according to the location of each group entity.

(Note 2) Within the International business, goodwill and intangible assets not tied to a specific country amounted to ¥718,447 million and ¥261,708 million, respectively, for the year ended December 31, 2016, and ¥798,177 million ($7,064million) and ¥262,312 million ($2,321million), respectively, for the year ended December 31, 2017.

(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

The Group's major acquiree acquired during the year ended December 31, 2017 are as follows:

Name of acquiree	Place of incorporation
Blue Infinity	Switzerland
Grant Advertising	Sri Lanka
Grant Agencies	Sri Lanka
Emerald	Vietnam
Leapfrog	USA
Divisadero	Spain
SVG	India
Accordant	Australia
Sesliharfler	Turkey
Outfox	Sweden
Paragon	India
Novus	Singapore
The Customer Framework	UK
Gleam	UK
Dwi Sapta	Indonesia
media.at	Austria
Aquila	UK
Sokrati	India
Little Giant	New Zealand
Carat SA	Australia
Swirl	USA
Oxyma	Netherlands
Klipdesk	Australia
DWA	Singapore
HelloWorld	USA
mcgarrybowen HK	Hong Kong

The acquisitions were entered into to strengthen the Group’s operations and increase its market share around the world, especially in faster growing regions; and to enhance its servicing capabilities in media and digital.

During the period, the Group acquired multiple subsidiaries. As the impact of each acquition is not significant on the consolidated financial statements of the Group, The Group has taken the exemption, which allows for the non-disclosure on each acquisition basis.

Total consideration for acquisitions of subsidiaries is ¥74,265 million ($657 million), consisting of cash consideration of ¥53,195 million ($471 million) and deferred consideration, which is subject to performance criteria of the acquiree, of ¥21,070 million ($186 million).

Acquisition related costs is ¥1,795 million ($16 million).

The fair values of the identifiable assets and liabilities acquired through all acquisitions, total consideration, non-controlling interests and goodwill as of the date of acquisitions are as follows:

	(Millions of Yen)	(Millions of U.S. Dollars)
Total assets	¥58,599	$519
Total liabilities	37,761	334
Fair value of identifiable net assets	20,839	184
Total consideration	74,265	657
Non-controlling interests (Note 1)	2,211	20
Goodwill (Note 2)	¥55,637	$492

(Note 1) Non-controlling interests were measured by multiplying the shareholding ratio after the business combination by the fair values of identifiable net assets of the acquiree at the date control was acquired, excluding the portion individually attributable to non-controlling shareholders.
(Note 2) Goodwill reflects the expected future excess earning power. The total amount of goodwill that is expected to be deductible for tax purposes is ¥3,960 million ($35 million).

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

Post-acquisition revenue and profit of acquisitions during the year ended December 31, 2017 were ¥16,503 million ($146 million) and ¥334 million ($3 million), respectively.

(Pro forma information)

Assuming that the business combinations were executed at the beginning of the current fiscal year, revenue and profit of the consolidated statement of income for the year ended December 31, 2017 would be ¥948,047 million ($8,390 million) and ¥111,938 million ($991 million), respectively.

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

8. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Cash and time deposits due within three months	¥242,410	¥305,760	$2,706

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

The above amount is after eliminating the deposit into the cash pooling account which the Company considers as loans to Dentsu Aegis Network Ltd. amounting to ¥100,000 million and ¥100,000 million ($885 million), respectively, as of December 31, 2016 and December 31, 2017.

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Notes and accounts receivable-trade	¥1,245,919	¥1,376,672	$12,183
Other	29,469	34,009	301
Allowance for doubtful accounts	(345)	(227)	(2)
Total	¥1,275,044	¥1,410,454	$12,482

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

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

10. INVENTORIES

The breakdown of inventories is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Work-in-process	¥17,408	¥20,430	$181
Other	1,453	1,643	15
Total	¥18,862	¥22,074	$195

The amount of inventories recognized as expense by sales was ¥46,599 million for the year ended December 31, 2016 and ¥48,879 million ($433 million) for the year ended December 31, 2017. In addition, the amount of write-down of inventories recognized as expense was ¥609 million for the year ended December 31, 2016 and ¥743 million ($7 million) for the year ended December 31, 2017. There was no reversal of write-down of inventories for the year ended December 31, 2016 and for the year ended December 31, 2017.

11. OTHER FINANCIAL ASSETS

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Derivative assets	¥26,240	¥18,886	$167
Equity securities	180,720	288,543	2,553
Debt securities	5	5	0
Other	53,739	63,958	566
Allowance for doubtful accounts	(18,167)	(22,104)	(196)
Total	¥242,538	¥349,290	$3,091
Current assets	17,814	21,934	194
Non-current assets	224,723	327,356	2,897
Total	¥242,538	¥349,290	$3,091

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

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

Derivative assets are classified as financial assets measured at fair value through profit or loss, equity securities are classified as financial assets measured at fair value through other comprehensive income, and debt securities are classified as financial assets measured at amortized cost. Of the "Other", ¥3,309 million and ¥3,343 million ($30 million), respectively as of December 31, 2016 and 2017 are classified as financial assets measured at fair value through profit or loss, ¥9,343 million and ¥11,785 million ($104 million) ,respectively, as of December 31, 2016 and 2017 are classified as financial assets measured at fair value through other comprehensive income, remainder is classified as financial assets measured at amortized cost.

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

	(Millions of Yen)
Investees	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 Yen) FY2017 (As of December 31, 2017)
Recruit Holdings Co., Ltd.	¥176,400
Digital Garage, Inc.	9,827
Macromill,Inc.	7,890
Tokyo Broadcasting System Holdings, Inc.	7,203
Perform Group Limited	5,363
Asahi Group Holdings, Ltd.	5,133
Lion Corporation	3,830
Workpoint Entertainment Public Company Limited	3,634
TV Asahi Holdings Corporation	3,249
TOHO CO., LTD.	3,158

Investees	(Millions of U.S. Dollars) FY2017 (As of December 31, 2017)
Recruit Holdings Co., Ltd.	$1,561
Digital Garage, Inc.	87
Macromill,Inc.	70
Tokyo Broadcasting System Holdings, Inc.	64
Perform Group Limited	47
Asahi Group Holdings, Ltd.	45
Lion Corporation	34
Workpoint Entertainment Public Company Limited	32
TV Asahi Holdings Corporation	29
TOHO CO., LTD.	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 enhance the efficiency of assets held and to use them effectively, sales (derecognition) of financial assets measured at fair value through other comprehensive income are being carried out.

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

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

FY2017: Year ended December 31, 2017

(Millions of Yen)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
¥4,945	¥1,113

FY2017: Year ended December 31, 2017

	(Millions of U.S. Dollars)
Fair value	Cumulative gain or loss recognized in equity as other components of equity
$44	$10

The cumulative gain or loss recognized in equity as other components of equity are transferred to retained earnings when an equity instrument is sold or its fair value declined significantly.

12. OTHER CURRENT ASSETS

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Advance payments which are expected to be recognized in profit and loss after more than 12 months	¥9,298	¥5,393	$48

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, 2016 and 2017 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)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Non-current assets classified as held for sale			
Cash and cash equivalents	–	¥10	$0
Trade and other receivables	–	857	8
Inventories	–	26	0
Other financial assets	–	0	0
Other current assets	–	9	0
Property, plant and equipment	3,357	63	1
Intangible assets	–	5	0
Investments accounted for using the equity method	–	804	7
Other financial assets (non-current)	–	5	0
Deferred tax assets	–	53	0
Total	¥3,357	¥1,835	$16
Liabilities directly associated with non-current assets classified as held for sale			
Trade and other payables	–	¥266	$2
Other financial liabilities (current)	–	11	0
Income tax payables	–	21	0
Other current liabilities	–	21	0
Other financial liabilities (non-current)	8	1	0
Liability for retirement benefits	–	120	1
Provisions (non-current)	–	14	0
Total	¥8	¥456	$4

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.

Non-current assets classified as held for sale as of December 31, 2017 consist of assets and liabilities related to subsidiaries and affiliated companies accounted for under the equity method classified as disposal groups in the Japan business.

14. PROPERTY, PLANT AND EQUIPMENT

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

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

FY2017: Year ended December 31, 2017

(Millions of Yen)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	¥65,033	¥111,263	¥17,460	¥193,757
Additions	9,434	279	8,492	18,207
Acquisitions through business combinations	129	–	853	982
Sales or disposals	(455)	(1,101)	(326)	(1,884)
Depreciation	(7,374)	–	(7,282)	(14,657)
Impairment losses	(60)	–	(15)	(76)
Exchange differences on translation of foreign operations	138	39	397	575
Other	(251)	–	6	(245)
Balance at the end of the year	¥66,593	¥110,480	¥19,584	¥196,659

FY2017: Year ended December 31, 2017

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	$576	$985	$155	$1,715
Additions	83	2	75	161
Acquisitions through business combinations	1	–	8	9
Sales or disposals	(4)	(10)	(3)	(17)
Depreciation	(65)	–	(64)	(130)
Impairment losses	(1)	–	(0)	(1)
Exchange differences on translation of foreign operations	1	0	4	5
Other	(2)	–	0	(2)
Balance at the end of the year	$589	$978	$173	$1,740

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

(Millions of Yen)

	Buildings and structures	Land	Other	Total
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
FY2017 (As of December 31, 2017)				
Acquisition cost	¥139,100	¥110,485	¥67,757	¥317,343
Accumulated depreciation and impairment losses	72,506	4	48,173	120,684
Carrying amount	66,593	110,480	19,584	196,659

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
FY2017 (As of December 31, 2017)				
Acquisition cost	$1,231	$978	$600	$2,808
Accumulated depreciation and impairment losses	642	0	426	1,068
Carrying amount	589	978	173	1,740

The carrying amount of property, plant and equipment above includes the carrying amount of the following leased assets.

(Millions of Yen)

Leased assets	Buildings and structures	Other	Total
FY2016 (As of December 31, 2016)	¥8	¥1,736	¥1,744
FY2017 (As of December 31, 2017)	7	2,361	2,369

(Millions of U.S. Dollars)

Leased assets	Buildings and structures	Other	Total
FY2017 (As of December 31, 2017)	$0	$21	$21

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."

15. GOODWILL AND INTANGIBLE ASSETS

(1) Schedule of goodwill and intangible assets

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

FY2016: Year ended December 31, 2016

(Millions of Yen)

	Goodwill	Customer relationships	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

FY2017: Year ended December 31, 2017

(Millions of Yen)

	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	¥718,717	¥172,712	¥24,138	¥77,223	¥992,791
Additions	–	–	10,162	725	10,888
Acquisitions through business combinations	55,637	14,404	154	7,503	77,700
Sales or disposals	–	–	(165)	94	(71)
Amortization	–	(20,926)	(8,099)	(11,333)	(40,358)
Impairment losses	(946)	(42)	(17)	(9)	(1,016)
Exchange differences on translation of foreign operations	24,489	6,200	811	1,071	32,573
Other	280	(30)	(54)	(21)	174
Balance at the end of the year	¥798,177	¥172,318	¥26,930	¥75,253	¥1,072,680

FY2017: Year ended December 31, 2017

(Millions of U.S. Dollars)

	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	$6,360	$1,528	$214	$683	$8,786
Additions	–	–	90	6	96
Acquisitions through business combinations	492	127	1	66	688
Sales or disposals	–	–	(1)	1	(1)
Amortization	–	(185)	(72)	(100)	(357)
Impairment losses	(8)	(0)	(0)	(0)	(9)
Exchange differences on translation of foreign operations	217	55	7	9	288
Other	2	(0)	(0)	(0)	2
Balance at the end of the year	$7,064	$1,525	$238	$666	$9,493

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

(Millions of Yen)

	Goodwill	Customer relationships	Software	Other	Total
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
FY2017 (As of December 31, 2017)					
Acquisition cost	¥798,447	¥252,941	¥114,786	¥117,138	¥1,283,314
Accumulated amortization and impairment losses	269	80,623	87,855	41,885	210,634
Carrying amount	798,177	172,318	26,930	75,253	1,072,680

(Millions of U.S. Dollars)

	Goodwill	Customer relationships	Software	Other	Total
FY2017 (As of December 31, 2017)					
Acquisition cost	$7,066	$2,238	$1,016	$1,037	$11,357
Accumulated amortization and impairment losses	2	713	777	371	1,864
Carrying amount	7,064	1,525	238	666	9,493

The carrying amount of intangible assets above includes the carrying amount of the following leased assets.

(Millions of Yen)

Leased assets	Software
FY2016 (As of December 31, 2016)	¥230
FY2017 (As of December 31, 2017)	249

(Millions of U.S. Dollars)

Leased assets	Software
FY2017 (As of December 31, 2017)	$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, 2016 and 2017, arose from the international business segment which forms a group of cash generating units, and amounted to ¥718,447 million and ¥798,177 million ($7,064 million) as of December 31, 2016 and 2017, respectively.

Significant intangible assets other than goodwill as of December 31, 2016 and 2017, consist of customer relationships in the international business segment, which amounted to ¥172,712 million and ¥172,318 million ($1,525 million) as of December 31, 2016 and 2017, respectively. Among them, the amount recognized when the Company acquired Dentsu Aegis Network Ltd. in March 2013 was ¥114,297 million and ¥112,775 million ($998million) as of December 31, 2016 and 2017, respectively, which the remaining amortization period at December 31, 2017 is 13 years.

(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% (2.0% as of December 31, 2016) is set for cash flows beyond the four-year period.

The pre-tax discount rates used for determining value in use are 7.5% and 7.3% as of December 31, 2016 and 2017, respectively.

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

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 are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Not later than 1 year			
Total of future minimum lease payments	¥964	¥1,126	$10
Future finance costs	13	19	0
Present value	¥951	¥1,106	$10
Later than 1 year and not later than 5 years			
Total of future minimum lease payments	¥1,168	¥1,692	$15
Future finance costs	12	22	0
Present value	¥1,155	¥1,670	$15
Later than 5 years			
Total of future minimum lease payments	¥15	¥25	$0
Future finance costs	0	0	0
Present value	¥15	¥25	$0
Total			
Total of future minimum lease payments	¥2,148	¥2,844	$25
Future finance costs	26	41	0
Present value	¥2,122	¥2,802	$25

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

The total of future minimum lease payments under non-cancellable operating leases are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Not later than 1 year	¥24,347	¥22,997	$204
Later than 1 year and not later than 5 years	65,075	72,804	644
Later than 5 years	32,684	93,735	830
Total	¥122,106	¥189,537	$1,677

(3) Total of minimum lease payments

The total of minimum lease payments of operating lease contracts for the years ended December 31, 2016 and 2017 are ¥25,689 million and ¥30,326 million ($268 million), respectively.

17. INVESTMENT PROPERTY

(1) Schedule of investment property.

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (Nine months ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥41,642	¥37,837	$335
Additions	50	97	1
Depreciation	(637)	(572)	(5)
Sales or disposals	(3,215)	(2)	(0)
Other	0	–	–
Balance at the end of the year	¥37,837	¥37,360	$331
Acquisition cost (balance at the beginning of the year)	¥50,950	¥46,253	$409
Accumulated depreciation and impairment losses (balance at the beginning of the year)	9,308	8,416	74
Acquisition cost (balance at the end of the year)	¥46,253	¥46,345	$410
Accumulated depreciation and impairment losses (balance at the end of the year)	8,416	8,984	$80

(2) Fair value

The carrying amount and fair value of investment property are as follows:

			(Millions of Yen)		(Millions of U.S. Dollars)	
	FY2016 (As of December 31, 2016)		FY2017 (As of December 31, 2017)		FY2017 (As of December 31, 2017)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property (Level 3)	¥37,837	¥46,820	¥37,360	¥48,006	$331	$425

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

The investment property that is measured at fair value is categorized into the three levels of 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 associated with the investment property are as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Rental income	¥2,331	¥2,213	$20
Direct operating expenses	1,154	1,020	9

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

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Total of carrying amount	¥55,691	¥56,752	$502

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Profit for the year	¥3,362	¥4,222	$37
Other comprehensive income	(723)	396	4
Comprehensive income for the year	¥2,639	¥4,618	$41

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)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Unrecognized losses	¥42	¥1	$0

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Cumulative unrecognized losses	¥334	¥156	$1

19. INCOME TAXES

(1) Deferred tax assets and deferred tax liabilities

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

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017) (Millions of Yen)	FY2017 (As of December 31, 2017) (Millions of U.S. Dollars)
Deferred tax assets			
Liability for retirement benefits	¥29,904	¥25,546	$226
Accrued expenses	10,729	10,864	96
Carryforwards of tax losses	7,851	7,214	64
Other	6,316	10,911	97
Total deferred tax assets	¥54,801	¥54,536	$483
Deferred tax liabilities			
Gain on establishment of retirement benefit trust	¥(13,079)	¥(13,079)	$(116)
Unrealized gain on securities	(36,521)	(66,193)	(586)
Valuation differences on intangible assets	(63,483)	(57,046)	(505)
Other	(1,476)	(7,368)	(65)
Total deferred tax liabilities	¥(114,561)	¥(143,688)	$(1,272)
Net deferred tax assets (liabilities)	¥(59,759)	¥(89,151)	$(789)

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

	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017) (Millions of Yen)	FY2017 (Year ended December 31, 2017) (Millions of U.S. Dollars)
Net deferred tax assets (liabilities)			
Balance at the beginning of the year	¥(54,118)	¥(59,759)	$(529)
Deferred income taxes	4,691	12,042	107
Deferred taxes related to components of other comprehensive income			
Exchange differences on translation of foreign operations	1	0	0
Effective portion of the change in the fair value of cash flow hedges	1,601	392	3
Net change in financial assets measured at fair value through other comprehensive income	(6,966)	(29,887)	(264)
Remeasurements of defined benefit plans	1,492	(5,219)	(46)
Changes in deferred tax assets (liabilities) arising from business combinations, and others	(6,462)	(6,720)	(59)
Balance at the end of the year	¥(59,759)	¥(89,151)	$(789)

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

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

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017) (Millions of Yen)	FY2017 (As of December 31, 2017) (Millions of U.S. Dollars)
Deductible temporary differences	¥12,859	¥11,389	$101
Carryforwards of tax losses	64,152	55,925	495

The breakdown of carryforwards of tax losses by expiry date as of December 31, 2016 and 2017, 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)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Within 1 year	¥16,040	¥408	$4
Within 2 years	202	194	2
Within 3 years	379	491	4
Within 4 years	723	268	2
Within 5 years	501	1,094	10
Over 5 years	3,932	5,167	46
Indefinite periods	42,372	48,301	427
Total	¥64,152	¥55,925	$495

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 ¥126,014 million and ¥122,501 million ($1,084 million) as of December 31, 2016 and 2017, respectively.

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

(2) Income tax expense

The breakdown of income tax expense is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Current income taxes	¥48,264	¥48,562	$430
Deferred income taxes	(4,691)	(12,042)	(107)

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

Deferred income taxes decreased by ¥5,809 million ($51 million) due to tax reform in the United States in the year ended December 31, 2017.

(3) Reconciliation of effective tax rate

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

The Company is mainly subject to corporate tax, inhabitant tax and enterprise tax. The effective statutory tax rates calculated based on these taxes are 33.0% and 31.0% for the years ended December 31, 2016 and 2017, respectively. Foreign subsidiaries are subject to income taxes at their respective locations.

		(%)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)
Effective statutory tax rate	33.0	31.0
(Reconciliation)		
Non-deductible items, such as entertainment expenses	3.2	0.9
Non-taxable items, such as dividend income	(5.3)	(0.3)
Share of profits of investments accounted for using the equity method	(0.8)	(0.9)
Reduction of deferred tax assets (liabilities) at fiscal year end due to tax rate changes	0.1	(3.9)
Other	2.5	(2.4)
Income tax rate after applying of deferred tax accounting	32.8	24.4

20. TRADE AND OTHER PAYABLES

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

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017) (Millions of Yen)	FY2017 (As of December 31, 2017) (Millions of U.S. Dollars)
Notes and accounts payable—trade	¥1,172,829	¥1,315,941	$11,645
Other	57,667	64,933	575
Total	¥1,230,496	¥1,380,875	$12,220

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

(2) Assets pledged as collateral for liabilities

Assets pledged as collateral and corresponding liabilities are as follows:

Assets pledged as collateral	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017) (Millions of Yen)	FY2017 (As of December 31, 2017) (Millions of U.S. Dollars)
Other financial assets (current assets)	¥154	¥54	$0

Corresponding liabilities	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Notes and accounts payable	¥493	¥515	$5

In addition to the above, other financial assets (current assets) of ¥15 million ($0 million) are pledged as collateral for guarantee transactions related to the "Official Gazette" (*Kanpou*), sales etc as of December 31, 2016 and 2017.

21. BORROWINGS (INCLUDING OTHER FINANCIAL LIABILITIES)

(1) Breakdown of financial liabilities

The breakdown of borrowings (including other financial liabilities) is as follows:

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017) (Millions of Yen)	Date of maturity	FY2017 (As of December 31, 2017) (Millions of U.S. Dollars)
Derivative liabilities	¥4,478	¥3,451	–	$31
Put option liabilities	¥107,568	¥105,758	–	$936
Short-term borrowings	127,768	41,413	–	366
Current portion of long-term borrowings	2,722	47,912	–	424
Long-term borrowings	273,108	371,187	2018–2024	3,285
Other (mainly contingent consideration)	80,951	79,896	–	707
Total	¥596,597	¥649,619	–	$5,749
Current liabilities	¥157,272	¥132,355		$1,171
Non-current liabilities	439,325	517,263		4,578
Total	¥596,597	¥649,619		$5,749

Derivative liabilities include those to which hedge accounting is applied.

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

Borrowings are classified as financial liabilities measured at amortized cost. The average interest rates of short-term borrowings and long-term borrowings (including the current portion of long-term borrowings) for year ended December 31, 2017 are 2.96% and 1.83%, respectively.

"Other (mainly contingent consideration)" includes financial liabilities measured at fair value through profit or loss of ¥66,067 million and ¥61,932 million ($548 million) as of December 31, 2016 and 2017, respectively. Remaining amounts are classified as financial liabilities measured at amortized cost.

Financial covenants are attached to certain borrowings as of December 31, 2016 and 2017. The Group has complied with these covenants. The Group monitors these covenants to maintain the required level.

(2) Changes in liabilities arising from financing activities

FY2017: Year ended December 31, 2017

(Millions of Yen)

	Balance at the beginning of the year	Changes from cash flows fromfinancing activities	Non-cash changes			Balance at the end of the year
			Newly recogonized	Changes from remeasurements	Exchange differences and others	
Short-term borrowings	¥127,768	¥(95,990)	–	–	¥9,636	¥41,413
Long-term borrowings (Note 1)	275,831	151,641	–	–	(8,372)	419,099
Put option liabilities (Note 1, 2)	107,568	(5,396)	10,711	(5,186)	(1,938)	105,758
Total	¥511,167	¥50,254	¥10,711	¥(5,186)	¥(675)	¥566,271

FY2017: Year ended December 31, 2017

(Millions of U.S. Dollars)

	Balance at the beginning of the year	Changes from cash flows fromfinancing activities	Non-cash changes			Balance at the end of the year
			Newly recogonized	Changes from remeasurements	Exchange differences and others	
Short-term borrowings	$1,131	$(849)	–	–	$85	$366
Long-term borrowings (Note 1)	2,441	1,342	–	–	(74)	3,709
Put option liabilities (Note 1, 2)	952	(48)	95	(46)	(17)	936
Total	$4,524	$445	$95	$(46)	$(6)	$5,011

(Note1) The above includes current liabilities due within one year.

(Note2) Changes from remeasurements includes interest expense from the passage of time.

22. PROVISIONS

The breakdown and schedule of provisions are as follows:

FY2016: Year ended December 31, 2016

(Millions of Yen)

	Provisions for asset retirement 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

FY2017: Year ended December 31, 2017

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Other provisions	Total
Balance at the beginning of the year	¥1,247	¥64	¥4,162	¥5,475
Additional provisions in the year	596	625	1,981	3,203
Interest expense incurred over the discount period	5	–	–	5
Provisions used	(224)	(64)	(281)	(570)
Provisions reversed	–	(3)	(1,029)	(1,032)
Exchange differences on translation of foreign operations	0	–	(39)	(39)
Other	(27)	–	40	12
Balance at the end of the year	¥1,598	¥622	¥4,833	¥7,053
Current liabilities	¥28	¥622	¥1,419	¥2,070
Non-current liabilities	1,569	–	3,413	4,983
Total	¥1,598	¥622	¥4,833	¥7,053

FY2017: Year ended December 31, 2017

(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	$11	$1	$37	$48
Additional provisions in the year	5	6	18	28
Interest expense incurred over the discount period	0	–	–	0
Provisions used	(2)	(1)	(2)	(5)
Provisions reversed	–	(0)	(9)	(9)
Exchange differences on translation of foreign operations	0	–	(0)	(0)
Other	(0)	–	0	0
Balance at the end of the year	$14	$6	$43	$62
Current liabilities	$0	$6	$13	$18
Non-current liabilities	14	–	30	44
Total	$14	$6	$43	$62

(1) Provisions for asset retirement obligations

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

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

(2) Provisions for loss on order received

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

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 certain overseas consolidated subsidiaries operate defined contribution retirement benefit plans.

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

(1) Reconciliation of defined benefit obligations and plan assets

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Funded defined benefit obligations	¥118,043	¥121,816	$1,078
Plan assets	(101,369)	(119,037)	(1,053)
Subtotal	16,674	2,779	25
Unfunded defined benefit obligations	13,757	14,409	128
Total	¥30,431	¥17,188	$152
Balance recognized in the Consolidated Statement of Financial Position			
Liabilities for retirement benefits	¥31,377	¥19,210	$170
Assets for retirement benefits	(945)	(2,021)	(18)
Net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position	¥30,431	¥17,188	$152

(2) Schedule of defined benefit obligations

The schedule of defined benefit obligations is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥136,982	¥131,800	$1,166
Current service cost (Note 1)	6,752	7,431	66
Interest expense (Note 1)	1,015	626	6
Actuarial gains and losses (Note 2)	3,868	2,981	26
Benefits paid	(11,529)	(6,824)	(60)
Past service cost	(52)	–	–
Changes due to termination (curtailment or settlement) of defined benefit plans	(4,533)	–	–
Exchange differences on translation of foreign operations	(702)	353	3
Other	–	(143)	(1)
Balance at the end of the year	¥131,800	¥136,226	$1,206

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

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

The weighted average duration of defined benefit obligations as of December 31, 2016 and 2017 is as follows:

		(Years)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
Weighted average duration	9.7	9.7

(3) Schedule of plan assets

The schedule of plan assets is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥107,123	¥101,369	$897
Interest income	848	475	4
Return on plan assets (excluding amounts included in interest income)	(1,260)	19,763	175
Contributions by the employer	193	179	2
Contributions (refunds) associated with transfer to defined contribution pension plans	2,136	–	–
Benefits paid	(2,963)	(2,847)	(25)
Changes due to termination (curtailment or settlement) of defined benefit plans	(4,533)	–	–
Exchange differences on translation of foreign operations	(174)	96	1
Balance at the end of the year	¥101,369	¥119,037	$1,053

The Group plans to pay contributions of ¥204 million ($2 million) in the year ending December 31, 2018.

(4) Major breakdown of plan assets

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

	(Millions of Yen)						(Millions of U.S. Dollars)		
	FY2016 (As of December 31, 2016)			FY2017 (As of December 31, 2017)			FY2017 (As of December 31, 2017)		
	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	¥70,931	¥4	¥70,936	¥86,800	–	¥86,800	$768	–	$768
Debt instruments	1,151	80	1,231	2,705	66	2,771	24	1	25
General account of life insurance companies	–	15,716	15,716	–	12,504	12,504	–	111	111
Other	–	13,485	13,485	–	16,960	16,960	–	150	150
Total	¥72,082	¥29,286	¥101,369	¥89,506	¥29,531	¥119,037	$792	$261	$1,053

(Note) Plan assets above include retirement benefit trusts established for defined benefit corporate pension plans and retirement lump-sum payment plans of ¥70,841 million and ¥87,521 million ($775 million), as of December 31, 2016 and 2017, respectively.
As of December 31, 2016 and 2017, 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 are as follows:

		(%)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
Discount rate	0.5	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	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Discount rate	Increase by 0.5%	¥(6,074)	¥(5,802)	$(51)
	Decrease by 0.5%	¥6,572	¥6,286	$56

(6) Defined contribution plans

Expenses recognized due to contributions to defined contribution plans by the Company and consolidated subsidiaries amounted to ¥7,560 million and ¥9,218 million ($82 million) for the years ended December 31, 2016 and 2017, 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, 2016 and 2017 is 1,100,000,000 ordinary shares.

B. Fully paid and issued shares

The number of issued shares is as follows:

	Number of ordinary issued shares (Shares)
FY2016 (As of December 31, 2016)	288,410,000
Increase (decrease)	–
FY2017 (As of December 31, 2017)	288,410,000

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

(2) Treasury shares

A. Number of treasury shares is as follows:

	Number of shares (Shares)
FY2016 (As of December 31, 2016)	3,273,259
Increase (decrease)	3,237,823
FY2017 (As of December 31, 2017)	6,511,082

(Note) The above includes 2,600 shares of increase due to repurchase of shares less than one unit, and 77 shares of decrease due to sales of shares less than one unit.

B. Repurchase of treasury shares

The Company executed the repurchase of treasury shares as follows, based on the resoluation by the Board of Directors held on February 14, 2017, in accordance with article 156 of the Companies Act applied with article 165, paragraph 3 of the Companies Act, and the articles of incorporation of the Company.

(i) Type of shares repurchased: Ordinary shares of the Company

(ii) Total number of repurchased shares: 3,235,300 shares

(iii) Total amount of repurchased shares: ¥19,999 million ($177million)

(iv) Repurchase period: From February 20, 2017 to May 17, 2017

(v) Repurchase method: Market purchase at Tokyo Stock Exchage

(3) Reserves

A. Share premium account

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

B. Retained earnings

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

(4) Transactions with non-controlling interests in subsidiaries

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

25. DIVIDENDS

(1) Dividends paid

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

FY2017: Year ended December 31, 2017

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 14, 2017)	Ordinary shares	¥12,831	¥45.00	December 31, 2016	March 9, 2017
Board of Directors (August 9, 2017)	Ordinary shares	¥12,685	¥45.00	June 30, 2017	September 1, 2017

FY2017: Year ended December 31, 2017

Resolution	Class of shares	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 14, 2017)	Ordinary shares	$114	$0.40	December 31, 2016	March 9, 2017
Board of Directors (August 9, 2017)	Ordinary shares	$112	$0.40	June 30, 2017	September 1, 2017

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

FY2016: Year ended December 31, 2016

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

FY2017: Year ended December 31, 2017

Resolution	Class of shares	Source of dividends	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 13, 2018)	Ordinary shares	Retained earnings	¥12,685	¥45.00	December 31, 2017	March 8, 2018

FY2017: Year ended December 31, 2017

Resolution	Class of shares	Source of dividends	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 13, 2018)	Ordinary shares	Retained earnings	$112	$0.40	December 31, 2017	March 8, 2018

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)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Staff costs	¥444,657	¥500,855	$4,432
Depreciation and amortization	43,576	53,217	471
Other	171,652	197,884	1,751
Total	¥659,885	¥751,957	$6,654

(Note) "Other" includes research and development expenses of ¥936 million and ¥1,134 million ($10 million) for the years ended December 31, 2016 and 2017, respectively.

27. STAFF COSTS

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

	FY2016 (Year ended December 31, 2016)	(Millions of Yen) FY2017 (Year ended December 31, 2017)	(Millions of U.S. Dollars) FY2017 (Year ended December 31, 2017)
Salaries, bonuses and allowances	¥388,417	¥438,515	$3,881
Welfare expenses	56,840	65,517	580
Post-employment benefits costs	14,590	17,072	151
Other	5,183	366	3
Total	¥465,031	¥521,472	$4,615

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

28. OTHER INCOME

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

	FY2016 (Year ended December 31, 2016)	(Millions of Yen) FY2017 (Year ended December 31, 2017)	(Millions of U.S. Dollars) FY2017 (Year ended December 31, 2017)
Profit distributions	¥6,262	¥6,405	$57
Foreign exchange gains	1,453	–	–
Gain on sale of property, plant and equipment, intangible assets and investment property	6,506	14,441	128
Other	2,365	2,499	22
Total	¥16,588	¥23,347	$207

29. OTHER EXPENSES

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

	FY2016 (Year ended December 31, 2016)	(Millions of Yen) FY2017 (Year ended December 31, 2017)	(Millions of U.S. Dollars) FY2017 (Year ended December 31, 2017)
Amortization of long-term prepaid expenses	¥3,684	¥4,073	$36
Loss on sale of property, plant and equipment, intangible assets and investment property	130	1,069	9
Impairment losses	522	1,093	10
Cash-settled share-based payment	446	2,046	18
Foreign exchange losses	–	625	6
Other	3,278	2,713	24
Total	¥8,063	¥11,620	$103

30. FINANCE INCOME AND FINANCE COSTS

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

	FY2016 (Year ended December 31, 2016)	(Millions of Yen) FY2017 (Year ended December 31, 2017)	(Millions of U.S. Dollars) FY2017 (Year ended December 31, 2017)
Interest income			
Financial assets measured at amortized cost	¥1,743	¥2,137	$19
Dividend income			
Financial assets measured at fair value through other comprehensive income	2,583	3,407	30
Changes in fair value of contingent consideration	–	8,499	75
Revaluation of put option liabilities	–	5,186	46
Dividend income and asset management gains from insurance	559	584	5
Other (Note)	218	486	4
Total	¥5,104	¥20,302	$180

(Note) "Other" includes finance income arising from financial instruments measured at fair value through profit or loss of ¥17 million and ¥8 million ($0 million) for the years ended December 31, 2016 and 2017, respectively.

The breakdown of dividend income is as follows:

	FY2016 (Year ended December 31, 2016)	(Millions of Yen) FY2017 (Year ended December 31, 2017)	(Millions of U.S. Dollars) FY2017 (Year ended December 31, 2017)
Financial assets derecognized during the fiscal year	¥477	¥101	$1
Financial assets held at the end of the fiscal year	2,105	3,305	29

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

	FY2016 (Year ended December 31, 2016)	(Millions of Yen) FY2017 (Year ended December 31, 2017)	(Millions of U.S. Dollars) FY2017 (Year ended December 31, 2017)
Interest expense			
Financial liabilities measured at amortized cost	¥7,474	¥11,366	$101
Other	211	156	1
Changes in fair value of contingent consideration	3,400	–	–
Revaluation of put option liabilities	1,444	–	–
Foreign exchange losses (Note 1)	325	318	3
Other (Note 2)	375	412	4
Total	¥13,230	¥12,254	$108

(Note1) Foreign exchange losses include valuation loss on currency derivatives.
(Note2) "Other" includes finance expenses arising from financial instruments measured at fair value through profit or loss of ¥160 million and ¥41 million ($0 million) for the years ended December 31, 2016 and 2017, 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)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Exchange differences on translation of foreign operations			
Amount arising during the year	¥(132,961)	¥32,460	$287
Reclassification adjustments	(715)	226	2
Before tax effects	(133,676)	32,686	289
Tax effects	1	0	0
Exchange differences on translation of foreign operations	¥(133,674)	¥32,687	$289
Effective portion of the change in the fair value of cash flow hedges			
Amount arising during the year	¥(3,929)	¥(5,869)	$(52)
Reclassification adjustments	(774)	4,588	41
Before tax effects	(4,703)	(1,280)	(11)
Tax effects	1,601	392	3
Effective portion of the change in the fair value of cash flow hedges	¥(3,101)	¥(888)	$(8)
Net change in financial assets measured at fair value through other comprehensive income			
Amount arising during the year	¥24,538	¥96,609	$855
Before tax effects	24,538	96,609	855
Tax effects	(6,966)	(29,887)	(264)
Net change in financial assets measured at fair value through other comprehensive income	¥17,571	¥66,721	$590
Remeasurements of defined benefit plans			
Amount arising during the year	¥(5,147)	¥16,782	$149
Before tax effects	(5,147)	16,782	149
Tax effects	1,492	(5,219)	(46)
Remeasurements of defined benefit plans	¥(3,655)	¥11,563	$102
Share of other comprehensive income of investments accounted for using the equity method			
Amount arising during the year	¥(723)	¥396	$4
Share of other comprehensive income of investments accounted for using the equity method	¥(723)	¥396	$4

32. EARNINGS PER SHARE

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

		(Yen)	(U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Basic earnings per share	¥292.85	¥373.11	$3.30
Diluted earnings per share	¥292.84	¥373.10	$3.30

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
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	¥83,501	¥105,478	$933
Amounts not attributable to ordinary equity holders of the parent	–	–	–
Profit for the year used for calculation of basic earnings per share	83,501	105,478	933
Adjustment			
Share options issued by associates	(2)	(1)	(0)
Profit for the year used for calculation of diluted earnings per share	¥83,499	¥105,476	$933
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)	285,138	282,702	
Effect of dilutive potential ordinary shares (Thousands of shares)	–	–	
Weighted average number of ordinary shares outstanding used for the calculation of diluted earnings per share (Thousands of shares)	285,138	282,702	

33. SHARE-BASED PAYMENTS

Certain subsidiaries of the Company adopts 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 between four and 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 and ¥2,046 million ($18 million) for the years ended December 31, 2016 and 2017, respectively, and the corresponding liability as of December 31, 2016 and 2017 are ¥6,877 million and ¥8,568 million ($76 million), respectively.

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)		FY2017 (Year ended December 31, 2017)		FY2017 (Year ended December 31, 2017)
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Weighted Average Exercise Price
Balance at the beginning of the year	–	¥–	771,271	¥8,821	$78.06
Increase due to business combination	624,732	6,304	–	–	–
Granted	171,375	15,091	287,606	15,550	137.61
Exercised	(1,610)	7,095	(16,546)	7,011	62.04
Forfeited	(8,300)	7,852	(63,138)	11,408	100.96
Repurchased	(14,926)	5,959	(19,264)	6,123	54.19
Balance at the end of the year	771,271	8,821	959,929	10,573	93.57
Exercisable at the end of the year	300,850	¥5,892	460,375	¥8,033	$71.09

1. The weighted average remaining life of the cash-settled share-based payments plans is 8.2 years and 7.8 years as of December 31, 2016 and 2017, respectively.
2. The weighted average share price upon exercise is ¥15,091 and ¥15,550 ($137.61) for the years ended December 31, 2016 and 2017, respectively.
3. The intrinsic value of the cash-settled share-based payments vested in the years ended December 31, 2016 and 2017 is ¥3,918 million and ¥7,704 million ($68 million), respectively.

The weighted-average fair value at the measurement date of the stock options granted during the year ended December 31, 2017 is ¥10,737 ($95.02).

Fair value is measured as follows:

			(U.S. Dollars)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Valuation method used	Black-Scholes model	Black-Scholes model	Black-Scholes model
Key inputs and assumptions:			
Grant date share price	¥22,069	¥24,006	212.44
Exercise price	¥15,091	¥15,550	137.61
Expected volatility (Note)	31.0%	30.0%	
Option life	4.0–4.2 years	3.3 years	
Dividend yield	0%	0%	
Risk-free interest rate	2%	3%	

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

34. 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, 2016 and 2017 are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Total equity attributable to owners of the parent	¥932,742	¥1,093,211	$9,674
Underlying ROE (%)	11.3	10.6	

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (From January 1,2015 to December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Profit for the year (attributable to owners of the parent)	¥83,501	¥105,478	$933
(Adjustment items)			
Adjustment items related to operating profit	28,883	26,554	235
Revaluation of contingent consideration and share put option	4,844	(13,686)	(121)
Tax expenses related to the above items and effects from tax regulation changes	(3,637)	(9,239)	(82)
Others	(620)	(1,232)	(11)
Underlying profit for the year (attributable to owners of parent)	¥112,972	¥107,874	$955

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

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

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

(3) Credit risk

A. Credit risk management

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

The 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 trade and other receivables in the Consolidated Statement of Financial Position.

Maximum exposure to credit risk associated with guarantee obligations is the balance of the contingent liabilities described in "36. Contingent liabilities."

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, 2016 and 2017 is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Within 30 days	¥120,917	¥159,987	$1,416
Over 30 days, within 60 days	39,659	51,205	453
Over 60 days, within 90 days	19,132	22,400	198
Over 90 days	24,986	33,619	298
Total	¥204,696	¥267,212	$2,365

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)
	FY2016 (Year ended December 31, 2016)	FY2017 (Year ended December 31, 2017)	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥21,593	¥18,512	$164
Addition	4,541	3,874	34
Decrease (intended use)	(3,193)	(64)	(1)
Decrease (reversal)	(1,203)	(1,145)	(10)
Other	(3,226)	1,155	10
Balance at the end of the year	¥18,512	¥22,331	$198

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

Balance of financial liability (including derivative financial instruments) by maturity as of December 31, 2016 and 2017 is as follows:

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
Put option liabilities	107,568	107,568	1,432	7,991	26,496	17,111	45,661	8,875
Borrowings	403,599	415,447	135,244	51,868	52,738	80,263	33,388	61,943
Subtotal	1,807,685	1,819,534	1,384,899	73,964	92,887	107,064	85,984	74,737
Derivative liabilities	4,478	4,478	391	143	1,116	795	811	1,218
Total	¥1,812,163	¥1,824,012	¥1,385,290	¥74,107	¥94,003	¥107,859	¥86,795	¥75,955

FY2017: As of December 31, 2017

(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	¥1,380,875	¥1,380,875	¥1,380,875	¥–	¥–	¥–	¥–	¥–
Contingent consideration on acquisition and others	61,909	61,909	23,952	10,952	5,886	16,866	4,185	66
Put option liabilities	105,758	105,758	8,931	24,115	13,034	46,360	5,651	7,663
Borrowings	460,512	496,453	99,042	58,381	83,164	37,848	59,928	158,086
Subtotal	2,009,055	2,044,996	1,512,801	93,449	102,085	101,076	69,765	165,816
Derivative liabilities	3,451	3,451	336	736	632	625	988	131
Total	¥2,012,507	¥2,048,448	¥1,513,138	¥94,186	¥102,718	¥101,701	¥70,754	¥165,948

FY2017: As of December 31, 2017

(Millions of U.S. Dollars)

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	$12,220	$12,220	$12,220	$–	$–	$–	$–	$–
Contingent consideration on acquisition and others	548	548	212	97	52	149	37	1
Put option liabilities	936	936	79	213	115	410	50	68
Borrowings	4,075	4,393	876	517	736	335	530	1,399
Subtotal	17,779	18,097	13,388	827	903	894	617	1,467
Derivative liabilities	31	31	3	7	6	6	9	1
Total	$17,810	$18,128	$13,391	$834	$909	$900	$626	$1,469

C. Undrawn committed facilities

Undrawn committed facilities amounted to ¥281,113 million and ¥373,857 million ($3,308 million) as of December 31, 2016 and 2017, 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, 2016 and 2017 are as follows:

					(Millions of Yen)				(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)			FY2017 (As of December 31, 2017)			FY2017 (As of December 31, 2017)		
	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value	Contract amount	Over 1 year	Fair value
Foreign exchange contracts	¥53,830	¥42,011	¥13,913	¥48,230	¥32,459	¥11,714	$427	$287	$104

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 ¥942 million (deduction) and ¥1,953 million ($17 million) (deduction) for the years ended December 31, 2016 and 2017, 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 December 31, 2016 and 2017 end is as follows:

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
US Dollars	¥406	¥371	$3
Euros	155	(52)	(0)

(6) Interest rate risk

A. Interest rate risk management

Certain 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 and others.

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, 2016 and 2017 are as follows:

					(Millions of Yen)				(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)			FY2017 (As of December 31, 2017)			FY2017 (As of December 31, 2017)		
	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 (including cross currency interest rate swap contracts)	¥220,115	¥220,115	¥7,990	¥263,799	¥200,365	¥3,645	$2,335	$1,773	$32

Interest rate swap contracts included in the above are designated as cash flow hedges. Cross currency interest rate swap contracts are designated as cash flow hedges or hedges of net investment in foreign operations.

C. Interest rate sensitivity analysis

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Profit before tax	¥(271)	¥(281)	$(2)

(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, 2016 and 2017 is as follows:

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

			(Millions of Yen)		(Millions of U.S. Dollars)	
	FY2016 (As of December 31, 2016)		FY2017 (As of December 31, 2017)		FY2017 (As of December 31, 2017)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	¥275,831	¥277,518	¥419,099	¥420,572	$3,709	$3,722

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

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

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

(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 were no transfers between Level 1 and Level 2 for the years ended December 31, 2016 and 2017.

The followings table includes put option liabilities.

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	¥–	¥4,478
Put option liabilities	–	–	107,568	¥107,568
Other (mainly contingent consideration)	–	–	66,021	66,021
Total	¥–	¥4,478	¥173,589	¥178,067

FY2017: As of December 31, 2017

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	¥–	¥18,886	¥–	¥18,886
Equity securities	268,141	–	20,401	288,543
Other	522	2,825	11,780	15,128
Total	¥268,664	¥21,712	¥32,181	¥322,558
Financial liabilities				
Derivative liabilities	¥–	¥3,451	¥–	¥3,451
Put option liabilities	–	–	105,758	¥105,758
Other (mainly contingent consideration)	–	–	61,909	61,909
Total	¥–	¥3,451	¥167,667	¥171,119

FY2017: As of December 31, 2017

(Millions of U.S. Dollars)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	$–	$167	$–	$167
Equity securities	2,373	–	181	2,553
Other	5	25	104	134
Total	$2,378	$192	$285	$2,854
Financial liabilities				
Derivative liabilities	$–	$31	$–	$31
Put option liabilities	–	–	$936	$936
Other (mainly contingent consideration)	–	–	548	548
Total	$–	$31	$1,484	$1,514

The fair values of interest rate swap contracts and foreign exchange contracts included in derivative assets and derivative liabilities are categorized within Level 2 as they are valuated using price estimates obtained from financial institutions or observable market data.

The fair values of stocks included in equity securities and other (financial assets) for which active markets exist are categorized within Level 1 as they are determined based on market prices.

For stocks in which active markets do not exist, the stocks whose fair values are measured using observable market data are categorized within Level 2, while stocks whose fair values are measured based mainly on market approaches (guideline public company method) 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, 2016 and 2017, are 0.68 and 0.77, respectively.

The fair values, etc. and others of put option liabilities and other (financial liabilities) are categorized within Level 3 as they are valuated based on the discounted cash flow method using unobservable inputs. Significant unobservable inputs are level of future profitability and discount rate. The fair values,etc. increases (decreases) as level of profitability increases (decreases). The discount rate increase (decrease) by 100bps will decrease (increase) the fair values, etc. by ¥3,084 million ($27 million).

The fair values of assets and liabilities categorized within Level 3 are measured using asset and liability valuation methods determined by the department in charge in accordance with fair value measurement valuation policies and procedures. Fair value measurement results are approved by the appropriate personnel in charge.

The schedule of financial instruments categorized within Level 3 is as follows:

Financial assets	FY2016 (Year ended December 31, 2016) (Millions of Yen)	FY2017 (Year ended December 31, 2017) (Millions of Yen)	FY2017 (Year ended December 31, 2017) (Millions of U.S. Dollars)
Balance at the beginning of the year	¥19,984	¥21,652	$192
Other comprehensive income (Note 1)	(1,352)	522	5
Purchases or acquistion	4,564	11,131	99
Sales or settlements	(1,192)	(324)	(3)
Transfers out of Level 3 (Note 2)	–	(21)	(0)
Other	(351)	(778)	(7)
Balance at the end of the year	¥21,652	¥32,181	$285

Financial liabilities	FY2016 (Year ended December 31, 2016) (Millions of Yen)	FY2017 (Year ended December 31, 2017) (Millions of Yen)	FY2017 (Year ended December 31, 2017) (Millions of U.S. Dollars)
Balance at the beginning of the year	¥90,421	¥173,589	$1,536
Profit or loss (Note 3)	4,844	(13,686)	(121)
Purchases (Note 4)	105,490	32,878	291
Sales or settlements	(31,362)	(25,561)	(226)
Other	4,195	447	4
Balance at the end of the year	¥173,589	¥167,667	$1,484

(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 year ended December 31, 2017 is due to investees being listed on exchanges.
(Note 3) "Profit or loss" is associated with financial liabilities at fair value through profit or loss and included in finance income or expenses. Profit or loss arising from financial instruments held at fiscal year end amounted to finance expenses of ¥4,844 million and finance income of ¥13,686 million ($121 million) for the years ended December 31, 2016 and 2017, respectively.
(Note 4) The increase in the year ended December 31, 2016 resulted from the Group entering into contracts with shareholders of non-controlling interests of the acquiree, to purchase the shares held by these shareholders in the future under certain circumstances.

(9) Offsetting of financial assets and liabilities

The amount of financial assets and liabilities as of December 31, 2016 and 2017, that are against the same counterparty and that are offset in accordance with the criteria for offset, are as follows.

	FY2016 (As of December 31, 2016) (Millions of Yen)	FY2017 (As of December 31, 2017) (Millions of Yen)	FY2017 (As of December 31, 2017) (Millions of U.S. Dollars)
	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents
Total recgonized financial assets	¥80,423	¥87,038	$770
The amount of financial assets and liabilities offset in accordance with the criteria	(38,200)	(51,464)	(455)
Net amount recorded in Consolidated Statement of Financial Position	¥42,222	¥35,574	$315

	FY2016 (As of December 31, 2016) (Millions of Yen)	FY2017 (As of December 31, 2017) (Millions of Yen)	FY2017 (As of December 31, 2017) (Millions of U.S. Dollars)
	Borrowings (current)	Borrowings (current)	Borrowings (current)
Total recgonized financial assets	¥38,200	¥51,708	$458
The amount of financial assets and liabilities offset in accordance with the criteria	(38,200)	(51,464)	(455)
Net amount recorded in Consolidated Statement of Financial Position	–	¥243	$2

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

35. RELATED PARTIES

(1) Remuneration for the Company's directors

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

	FY2016 (Year ended December 31, 2016) (Millions of Yen)	FY2017 (Year ended December 31, 2017) (Millions of Yen)	FY2017 (Year ended December 31, 2017) (Millions of U.S. Dollars)
Remuneration and bonuses	¥418	¥448	$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
Dentsu Digital Inc.	Tokyo, Japan	100.0
Dentsu Live 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 Triton 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	73.8
Dentsu Aegis (Shanghai) Investment Co., Ltd.	Shanghai, China	100.0
Beijing Dentsu Advertising Co., Ltd.	Beijing, China	70.0

Consolidated subsidiaries increased by 67, and affiliates accounted for using the equity method increased by 4, during the year ended December 31, 2017.

36. CONTINGENT LIABILITIES

The contingent liabilities as of December 31, 2016 and 2017 are as follows:

Guarantees of loans and other liabilities

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)	FY2017 (As of December 31, 2017)
Liabilities on guarantees resulting from a loan scheme for housing funds for employees	¥309	¥207	$2
Liabilities for guarantees of bank loans and others	2,051	1,906	17
Total	¥2,360	¥2,114	$19

37. SUBSEQUENT EVENTS

At the board of directors' meeting held on March 15, 2018, the Company approved to issue ordinary unsecured corporate bonds to raise necessary funds for future business growth. The planned issue amount is ¥100,000 million ($885 million) yen at the maximum, and will be issued in Japan. The Company plans to use the proceeds for capital expenditure, investments, repayment of borrowings, and working capital.