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, 2018 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Yushin Soga, Director, Executive Officer & CFO, on March 28, 2019.

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 ¥111.00 to U.S.$1, the approximate rate of exchange at the end of December 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into United States dollars at the above or any other rate.

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

(4) Early adoption of New Standards

There are no early adoption of standards.

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

The Group adopted IFRS 9 "Financial Instruments" (2014) from the year ended December 31, 2018. The adoption did not result in significant changes with regards to classification and measurement compared to IFRS 9 "Financial Instruments" (2010).

As for hedge accounting, the Group elected to apply IAS 39 "Financial Instruments: Recognition and Measurement" in accordance with the transitional measures.

A. Non-derivative Financial Assets

(i) Initial Recognition and Measurement

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

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

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

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

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

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

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

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

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

(b) Financial Assets Measured at Fair Value through Profit or Loss

Subsequent to initial recognition, financial assets are remeasured at fair value at each reporting period end. Changes in fair value and income such as dividends are recognized in profit or loss.

(c) Financial Assets Measured at Fair Value through Other Comprehensive Income

Changes in fair value subsequent to initial recognition are recognized in other comprehensive income, and are transferred to retained earnings if a financial asset is derecognized or the fair value declined significantly. Dividends derived from these financial assets are recognized in profit or loss.

(iii) Derecognition

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

B. Impairment of Financial Assets

FY2017: Year ended December 31, 2017

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.

FY2018: Year ended December 31, 2018

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

Determination of Significant Increase in Credit Risk

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

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

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

Expected Credit Loss Approach

Expected credit losses are the present value of the difference between the contractual cash flows to be received by the Group under the contracts and the cash flows expected to be received. If the credit risk associated with a financial asset has increased significantly since the initial recognition, the allowance for doubtful accounts related to the financial asset is measured at an amount equal to the expected credit loss for the entire period, and if it has not increased significantly, it is measured at an amount equal to the expected credit loss for the 12-month period.

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

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

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

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

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

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

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

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

(i) Initial Recognition and Measurement

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

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

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

(ii) Subsequent Measurement

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

(a) Financial Liabilities Measured at Amortized Cost

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

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

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

(iii) Derecognition

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

D. Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

(i) Cash Flow Hedge

Regarding gains or losses on hedging instruments where hedges are effective, changes in fair value are recognized in other comprehensive income, and are reclassified from other comprehensive income to profit or loss when the cash flows from the hedged items affect profit or loss.

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

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

(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

The Group has adopted IFRS 15, "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (hereinafter referred to as "IFRS 15") since the year ended December 31, 2018. Upon the adoption of IFRS 15, revenue is recognized under the five-step approach described below.

Step 1: Identify contracts with customers

Step 2: Identify performance obligations in a contract

Step 3: Calculate the transaction price

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

Step 5: Recognize revenue when the entity satisfies its performance obligations.

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

In the advertising business, the Group mainly provides services such as placement of advertising into various media, production of advertising including creative services, and various content-related services. Revenue is recognized when the Group satisfies its performance obligation, which in case of placement of advertising into various media, would mainly be when the media is placed, and in case of production of advertising and provision of various content-related services, would mainly be when such creative products are delivered or such professional services are provided. With regards to right-related business such as marketing rights for sports events, revenue is recognized at a point in time when such rights is transferred to the customer at a certain point in time, or is recognized over a period of time when such rights can be used by the customer over a period time, depending on the nature of the rights granted to the customer.

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

In the information services business, the Group is mainly involved in sales of software products, development of systems, and outsourcing/operation/maintenance services. The Group satisfies its performance obligations when the software is delivered to the customer in case of sales of software products, based on progress in case of development of systems, or over the contract period in case of operation and maintenance services, therefore recognizes revenue at such point. Revenue and cost is presented on a gross basis for transactions related to information services business.

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

In accordance with the transitional provisions of IFRS 15, the Group has elected to recognize the cumulative effect of the adoption of the standard at the beginning of the current fiscal year and has not restated the comparative information. The accounting policies applied for the comparative period are as follows.

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.

(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.

(22) Change in significant accounting policies

A. Adoption of IFRS 9 (2014), "Financial Instruments

The Group adopted IFRS 9 (2014), "Financial Instruments" effective from the year ended December 31, 2018. Under IFRS 9, impairment of financial assets was replaced by the "Expected Credit Loss Model" from the "Incurred Loss Model" under IAS 39, "Financial Instruments: Recognition and Measurement." Under IFRS 9, credit losses are recognized earlier than if they were based on IAS 39.

As a result, the Group recognized an allowance for doubtful accounts of ¥5,088 million ($46 million) and recognized a decrease of ¥3,850 million ($35 million) in retained earnings at the date of adoption in accordance with transitional measures in IFRS 9. The impact on the consolidated statement of income for the year ended December 31, 2018 was insignificant.

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

B. Adoption of IFRS 15, "Revenue from Contracts with Customers"

The Group has adopted IFRS 15, "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (hereinafter referred to as "IFRS 15") since the year ended December 31, 2018. Upon the adoption of IFRS 15, revenue is recognized under the five-step approach described below.

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

Based on the five-step approach described above, the recognition of certain transactions based on fulfillment of performance obligations has changed, however the impact for the year ended December 31, 2018 is immaterial.

The Group elected to retrospectively apply the standard and recognize the cumulative effect of the adoption at the beginning of the year, however the cumulative effect as of the date of the adoption is immaterial.

In accordance with IFRS 15, the Group has decided to change the recognition of revenue from net to gross for certain transactions based on the reassessment of the nature of its commitments under the newly stipulated guidance as to whether the Group's performance obligation is to provide the identified goods or services itself (i.e., the entity is the principal), or is to arrange for those goods or services to be provided by the other party (i.e., the entity is the agent) where other parties are involved in providing goods or services to customers. As a result, revenue and cost of sales have increased by ¥32,598 million($294 million) in the consolidated statement of income for the year ended December 31, 2018 compared with what would have been recorded under the previous accounting standard.

C. Change in accounting policy for remeasurement of defined benefit plans

The remeasurement of defined benefit plans was previously recognized as other comprehensive income in the period in which it was incurred and recorded as an accumulated amount in other components of equity. However, following the completion of the transition to a defined contribution plan at domestic group companies in the year ended December 31, 2018, the Group changed to immediately reclassify the remeasurement from other components of equity to retained earnings.

This change has been applied retrospectively, and other comprehensive income recognized as other components of equity in each of the years have been reclassified immediately to retained earnings.

As a result, other comprehensive income recognized in the year ended December 31, 2017 of ¥11,547 million was transferred to retained earnings. The beginning and ending balances of other components of equity in the year ended December 31, 2017 have increased by ¥7,634 million and decreased by ¥3,913 million, respectively, and retained earnings have decreased and increased by the same amount, respectively. In addition, other comprehensive losses recognized in the year ended December 31, 2018 of ¥7,558 million($68 million) was transferred to retained earnings. The beginning and ending balances of other components of equity decreased by ¥3,913 million($35 million) and increased by ¥3,645 million($33 million), respectively, and retained earnings have increased and decreased by the same amount, respectively.

As a result, other components of equity as of December 31, 2017 and 2018 have decreased by ¥3,913 million($35 million) and increased by ¥3,645 million($33 million), respectively, and retained earnings have increased and decreased by the same amount respectively, in the consolidated statements of financial position.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

The estimate and underlying assumptions are continuously reviewed. The effects of a change in estimate are recognized in the period of the change and future periods.

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

- Scope of subsidiaries, associates and joint ventures ("3. SIGNIFICANT ACCOUNTING POLICIES (1) Basis of Consolidation")
- Revenue recognition ("3. SIGNIFICANT ACCOUNTING POLICIES (15) Revenue")

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

- Impairment of property, plant and equipment, goodwill, intangible assets and investment properties ("14. PROPERTY, PLANT AND EQUIPMENT," "15. GOODWILL AND INTANGIBLE ASSETS," and "17. INVESTMENT PROPERTY")
- Valuation of financial instruments ("35. FINANCIAL INSTRUMENTS")
- Valuation of defined benefit obligations ("23. POST-EMPLOYMENT BENEFITS")
- Provisions ("22. PROVISIONS")
- Recoverability of deferred tax assets ("19. INCOME TAXES")
- Remeasurement of put option liabilities ("31. FINANCE INCOME AND FINANCE EXPENSES")

5. NEW ACCOUNTING STANDARDS NOT YET ADOPTED BY THE GROUP

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

The impact of adopting IFRS 16 is estimated to be an increase of approximately ¥133.0 billion($1.2 billion) in total assets, an increase of approximately ¥143.0 billion($1.3 billion) in total liabilities, and a decrease of approximately ¥10.0 billion($0.1 billion) in retained earnings.

The adoption of IFRIC 23 will not have a material impact.

Standards	Name of standards	Mandatory adoption (From the year beginning)	To be adopted by the Group	Description of new standards and amendments
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.

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

FY2018: Year ended December 31, 2018

(Millions of Yen)

	Japan business (Note 6)	International business (Note 6)	Total	Adjustments	Consolidated
Turnover (Note1)	¥1,880,768	¥3,488,430	¥5,369,199	¥(11,920)	¥5,357,278
Revenue (Note 2)	430,292	600,140	1,030,433	(11,920)	1,018,512
Revenue less cost of sales (Note 3)	369,258	563,852	933,111	(430)	932,680
Segment profit (underlying operating profit) (Note 3)	80,268	72,963	153,231	(2)	153,229
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(35,123)
Other adjusting items (selling, general and administrative expenses) (Note 5)	–	–	–	–	(1,700)
Other adjusting items (other income) (Note 5)	–	–	–	–	840
Other adjusting items (other expenses) (Note 5)	–	–	–	–	(5,606)
Operating profit	–	–	–	–	111,638
Share of profits of investments accounted for using the equity method	–	–	–	–	2,699
Gain on sale of investments in associates	–	–	–	–	52,127
Finance income	–	–	–	–	6,839
Finance expenses	–	–	–	–	24,553
Profit before tax	–	–	–	–	148,751
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	9,303	15,312	24,615	–	24,615
Segment assets (Note 4)	1,411,258	2,396,629	3,807,888	(169,399)	3,638,488
(Other asset items)					
Investments accounted for using the equity method	38,998	898	39,897	–	39,897
Capital expenditures	¥12,957	¥18,674	¥31,631	–	¥31,631

FY2018: Year ended December 31, 2018

(Millions of U.S. Dollars)

	Japan business (Note 6)	International business (Note 6)	Total	Adjustments	Consolidated
Turnover (Note1)	$16,944	$31,427	$48,371	$(107)	$48,264
Revenue (Note 2)	3,877	5,407	9,283	(107)	9,176
Revenue less cost of sales (Note 3)	3,327	5,080	8,406	(4)	8,403
Segment profit (underlying operating profit) (Note 3)	723	657	1,380	(0)	1,380
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(316)
Other adjusting items (selling, general and administrative expenses) (Note 5)	–	–	–	–	(15)
Other adjusting items (other income) (Note 5)	–	–	–	–	8
Other adjusting items (other expenses) (Note 5)	–	–	–	–	(51)
Operating profit	–	–	–	–	1,006
Share of profits of investments accounted for using the equity method	–	–	–	–	24
Gain on sale of investments in associates	–	–	–	–	470
Finance income	–	–	–	–	62
Finance expenses	–	–	–	–	221
Profit before tax	–	–	–	–	1,340
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	84	138	222	–	222
Segment assets (Note 4)	12,714	21,591	34,305	(1,526)	32,779
(Other asset items)					
Investments accounted for using the equity method	351	8	359	–	359
Capital expenditures	$117	$168	$285	–	$285

(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 shown on the following page.
(Note 6) Due to the effect of adoption of IFRS 15 (see "3. Significant Accounting Policies (22)Changes in accounting policies), revenue from overseas business increased by ¥32,598 million($294 million), however the impact on revenue and profit from domestic business and profit from overseas business is immaterial. The impact on segment assets is immaterial.

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Other adjusting items (selling, general and administrative expenses)			
Early retirement benefits	¥366	¥72	$1
Costs associated with merger and acquisitions	1,795	1,554	14
Other	3,103	73	1
Total	¥5,265	¥1,700	$15
Other adjusting items (other income)			
Gain on sale of property, plant and equipment, intangible assets and investment property	¥14,441	¥5	$0
Gain on sale of investments in subsidiaries and affiliates	790	8	0
Other	178	826	7
Total	¥15,410	¥840	$8
Other adjusting items (other expenses)			
Loss on sale of property, plant and equipment, intangible assets and investment property	¥1,069	¥1	$0
Impairment losses (Note)	1,093	27	0
Other	2,757	5,577	50
Total	¥4,919	¥5,606	$51

(Note) Impairment losses in Japan business and International business are ¥451 million and ¥641 million, respectively, for the year ended December 31, 2017, and ¥27 million ($0 million) and nil, respectively, for the year ended December 31, 2018.

(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)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Advertising Services	¥857,439	¥941,938	$8,486
Information Services	67,531	72,745	655
Other Services	3,870	3,828	34
Total	¥928,841	¥1,018,512	$9,176

(4) Regional information

A. Revenue from external customers

Revenue attributable to the United States within the overseas is ¥177,156 million for the year ended December 31, 2017 and ¥195,125 million($1,758 million) for the year ended December 31, 2018. 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)
	FY2017 (As of December31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Japan	¥212,894	¥222,281	$2,003
Overseas (mainly the United Kingdom and the United States)	1,093,805	1,050,788	9,467
Total	¥1,306,700	¥1,273,069	$11,469

(Note 1) Non-current assets are allocated according to the location of each group entity.
(Note 2) Within the overseas, goodwill and intangible assets not tied to a specific country amounted to ¥798,177 million and ¥262,312 million, respectively, as of December 31, 2017, and ¥782,515 million ($7,050 million) and ¥219,733 million ($1,980 million), respectively, as of December 31, 2018.

(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, 2018 are as follows:

Name of acquiree	Place of incorporation
Character	USA
Red8	Poland
FoxP2	South Africa
M8	Argentina and USA
Valuklik	Indonesia
White Label	Chile
Red Communication	Norway
The Big Now	Italy
Partners	Portugal
Animal Maker	Spain
Whitespace	UK
Global Mind	Argentina
Amicus Digital	Argentina
Aaron Lloyd	Russia
Mangham Gaxiola 1	Singapore
B2B International	UK
Namics	Germany and Switzerland
DEG	USA
Data Artist	Japan

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 ¥62,562 million ($564 million), consisting of cash consideration of ¥34,665 million ($312 million) and deferred consideration, which is subject to performance criteria of the acquiree, of ¥27,897 million ($251 million).

Acquisition related costs is ¥1,554 million ($14 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	¥35,572	$320
Total liabilities	11,248	101
Fair value of identifiable net assets	24,324	219
Total consideration	62,562	564
Non-controlling interests (Note 1)	886	8
Goodwill (Note 2)	¥39,124	$352

(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 ¥19,231 million ($173 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, 2018 were ¥8,114 million ($73 million) and ¥432 million ($4 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, 2018 would be ¥1,037,170 million ($9,344 million) and ¥97,490 million ($878 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)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Cash and time deposits due within three months	¥305,760	¥416,668	$3,754

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 ¥120,000 million($1,081 million), respectively, as of December 31, 2017 and 2018.

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Notes and accounts receivable - trade	¥1,376,672	¥1,340,857	$12,080
Other	34,009	32,130	289
Allowance for doubtful accounts	(227)	(4,260)	(38)
Total	¥1,410,454	¥1,368,728	$12,331

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)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Work-in-process	¥20,430	¥26,449	$238
Other	1,643	2,131	19
Total	¥22,074	¥28,580	$257

The amount of inventories recognized as expense by sales was ¥48,879 million and ¥50,872 million ($458 million) for the years ended December 31, 2017 and 2018, respectively. In addition, the amount of write-down of inventories recognized as expense was ¥743 million and ¥418 million ($4 million) for the years ended December 31, 2017 and 2018, respectively. There was no reversal of write-down of inventories for the years ended December 31, 2017 and 2018.

11. OTHER FINANCIAL ASSETS

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Derivative assets	¥18,886	¥16,792	$151
Equity securities	288,543	302,386	2,724
Debt securities	5	171	2
Other	63,958	62,238	561
Allowance for doubtful accounts	(22,104)	(17,963)	(162)
Total	¥349,290	¥363,627	$3,276
Current assets	21,934	15,090	136
Non-current assets	327,356	348,537	3,140
Total	¥349,290	¥363,627	$3,276

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", ¥3,343 million and ¥3,150 million ($28 million), respectively as of December 31, 2017 and 2018 are classified as financial assets measured at fair value through profit or loss, ¥11,785 million and ¥13,103 million ($118 million), respectively as of December 31, 2017 and 2018 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	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
Others	74,642
Total	¥300,329

(Millions of Yen)

Investees	FY2018 (As of December 31, 2018)
Recruit Holdings Co., Ltd.	¥167,737
Perform Group Limited	47,795
Digital Garage, Inc.	8,259
Tokyo Broadcasting System Holdings, Inc.	4,454
Macromill,Inc.	4,189
Lion Corporation	4,072
Asahi Group Holdings, Ltd.	3,920
TOHO CO., LTD.	3,219
Others	71,845
Total	¥315,490

(Millions of U.S. Dollars)

Investees	FY2018 (As of December 31, 2018)
Recruit Holdings Co., Ltd.	$1,511
Perform Group Limited	431
Digital Garage, Inc.	74
Tokyo Broadcasting System Holdings, Inc.	40
Macromill,Inc.	38
Lion Corporation	37
Asahi Group Holdings, Ltd.	35
TOHO CO., LTD.	29
Others	647
Total	$2,842

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:

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

FY2018: Year ended December 31, 2018

(Millions of Yen)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
¥5,932	¥(941)

FY2018: Year ended December 31, 2018

(Millions of U.S. Dollars)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
$53	$(8)

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)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Advance payments which are expected to be recognized in profit and loss after more than 12 months	¥5,393	¥6,604	$59

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, 2017 and 2018 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)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Non-current assets classified as held for sale			
Cash and cash equivalents	¥10	–	–
Trade and other receivables	857	–	–
Inventories	26	–	–
Other financial assets	0	–	–
Other current assets	9	–	–
Property, plant and equipment	63	–	–
Intangible assets	5	–	–
Investments accounted for using the equity method	804	–	–
Other financial assets (non-current)	5	2	0
Deferred tax assets	53	–	–
Total	¥1,835	¥2	$0
Liabilities directly associated with non-current assets classified as held for sale			
Trade and other payables	¥266	–	–
Other financial liabilities (current)	11	–	–
Income tax payables	21	–	–
Other current liabilities	21	–	–
Other financial liabilities (non-current)	1	–	–
Liability for retirement benefits	120	–	–
Provisions (non-current)	14	–	–
Total	¥456	–	–

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.

Non-current assets classified as held for sale as of December 31, 2018 consist of assets related to shares held by the Company.

14. PROPERTY, PLANT AND EQUIPMENT

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

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

FY2018: Year ended December 31, 2018

(Millions of Yen)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	¥66,593	¥110,480	¥19,584	¥196,659
Additions	9,270	–	9,100	18,370
Acquisitions through business combinations	606	–	390	997
Sales or disposals	(372)	–	(100)	(473)
Depreciation	(6,784)	–	(7,743)	(14,528)
Impairment losses	–	–	(2)	(2)
Exchange differences on translation of foreign operations	(979)	(50)	(915)	(1,945)
Other	106	–	23	129
Balance at the end of the year	¥68,440	¥110,430	¥20,336	¥199,207

FY2018: Year ended December 31, 2018

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	$600	$995	$176	$1,772
Additions	84	–	82	165
Acquisitions through business combinations	5	–	4	9
Sales or disposals	(3)	–	(1)	(4)
Depreciation	(61)	–	(70)	(131)
Impairment losses	–	–	(0)	(0)
Exchange differences on translation of foreign operations	(9)	$(0)	(8)	(18)
Other	1	–	0	1
Balance at the end of the year	$617	$995	$183	$1,795

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
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
FY2018 (As of December 31, 2018)				
Acquisition cost	¥144,534	¥110,435	¥66,835	¥321,805
Accumulated depreciation and impairment losses	76,094	4	46,499	122,598
Carrying amount	68,440	110,430	20,336	199,207

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
FY2018 (As of December 31, 2018)				
Acquisition cost	$1,302	$995	$602	$2,899
Accumulated depreciation and impairment losses	686	0	419	1,104
Carrying amount	617	995	183	1,795

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
FY2017 (As of December 31, 2017)	¥7	¥2,361	¥2,369
FY2018 (As of December 31, 2018)	0	2,978	2,978

(Millions of U.S. Dollars)

Leased assets	Buildings and structures	Other	Total
FY2018 (As of December 31, 2018)	$0	$27	$27

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:

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

FY2018: Year ended December 31, 2018

(Millions of Yen)

	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	¥798,177	¥172,318	¥26,930	¥75,253	¥1,072,680
Additions	–	–	13,740	902	14,642
Acquisitions through business combinations	39,124	18,937	24	3,007	61,093
Sales or disposals	–	–	(235)	(13)	(249)
Amortization	–	(24,226)	(9,456)	(11,709)	(45,392)
Impairment losses	–	–	(25)	–	(25)
Exchange differences on translation of foreign operations	(50,435)	(10,702)	(1,249)	(3,556)	(65,944)
Other	(15)	29	154	(201)	(32)
Balance at the end of the year	¥786,851	¥156,357	¥29,882	¥63,681	¥1,036,773

FY2018: Year ended December 31, 2018

(Millions of U.S. Dollars)

	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	$7,191	$1,552	$243	$678	$9,664
Additions	–	–	124	8	132
Acquisitions through business combinations	352	171	0	27	550
Sales or disposals	–	–	(2)	(0)	(2)
Amortization	–	(218)	(85)	(105)	(409)
Impairment losses	–	–	(0)	–	(0)
Exchange differences on translation of foreign operations	(454)	(96)	(11)	(32)	(594)
Other	(0)	0	1	(2)	(0)
Balance at the end of the year	$7,089	$1,409	$269	$574	$9,340

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
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
FY2018 (As of December 31, 2018)					
Acquisition cost	¥787,121	¥254,715	¥123,944	¥114,421	¥1,280,203
Accumulated amortization and impairment losses	269	98,358	94,062	50,740	243,429
Carrying amount	786,851	156,357	29,882	63,681	1,036,773

(Millions of U.S. Dollars)

	Goodwill	Customer relationships	Software	Other	Total
FY2018 (As of December 31, 2018)					
Acquisition cost	$7,091	$2,295	$1,117	$1,031	$11,533
Accumulated amortization and impairment losses	2	886	847	457	2,193
Carrying amount	7,089	1,409	269	574	9,340

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

(Millions of Yen)

Leased assets	Software
FY2017 (As of December 31, 2017)	¥249
FY2018 (As of December 31, 2018)	135

(Millions of U.S. Dollars)

Leased assets	Software
FY2018 (As of December 31, 2018)	$1

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, 2017 and 2018, arose from the international business segment which forms a group of cash generating units, and amounted to ¥798,177 million and ¥782,515 million ($7,050 million) as of December 31, 2017 and 2018, respectively.

Significant intangible assets other than goodwill as of December 31, 2017 and 2018, consist of customer relationships in the international business segment, which amounted to ¥172,318 million and ¥156,357 million ($1,409 million) as of December 31, 2017 and 2018, respectively. Among them, the amount recognized when the Company acquired Dentsu Aegis Network Ltd. in March 2013 was ¥112,775 million and ¥96,228 million ($867 million) as of December 31, 2017 and 2018, respectively, which the remaining amortization period at December 31, 2018 is 12 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 1.75–2.0% (2.0% as of December 31, 2017) is set for cash flows beyond the four-year period.

The pre-tax discount rates used for determining value in use are 7.3% and 8.1% as of December 31, 2017 and 2018, 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)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Not later than 1 year			
Total of future minimum lease payments	¥1,126	¥1,151	$10
Future finance costs	19	27	0
Present value	¥1,106	¥1,123	$10
Later than 1 year and not later than 5 years			
Total of future minimum lease payments	¥1,692	¥2,299	$21
Future finance costs	22	36	0
Present value	¥1,670	¥2,263	$20
Later than 5 years			
Total of future minimum lease payments	¥25	¥20	$0
Future finance costs	0	0	0
Present value	¥25	¥20	$0
Total			
Total of future minimum lease payments	¥2,844	¥3,471	$31
Future finance costs	41	63	1
Present value	¥2,802	¥3,408	$31

(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)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Not later than 1 year	¥22,997	¥27,740	$250
Later than 1 year and not later than 5 years	72,804	73,418	661
Later than 5 years	93,735	82,442	743
Total	¥189,537	¥183,601	$1,654

(3) Total of minimum lease payments

The total of minimum lease payments of operating lease contracts for the years ended December 31, 2017 and 2018 are ¥30,326 million and ¥32,624 million ($294 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)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Balance at the beginning of the year	¥37,837	¥37,360	$337
Additions	97	79	1
Depreciation	(572)	(341)	(3)
Sales or disposals	(2)	(9)	(0)
Other	–	–	–
Balance at the end of the year	¥37,360	¥37,089	$334
Acquisition cost (balance at the beginning of the year)	¥46,253	¥46,345	$418
Accumulated depreciation and impairment losses (balance at the beginning of the year)	8,416	8,984	81
Acquisition cost (balance at the end of the year)	¥46,345	¥46,186	$416
Accumulated depreciation and impairment losses (balance at the end of the year)	8,984	9,096	$82

(2) Fair value

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

	(Millions of Yen)				(Millions of U.S. Dollars)	
	FY2017 (As of December 31, 2017)		FY2018 (As of December 31, 2018)		FY2018 (As of December 31, 2018)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property (Level 3)	¥37,360	¥48,006	¥37,089	¥50,375	$334	$454

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

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

The fair value hierarchy is defined as follows:

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

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

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

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

(3) Income and expenses from investment property

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Rental income	¥2,213	¥2,171	$20
Direct operating expenses	1,020	800	7

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)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Total of carrying amount	¥56,752	¥39,897	$359

The decrease in the carrying amount of investments in associates and joint ventures as of December 31, 2018 was mainly due to the disposal of all shares of Kakaku.com, Inc.

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)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Profit for the year	¥4,222	¥2,699	$24
Other comprehensive income	396	(545)	(5)
Comprehensive income for the year	¥4,618	¥2,153	$19

In addition to the above, gain on sale of investments in associates of ¥52,127 million ($470 million) was recognized for the year ended December 31, 2018 due mainly to the disposal of all shares of Kakaku.com, Inc.

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)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Unrecognized losses	¥1	¥14	$0

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Cumulative unrecognized losses	¥156	¥15	$0

19. INCOME TAXES

(1) Deferred tax assets and deferred tax liabilities

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Deferred tax assets			
Liability for retirement benefits	¥25,546	¥29,684	$267
Accrued expenses	10,864	11,516	104
Carryforwards of tax losses	7,214	7,025	63
Other	10,911	21,794	196
Total deferred tax assets	¥54,536	¥70,022	$631
Deferred tax liabilities			
Gain on establishment of retirement benefit trust	¥(13,079)	¥(13,079)	$(118)
Unrealized gain on securities	(66,193)	(57,668)	(520)
Valuation differences on intangible assets	(57,046)	(52,695)	(475)
Other	(7,368)	(10,695)	(96)
Total deferred tax liabilities	¥(143,688)	¥(134,139)	$(1,208)
Net deferred tax assets (liabilities)	¥(89,151)	¥(64,117)	$(578)

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Net deferred tax assets (liabilities)			
Balance at the beginning of the year	¥(59,759)	¥(89,151)	$(803)
Deferred income taxes	12,042	11,324	102
Deferred taxes related to components of other comprehensive income			
Exchange differences on translation of foreign operations	0	1	0
Effective portion of the change in the fair value of cash flow hedges	392	311	3
Net change in financial assets measured at fair value through other comprehensive income	(29,887)	6,345	57
Remeasurements of defined benefit plans	(5,219)	3,472	31
Changes in deferred tax assets (liabilities) arising from business combinations, and others	(6,720)	3,578	32
Balance at the end of the year	¥(89,151)	¥(64,117)	$(578)

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

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Deductible temporary differences	¥11,389	¥11,314	$102
Carryforwards of tax losses	55,925	59,952	540

The breakdown of carryforwards of tax losses by expiry date as of December 31, 2017 and 2018, 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)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Within 1 year	¥408	¥873	$8
Within 2 years	194	148	1
Within 3 years	491	505	5
Within 4 years	268	207	2
Within 5 years	1,094	1,426	13
Over 5 years	5,167	5,721	52
Indefinite periods	48,301	51,071	460
Total	¥55,925	¥59,952	$540

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 ¥122,501 million and ¥122,255 million ($1,101 million) as of December 31, 2017 and 2018, 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)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Current income taxes	¥48,562	¥62,574	$564
Deferred income taxes	(12,042)	(11,324)	(102)

Deferred income taxes decreased by ¥5,809 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 31.0% for the years ended December 31, 2017 and 2018. Foreign subsidiaries are subject to income taxes at their respective locations.

		(%)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)
Effective statutory tax rate	31.0	31.0
(Reconciliation)		
Non-deductible items, such as entertainment expenses	0.9	1.0
Non-taxable items, such as dividend income	(0.3)	(0.2)
Changes in contingent consideration	(3.4)	1.2
Share of profits of investments accounted for using the equity method	(0.9)	(0.6)
Reduction of deferred tax assets (liabilities) at fiscal year end due to tax rate changes	(3.9)	–
Other	1.0	2.1
Income tax rate after applying of deferred tax accounting	24.4	34.5

20. TRADE AND OTHER PAYABLES

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Notes and accounts payable—trade	¥1,315,941	¥1,273,441	$11,472
Other	64,933	68,019	613
Total	¥1,380,875	¥1,341,461	$12,085

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:

	(Millions of Yen)		(Millions of U.S. Dollars)
Assets pledged as collateral	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Other financial assets (current assets)	¥54	¥54	$0

Corresponding liabilities	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Notes and accounts payable	¥515	¥440	$4

In addition to the above, other financial assets (current assets) of ¥15 million and ¥8 million ($0 million) are pledged as collateral for guarantee transactions related to the "Official Gazette" (*Kanpou*), sales etc. as of December 31, 2017 and 2018, respectively.

21. BONDS, BORROWINGS, AND OTHER FINANCIAL LIABILITIES

(1) Breakdown of financial liabilities

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

	(Millions of Yen)			(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	Date of maturity	FY2018 (As of December 31, 2018)
Derivative liabilities	¥3,451	¥2,893	–	$26
Put option liabilities	105,758	120,839	–	1,089
Bonds (Note)	–	79,746	2023–2028	718
Short-term borrowings	41,413	53,343	–	481
Current portion of long-term borrowings	47,912	51,536	–	464
Long-term borrowings	371,187	354,233	2019–2025	3,191
Other (mainly contingent consideration)	79,896	87,025	–	784
Total	¥649,619	¥749,617	–	$6,753
Current liabilities	¥132,355	¥152,274		$1,372
Non-current liabilities	517,263	597,342		5,381
Total	¥649,619	¥749,617		$6,753

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 the year ended December 31, 2018 are 3.57% and 2.37%, respectively.

"Other (mainly contingent consideration)" includes financial liabilities measured at fair value through profit or loss of ¥61,932 million and ¥69,267 million ($624 million) as of December 31, 2017 and 2018, respectively. Remaining amounts are classified as financial liabilities measured at amortized cost.

Financial covenants are attached to certain borrowings as of December 31, 2017 and 2018. The Group has complied with these covenants. The Group monitors these covenants to maintain the required level.

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

Company name	Bonds	Date of issue	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018) (Millions of Yen)	FY2018 (As of December 31, 2018) (Millions of U.S. Dollars)	Interest rate (%)	Collateral	Date of redemption
Dentsu Inc.	First unsecured bond	October 25, 2018	–	¥34,905	$314	0.110	N/A	October 25, 2018
Dentsu Inc.	Second unsecured bond	October 25, 2018	–	19,931	180	0.240	N/A	October 24, 2025
Dentsu Inc.	Third unsecured bond	October 25, 2018	–	24,910	224	0.424	N/A	October 25, 2018
Total	–	–	–	¥79,746	$718	–	–	–

(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 recognized	Changes from remeasurements	Increase due to business combination	Exchange differences and others	
Short-term borrowings	¥127,768	¥(95,990)	–	–	¥579	¥9,056	¥41,413
Long-term borrowings (Note 1)	275,831	151,641	–	–	1,555	(9,928)	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)	¥2,135	¥(2,811)	¥566,271

(Note1) The above includes current liabilities due within one year.
(Note2) Changes from remeasurements includes interest expense from the passage of time.

FY2018: Year ended December 31, 2018

(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 recognized	Changes from remeasurements	Increase due to business combination	Exchange differences and others	
Short-term borrowings	¥41,413	¥25,893	–	–	¥567	¥(14,531)	¥53,343
Long-term borrowings (Note 1)	419,099	(6,316)	–	–	38	(7,051)	405,769
Put option liabilities (Note 1, 2)	105,758	(6,886)	19,982	10,723	–	(8,738)	120,839
Bonds	–	79,739	–	–	–	7	79,746
Total	¥566,271	¥92,430	¥19,982	¥10,723	¥605	¥(30,314)	¥659,698

FY2018: Year ended December 31, 2018

(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 recognized	Changes from remeasurements	Increase due to business combination	Exchange differences and others	
Short-term borrowings	$373	$233	–	–	$5	$(131)	$481
Long-term borrowings (Note 1)	3,776	(57)	–	–	0	(64)	3,656
Put option liabilities (Note 1, 2)	953	(62)	180	97	–	(79)	1,089
Bonds	–	718	–	–	–	0	718
Total	$5,102	$833	$180	$97	$5	$(273)	$5,943

(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:

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

FY2018: Year ended December 31, 2018

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Other provisions	Total
Balance at the beginning of the year	¥1,598	¥622	¥4,833	¥7,053
Additional provisions in the year	680	32	855	1,569
Interest expense incurred over the discount period	7	–	–	7
Provisions used	(98)	(130)	(134)	(364)
Provisions reversed	(6)	(0)	(1,497)	(1,503)
Exchange differences on translation of foreign operations	0	–	(387)	(387)
Other	(42)	–	(52)	(94)
Balance at the end of the year	¥2,139	¥523	¥3,617	¥6,280
Current liabilities	¥2	¥523	¥1,049	¥1,575
Non-current liabilities	2,137	–	2,567	4,705
Total	¥2,139	¥523	¥3,617	¥6,280

FY2018: Year ended December 31, 2018

(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	$14	$6	$44	$64
Additional provisions in the year	6	0	8	14
Interest expense incurred over the discount period	0	–	–	0
Provisions used	(1)	(1)	(1)	(3)
Provisions reversed	(0)	(0)	(13)	(14)
Exchange differences on translation of foreign operations	0	–	(3)	(3)
Other	(0)	–	(0)	(1)
Balance at the end of the year	$19	$5	$33	$57
Current liabilities	$0	$5	$9	$14
Non-current liabilities	19	–	23	42
Total	$19	$5	$33	$57

(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.

Previously, remeasurements of defined benefit plans were recognized as other comprehensive income and included in accumulated other components of equity. However, following the completion of the transition to a defined contribution pension plan for domestic Group companies in the year ending December 31, 2018, remeasurements of defined benefit plans will immediately be transferred from other components of equity to retained earnings. For details, please refer to "3. SIGNIFICANT ACCOUNTING POLICIES (22) Changes in Significant Accounting Policies, C. Changes in Accounting Policies for Remeasurements of Defined Benefit Plans."

(1) Reconciliation of defined benefit obligations and plan assets

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Funded defined benefit obligations	¥121,816	¥125,146	$1,127
Plan assets	(119,037)	(110,700)	(997)
Subtotal	2,779	14,446	130
Unfunded defined benefit obligations	14,409	15,104	136
Total	¥17,188	¥29,550	$266
Balance recognized in the Consolidated Statement of Financial Position			
Liabilities for retirement benefits	¥19,210	¥30,675	$276
Assets for retirement benefits	(2,021)	(1,124)	(10)
Net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position	¥17,188	¥29,550	$266

(2) Schedule of defined benefit obligations

The schedule of defined benefit obligations is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Balance at the beginning of the year	¥131,800	¥136,226	$1,227
Current service cost (Note 1)	7,431	8,358	75
Interest expense (Note 1)	626	642	6
Actuarial gains and losses (Note 2)	2,981	4,953	45
Benefits paid	(6,824)	(8,317)	(75)
Past service cost	–	1	0
Changes due to termination (curtailment or settlement) of defined benefit plans	–	(759)	(7)
Exchange differences on translation of foreign operations	353	(852)	(8)
Other	(143)	–	–
Balance at the end of the year	¥136,226	¥140,251	$1,264

(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, 2017 and 2018 is as follows:

		(Years)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)
Weighted average duration	9.7	9.1

(3) Schedule of plan assets

The schedule of plan assets is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Balance at the beginning of the year	¥101,369	¥119,037	$1,072
Interest income	475	559	5
Return on plan assets (excluding amounts included in interest income)	19,763	(6,052)	(55)
Contributions by the employer	179	792	7
Benefits paid	(2,847)	(2,784)	(25)
Changes due to termination (curtailment or settlement) of defined benefit plans	–	(564)	(5)
Exchange differences on translation of foreign operations	96	(286)	(3)
Balance at the end of the year	¥119,037	¥110,700	$997

The Group plans to pay contributions of ¥125 million ($1 million) in the year ending December 31, 2019.

(4) Major breakdown of plan assets

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

	FY2017 (As of December 31, 2017) (Millions of Yen)			FY2018 (As of December 31, 2018) (Millions of Yen)			FY2018 (As of December 31, 2018) (Millions of U.S. Dollars)		
	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	¥86,800	–	¥86,800	¥76,064	–	¥76,064	$685	–	$685
Debt instruments	2,705	66	2,771	2,575	170	2,746	23	2	25
General account of life insurance companies	–	12,504	12,504	–	10,250	10,250	–	92	92
Other	–	16,960	16,960	–	21,639	21,639	–	195	195
Total	¥89,506	¥29,531	¥119,037	¥78,640	¥32,060	¥110,700	$708	$289	$997

(Note) Plan assets above include retirement benefit trusts established for defined benefit corporate pension plans and retirement lump-sum payment plans of ¥87,521 million and ¥78,188 million ($704 million), as of December 31, 2017 and 2018, respectively.
As of December 31, 2017 and 2018, 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:

(%)	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)
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.

	Change in assumptions	FY2017 (As of December 31, 2017) (Millions of Yen)	FY2018 (As of December 31, 2018) (Millions of Yen)	FY2018 (As of December 31, 2018) (Millions of U.S. Dollars)
Discount rate	Increase by 0.5%	¥(5,802)	¥(5,561)	$(50)
	Decrease by 0.5%	¥6,286	¥6,018	$54

(6) Defined contribution plans

Expenses recognized due to contributions to defined contribution plans by the Company and consolidated subsidiaries amounted to ¥9,218 million and ¥10,779 million ($97 million) for the years ended December 31, 2017 and 2018, 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, 2017 and 2018 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)
FY2017 (As of December 31, 2017)	288,410,000
Increase (decrease)	–
FY2018 (As of December 31, 2018)	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)
FY2017 (As of December 31, 2017)	6,511,082
Increase (decrease)	2,377
FY2018 (As of December 31, 2018)	6,513,459

(Note) The above includes 2,430 shares of increase due to repurchase of shares less than one unit, and 53 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 resolution by the Board of Directors 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

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

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

(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 enters 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

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

FY2018: Year ended December 31, 2018

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

FY2018: Year ended December 31, 2018

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 13, 2018)	Ordinary shares	$114	$0.41	December 31, 2017	March 8, 2018
Board of Directors (August 9, 2018)	Ordinary shares	$114	$0.41	June 30, 2018	September 7, 2018

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

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

FY2018: Year ended December 31, 2018

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, 2019)	Ordinary shares	Retained earnings	¥12,685	¥45.00	December 31, 2018	March 7, 2019

FY2018: Year ended December 31, 2018

Resolution	Class of shares	Source of dividends	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 14, 2019)	Ordinary shares	Retained earnings	$114	$0.41	December 31, 2018	March 7, 2019

26. REVENUE

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

A. Advertising

In the advertising business, the Group mainly provides services such as placement of advertising into various media, production of advertising including creative services, and various content-related services.

With respect to placement of advertising into various media, revenue is recognized mainly when the media is placed, where the Group's performance obligations are satisfied and control over the service transfers to the customer.

With respect to the production of advertising and provision of various content-related services, the Group recognizes revenue mainly when such creative products are delivered or such professional services are provided, where the control over the goods or services transfers to the customer and the Group's performance obligations are satisfied. With regards to right-related business such as marketing rights for sports events, revenue is recognized at a point in time when such rights is transferred to the customer at a certain point in time, or is recognized over a period of time when such rights can be used by the customer over a period time, depending on the nature of the rights granted to the customer. With regards to revenue that are recognized over a period of time, performance obligations are primarily satisfied over the contractual period, and therefore revenue is recognized on a pro rata basis over the contractual period in which the performance obligations are satisfied.

The Group determines that it primarily acts as an agent considering the primary responsibility for the performance of commitments, inventory risk, pricing discretion and other factors in the transaction. Therefore, revenue from the advertising business is recorded principally based on the net amount of consideration received from customers, less related costs, or a certain amount of fee received as a commission, for services provided by the Group. For certain transactions which the Group determined that it is acting as a principal, consideration received from customers and costs are presented on a gross basis.

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

B. Information Services

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

With respect to sales of software products, revenue is recognized at upon delivery to the customer as the control over the product is transferred to the customer and the Group's performance obligations are satisfied. With respect to system development, the Group recognizes revenue based on progress, as the customer's assets enhance and acquire control of such assets as the development progresses, and accordingly the Group satisfies its performance obligations. Progress of development is calculated based on the percentage of the inputs used to satisfy the performance obligations (costs incurred) to the total inputs expected to be incurred until such performance obligations are fully satisfied. As for operation and maintenance services, performance obligations are satisfied over the contractual period, and revenue is recognized on a pro rata basis over the contractual period in which the performance obligations are satisfied.

Revenue in the information services business is calculated based on the consideration under the sales contracts, net of any discounts. In addition, the Group presents revenue and cost on a gross basis as it is determined that the Group is acting as a principal considering the primary responsibility for the performance of commitments, inventory risk, pricing discretion and other factors in the transaction.

Consideration for transactions in the information services business is received primarily within one year after satisfaction of the performance obligations and does not include any significant financing components.

C. Other

The other businesses include leasing of office spaces, provision of building services and calculation services.

(1) Disaggregation of revenue

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

FY2018: Year ended December 31, 2018

(Millions of Yen)

	Reporting segment			Intercompany transaction adjustments	Total
	Japan Business	International Business	Subtotal		
Major services					
Advertising business	¥353,636	¥600,140	¥953,776	–	–
Information service business	72,825	–	72,825	–	–
Other business	3,829	–	3,829	–	–
Total	430,292	600,140	1,030,433	(11,920)	1,018,512
Breakdown by regions					
Japan	430,292	–	430,292	–	–
EMEA (Europe, Middle East and Africa)	–	233,300	233,300	–	–
Americas (Americas)	–	238,669	238,669	–	–
APAC (Asia Pacific)	–	128,170	128,170	–	–
Total	¥430,292	¥600,140	¥1,030,433	¥(11,920)	¥1,018,512

FY2018: Year ended December 31, 2018

(Millions of U.S. Dollars)

	Reporting segment			Intercompany transaction adjustments	Total
	Japan Business	International Business	Subtotal		
Major services					
Advertising business	$3,186	$5,407	$8,593	–	–
Information service business	656	–	656	–	–
Other business	34	–	34	–	–
Total	3,877	5,407	9,283	(107)	9,176
Breakdown by regions					
Japan	3,877	–	3,877	–	–
EMEA (Europe, Middle East and Africa)	–	2,102	2,102	–	–
Americas (Americas)	–	2,150	2,150	–	–
APAC (Asia Pacific)	–	1,155	1,155	–	–
Total	$3,877	$5,407	$9,283	$(107)	$9,176

(2) Contract balance

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

(Millions of Yen)

	January 1, 2018	December 31, 2018
Receivables arising from contracts with customers	¥1,398,455	¥1,358,705
Notes and accounts receivable-trade	1,376,672	1,340,857
Others	21,783	17,847
Contract liabilities	¥66,948	¥56,070

(Millions of U.S. Dollars)

	January 1, 2018	December 31, 2018
Receivables arising from contracts with customers	$12,599	$12,241
Notes and accounts receivable-trade	12,402	12,080
Others	196	161
Contract liabilities	$603	$505

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

The amount of revenue recognized in the year ended December 31, 2018 that was included in contract liabilities at the beginning of the period was ¥62,181 million ($560 million). In addition, the amount of revenue recognized during the year ended December 31, 2018 from performance obligations satisfied (or partially satisfied) in prior periods is immaterial. In addition, there were no material changes in the balance of contract liabilities during the year ended December 31, 2018.

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

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

	(Millions of Yen) FY2018 (As of December 31, 2018)	(Millions of U.S. Dollars) FY2018 (As of December 31, 2018)
Within 1 year	¥13,354	$120
Over 1 year and below 2 years	11,905	107
Over 2 years and below 3 years	3,364	30
Over 3 years	7,452	67
Total	¥36,076	$325

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

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

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

27. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Staff costs	¥500,855	¥543,106	$4,893
Depreciation and amortization	53,217	57,734	520
Other	197,884	219,217	1,975
Total	¥751,957	¥820,058	$7,388

"Other" includes research and development expenses of ¥1,134 million and ¥1,110 million ($10 million) for the years ended December 31, 2017 and 2018, respectively.

28. STAFF COSTS

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Salaries, bonuses and allowances	¥438,515	¥477,565	$4,302
Welfare expenses	65,517	68,825	620
Post-employment benefits costs	17,072	19,220	173
Other	366	72	1
Total	¥521,472	¥565,683	$5,096

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

29. OTHER INCOME

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Profit distributions	¥6,405	¥8,528	$77
Foreign exchange gains	–	446	$4
Gain on sale of property, plant and equipment, intangible assets and investment property	14,441	5	0
Other	2,499	2,188	20
Total	¥23,347	¥11,168	$101

30. OTHER EXPENSES

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Amortization of long-term prepaid expenses	¥4,073	¥4,031	$36
Loss on sale of property, plant and equipment, intangible assets and investment property	1,069	1	0
Impairment losses	1,093	27	0
Cash-settled share-based payment	2,046	4,313	39
Foreign exchange losses	625	–	–
Other	2,713	3,777	34
Total	¥11,620	¥12,151	$109

31. FINANCE INCOME AND FINANCE EXPENSES

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Interest income			
Financial assets measured at amortized cost	¥2,137	¥2,735	$25
Dividend income			
Financial assets measured at fair value through other comprehensive income	3,407	3,297	30
Changes in fair value of contingent consideration	8,499	–	–
Revaluation of put option liabilities	5,186	–	–
Dividend income and asset management gains from insurance	584	610	5
Other (Note)	486	197	2
Total	¥20,302	¥6,839	$62

(Note) "Other" includes finance income arising from financial instruments measured at fair value through profit or loss of ¥8 million and ¥6 million ($0 million) for the years ended December 31, 2017 and 2018, respectively.

The breakdown of dividend income is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Financial assets derecognized during the fiscal year	¥101	¥494	$4
Financial assets held at the end of the fiscal year	3,305	2,802	25

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Interest expense			
Financial liabilities measured at amortized cost	¥11,366	¥13,333	$120
Other	156	89	1
Changes in fair value of contingent consideration	–	21	0
Revaluation of put option liabilities (Note 1)	–	10,723	97
Foreign exchange losses (Note 2)	318	44	0
Other (Note 3)	412	341	3
Total	¥12,254	¥24,553	$221

(Note1) The Group made changes in estimates regarding the timing of the exercise of put option liabilities related to certain consolidated subsidiaries during the year ended December 31, 2018. As a result, finance expenses increased by ¥11,484 million ($103 million) for the year ended December 31, 2018..
(Note2) Foreign exchange losses include valuation loss on currency derivatives.
(Note3) "Other" includes finance expenses arising from financial instruments measured at fair value through profit or loss of ¥41 million and ¥16 million ($0 million) for the years ended December 31, 2017 and 2018, respectively.

32. OTHER COMPREHENSIVE INCOME

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Exchange differences on translation of foreign operations			
Amount arising during the year	¥32,460	¥(47,369)	$(427)
Reclassification adjustments	226	(148)	(1)
Before tax effects	32,686	(47,518)	(428)
Tax effects	0	1	0
Exchange differences on translation of foreign operations	¥32,687	¥(47,516)	$(428)
Effective portion of the change in the fair value of cash flow hedges			
Amount arising during the year	¥(5,869)	¥5,062	$46
Reclassification adjustments	4,588	(5,240)	(47)
Before tax effects	(1,280)	(178)	(2)
Tax effects	392	311	3
Effective portion of the change in the fair value of cash flow hedges	¥(888)	¥133	$1
Net change in financial assets measured at fair value through other comprehensive income			
Amount arising during the year	¥96,609	¥(29,619)	$(267)
Before tax effects	96,609	(29,619)	(267)
Tax effects	(29,887)	6,345	57
Net change in financial assets measured at fair value through other comprehensive income	¥66,721	¥(23,273)	$(210)
Remeasurements of defined benefit plans			
Amount arising during the year	¥16,782	¥(11,005)	$(99)
Before tax effects	16,782	(11,005)	(99)
Tax effects	(5,219)	3,472	31
Remeasurements of defined benefit plans	¥11,563	¥(7,532)	$(68)
Share of other comprehensive income of investments accounted for using the equity method			
Amount arising during the year	¥396	¥(545)	$(5)
Share of other comprehensive income of investments accounted for using the equity method	¥396	¥(545)	$(5)

33. EARNINGS PER SHARE

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

		(Yen)	(U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Basic earnings per share	¥373.11	¥320.39	$2.89
Diluted earnings per share	¥373.10	¥320.38	$2.89

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
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	¥105,478	¥90,316	$814
Amounts not attributable to ordinary equity holders of the parent	–	–	–
Profit for the year used for calculation of basic earnings per share	105,478	90,316	814
Adjustment			
Share options issued by associates	(1)	0	0
Profit for the year used for calculation of diluted earnings per share	¥105,476	¥90,315	$814
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)	282,702	281,897	
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)	282,702	281,897	

34. 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 three 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 share-based payment plans granted to employees is ¥2,046 million and ¥4,313 million ($39 million) for the years ended December 31, 2017 and 2018, respectively, and the corresponding liability as of December 31, 2017 and 2018 are ¥8,568 million and ¥12,410 million ($112 million), respectively.

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

			(Yen)		(U.S. Dollars)
	FY2017 (Year ended December 31, 2017)		FY2018 (Year ended December 31, 2018)		FY2018 (Year ended December 31, 2018)
	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	959,929	¥10,573	$95.25
Granted	287,606	15,550	81,431	15,162	136.59
Exercised	(16,546)	7,011	(33,918)	7,212	64.97
Expired	–	–	(5,269)	13,202	118.94
Forfeited	(63,138)	11,408	(30,704)	12,594	113.46
Repurchased	(19,264)	6,123	–	–	–
Balance at the end of the year	959,929	10,573	971,469	10,825	97.52
Exercisable at the end of the year	460,375	¥8,033	621,884	¥9,305	$83.83

1. The weighted average remaining life of the cash-settled share-based payments plans is 7.8 years and 7.0 years as of December 31, 2017 and 2018, respectively.
2. The weighted average share price upon exercise is ¥15,550 and ¥15,162 ($136.59) for the years ended December 31, 2017 and 2018, respectively.
3. The intrinsic value of the cash-settled share-based payments vested in as of December 31, 2017 and 2018 is ¥7,704 million and ¥11,447 million ($103 million), respectively.

The weighted-average fair value at the measurement date of the stock options granted during the year ended December 31, 2018 is ¥12,346 ($111.23).

Fair value is measured as follows:

		(Yen)	(U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Valuation method used	Black-Scholes model	Black-Scholes model	Black-Scholes model
Key inputs and assumptions:			
Grant date share price	¥24,006	¥26,360	$237.48
Exercise price	¥15,550	¥15,162	$136.59
Expected volatility (Note)	30.0%	29.9%	
Option life	3.3 years	2.0 years	
Dividend yield	0%	0%	
Risk-free interest rate	3%	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.

35. FINANCIAL INSTRUMENTS

(1) Capital management

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

Indicators for monitoring the capital management include total equity attributable to owners of the parent and underlying ROE (ratio of underlying profit for the year to total equity attributable to owners of the parent).

The balances as of December 31, 2017 and 2018 are as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Total equity attributable to owners of the parent	¥1,093,211	¥1,047,620	$9,438
Underlying ROE (%)	10.6	9.1	

(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)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Profit for the year (attributable to owners of the parent)	¥105,478	¥90,316	$814
(Adjustment items)			
Adjustment items related to operating profit	26,554	41,590	375
Revaluation of contingent consideration and put option liability	(13,686)	10,744	97
Gain on sale of investments in associates	–	(52,127)	(470)
Tax expenses related to the above items and effects from tax regulation changes	(9,239)	9,612	87
Others	(1,232)	(2,716)	(24)
Underlying profit for the year (attributable to owners of parent)	¥107,874	¥97,419	$878

(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

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

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

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

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

B. Maximum exposure to credit risk

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

Maximum exposure to credit risk associated with guarantee obligations is the balance of the contingent liabilities described in "37. Contingent liabilities."

FY 2017 : As of December 31, 2017

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, 2017 is as follows:

(Millions of Yen)

	FY2017 (As of December 31, 2017)
Within 30 days	¥159,987
Over 30 days, within 60 days	51,205
Over 60 days, within 90 days	22,400
Over 90 days	33,619
Total	¥267,212

D. Schedule of allowance for doubtful accounts

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

(Millions of Yen)

	FY2017 (Year ended December 31, 2017)
Balance at the beginning of the year	¥18,512
Addition	3,874
Decrease (intended use)	(64)
Decrease (reversal)	(1,145)
Other	1,155
Balance at the end of the year	¥22,331

FY 2018 : As of December 31, 2018

E. Analysis of trade receivables by due date

(Millions of Yen)

	As of December 31, 2018				
	Financial assets whose allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit loss	Financial assets whose allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	
None in arrears	¥60,385	–	–	¥1,105,308	¥1,165,694
Within 30 days	4	–	–	128,288	128,293
Over 30 days, within 60 days	–	–	–	42,642	42,642
Over 60 days, within 90 days	–	–	–	21,011	21,011
Over 90 days	–	–	44	61,454	61,498
Total	¥60,390	–	¥44	¥1,358,705	¥1,419,140

(Millions of U.S. Dollars)

	As of December 31, 2018				
	Financial assets whose allowance for doubtful accounts is measured at an amount equal to the 12-month expected credit loss	Financial assets whose allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	
None in arrears	$544	–	–	$9,958	$10,502
Within 30 days	0	–	–	1,156	1,156
Over 30 days, within 60 days	–	–	–	384	384
Over 60 days, within 90 days	–	–	–	189	189
Over 90 days	–	–	0	554	554
Total	$544	–	$0	$12,241	$12,785

F. Analysis of changes in allowance for doubtful accounts

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

Trade receivables amounting to ¥1,090 million($10 million), which were written off directly during the year ended December 31, 2018, remain subject to enforcement activities.

(Millions of Yen)

	FY2018 (Year ended December 31, 2018)				
		Lifetime expected credit losses			
	12-month expected credit losses	Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	Total
Balance at the beginning of the year under IFRS 9 (2010)	–	–	–	–	¥22,331
Adjustments upon adoption of IFRS 9 (2014)	–	–	–	–	5,088
Balance at the beginning of the year under IFRS 9 (2014)	851	–	15	26,553	27,420
Addition	67	–	28	1,099	1,195
Decrease (intended use)	(227)	–	–	(2,829)	(3,056)
Decrease (reversal)	(407)	–	–	(1,553)	(1,960)
Other	(19)	–	–	(1,355)	(1,375)
Balance at the end of the year	¥264	–	¥44	¥21,914	¥22,223

(Millions of U.S. Dollars)

	FY2018 (Year ended December 31, 2018)				
		Lifetime expected credit losses			
	12-month expected credit losses	Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	Total
Balance at the beginning of the year under IFRS 9 (2010)	–	–	–	–	$201
Adjustments upon adoption of IFRS 9 (2014)	–	–	–	–	46
Balance at the beginning of the year under IFRS 9 (2014)	8	–	0	239	247
Addition	1	–	0	10	11
Decrease (intended use)	(2)	–	–	(25)	(28)
Decrease (reversal)	(4)	–	–	(14)	(18)
Other	(0)	–	–	(12)	(12)
Balance at the end of the year	$2	–	$0	$197	$200

(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, 2017 and 2018 is as follows:

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

FY2018: As of December 31, 2018

(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	¥1,341,461	¥1,341,461	¥1,341,461	¥–	¥–	¥–	¥–	¥–
Contingent consideration on acquisition and others	69,244	69,244	22,694	11,105	17,443	15,432	2,568	–
Put option liabilities	120,839	120,839	14,567	5,763	70,212	23,112	925	6,256
Borrowings	459,113	496,904	117,255	83,784	39,180	58,949	39,674	158,060
Bonds	79,746	81,110	192	192	192	192	35,186	45,154
Subtotal	2,070,404	2,109,559	1,496,170	100,846	127,029	97,686	78,355	209,470
Derivative liabilities	2,893	2,893	645	503	500	850	6	385
Total	¥2,073,297	¥2,112,452	¥1,496,816	¥101,349	¥127,529	¥98,537	¥78,361	¥209,856

FY2018: As of December 31, 2018

(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	$12,085	$12,085	$12,085	$–	$–	$–	$–	$–
Contingent consideration on acquisition and others	624	624	204	100	157	139	23	–
Put option liabilities	1,089	1,089	131	52	633	208	8	56
Borrowings	4,136	4,477	1,056	755	353	531	357	1,424
Bonds	718	731	2	2	2	2	317	407
Subtotal	18,652	19,005	13,479	909	1,144	880	706	1,887
Derivative liabilities	26	26	6	5	5	8	0	3
Total	$18,678	$19,031	$13,485	$913	$1,149	$888	$706	$1,891

C. Undrawn committed facilities

Undrawn committed facilities amounted to ¥373,857 million and ¥326,732 million ($2,944 million) as of December 31, 2017 and 2018, 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 by each currency and by 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.

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

B. Foreign currency sensitivity analysis

With respect to financial instruments held by the Group, in cases where the functional currency (Yen) increases by 1% in value against the U.S. Dollar or Euro assuming all other variables remain unchanged, the effect on profit before tax as of December 31, 2017 and 2018 is as follows:

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
U.S. Dollars	¥371	¥(97)	$(1)
Euros	(52)	(50)	(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 sensitivity analysis

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Profit before tax	¥(281)	¥(452)	$(4)

(7) Hedge accounting

Details of derivatives for which hedge accounting is applied are as follows:

			(Millions of Yen)
	FY2017 (As of December 31, 2017)		
	Contract amount	Over 1 year	Fair value
Foreign exchange contracts	¥48,230	¥32,459	¥11,714
Interest rate swap contracts (including currency interest rate swap contracts)	263,799	200,365	3,645

The foreign currency forward contracts described above are designated as cash flow hedges.

In addition, among the above, interest rate swap contracts are designated as cash flow hedges. Currency interest rate swap contracts are designated as either cash flow hedges or hedges of net investments in foreign operations.

The amount 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 non-financial liability is designated as a hedged item are ¥1,953 million (deduction) for the year ended December 31, 2017.

FY2018: As of December 31, 2018

The notional amounts and average prices of major hedging instruments at the end of the year were as follows:

		Content	Notional Amount and Average Price	FY2018 (As of December 31, 2018) Within one year	Over one year Within five years	Over five years
Cash flow hedge	Interest rate risk	Interest rate swap	Notional Amount (Millions of Yen)	–	134,000	–
			Average fixed rate	–	1.21%	–
			Notional Amount (Millions of U.S. Dollars)	96	456	200
			Average fixed rate	2.25%	1.85%	2.33%
			Notional Amount (Millions of Stering Pounds)	180	–	250
			Average fixed rate	2.11%	–	2.10%
	Foreign exchange risk	Foreign exchange contracts (buy)	Notional Amount (Millions of U.S. Dollars)	157	276	36
			Average exchange rate (¥/USD)	93.52	78.32	83.13
			Notional Amount (Millions of Stering Pounds)	7	5	–
			Average exchange rate (¥/GBP)	131.34	138.44	–
	Interest rate risk and foreign exchange risk	Cross currency interest rate swaps	Notional Amount (Millions of U.S. Dollars)	–	144	–
			Average fixed rate	–	1.14%	–
			Average exchange rate (GBP/USD)	–	0.65	–
Hedge of net investment in foreign operations	Foreign exchange risk	Cross currency interest rate swaps	Notional Amount (Millions of Euro)	–	110	–
			Average exchange rate (GBP/EUR)	–	0.85	–

The carrying amounts of hedging instruments of the Company and certain consolidated subsidiaries at the end of the year were as follows: The amount recognized in profit or loss for the ineffective portion of the hedge was immaterial during the year.

(Millions of Yen)

	FY2018 (As of December 31, 2018) Carrying Amount		Item in the consolidated statements of financial position
	Assets	Liabilities	
Cash flow hedge			
Interest rate risk	¥1,121	(¥2,156)	(Note)
Foreign exchange risk	16,483	(447)	(Note)
Total-cash flow hedges	17,604	(2,603)	
Hedge of net investment in foreign operations			
Foreign exchange risk	(960)	–	(Note)
Total-hedge of net investment in foreign operations	(960)	–	
Total financial instruments for which hedge accounting is applied	¥16,644	(¥2,603)	

	FY2018 (As of December 31, 2018)		Item in the consolidated statements of financial position
	Carrying Amount		
	Assets	Liabilities	
Cash flow hedge			
Interest rate risk	$10	$(19)	(Note)
Foreign exchange risk	148	(4)	(Note)
Total-cash flow hedges	159	(23)	
Hedge of net investment in foreign operations			
Foreign exchange risk	(9)	–	(Note)
Total-hedge of net investment in foreign operations	(9)	–	
Total financial instruments for which hedge accounting is applied	$150	$(23)	

(Millions of U.S. Dollars)

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

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

(Millions of Yen)

	FY2018: Year ended December 31, 2018		
	Amount incurred	Reclassification adjustment from other comprehensive income to net income	Item in the consolidated statement of income
Cash flow hedge			
Interest rate risk	¥1,179	¥602	Finance expenses
Foreign exchange risk	3,883	(5,843)	Revenue
Total-cash flow hedges	5,062	(5,240)	
Hedge of net investment in foreign operations			
Foreign exchange risk	(21)	–	–
Total-hedge of net investment in foreign operations	(¥21)	–	

(Millions of U.S. Dollars)

	FY2018: Year ended December 31, 2018		
	Amount incurred	Reclassification adjustment from other comprehensive income to net income	Item in the consolidated statement of income
Cash flow hedge			
Interest rate risk	$11	$5	Finance expenses
Foreign exchange risk	35	(53)	Revenue
Total-cash flow hedges	46	(47)	
Hedge of net investment in foreign operations			
Foreign exchange risk	(0)	–	–
Total-hedge of net investment in foreign operations	$(0)	–	

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

(Millions of Yen)

	FY2018: Year ended December 31, 2018		
	Cash flow hedge		Hedge of net investments in foreign operations
	Interest rate risk	Foreign exchange risk	Foreign exchange risk
Beginning balance	(¥1,850)	¥8,082	(¥743)
Arising during the year	1,069	3,759	(294)
Reclassification adjustments to net income	415	(5,111)	–
Ending balance	(¥364)	¥6,729	(¥1,038)

(Millions of U.S. Dollars)

	FY2018: Year ended December 31, 2018		
	Cash flow hedge		Hedge of net investments in foreign operations
	Interest rate risk	Foreign exchange risk	Foreign exchange risk
Beginning balance	$(17)	$73	$(7)
Arising during the year	10	34	(3)
Reclassification adjustments to net income	4	(46)	–
Ending balance	$(3)	$61	$(9)

The main reason of the reclassification adjustment to net income was that the hedged item had impacted profit or loss.

The amount 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 non-financial liability is designated as a hedged item are ¥2,359 million ($21 million) (deduction) for the year ended December 31, 2018.

(8) The carrying amount and fair value of financial instruments

The breakdown of the carrying amount and fair value of financial instruments as of December 31, 2017 and 2018 is as follows:

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

			(Millions of Yen)		(Millions of U.S. Dollars)	
	FY2017 (As of December 31, 2017)		FY2018 (As of December 31, 2018)		FY2018 (As of December 31, 2018)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	¥419,099	¥420,572	¥405,769	¥404,360	$3,656	$3,643
Bonds	–	–	¥79,746	¥80,245	$718	$723

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

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

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

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

(9) Fair value hierarchy of financial instruments

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

The fair value hierarchy is defined as follows:

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

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

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

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

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

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2017 and 2018.

The followings table includes put option liabilities.

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

FY2018: As of December 31, 2018

(Millions of Yen)

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

FY2018: As of December 31, 2018

(Millions of U.S. Dollars)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	$–	$151	$–	$151
Equity securities	2,111	–	613	2,724
Other	5	24	118	146
Total	$2,116	$175	$731	$3,022
Financial liabilities				
Derivative liabilities	$–	$26	$–	$26
Put option liabilities	–	–	1,089	1,089
Other (mainly contingent consideration)	–	–	624	624
Total	$–	$26	$1,712	$1,739

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, 2017 and 2018, are 0.77 and 0.58, 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 and ¥2,851 million ($26 million) at December 31, 2017 and 2018, respectively.

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

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

Financial assets	FY2017 (Year ended December 31, 2017)	(Millions of Yen) FY2018 (Year ended December 31, 2018)	(Millions of U.S. Dollars) FY2018 (Year ended December 31, 2018)
Balance at the beginning of the year	¥21,652	¥32,181	$290
Other comprehensive income (Note 1)	522	(7,899)	(71)
Purchases or acquisition	11,131	61,743	556
Sales or settlements	(324)	(1,168)	(11)
Transfers out of Level 3 (Note 2)	(21)	(3)	(0)
Other	(778)	(3,743)	(34)
Balance at the end of the year	¥32,181	¥81,110	$731

Financial liabilities	FY2017 (Year ended December 31, 2017)	(Millions of Yen) FY2018 (Year ended December 31, 2018)	(Millions of U.S. Dollars) FY2018 (Year ended December 31, 2018)
Balance at the beginning of the year	¥173,589	¥167,667	$1,511
Profit or loss (Note 3)	(13,686)	10,744	97
Purchases	32,878	47,879	431
Sales or settlements	(25,561)	(29,359)	(264)
Other	447	(6,848)	(62)
Balance at the end of the year	¥167,667	¥190,083	$1,712

(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 and 2018, respectively, 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 income of ¥13,686 million and finance expenses of ¥10,744 million ($97 million) for the years ended December 31, 2017 and 2018, respectively.

(10) Offsetting of financial assets and liabilities

The amount of financial assets and liabilities as of December 31, 2017 and 2018, that are against the same counterparty and that are offset in accordance with the criteria for offset, are as follows.

	FY2017 (As of December 31, 2017)	(Millions of Yen) FY2018 (As of December 31, 2018)	(Millions of U.S. Dollars) FY2018 (As of December 31, 2018)
	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents
Total recgonized financial assets	¥87,038	¥121,466	$1,094
The amount of financial assets and liabilities offset in accordance with the criteria	(51,464)	(103,137)	(929)
Net amount recorded in Consolidated Statement of Financial Position	¥35,574	¥18,329	$165

	FY2017 (As of December 31, 2017)	(Millions of Yen) FY2018 (As of December 31, 2018)	(Millions of U.S. Dollars) FY2018 (As of December 31, 2018)
	Borrowings (current)	Borrowings (current)	Borrowings (current)
Total recognized financial liabilities	¥51,708	¥103,301	$931
The amount of financial assets and liabilities offset in accordance with the criteria	(51,464)	(103,137)	(929)
Net amount recorded in Consolidated Statement of Financial Position	¥243	¥163	$1

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.

36. RELATED PARTIES

(1) Remuneration for the Company's directors

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (Year ended December 31, 2017)	FY2018 (Year ended December 31, 2018)	FY2018 (Year ended December 31, 2018)
Remuneration and bonuses	¥448	¥527	$5

(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 e3 Inc.	Tokyo, Japan	100.0
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
DENTSU DIRECT MARKETING 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
DAN Regents Place Finance Limited	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
Aegis International Holding Company BV	Amsterdam, the Kingdom of the Netherlands	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	74.0
Dentsu Aegis (Shanghai) Investment Co., Ltd.	Shanghai, China	100.0
Beijing Dentsu Advertising Co., Ltd.	Beijing, China	98.0
Dentsu Aegis Network Australia Holdings Pty Ltd	Melbourne, Commonwealth of Australia	100.0
Dentsu Aegis Network Australia Pt Ltd	Melbourne, Commonwealth of Australia	100.0

Consolidated subsidiaries increased by 65, and affiliates accounted for using the equity method increased by 6, during the year ended December 31, 2018.

37. CONTINGENT LIABILITIES

The contingent liabilities as of December 31, 2017 and 2018 are as follows:

Guarantees of loans and other liabilities

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2017 (As of December 31, 2017)	FY2018 (As of December 31, 2018)	FY2018 (As of December 31, 2018)
Liabilities on guarantees resulting from a loan scheme for housing funds for employees	¥207	¥125	$1
Liabilities for guarantees of bank loans and others	1,906	1,837	17
Total	¥2,114	¥1,963	$18

38. SUBSEQUENT EVENTS

(Business merger between Cyber Communications Inc., the Group's consolidated subsidiary, and CARTA HOLDINGS, INC. (name changed from VOYAGE GROUP, Inc. on January 1, 2019)

Cyber Communications, Inc. ("CCI"), the Group's consolidated subsidiaries, and VOYAGE GROUP, Inc. ("VOYAGE GROUP"), conducted a management integration (the "Management Integration") on January 1, 2019 (the "Integration Date").

As of the Integration Date, VOYAGE GROUP conducted a share exchange (the "Share Exchange") in which it acquired all of the outstanding shares of CCI and allotted VOYAGE GROUP common shares to the Company, the parent company of CCI (the "Share Exchange"). As a result of the Share Exchange, VOYAGE GROUP became consolidated subsidiary and CCI became a wholly-owned subsidiary of VOYAGE GROUP (sub-subsidiary).

In addition, VOYAGE GROUP has caused the Spin-off Preparation Company (hereinafter referred to as the "Spin-off Preparation Company"), which was incorporated as a wholly owned subsidiary of VOYAGE GROUP, to be succeeded to the Spin-off Preparation Company through a corporate split, in which VOYAGE GROUP's rights and obligations relating to its business were transferred to Spin-off Preparation Company, and VOYAGE GROUP changed its trade name to CARTA HOLDINGS, INC. upon the transition to a holding company, and the Spin-off Preparation Company changed its trade name to VOYAGE GROUP Inc.

(1) The outline of the Business Combination

A. Name of the acquired company and its business

Name of acquired company: VOYAGE GROUP Inc. (Listed on the First Section of the Tokyo Stock Exchange)

Business Description: Ad Platform Business, Point Media Business, Incubation Business

B. Reasons for the business combination

With the expansion of the smartphone advertising market, the rapid launch of the video advertising market, and an increase in the number of advertisers utilizing data and technology, the business environment in the Internet Advertising (Affiliate) Business has changed dramatically. In this environment, the Group is required to have more sophisticated, specialized technologies and a robust business management system. In this environment, the Group has decided to merge the Advertising (Affiliate) Business to realize further business growth and accelerate development while aiming to expand business results and enhance corporate value by generating synergies by leveraging the strengths of Dentsu, CCI, and VOYAGE GROUP.

C. Date of business combination

January 1, 2019

D. Legal form of business combination

Share exchange in which VOYAGE GROUP becomes the parent company and CCI becomes a wholly owned subsidiary of VOYAGE GROUP.

E. Name following business combination

CARTA HOLDINGS, Inc.

(NOTE) On January 1, 2019,VOYAGE GROUP, INC. changed its name in connection with its transition to a holding company.

F. Percentage of voting rights to be acquired

52.9%

G. Primary basis to determine the acquirer

This is because the Company will obtain a majority of the voting rights of VOYAGE GROUP.

(2) Matters concerning the calculation of the acquisition consideration, etc.

A. Acquisition consideration of the acquiring company and breakdown by type of consideration

Acquisition consideration	CCI common stock 243,336 shares (Note 1)
Fair value of acquisition consideration	¥6,605 million ($60 million) (Note 2)

(Note 1) Of the shares of CCI to be issued to VOYAGE GROUP, the number of shares corresponding to the acquisition of VOYAGE GROUP interests is presented.
(Note 2) Calculated based on the fair value of VOYAGE GROUP's equity.

B. Exchange Ratio and Calculation Method and Number of Shares to be Delivered by Type of Shares

(i) Exchange Ratio by Type of Shares

26 common shares of VOYAGE GROUP per common share of CCI

(ii) Calculation method

The parties decided the share change ratio as above a. taking into factors such as the results of the calculation of the share exchange ratio by several third-party calculation organizations, the financial condition of both companies, VOYAGE GROUP share price, and the forecast of future outlook.

(iii) Number of shares to be delivered

516,981 common shares of CCI

(iv) Number of shares to be acquired

13,441,506 shares of VOYAGE GROUP common shares (allotment of new shares)

C. Amount of acquisition-related expenses and account titles

The Group has not yet finalized this matter at this time.

D. Identifiable assets acquired and liabilities assumed

The fair values of goodwill, non-controlling interests and assets acquired and liabilities assumed have not been determined at this time.

(Corporate Split for Transition to Holding Company Structure)

Dentsu Inc. convened a meeting of its Board of Directors at its Head Office in Tokyo on February 19, 2019 and resolved that, by means of a company split, any and all businesses that are being operated by the Company (except for the business pertaining to the governance of the business activities of the companies whose shares are owned by the Company and pertaining to the management of the Dentsu Group; hereinafter referred to as “the Business”) will be succeeded to by its wholly-owned subsidiary DENTSU SUCCESSOR PREPARATORY CORPORATION INC. (incorporated on February 12, 2019, and its trade name is scheduled to be changed to “DENTSU INC.” as of January 1, 2020; hereinafter referred to as the “Successor Company”), and certain absorption-type company split agreement (hereinafter referred to as the “Absorption-type Company Split Agreement”) was executed between the Company and the Successor Company on the same date (hereinafter the company split being referred to as the “Absorption-type Split”).

The implementation of the Absorption-type Split and the amendment to the Articles of Incorporation (amendment to the trade name and the business purpose) have been approved at the 170th Ordinary General Meeting of Shareholders held on March 28, 2019.

It is being scheduled that, following the Absorption-type Split, effective as of January 1, 2020, the Company’s trade name will be changed to DENTSU GROUP INC., and its business purpose will also be changed in accordance with the business to be conducted subsequent to the shifting to the holding company structure.

(1) Objectives of the Absorption-type Split

The business and the operating environment of the Company and its Group have been changing radically. In order to respond appropriately and promptly to this series of changes and to achieve the sustainable growth of the Group going forward, there is an urgent need to realize the acquisition and allocation of internal and external management resources on a timely basis from a Group-wide and global perspective, to further promote the management of richly diverse human resources and foster an open organizational culture, and to establish the most appropriate group governance structure.

In recognizing the above, the Company has decided to shift to a pure holding company structure in order to drive sustainable growth for the Dentsu Group as a whole, including promotion of business transformation in Japan, and maintenance and further development of the growth momentum of the overseas business headed by its headquarters, Dentsu Aegis Network Ltd.

(2) Summary of the Absorption-type Split

A. Timeline of the Absorption-type Split

Date of resolution of the Board of Directors on the approval of the Absorption-type Company:	February 19, 2019
Split Agreement Date of execution of the Absorption-type Company Split Agreement:	February 19, 2019
General meeting of shareholders to approve the Absorption-type Split:	March 28, 2019
Effective date of the Absorption-type Split:	January 1, 2020 (planned)

B. Method of the Absorption-type Split

This will be done in the form of an absorption-type company split in which the Company becomes the splitting company and the Company's wholly-owned subsidiary, DENTSU SUCCESSOR PREPARATORY CORPORATION INC., becomes the successor company.

C. Allocations of shares in respect of the Absorption-type Split

Upon the Absorption-type Split, the Successor Company will issue 248,000 ordinary shares, and allocate and deliver all of them to the Company.

D. Handling of the share option and the bond with share option issued by the splitting company

The Company has not issued any share option or bond with share option.

E. The amount of stated capital, etc. to be reduced as a result of the Absorption-type Split

There will be no change to the Company's stated capital.

F. The rights and obligations to be assumed by the Successor Company

As a result of the Absorption-type Split, the Successor Company will assume, to the extent provided in the Absorption-type Company Split Agreement, the assets, liabilities, employment contracts, and other rights and obligations that pertain to the Business and belong to the Company as of the effective date. The liabilities to be succeeded by the Successor Company shall be jointly and severally assumed by the Company as well.

G. Prospects of performance of obligations

In light of the fact that, in respect of both of the Company and the Successor Company, no event which may adversely affect performance of the obligations following the Absorption-type Split is, as of today, expected to occur, the Company has determined that there is no issue concerning the prospects of performance of obligations by the Company and the Successor Company following the Absorption-type Split.

(3) Outline of the parties to the Absorption-type Split

	Splitting company (As of December 31, 2018)	Successor company (Incorporated on February 12, 2019)
Trade name	DENTSU INC. (Company name to be changed to DENTSU GROUP INC. as of January 1, 2020)	DENTSU PREPARATION INC. (Company name to be changed to DENTSU INC. on January 1, 2020)
Business	Advertising and Advertising-Related Businesses	Advertising and Advertising-Related Businesses (However, the Company will not conduct business until the effective date of the Spin-off.)
Incorporation date	July 1, 1901	February 12, 2019
Head Office location	Tokyo	Tokyo
Representative	Representative Director, President and Chief Executive Officer Toshihiro Yamamoto	Representative Director Tadashi Nagae
Stated capital	¥74,609 million	¥50 million
Number of shares issued	288,410,000 shares	2,000 shares
Fiscal year end	December 31	December 31
Major shareholder and shareholding ratio	Japan Master Trust Trust & Banking Co., Ltd. (Trust account) 13.96%	DENTSU Inc. 100%

Financial conditions and business performance of the immediately preceding business year (JGAAP)

(Millions of Yen)

	Fiscal Year ended / as of December 31, 2018
Net assets	¥991,086
Total assets	1,838,638
Sales	1,539,962
Operating income	48,604
Ordinary income	75,414
Net income	94,841
Net income per share (Yen)	336.44
Net assets per share (Yen)	3,515.78

(Millions of U.S. Dollars)

	Fiscal Year ended / as of December 31, 2018
Net assets	$8,929
Total assets	16,564
Sales	13,874
Operating income	438
Ordinary income	679
Net income	854
Net income per share (U.S. Dollars)	3.03
Net assets per share (U.S. Dollars)	31.67

(4) Outline of the business of the section to be split off
A. Business of the section to be split off
Advertising and advertising-related businesses, etc.

B. Business performance of the section to be split off (year ended December 31, 2018) (JGAAP)

(Millions of Yen)

Sales of the business to be split off (a)	The Company's actual sales (b)	Ratio (a/b)
¥1,539,962	¥1,539,962	100%

(Millions of Yen)

Sales of the business to be split off (a)	The Company's actual sales (b)	Ratio (a/b)
$13,874	$13,874	100%

C. Items and amounts of the assets and liabilities to be split off (as of December 31, 2018) (JGAAP)

(Millions of Yen)

Assets	
Item	Amount
Current assets	¥426,517
Fixed assets	44,019
Total	¥470,537

(Millions of Yen)

Liabilities	
Item	Amount
Current Liabilities	¥450,935
Fixed Liabilities	21,723
Total	¥472,659

(Millions of U.S. Dollars)

Assets	
Item	Amount
Current assets	$3,842
Fixed assets	397
Total	$4,239

(Millions of U.S. Dollars)

Liabilities	
Item	Amount
Current Liabilities	$4,062
Fixed Liabilities	196
Total	$4,258

(Note) Because the items and amounts of the assets and liabilities to be split off pertaining to the above-mentioned business were calculated based on the balance sheet as of December 31, 2018 and on other current calculation on the same date, and will be determined after adding or deducting the movements recognized until the effective date of the Absorption-type Split, the actual amounts of the assets and liabilities to be split off will be different from above ones. The amount of assets is expected to exceed the amount of liabilities as of December 31, 2019.

(5) The Company's situation after the Absorption-type Split (as of January 1, 2020 (planned))

	Splitting Company	Successor Company
Trade name	DENTSU GROUP INC.	DENTSU INC.
Business	Businesses related to group management	Advertising and Advertising-Related Businesses
Head Office location	1-8-1 Higashi-Shimbashi, Minato-ku, Tokyo	1-8-1 Higashi-Shimbashi, Minato-ku, Tokyo
Representative	Toshihiro Yamamoto, Representative Director	Not determined
Stated capital	¥74,609 million	¥10,000 million
Fiscal year end	December 31	December 31

(6) Future outlook

The effects of the Absorption-type Split on the Company's consolidated performance will be immaterial. It is being planned that, as a result of the Absorption-type Split, the Company's income will be primarily comprised of the dividend income received from the Dentsu Group companies and the income received from rental of real properties, and the Company's expenses will be primarily comprised of the operating expenses as the holding company and the miscellaneous expenses pertaining to the management of real properties.

(Introduction of Performance-Based Stock Compensation Plan)

The Company resolved to introduce a performance-based stock compensation plan (hereinafter referred to as the "Plan") for the Company's executive officers (including those who concurrently serve as directors; the same shall apply hereinafter). The Company submitted a proposal for the Plan to the 170th Ordinary General Meeting of Shareholders held on March 28, 2019 (hereinafter referred to as the "Shareholders Meeting") and the plan was approved at the Shareholders Meeting.

(1) Background and Purpose of Introduction

The Company decided to introduce a new performance-linked stock compensation system as a medium-to long-term bonus for the Company's executive officers, with the aim of further motivating them to implement strategies with a medium-to long-term perspective, which is the mission of our executives. The Company decided to submit a proposal for this system to the General Meeting of Shareholders. Through the introduction of this system, the Company aims to enhance the awareness of the Company's executive officers who contribute to the sustainable growth of the Group and the enhancement of corporate value over the medium to long term by clarifying the linkage between the compensation of the Company's executive officers to business performance and corporate value, and promoting the sharing of interests with the Company's shareholders and other stakeholders.

(2) Stock-based compensation benefits

A. Outline of the Plan

The Plan is a performance-based stock compensation plan, which works as follows: Dentsu ordinary shares are acquired through a trust (the trust established pursuant to the Plan, the "Trust") using the money the Company contributes to the trust. Dentsu ordinary shares and the amount of money equivalent to the value of the Dentsu ordinary shares calculated based on the market value thereof (the market value of a Dentsu ordinary share will be the closing price of such share on the Tokyo Stock Exchange on the day the market value calculation is required (or, if there is no closing price for such day, the immediately preceding closing price); the same applies hereinafter) (such shares and amount of money collectively, the "Dentsu Shares, etc.") are distributed, as described in (5) below, by the Trust to the Company's executive officers appointed after the introduction of the Plan (including those who subsequently retired from office; the same applies hereinafter) based on the Company's business performance in accordance with the Officers Stock Benefit Regulations established by the Company's Board of Directors. As described in (5) below, as a general rule, the executive officers will actually receive a distribution of Dentsu Shares, etc., after a lapse of three consecutive fiscal years from each first fiscal year for which the distribution is to be made.

Introduction of the Plan will further clarify the link between the executive officers' compensation, on the one hand, and the Company's business performance and corporate value, on the other hand, and promote the sharing of interests with shareholders and other stakeholders. As a result, the Company will be able to heighten the awareness of the executive officers who are supposed to contribute to sustainable growth and the enhancement of the corporate value of the Dentsu Group over the medium to long term.

It should be noted that the Plan will be administered as compensation to the Company's executive officers and not as compensation to its directors. However, when the Company prescribed a rule at the 167th Ordinary General Meeting of Shareholders held on March 30, 2016 to the effect that the aggregate amount of monetary compensation paid to the directors who are not audit and supervisory committee members would be 1.2 billion yen per annum, the Company obtained the shareholders' approval on the basis that such aggregate amount of compensation would include the amount of compensation paid for the services performed as executive officers by those who concurrently serve as directors. Therefore, in connection with the administration of the Plan in respect of the executive officers who concurrently serve as directors, the Company has decided to submit to the Shareholders Meeting a proposal for administering the Plan, apart from the above-mentioned monetary compensation, in respect of the executive officers who concurrently serve as directors and also for the framework thereof.

B. Subjects of the Plan

The Company's executive officers, including the executive officers who concurrently serve as directors, will be the beneficiaries of the Plan.

Executive officers will be entitled to receive a distribution of the Dentsu Shares, etc., on the condition that the executive officer has not been discharged for a legitimate reason and has satisfied all other beneficiary requirements prescribed in the Officers Stock Benefit Regulations.

C. Money to be contributed by Dentsu

On the condition that the proposal concerning the Plan is approved and passed in its original form at the Shareholders Meeting, the Company will administer the Plan in respect of the fiscal year ending on the last day of December 2019 (the "First Fiscal Year") and each subsequent fiscal year and thereby distribute the Dentsu Shares, etc., to the executive officers. The Company will contribute money to the Trust as described below in the amount deemed appropriate in the light of the aforementioned objective so that the money will be appropriated as the funds for the Trust to acquire Dentsu ordinary shares for the above purpose.

At the time of the creation of the Trust (May 2019 (planned)), regarding the funds necessary in respect of the First Fiscal Year, the Company will contribute up to ¥200 million ($2 million) in total to the Trust as the portion corresponding to the executive officers who concurrently serve as directors, and up to ¥600 million ($5 million) in total as the portion corresponding to all other executive officers.

After the First Fiscal Year, so long as the Plan continues to exist, the Company will additionally contribute money to the Trust, for each fiscal year as a general rule, up to ¥900 million ($8 million) in total as the portion corresponding to the executive officers who concurrently serve as directors, and up to ¥2,700 million ($24 million) in total as the portion corresponding to all other executive officers; provided, however, that when Dentsu is to make such additional contribution, if there remains any Dentsu ordinary shares or money in the assets of the Trust (the "Remaining Shares, etc."), each balance obtained by deducting from the above-mentioned respective maximum amounts the amount of the Remaining Shares, etc., (with regard to a Dentsu ordinary share, the closing price of such Dentsu ordinary share on the Tokyo Stock Exchange for the last day of the immediately preceding fiscal year (or, if there is no closing price for such day, the immediately preceding closing price)) corresponding to the executive officers who concurrently serve as directors, and the amount of the Remaining Shares, etc., corresponding to all other executive officers, respectively, be the maximum amount for the additional contribution.

During each fiscal year, the Company may contribute money to the Trust on more than one occasion until the aggregate amount contributed within the relevant fiscal year reaches the relevant maximum amounts described above.

When the Company has decided to make an additional contribution, it will be disclosed appropriately in a timely manner.

D. Method of acquiring Dentsu ordinary shares

As for the acquisition of Dentsu ordinary shares by the Trust, the Trust will acquire Dentsu ordinary shares with the money contributed, as described in (3) above, by means of either a purchase through the securities exchange or an acceptance of treasury shares disposed of by the company. The Company will not issue new shares to the Trust.

Details of the acquisition of Dentsu ordinary shares by the Trust will be disclosed appropriately in a timely manner.

E. Distribution of Dentsu Shares, etc., to executive officers

In respect of each fiscal year while in office, each executive officer will be granted, on a certain day during the relevant fiscal year (the "Point Grant Day"), the number of points calculated in accordance with the calculation formula prescribed in the Officers Stock Benefit Regulations (the "Basic Points") as compensation for the performance of the executive officer's duties during the relevant fiscal year. And by completing the prescribed procedures by a certain date (the "Vesting Date"), after a lapse of three consecutive fiscal years the first fiscal year of which is the fiscal year in which the Point Grant Day falls (such three consecutive fiscal years, the "Business Performance Assessment Period"), the executive officer can acquire, on the Vesting Date, the right to receive a distribution of the Dentsu Shares, etc., from the Trust.

At such time, the number of the Basic Points granted to each executive officer in the relevant first fiscal year will be adjusted in accordance with the calculation formula prescribed in the Officers Stock Benefit Regulations based on the business performance during the Business Performance Assessment Period (such adjusted points, the "Finalized Points," and the Basic Points and the Finalized Points collectively, the "Relevant Points").

Thereafter, the relevant executive officer will be able to receive from the Trust a distribution of the Dentsu Shares, etc., in the amount corresponding to the number of the Finalized Points (as a general rule, the number of Dentsu ordinary shares calculated based on half the number of the Finalized Points, and the amount of money equivalent to the market value, as of the Vesting Date, of the number of Dentsu ordinary shares calculated based on the remaining half of the number of the Finalized Points).

The maximum total number of Dentsu ordinary shares to be calculated based on the total number of the Relevant Points granted to the executive officers is 1.44 million shares (approximately 0.5% of our outstanding shares (excluding treasury shares) as of December 31, 2018) for each fiscal year, of which up to 360,000 shares will be allocated to the executive officers who concurrently serve as directors (approximately 0.1%). The said maximum numbers of shares were determined by comprehensively considering such factors as the current level of executive compensation and the trend in the number of executive officers. However, if actions such as a share split, allotment of shares without contribution (kabushiki-musho-wariate), or consolidation of shares are taken in respect of Dentsu ordinary shares, the said maximum numbers of shares will be reasonably adjusted in accordance with the relevant ratio, etc.

If any executive officer who expected to receive a distribution of the Dentsu Shares, etc., deceases before the Vesting Date, such executive officer's surviving family, within certain limitations, may, by completing prescribed procedures, receive an amount of money equivalent to the market value, as of the time of the relevant death, of the number of Dentsu ordinary shares calculated based on the number of the Basic Points granted to such executive officer as of the time of death.

In order for the Trust to be able to make a distribution in cash, the Trust may sell any Dentsu ordinary shares it holds as necessary.

F. Voting rights pertaining to Dentsu ordinary shares held by the Trust

Pursuant to the instruction of the Trust Administrator, who will be independent of Dentsu, the voting rights pertaining to Dentsu ordinary shares held by the Trust will not be exercised at all. Such arrangement is intended to secure neutrality in relation to the company's management.

G. Handling of dividends pertaining to Dentsu ordinary shares held by the Trust

Dividends pertaining to Dentsu ordinary shares held by the Trust will be received by the Trust and appropriated for such purposes as the payment of the Dentsu ordinary share acquisition price and the payment of the fee in relation to the Trust. In the event the Trust is to be terminated, money, such as dividends, which remains in the Trust will be donated, in accordance with the provisions of the Officers Stock Benefit Regulations, to charitable organizations that have no interest in the Company or the Company's executive officers.

H. Handling at the time of the termination of the Trust

The Trust will be terminated if an event such as the delisting of Dentsu shares or the abolishment of the Officers Stock Benefit Regulations has occurred. It is planned that the Company will acquire free of charge all of the Dentsu ordinary shares existing as residual assets of the Trust at the time of the termination of the Trust and cancel them by a resolution of the Board of Directors. With regard to money existing as a residual asset of the Trust at the time of the termination of the Trust, the balance obtained by deducting the amount to be donated to a charitable organization, as described in (7) above, will be distributed to the company.

I. Other Matters

Other details regarding the Plan will be determined by the resolution of the Board of Directors of the Company within the boundaries described above.

(3) Overview of the Trust

· Name: Board Benefit Trust
· Trustor: DENTSU INC.
· Trustee: Mizuho Trust & Banking Co., Ltd.
  (Re-Trustee: Trust & Custody Services Bank, Ltd.)
· Beneficiary: Executive officers who satisfy the beneficiary requirements set forth in the Officers Stock Benefit Regulations.
· Trust Administrator: Third party with no interest in Dentsu (planned)
· Type of trust: Trusts of money other than money trusts(third-party-benefit trust)
· Date of conclusion of the Trust agreement: May 31, 2019 (planned)
· Date of entrustment of money: May 31, 2019 (planned)
· Period of trust: From May 31, 2019 (planned) until termination of the trust
  (The trust will continue as long as the Plan continues, without stipulating a specific date of termination.)