dentsu group

Financial Report

2020

Finance

Any forward-looking statements in the following discussion and analysis are based on the judgment of management as of the date that Dentsu Group Inc. (hereinafter "the Company") filed its securities report for the fiscal year ended December 31, 2019 with regulatory authorities.

Management Policy, Management Environment and Issues to Be Addressed

In Japan and overseas, client needs have surpassed the traditional advertising and mass communications domains to demand integrated solutions based on customer engagement strategies, data-driven planning and implementation capabilities. As a result, we increasingly find ourselves in competition with companies in industries other than advertising, such as the consulting and technology industries.

Within this competitive environment, in January 2020 we transitioned to a pure holding company structure as "Dentsu Group Inc." Each of our employees will rise above organizational boundaries on a global level, contribute diverse perspectives, and connect in an open and flat environment to stimulate innovation. Further, our human resources will form flexible teams within the Group and with a variety of outside partners to continuously provide new value in response to client and societal challenges. To foster such a diverse, free-spirited, and talented Group culture, the pure holding company Dentsu Group Inc. will go beyond simply ensuring overall Group governance. Dentsu Group Inc. will support the entire Group as a "Teaming Company", tasked with the role of empowering all individual companies and employees within the Group to engage in the creation of value and innovation.

In 2020, our first year as a "Teaming Company," efforts will focus on the creation of an environment that creates flexible teams across organizational boundaries. The "Teaming Company" will support business domain expansion, the launch of new businesses, and the provision of opportunities to nurture ideas, execution, and management capabilities that give rise to innovation.

The Dentsu Group Continues to Tackle Social Issues around the World

In June 2019, the G20 (Ministerial Meeting on Energy Transitions and Global Environment for Sustainable Growth) presented action plans pertaining to issues such as climate change, biodiversity loss, efficient use of resources, and sustainable consumption and production. Nowadays, companies cannot achieve sustainable growth without overcoming these social issues at a global level, and companies are now under pressure to seek new relationships with society.

The marketing and communications domain, in which the Group engages as a business, has a great social mission, playing the role of a bridge, connecting companies and consumers. Encouraging sustainable consumption among consumers, engaging in responsible communications and focusing on ESG (environment, society, and governance) are indispensable from the perspective of corporate management, and the Group also believes this will contribute to the realization of the Sustainable Development Goals (SDGs).

Going forward, the Group's policy is to enhance corporate value by strengthening activities appropriate for a leading group in the global communications domain.

Comprehensive Business Overview

In 2019, the Japanese economy remained on track towards gradual recovery amid improvements in corporate earnings, employment and income levels, but weakness in exports and production increased uncertainty about the future. At the same time, in the global economy, trade frictions between the United States and China and unstable global conditions, including Brexit, perpetuated the uncertainty of future conditions.

Dentsu Aegis Network announced in January 2020 that the 2019 global advertising expenditure growth rate was estimated at 2.6%. Broken down by region, growth in Japan was 1.2%, in Europe, the Middle East and Africa (hereinafter "EMEA") 1.7%, the Americas 3.4% and the Asia-Pacific region (excluding Japan, hereinafter "APAC") 2.7%.

In this environment, the Dentsu Group's business performance for the fiscal year under review (January 1, 2019–December 31, 2019) was revenue of 1,047,881 million yen, (up 2.9% year on year), revenue less cost of sales of 939,385 million yen (up 0.7% year on year), and organic growth rate of -1.0%. Organic growth rate sluggishness resulted in an underlying operating profit of 140,751 million yen (down 8.1% year on year), operating margin (underlying operating profit divided by revenue less cost of sales) of 15.0% (compared to 16.4% in the previous fiscal year) and underlying net profit attributable to owners of the parent of 76,120 million yen (down 21.9% year on year). Operating losses amounted to 3,358 million yen (compared to operating profit of 111,638 million yen in the previous fiscal year) due to the recording of a goodwill impairment loss in the APAC region and expenses related to the implementation of a restructuring announced in the International business.

A decline due to the gain on sales of shares of associates recorded in the previous fiscal year and an increase in the revaluation losses of earnout liabilities and M&A-related put-option liabilities resulted in net losses attributable to owners of the parent of 80,893 million yen (compared to net profit of 90,316 million in the previous fiscal year).

Note 1: Underlying operating profit is a key performance indicator to measure recurring business performance which is calculated as operating profit added with amortization of M&A related intangible assets, acquisition costs, share-based compensation expenses related to acquired companies and one-off items such as impairment loss and gain/loss on sales of non-current assets

Note 2: Underlying net profit (attributable to owners of the parent) is a key performance indicator to measure recurring net profit attributable to owners of the parent which is calculated as net profit (attributable to owners of the parent) added with adjustment items related to operating profit, revaluation of earnout liabilities/M&A related put-option liabilities, gain/loss on sales of shares of associates, tax-related, non-controlling interest income-related and other one-off items

Finance

Segment Overview

Japan Business

Enhancing Capabilities in the Digital Domain

SEPTENI HOLDINGS, CO., LTD., formed through a capital and business alliance in FY2018 to strengthen the digital business foundation, and CARTA HOLDINGS, INC., created through a merger between VOYAGE GROUP, Inc. and Cyber Communications Inc., were the main drivers of double-digit growth in the Dentsu Group's domestic digital domain centered on Dentsu Digital Inc. Collaborations with each of these companies will create further business opportunities for the Group. This establishes a major first step towards the provision of the industry's highest standard of services in the domestic digital advertising domain. We will maintain this momentum as we continue to move forward.

Execution and Success of the Tokyo 2020 Olympic and Paralympic Games

In FY2019, Dentsu was involved in the World Aquatics Championships, the World Athletics Championships, the Rugby World Cup and many other global sporting events. In particular, the Rugby World Cup attracted a great deal of attention around the world, significantly increasing the momentum towards the Tokyo 2020 Olympic and Paralympic Games. For the Group, it was a year during which we built foundations for activating this momentum. However, the global spread of COVID-19 infections led to the International Olympic Committee and the Tokyo 2020 Organizing Committee announcing in a joint statement on March 24, 2020 that they had agreed to postpone the Tokyo 2020 Olympic and Paralympic Games. The Games will now be held by the summer of 2021. The Group will fully leverage insights from sporting event activation and sports marketing collectively cultivated up to now, and in close cooperation with the Tokyo 2020 Organizing Committee, related sponsor companies and various sports competition groups, will come together for the purpose of successfully executing the Tokyo 2020 Olympic and Paralympic Games.

Ensuring and Expanding Revenue Sources in Advertising and Marketing-Related Domains and beyond

The Group has always worked to expand revenue sources in areas peripheral to advertising and marketing and to ensure revenue sources in new domains other than advertising and marketing. Over the past several years, we have also focused efforts on joint ventures with new partners. Going forward, we will continue to proactively engage in new domains that invigorate Japanese society and diversify our revenue sources.

FY2019 Financial Results

In terms of the Japan business turnover by category, the Internet business grew substantially (up 26.6% year on year) due to effects from the merger between VOYAGE GROUP, Inc. and Cyber Communications Inc. (now CARTA HOLDINGS, INC.), as well as the capital and business alliance with SEPTINI HOLDINGS CO., LTD. At the same time, Television (down 4.0%), Creative (down 3.5%) and Newspapers (down 6.3%) had lower turnover than in the previous fiscal year. As a result, in the Japan business, revenue less cost of sales was 380,366 million yen (up 3.0% year on year). An organic growth rate of 0.4% and investment costs for future growth resulted in underlying operating profit of 72,488 million yen (down 9.7% year on year) and an operating margin of 19.1% (compared to 21.7% in the previous fiscal year).

Ongoing Promotion of Working Environment Reforms

To create a working environment in which every employee can thrive is not only for appropriate compliance with the labor laws of the Company, but also a prerequisite for recruiting diverse human resources and invigorating and maximizing employee performance. In FY2019, Dentsu Inc. continued the implementation and follow-ups of the working environment reforms implemented in FY2017 and FY2018. As a result, total working hours per Group employee, which was 1,952 hours in FY2018, decreased to 1,903 hours in FY2019. The Group will continue to implement proactive efforts to improve the employee working environment.

International Business

Business Foundation Development

Since the Group acquired UK-based Aegis Group plc (hereinafter “Aegis”) in March 2013, we have structured the International business under Dentsu Aegis Network Ltd. We have expanded our global network through proactive M&A activities, and, in FY2016, acquired large-scale capabilities related to data analytics through the acquisition of US-based Merkle Group Inc. (hereinafter “Merkle”), enabling the realization of substantial topline growth.

However, in FY2019, performance in several markets including Australia, China and Brazil fell short of initial plans, severely affecting revenue less cost of sales in the International business, resulting in -1.9% revenue less cost of sales. If the UK, France, China, Australia and Brazil were excluded from the 2019 results, the International business would have shown an organic growth rate of +2.5%.

In light of these results, we announced a restructuring in seven challenged international markets (Australia, Brazil, China, France, Germany, Singapore and the UK). With the restructuring firmly underway, we will create a robust foundation for the future of the International business.

Responding to the Competitive Environment Surrounding the International Business

Traditionally, the Group’s International business competed with mega-agency groups in the advertising industry, but over the past few years a new competitive environment involving other industries has emerged, similar to that of the Japan business. Amid increasing client demand for advertising and marketing activity efficiency and optimization and the need for marketing solutions customized for individual consumers, the Company is experiencing increasing competition with other companies in the data analytics, user experience (UX), customer experience (CX) and consulting domains.

In order for services provided by the Group to continue leading the market within this competitive environment, the Dentsu Group has reorganized the International business into three business units (lines of business): Creative, Media and CRM. For clients, the creation of a simple and flexible structure enabling the provision of integrated solutions combining creativity and the use of data and technology allows us to fully respond to future changes in client needs.

Moreover, in FY2019, with the aim of strengthening Merkle’s offshore capabilities, we focused on enhancing the CRM unit overall, including the acquisition of India-based Ugam Solutions Private Limited, a data analytics company with approximately 1,800 employees.

FY2019 Financial Results

In the International business, the organic growth rate by region was EMEA: -0.7%, Americas: 2.4%, and APAC: -12.3%, resulting in an overall organic growth rate of -1.9%. By major country, Switzerland, Spain, Russia, Italy, the United States and India were foremost among the steady markets, but conditions were challenging in other countries, including the United Kingdom, France, Brazil, China and Australia. With contributions from M&A, gross profit amounted to 559,772 million yen (down 0.7% year on year), but organic growth was sluggish, resulting in underlying operating profit of 68,361 million yen (down 6.3% year on year) with an operating margin of 12.2% (compared to 12.9% in the previous fiscal year).

Finance

Financial Position and Cash Flows

Financial Position

As of December 31, 2019, total assets were up 157,240 million yen year on year, primarily due to an increase in property, plant and equipment. Total liabilities increased by 215,456 million yen year on year, due mostly to a rise in other financial liabilities. Total equity fell 58,215 million yen year on year, mainly caused by a decrease in retained earnings.

Cash Flows

As of December 31, 2019, cash and cash equivalents (hereinafter "cash") were 414,055 million yen (416,668 million yen at the end of the previous fiscal year). This figure was down 2,612 million yen year on year mainly because of cash used in operating activities.

Cash flows from operating activities

Cash provided by operating activities was 79,957 million yen, a decrease of 53,092 million yen from the previous consolidated fiscal year. This result was primarily due to increases in working capital and income taxes paid.

Cash flows from investing activities

Cash used in investing activities was 76,051 million yen, an increase of 14,668 million yen from the previous consolidated fiscal year. This was primarily due to a decrease in proceeds from sales of securities, despite a decrease in payments for purchases of securities.

Cash flows from financing activities

Cash used by financing activities was 7,803 million yen, an increase of 65,325 million yen from the previous consolidated fiscal year. This result was primarily due to an increase in funds from proceeds from long-term borrowings, while at the same time the non-recognition of proceeds from issuance of bonds in the fiscal year under review and an increase in repayments of lease obligations resulted in a decrease in funds.

Analysis of Capital Resources and Cash Liquidity

Capital Requirements

The Dentsu Group's primary working capital requirements are production costs and media fees supporting advertising operations, and personnel costs and other SG&A expenses.

In recent years, the Group has developed new capital requirements related to investment in various domains, including global business and digital technology, aimed at expanding existing businesses and discovering and developing new businesses.

Financial Policy

The Group generated positive working capital (current assets minus current liabilities) on a consolidated basis in each of the past two years. In the previous fiscal year and the fiscal year under review, the Group recorded positive working capital of 149,900 million yen and 74,400 million yen, respectively.

The Dentsu Group has access to various funding sources including corporate bonds, commercial paper, short-term and long-term borrowings. This is supplemented by a revolving credit facility of 50,000 million yen at Dentsu Group Inc. and a revolving credit facility of 500 million British pounds (approximately 71,700 million yen) at Dentsu Aegis Network Ltd. Both these committed liquidity lines remain undrawn and are fully available.

In FY2019, the Group raised funding from financial institutions in the amount of 660 million British pounds (approximately 94.7 billion yen) and 196 million dollars (approximately 21.5 billion yen) to finance the acquisition of companies within Dentsu Aegis Network and to refinance maturing debt.

Dentsu Group Inc. has a long-term credit rating of AA- and a short-term credit rating of a-1+ from Rating and Investment Information, Inc. (R&I), a debt rating agency.

Finance

Business and Other Risks

The Dentsu Group faces the following risks, which have a potential impact on factors such as business performance, stock prices, and financial conditions.

(1) Risks associated with cyclical changes in the global economy

The financial results of the Dentsu Group and other companies in the advertising industry are highly susceptible to changes in the market and business conditions because many advertisers adjust their spending in response to changes in these conditions. In particular, the spread of COVID-19 has affected the macroeconomy on a global scale, resulting in the suspension or postponement of advertising communications activities pertaining to events held by corporations or organizations, including the Tokyo 2020 Olympic and Paralympic Games. In addition, changes in the business environment of industrial sectors with large advertising expenditures (such as the automobile and beverage industries) both domestically and overseas may affect the Dentsu Group's business results.

(2) Risks arising from the competitive environment within the advertising industry

i. Risk of price competition with competitor agencies

The Dentsu Group is exposed to intense competition in Japan and overseas with advertising agency groups and digital agency groups in the same industry. Client companies face a growing need to reduce operating expenses, which may introduce an increased focus on pricing, especially in the areas of media planning and buying.

The Group has traditionally been entrusted with the basic production of advertising for client products and services and the formulation of various marketing measures, as well as identifying the essence of issues faced by clients, then designing and proposing integrated solutions to resolve these issues, establishing a structure that provides comprehensive services, from proposals to implementation. The ongoing provision of these value-added solutions, differentiated from competitors, will enable the Group to maintain solid relationships with clients and maintain a premium positioning.

However, in the event the Group cannot differentiate its offer appropriately from its peers, there is a possibility that the Group's business performance may be adversely affected.

ii. Risk of multinational client loss

Dentsu Group clients include many companies that develop business on a global scale. From the perspective of the need to ensure uniformity in advertising campaigns and operational efficiency, especially in the areas of media planning and buying, these clients conduct bids (global pitches) to select advertising agencies that will handle these activities on a global or regional level. Global pitches tend to involve the handling of large advertising expenditure amounts.

Going forward, if the Group is unsuccessful in a global pitch conducted by an existing client, there is a possibility that the Group's business performance may be adversely affected.

(3) Risks associated with structural changes in the advertising industry

i. Risks associated with structural changes in the media environment

The media environment surrounding consumers is undergoing a major shift to digitalization on a global scale due to technological innovations in Internet services and digital devices. Viewing these structural changes in the media environment as business opportunities, the Dentsu Group flexibly allocates Group resources and invests in next-generation media. By constantly providing our clients with marketing solutions tailored to the latest consumer behavior principles, these structural changes in the media environment have led to increased earnings.

However, if the Group cannot respond quickly and appropriately to structural changes in the media environment, the Group's business performance may be adversely affected.

Additionally, as structural changes in the media environment are progressing along different timelines in each country and region, there is a risk that the Group will be late in responding to these trends in some countries and regions. In particular, if the penetration and influence of the four mass media channels (newspapers, magazines, television and radio) among consumers were to rapidly weaken in Japan, resulting in a decline in the number of advertising placements, the Group's Japan business may be adversely affected.

ii. Expanded competition with other industries

In addition to competing with advertising agency groups and digital agency groups in the same industry, the Dentsu Group has been exposed to new competition with other industries in the past few years. Amid an increase in client demands for efficient and optimized advertising and marketing activities, as well as marketing communications customized for individual consumers, the Group increasingly competes with companies in the data analytics, customer experience (CX), and consulting domains.

Viewing these structural changes in industry composition as business opportunities, in Japan the Group has established a structure enabling the provision of client company marketing strategies from formulation to execution, centered on People Driven Marketing. People Driven Marketing integrates the diverse marketing approaches the Dentsu Group has accumulated, making people the reference point. Consistent metrics and data analytics are used at all stages to enable management to respond to the client company's desire to increase marketing return on investment (ROI). Overseas, the Group has achieved substantial topline growth while responding to changes in industry structure through measures such as the 2016 acquisition of Merkle in the United States, which resulted in the incorporation of large-scale data analytics-related capabilities.

However, if the line between the advertising marketing domain, the Group's core business, and other domains becomes increasingly vague, competition with other industries may intensify.

iii. In-house trend overseas

Over the past few years, there has been an increasing trend toward the in-house implementation of some marketing activities that client companies have traditionally outsourced to advertising agencies, mainly in overseas advertising markets. Demand for services provided by traditional advertising agencies may decline, while demand for consulting functions that assist clients with in-house efforts may increase.

Although the Group has enhanced its consulting functions, and supported many clients on their in-house journey, allowing the Group to offset any potential loss of earnings from in-housing, there is a possibility this trend will lead to a different scope of work among some advertising companies in the Group. The ability to respond to client needs remains critical to the growth of future client relationships.

(4) Risks associated with technology and service obsolescence

The Dentsu Group is continuously investing in advertising and marketing technologies, developing proprietary data marketing platforms in order to provide solutions that resolve marketing and communication issues faced by client companies. However, there is a possibility that these investments and developments may not proceed as expected or that they may not always lead to the best resolution of issues faced by the client company, or that Group technologies and services may become obsolete due to technological innovations, or that competitors may develop technologies or services that better contribute to the resolution of client company issues than those offered by the Group.

(5) Risks related to the content business

The Dentsu Group is engaged in content businesses such as investment in the production of movies and the purchase and sales of broadcasting rights for sporting events in Japan and overseas. Many of these content businesses require advance payments before income is earned, with income and expenditure plans spanning many years. Additionally, other activities such as the sponsorship of large sporting events and the acquisition of broadcast rights may require large financial commitments.

The Group has been engaged in these content businesses for many years, and thus we possess the knowledge to formulate balanced planning with a certain degree of accuracy. Furthermore, we are attempting to diversify risk in the content business by managing multiple content business projects as a single portfolio.

However, as it is difficult to reliably predict the reaction of consumers, which influences content business revenues, if the project does not progress as planned, or if we are forced to sell sponsorship rights and broadcast rights to customers at an amount less than that at which they were acquired by the Company, there is a possibility that Group business performance will be adversely affected.

(6) Risks associated with accounts receivable

In the event of client company bankruptcy or other problems, there is a risk of partial non-payment of accounts receivable–trade, such as outsourcing service income including advertising rates. If this situation increases, there is a possibility this will adversely affect Group business performance and financing.

(7) Risks related to restructuring of the International business

Due to the sluggish performance of the International business in the fiscal year under review, the Dentsu Group launched a restructuring that includes an approximately 11% reduction in overall personnel targeting seven markets: Australia, Brazil, China, France, Germany, Singapore and the United Kingdom. Through this restructuring, we aim to accelerate the introduction of our new business model and provide better services to clients, improve employee satisfaction, increase earnings and improve operating margins. However, if the restructuring does not proceed as expected, there is a possibility that the Group's business performance may be adversely affected.

(8) Medium-to long-term risks associated with the development of new categories of business

In Japan, the Dentsu Group is strengthening various efforts towards the development of new businesses and the formulation of new business models with the goal of securing new revenue sources over the medium- to long-term. These include initiatives for joint businesses with client companies and business development in areas that are not necessarily related to advertising and marketing. As an example, in FY2019, we established a joint venture firm to manage and operate a new baseball stadium for the Hokkaido Nippon-Ham Fighters and NH Foods Ltd.

However, due to various reasons such as technological innovations, a misreading of consumer trends, and difficult negotiations with joint business partners, these business developments may not be profitable over the medium- to long-term, which may adversely affect Group business performance. Furthermore, even businesses that are able to generate profitability over the medium-to long-term require a certain period of time for the recovery of invested capital, which may also adversely affect Group business performance.

(9) Risks related to securing human resources

The Dentsu Group's growth potential and competitiveness depend on the recruitment of talented human resources and reduction in the turnover rate. In providing employees with a certain level of competitive advantage in the labor market, and by assigning work that makes each employee feel rewarded and achieve personal growth, the Group strives to cultivate and maximize the abilities of each employee while attempting to recruit talented human resources and reduce the turnover rate.

However, if the Group is unable to secure sufficient human resources because of human resource shortages caused by a tight labor market, the Group's business performance may be adversely affected.

(10) Impairment risk of goodwill and intangible assets related to Dentsu Aegis Network Ltd.

In March 2013, we acquired Aegis, a major advertising company in the UK, integrated the Dentsu Group's overseas businesses into Aegis and reorganized it as Dentsu Aegis Network Ltd.

Having acquired Aegis, subsequently deploying Dentsu Aegis Network Ltd. on a global level, and then acquiring several companies including Merkle, the Dentsu Group has recorded a large amount of goodwill and intangible assets. Given the sluggish business performance in Australia and China and the uncertain macro environment in the APAC region during the fiscal year under review, the Group conducted a conservative review of this region's business plan and performed an impairment test with the region as one cash-generating unit. As a result, we reduced the estimated future cashflow and present value of the region, resulting in a goodwill impairment loss of approximately 70.1 billion yen for this region.

The Group does not believe it is necessary to decrease goodwill and intangible assets in regions other than APAC at this time. However, if there are additional impairment losses going forward as a result of an impairment test for each cash-generating unit, the Group's business performance and financial position may be adversely affected.

(11) Risks related to legal regulations and litigation

i. Risks related to labor regulation violations

The Dentsu Group strives to foster a positive work environment for all employees as one of its top management priorities. However, if the working environment is not maintained sufficiently, the Group business performance may be adversely affected in the event employee motivation and performance declines, talented employees leave the Group or the Group has difficulties recruiting diverse human resources. In addition, the working environment for employees of Dentsu Inc., a wholly owned subsidiary of Dentsu Group Inc., has been continuously improved since FY2017, resulting in a reduction in the working hours per employee. The total working hours per employee, which amounted to 2,166 hours in FY2016, decreased to 1,903 hours in FY2019. However, if there is a recurrence of labor management issues at Dentsu Inc., there is a possibility that the reputation of the Group will deteriorate.

ii. Risks related to personal and other information

In conducting business, the Dentsu Group may gain access to the personal information of existing and potential customers of client companies. Additionally, amid the growing demand from client companies for customized marketing communications targeting individual consumers, we are developing products and services utilizing personal data that are provided to our clients.

The Group complies with laws and regulations both in Japan and overseas, including the Act on the Protection of Personal Information and the EU General Data Protection Regulation. We also promptly respond to revisions of these laws and regulations. At present, we do not anticipate that these laws and regulations will adversely affect Group business.

However, in the unlikely event that personal information is leaked, Group credibility may be damaged and business performance may be adversely affected. Additionally, going forward, if these laws and regulations are revised, imposing certain restrictions on Dentsu's utilization of personal data, it may become challenging to provide some products and services, which may adversely affect Group business performance.

iii. Risks related to information security

In conducting business, the Dentsu Group often receives undisclosed information pertaining to the products, services, and business strategies of client companies. Although the Group has taken all possible measures to ensure the proper management of confidential information, such as acquiring international certification for an information security management system, in the unlikely event that information is leaked, Group credibility may be damaged and business performance may be adversely affected.

iv. Risks related to lawsuits and other litigation

At present, the Dentsu Group does not have any lawsuits that could materially affect its business performance. However, the business that the Group conducts in a wide range of areas always involves the risk of litigation from clients, media companies, business partners and other entities both in Japan and overseas.

Finance

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

In the event of natural disasters, hindrances to electricity and other social infrastructure, communications and broadcasting disruptions, distribution disruptions, large-scale accidents, infectious diseases, wars, terrorism and political or social unrest in areas where the Dentsu Group conducts or develops business, there is a potential for adverse effects on business conducted by the Group and/or its business partners, as well as the business performance of the Group.

Consolidated Financial Statements

Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2019

ASSETS	Notes	FY2018 (As of December 31, 2018)	(Millions of Yen) FY2019 (As of December 31, 2019)	(Millions of U.S. Dollars) FY2019 (As of December 31, 2019)
CURRENT ASSETS:				
Cash and cash equivalents	8, 35	¥416,668	¥414,055	$3,779
Trade and other receivables	9, 35	1,368,728	1,424,127	12,999
Inventories	10	28,580	21,007	192
Other financial assets	11, 20, 35	15,090	15,859	145
Other current assets	12	106,516	57,976	529
Subtotal		1,935,583	1,933,025	17,644
Non-current assets classified as held for sale	13	2	665	6
Total current assets		1,935,586	1,933,691	17,650
NON-CURRENT ASSETS:				
Property, plant and equipment	14, 16	199,207	315,116	2,876
Goodwill	7, 15	786,851	754,796	6,889
Intangible assets	7, 15, 16	249,921	245,517	2,241
Investment property	17	37,089	36,835	336
Investments accounted for using the equity method	6, 18	39,897	47,662	435
Other financial assets	11, 35	348,537	423,410	3,865
Other non-current assets	23	14,242	15,052	137
Deferred tax assets	19	27,155	23,645	216
Total non-current assets		1,702,902	1,862,037	16,996
TOTAL ASSETS	6	¥3,638,488	¥3,795,729	$34,645

Consolidated Statement of Financial Position

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2019

LIABILITIES AND EQUITY	Notes	FY2018 (As of December 31, 2018)	(Millions of Yen) FY2019 (As of December 31, 2019)	(Millions of U.S. Dollars) FY2019 (As of December 31, 2019)
LIABILITIES:				
CURRENT LIABILITIES:				
Trade and other payables	20, 35	¥1,341,461	¥1,390,778	$12,694
Borrowings	21, 35	104,879	184,816	1,687
Other financial liabilities	16, 21, 35	47,395	72,863	665
Income tax payables		42,981	17,689	161
Provisions	22	1,575	8,554	78
Other current liabilities		247,315	184,326	1,682
Subtotal		1,785,608	1,859,029	16,968
Liabilities directly associated with non-current assets classified as held for sale	13	–	195	2
Total current liabilities		1,785,608	1,859,224	16,970
NON-CURRENT LIABILITIES:				
Bonds and borrowings	21, 35	433,980	439,110	4,008
Other financial liabilities	16, 21, 35	163,362	283,711	2,590
Liability for retirement benefits	23	30,675	24,254	221
Provisions	22	4,705	4,389	40
Other non-current liabilities	34	18,133	27,717	253
Deferred tax liabilities	19	91,272	104,787	956
Total non-current liabilities		742,130	883,970	8,068
Total liabilities		2,527,738	2,743,195	25,038
EQUITY:				
Share capital	24	74,609	74,609	681
Share premium account	24	99,751	100,102	914
Treasury shares	24	(40,194)	(60,202)	(549)
Other components of equity		160,735	206,649	1,886
Retained earnings	24	752,717	653,818	5,968
Total equity attributable to owners of the parent	35	1,047,619	974,977	8,899
Non-controlling interests		63,129	77,556	708
Total equity		1,110,749	1,052,533	9,607
TOTAL LIABILITIES AND EQUITY		¥3,638,488	¥3,795,729	$34,645

Finance

Consolidated Statement of Income

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2019

	Notes	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of U.S. Dollars)
(Turnover (Note 1))	6	¥5,357,278	¥5,146,802	$46,977
Revenue	6, 26	1,018,512	1,047,881	9,564
Cost	14, 15, 23, 28	85,831	108,496	990
Revenue less cost of sales	6	932,680	939,385	8,574
Selling, general and administrative expenses	14, 15,16, 23, 27, 28	820,184	835,195	7,623
Provision (reversal) of allowance for doubtful accounts	35	(126)	4,829	44
Business restructuring cost	22,28	–	19,682	180
Impairment loss	14,15	27	73,670	672
Other income	29	11,168	7,814	71
Other expenses	14, 15, 30, 34	12,123	17,180	157
Operating profit (loss)	6	111,638	(3,358)	(31)
Share of profits of investments accounted for using the equity method	18	2,699	517	5
Gain on sale of investments in associates	18	52,127	–	–
Revaluation gain on step acquisition		–	2,175	20
Profit (loss) before interest and tax		166,465	(665)	(6)
Finance income	31	6,839	6,819	62
Finance expenses	16, 23, 28, 31	24,553	48,922	447
Profit (loss) before tax		148,751	(42,769)	(390)
Income tax expenses	19	51,250	30,136	275
Profit (loss) for the year		¥97,501	¥(72,905)	$(665)
Profit (loss) attributable to:				
Owners of the parent		¥90,316	¥(80,893)	$(738)
Non-controlling interests		¥7,185	¥7,987	$73

Earnings (loss) per share	Notes	FY2018	FY2019 (Yen)	FY2019 (U.S. Dollars)
Basic earnings (loss) per share	33	¥320.39	¥(287.92)	($2.63)
Diluted earnings (loss) per share	33	¥320.38	¥(287.94)	($2.63)

Reconciliation from operating profit (loss) to underlying operating profit

	Notes	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of U.S. Dollars)
Operating profit (loss)		¥111,638	¥(3,358)	$(31)
Amortization of intangible assets incurred in acquisitions		35,123	34,806	318
Selling, general and administrative expenses		1,700	1,327	12
Provision of allowance for doubtful accounts		–	3,927	36
Business restructuring cost		–	19,682	180
Impairment loss		27	73,670	672
Other income		(840)	(185)	(2)
Other expenses		5,578	10,881	99
Underlying operating profit (Note 2)	6	¥153,229	¥140,751	$1,285

(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 in the Consolidated Statement of Income since management has concluded that the information is useful for users of the financial statements.

(Note 2) For the definition of underlying operating profit, refer to "3. SIGNIFICANT ACCOUNTING POLICIES (21) Underlying Operating Profit."

Consolidated Statement of Comprehensive Income

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2019

	Notes	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of U.S. Dollars)
PROFIT (LOSS) FOR THE YEAR		¥97,501	¥(72,905)	$(665)
OTHER COMPREHENSIVE INCOME				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:				
Net change in financial assets measured at fair value through other comprehensive income	32, 35	(23,273)	59,304	541
Remeasurements of defined benefit plans	23, 32	(7,532)	4,981	45
Share of other comprehensive income of investments accounted for using the equity method	18, 32	(213)	(1)	(0)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS:				
Exchange differences on translation of foreign operations	32	(47,516)	3,041	28
Effective portion of the change in the fair value of cash flow hedges	32	133	(3,414)	(31)
Share of other comprehensive income of investments accounted for using the equity method	18, 32	(332)	(117)	(1)
Other comprehensive income, net of tax		(78,735)	63,793	582
COMPREHENSIVE INCOME FOR THE YEAR		¥18,766	¥(9,112)	$(83)
COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:				
Owners of the parent		¥15,326	¥(17,313)	$(158)
Non-controlling interests		¥3,439	¥8,201	$75

Consolidated Statement of Changes in Equity

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2019

(Millions of Yen)

		Total equity attributable to owners of the parent						
					Other components of equity			
	Notes	Share capital	Share premium account	Treasury shares	Share options	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges	Net change in financial assets measured at fair value through other comprehensive income
As of January 1, 2018		¥74,609	¥99,751	¥(40,182)	¥48	¥69,734	¥6,231	¥151,258
Cumulative effects of changes in accounting policies								
Restated balance as of January 1, 2018		74,609	99,751	(40,182)	48	69,734	6,231	151,258
Profit for the year								
Other comprehensive income						(45,845)	133	(21,718)
Comprehensive income for the year		–	–	–	–	(45,845)	133	(21,718)
Repurchase of treasury shares				(12)				
Disposal of treasury shares			(0)	0				
Dividends	25							
Transactions with non-controlling interests	24							
Transfer from other components of equity to retained earnings								941
Other					(48)			
Transactions with owners–total		–	(0)	(12)	(48)	–	–	941
As of December 31, 2018		74,609	99,751	(40,194)	–	23,888	6,364	130,482
Cumulative effects of changes in accounting policies								
Restated balance as of January 1, 2019		74,609	99,751	(40,194)	–	23,888	6,364	130,482
Profit (loss) for the year								
Other comprehensive income						2,670	(3,412)	59,341
Comprehensive income for the year		–	–	–	–	2,670	(3,412)	59,341
Repurchase of treasury shares	24			(20,008)				
Disposal of treasury shares			(0)	1				
Dividends	25							
Transactions with non-controlling interests	24							
Transfer from other components of equity to retained earnings								(12,685)
Other			351					
Transactions with owners–total		–	351	(20,007)	–	–	–	(12,685)
As of December 31, 2019		¥74,609	¥100,102	¥(60,202)	–	¥26,559	¥2,952	¥177,137

(Millions of U.S. Dollars)

		Total equity attributable to owners of the parent						
					Other components of equity			
	Notes	Share capital	Share premium account	Treasury shares	Share options	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges	Net change in financial assets measured at fair value through other comprehensive income
As of December 31, 2018		$681	$910	$(367)	–	$218	$58	$1,191
Cumulative effects of changes in accounting policies								
Restated balance as of January 1, 2019		681	910	(367)	–	218	58	1,191
Profit (loss) for the year								
Other comprehensive income						24	(31)	542
Comprehensive income for the year		–	–	–	–	24	(31)	542
Repurchase of treasury shares	24			(183)				
Disposal of treasury shares			(0)	0				
Dividends	25							
Transactions with non-controlling interests	24							
Transfer from other components of equity to retained earnings								(116)
Other			3					
Transactions with owners–total		–	3	(183)	–	–	–	(116)
As of December 31, 2019		$681	$914	$(549)	–	$242	$27	$1,617

(Millions of Yen)

	Notes	Total equity attributable to owners of the parent					
		Other components of equity					
		Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of January 1, 2018		–	¥227,272	¥731,759	¥1,093,211	¥56,923	¥1,150,134
Cumulative effects of changes in accounting policies			–	(3,850)	(3,850)		(3,850)
Restated balance as of January 1, 2018		–	227,272	727,909	1,089,360	56,923	1,146,284
Profit for the year			–	90,316	90,316	7,185	97,501
Other comprehensive income		(7,558)	(74,989)		(74,989)	(3,745)	(78,735)
Comprehensive income for the year		(7,558)	(74,989)	90,316	15,326	3,439	18,766
Repurchase of treasury shares			–		(12)		(12)
Disposal of treasury shares			–		0		0
Dividends	25		–	(25,370)	(25,370)	(7,229)	(32,600)
Transactions with non-controlling interests	24		–	(31,684)	(31,684)	10,321	(21,363)
Transfer from other components of equity to retained earnings		7,558	8,500	(8,500)	–		–
Other			(48)	48	0	(324)	(324)
Transactions with owners–total		7,558	8,452	(65,507)	(57,067)	2,766	(54,300)
As of December 31, 2018		–	160,735	752,717	1,047,619	63,129	1,110,749
Cumulative effects of changes in accounting policies			–	(8,417)	(8,417)	(557)	(8,975)
Restated balance as of January 1, 2019		–	160,735	744,299	1,039,202	62,572	1,101,774
Profit (loss) for the year			–	(80,893)	(80,893)	7,987	(72,905)
Other comprehensive income		4,980	63,580		63,580	213	63,793
Comprehensive income for the year		4,980	63,580	(80,893)	(17,313)	8,201	(9,112)
Repurchase of treasury shares	24		–		(20,008)		(20,008)
Disposal of treasury shares			–		0		0
Dividends	25		–	(26,075)	(26,075)	(2,416)	(28,491)
Transactions with non-controlling interests	24		–	(1,242)	(1,242)	9,225	7,983
Transfer from other components of equity to retained earnings		(4,980)	(17,666)	17,666	–		–
Other			–	63	415	(26)	388
Transactions with owners–total		(4,980)	(17,666)	(9,587)	(46,911)	6,782	(40,128)
As of December 31, 2019		–	¥206,649	¥653,818	¥974,977	¥77,556	¥1,052,533

(Millions of U.S. Dollars)

	Notes	Total equity attributable to owners of the parent					
		Other components of equity					
		Remeasurements of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total equity
As of December 31, 2018		–	$1,467	$6,870	$9,562	$576	$10,138
Cumulative effects of changes in accounting policies			–	(77)	(77)	(5)	(82)
Restated balance as of January 1, 2019		–	1,467	6,794	9,485	571	10,056
Profit (loss) for the year			–	(738)	(738)	73	(665)
Other comprehensive income		45	580		580	2	582
Comprehensive income for the year		45	580	(738)	(158)	75	(83)
Repurchase of treasury shares	24		–		(183)		(183)
Disposal of treasury shares			–		0		0
Dividends	25		–	(238)	(238)	(22)	(260)
Transactions with non-controlling interests	24		–	(11)	(11)	84	73
Transfer from other components of equity to retained earnings		(45)	(161)	161	–		–
Other			–	1	4	(0)	4
Transactions with owners–total		(45)	(161)	(88)	(428)	62	(366)
As of December 31, 2019		–	$1,886	$5,968	$8,899	$708	$9,607

Consolidated Statement of Cash Flows

Dentsu Inc. and Consolidated Subsidiaries
December 31, 2019

	Notes	FY2018 (Year ended December 31, 2018) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of U.S. Dollars)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax		¥148,751	¥(42,769)	$(390)
ADJUSTMENTS FOR:				
Depreciation and amortization		59,739	89,967	821
Share-based compensation expenses attributable to the acquiree	30	4,313	9,568	87
Impairment loss		27	73,670	672
Interest and dividend income	31	(6,032)	(6,045)	(55)
Interest expense		13,364	20,979	191
Share of profits of investments accounted for using the equity method		(2,699)	(517)	(5)
Revaluation (gain) loss on contingent consideration and put option liability	31	10,744	26,718	244
Gain on sale of investments in subsidiaries and associates		(52,133)	–	–
Increase (decrease) in liability for retirement benefits		1,249	(198)	(2)
Increase (decrease) in provision of business restructuring cost		–	15,833	145
Other – net		(3,844)	8,443	77
Cash flows from operating activities before adjusting changes in working capital and others		173,481	195,651	1,786
CHANGES IN WORKING CAPITAL:				
(Increase) decrease in trade and other receivables		(13,409)	(57,844)	(528)
(Increase) decrease in inventories		(6,028)	8,418	77
(Increase) decrease in other current assets		(35,736)	42,447	387
Increase (decrease) in trade and other payables		14,161	47,374	432
Increase (decrease) in other current liabilities		48,878	(68,649)	(627)
Change in working capital		7,865	(28,254)	(258)
Subtotal		181,347	167,396	1,528
Interest received		2,563	3,585	33
Dividends received		8,063	4,456	41
Interest paid	16	(12,956)	(21,021)	(192)
Income taxes paid		(45,968)	(74,460)	(680)
Net cash flows from operating activities		133,049	79,957	730
CASH FLOWS FROM INVESTING ACTIVITIES				
Payment for purchase of property, plant and equipment, intangible assets and investment property	6	(31,631)	(32,244)	(294)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		309	1,244	11
Net cash (paid) received on acquisition of subsidiaries	7	(50,804)	(47,655)	(435)
Net cash (paid) received on disposal of subsidiaries		249	–	–
Payments for purchases of securities		(65,114)	(26,302)	(240)
Proceeds from sales of securities		86,539	29,715	271
Other – net		(931)	(809)	(7)
Net cash flows from investing activities		(61,382)	(76,051)	(694)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in short-term borrowings	21	25,893	1,086	10
Proceeds from long-term borrowings	21	38,818	96,088	877
Repayment of long-term borrowings	21	(45,134)	(16,660)	(152)
Proceeds from issuance of bonds	21	79,739	–	–
Repayments of lease obligations	16,21	(1,431)	(32,580)	(297)
Payment for acquisition of interest in subsidiaries from non-controlling interests	21	(21,505)	(5,418)	(49)
Proceeds from sale of interest in subsidiaries to non-controlling interests		11,588	–	–
Payments for repurchase of treasury shares	24	(12)	(20,008)	(183)
Dividends paid	25	(25,370)	(26,075)	(238)
Dividends paid to non-controlling interests		(6,685)	(3,956)	(36)
Other – net		1,624	(277)	(3)
Net cash flows from financing activities		57,522	(7,803)	(71)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(18,281)	1,490	14
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		110,907	(2,407)	(22)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8	305,760	416,668	3,803
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM TRANSFER TO ASSETS HELD FOR SALE	13	–	(205)	(2)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8	¥416,668	¥414,055	$3,779

Notes to Consolidated Financial Statements

Dentsu Inc. and Consolidated Subsidiaries

1. REPORTING ENTITY

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

The addresses of the Company's registered corporate headquarters and principal business offices are available on the Company's website (https://www.group.dentsu.com/jp/).

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

The consolidated financial statements for the year ended December 31, 2019 were approved by Toshihiro Yamamoto, Representative Director and President & CEO, and Yushin Soga, Director, Executive Officer & CFO, on March 27, 2020.

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 ¥109.56 to U.S.$1, the approximate rate of exchange at the end of December 31, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into United States dollars at the above or any other rate.

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

(4) Early adoption of New Standards

There are no early adoption of standards.

(5) Change in presentation

(Consolidated Statement of Income)

The "Provision (reversal) of allowance for doubtful accounts" under "Selling, general and administrative expenses" and "Impairment loss" under "Other expenses" in the previous fiscal year are presented separately in the current fiscal year, due to an increase in their quantitative materiality. Consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥820,058 million presented under "Selling, general and administrative expenses" and ¥12,151 million presented under "Other expenses" in the consolidated statement of income for the previous fiscal year, have been reclassified as ¥820,184 million under "Selling, general and administrative expenses" and ¥126 million (credit) under "Provision (reversal) of allowance for doubtful accounts" and ¥12,123 million under "Other expenses" and ¥27 million under "Impairment loss", respectively.

(Consolidated Statement of Cash Flows)

The "Stock-based compensation expenses attributable to the acquiree" and "Revaluation (gain) loss on deferred consideration and put option liabilities" under "Other-net" in cash flows from operating activities in the previous fiscal year are presented separately in the current fiscal year, due to an increase in their quantitative materiality. Consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation.

As a result, ¥11,213 million presented under "Other-net" in cash flows from operating activities in the consolidated statement of income for the previous fiscal year, have been reclassified as ¥4,313 million under "Stock-based compensation expenses attributable to the acquiree", ¥10,744 million under "Revaluation (gain) loss on contingent consideration and put option liabilities" and negative ¥3,844 million under "Other-net", respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Consolidation

A. Subsidiaries

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

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

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

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

B. Associates and Joint Ventures

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

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

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

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

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

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

C. Transactions Eliminated Under Consolidation

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

(2) Business Combinations

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

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

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

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

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

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

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

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

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

(3) Foreign Currency Translation

A. Translation of Foreign Currency Transactions

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

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

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

B. Translation of Foreign Operations

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

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

(4) Financial Instruments

A. Non-derivative Financial Assets

(i) Initial Recognition and Measurement

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

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

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

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

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

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

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

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

(ii) Subsequent Measurement

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

(a) Financial Assets Measured at Amortized Cost

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

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

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

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

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

(iii) Derecognition

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

B. Impairment of Financial Assets

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

Determination of Significant Increase in Credit Risk

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

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

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

Expected Credit Loss Approach

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

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

In measuring expected credit losses, the Group uses reasonable and corroborating information available at the reporting date that is relevant to historical events, current conditions and projections of future economic conditions. For individually significant financial assets, the Group evaluates expected credit losses individually, and for other financial assets, the Group establishes 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 right-of-use asset)
Cost model is applied for subsequent measurement of property, plant and equipment, and is measured at acquisition cost less accumulated depreciation and accumulated impairment losses.

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

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

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

- Buildings and structures: 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 right-of-use asset)
Cost model is applied for subsequent measurement of intangible assets, and are measured at acquisition cost less accumulated amortization and accumulated impairment losses.

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

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

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

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

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

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

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

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

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

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

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

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

Based on the transitional measures of IFRS 16, the Group has recognized the cumulative effect of applying the standard at the beginning of the current fiscal year and applied the method to not restate comparative information. The accounting policies for the previous fiscal year are as follows.

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 recognizes revenue under the five-step approach described below.

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

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

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

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

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

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

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

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

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

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

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

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

(16) Finance Income and Finance Expenses

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

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

(17) Income Taxes

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

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

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

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

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

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

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

(18) Equity

A. Share Capital and Share Premium Account

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

B. Treasury Shares

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

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

(19) Earnings per Share

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

(20) Share-based Payments

The Company and certain subsidiaries grant equity-settled and cash-settled share-based payment plans.

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

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

(21) Underlying Operating Profit

The underlying operating profit is calculated by eliminating 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

The Group has adopted IFRS 16 “Leases” from the year ended December 31, 2019.

In adopting IFRS 16, the Group has applied the modified retrospective approach of recognizing the cumulative effect of adopting the standard as an adjustment to the balance of retained earnings as of January 1, 2019.

Upon transition to IFRS 16, the Group has elected to apply the practical expedient of maintaining its previous assessment of whether a contract is a lease. IFRS 16 has been applied only to contracts which were previously determined to be leases, and contracts which were not determined to be leases applying IAS 17 or IFRIC 4 were not reassessed as to whether they were leases.

Consequently, the definition of a lease in accordance with IFRS 16 has only been applied to contracts executed or modified on and after January 1, 2019.

As a lessee, the Group had previously classified leases into operating leases and finance leases based on the assessment of whether the lessor substantially transferred the entire risks and rewards incidental to ownership of an underlying asset to the Group. Under IFRS 16, the Group recognizes a right-of-use asset and a lease obligation for most leases. However, the Group applies the recognition exemptions for short-term leases and leases of low-value assets.

Leases previously classified as operating leases applying IAS 17 were measured at the present value of the remaining lease payments discounted by using the Group's incremental borrowing rate as of January 1, 2019. The right-of-use assets were measured by either of the following methods.

- The carrying amount calculated on the assumption that IFRS 16 had been applied from the inception of the lease. However, the lessee's incremental borrowing rate at the date of initial application is used as the discount rate.
- The amount equivalent to the measurement of the lease obligation.

The Group has applied the following practical expedients in the application of IFRS 16 to leases, which had previously been classified as operating leases applying IAS 17.

- A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- A lessee shall adjust the right-of-use asset by the amount of any provision for onerous leases applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review.
- A lessee may apply the exemption to not recognize a right-of-use asset and a lease obligation for leases with remaining terms of 12 months or less.
- A lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases applying IAS 17, the carrying amounts of the right-of-use asset and the lease obligation as at January 1, 2019 were calculated based on the carrying amounts of the lease asset and lease obligation immediately before that date measured applying IAS 17.

As a result of the transition to IFRS 16, the Group has additionally recognized ¥128,246 million($1,171 million) in right-of-use assets and ¥141,066 million($1,288 million) in lease obligations and a decrease of ¥8,417 million($77 million) in the opening balance of retained earnings (after taking into account tax effect).

Right-of-use assets are presented under "property, plant and equipment" or "intangible assets" and lease obligations are presented under "other financial liabilities" of current liabilities or "other financial liabilities" of non-current liabilities.

The weighted average of the lessee's incremental borrowing rate applied to the lease obligation recognized at the date of initial application of IFRS 16 is 3.3%.

Reconciliation of operating lease commitments disclosed applying IAS 17 as of the end of the previous fiscal year, discounted at the rate of incremental borrowing at the date of initial application, and lease obligation recognized in the consolidated statement of financial position at the date of initial application is as follows:

(Millions of Yen)

Operating lease commitments as of December 31, 2018, disclosed in the Group's consolidated financial statements	¥183,601
Leases contracted by the lessee but not yet started	(59,147)
Discount using the incremental borrowing rate as of January 1, 2019	(13,167)
Amount discounted using the incremental borrowing rate as of January 1, 2019	111,285
Finance lease obligation recognized on December 31, 2018	3,408
Extension or termination options that are reasonably certain to be exercised	29,780
Lease obligation recognized on January 1, 2019	¥144,474

(Millions of U.S. Dollars)

Operating lease commitments as of December 31, 2018, disclosed in the Group's consolidated financial statements	$1,676
Leases contracted by the lessee but not yet started	(540)
Discount using the incremental borrowing rate as of January 1, 2019	(120)
Amount discounted using the incremental borrowing rate as of January 1, 2019	1,016
Finance lease obligation recognized on December 31, 2018	31
Extension or termination options that are reasonably certain to be exercised	272
Lease obligation recognized on January 1, 2019	$1,319

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

- Scope of subsidiaries, associates and joint ventures ("3. SIGNIFICANT ACCOUNTING POLICIES (1) Basis of Consolidation")
- Revenue recognition ("3. SIGNIFICANT ACCOUNTING POLICIES (15) Revenue")
- Allocation of goodwill to cash-generating unit groups (“15. GOODWILL AND INTANGIBLE ASSETS”)

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 adoption of the following standards 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 3	Business combination	January 1, 2020	Fiscal year ending December 31, 2020	Revised definition of "business"
IAS 1 IAS 8	• Presentation of Financial Statements • Accounting Policies, Changes in Accounting Estimates, and Errors	January 1, 2020	Fiscal year ending December 31, 2020	Clarified the definition of "material"
IFRS 7 IFRS 9 IFRS 39	• Financial Instruments: Disclosure • Financial Instruments • Financial Instruments: Recognition and Measurement	January 1, 2020	Fiscal year ending December 31, 2020	Revised specific hedge accounting requirements to mitigate the potential impact of uncertainty caused by IBOR reforms
IFRS 17	Insurance Contracts	January 1, 2021	Fiscal year ending December 31, 2021	Comprehensive review of insurance contracts

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.

FY2018: Year ended December 31, 2018

(Millions of Yen)

	Japan business	International business	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)
Selling, general and administrative expenses (Note 5)	–	–	–	–	(1,700)
Impairment loss (Note 7)	–	–	–	–	(27)
Other income (Note 5)	–	–	–	–	840
Other expenses (Note 5)	–	–	–	–	(5,578)
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

FY2019: Year ended December 31, 2019

(Millions of Yen)

	Japan business (Note 6)	International business (Note 6)	Total	Adjustments	Consolidated
Turnover (Note1)	¥1,921,309	¥3,235,674	¥5,156,984	¥(10,182)	¥5,146,802
Revenue (Note 2)	454,002	604,061	1,058,063	(10,182)	1,047,881
Revenue less cost of sales (Note 3)	380,366	559,772	940,139	(753)	939,385
Segment profit (underlying operating profit) (Note 3)	72,488	68,361	140,850	(98)	140,751
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(34,806)
Selling, general and administrative expenses (Note 5)	–	–	–	–	(1,327)
Provision of allowance for doubtful accounts	–	–	–	–	(3,927)
Business restructuring cost	–	–	–	–	(19,682)
Impairment loss (Note 7)	–	–	–	–	(73,670)
Other income (Note 5)	–	–	–	–	185
Other expenses (Note 5)	–	–	–	–	(10,881)
Operating loss	–	–	–	–	(3,358)
Share of profits of investments accounted for using the equity method	–	–	–	–	517
Revaluation gain on step acquisition	–	–	–	–	2,175
Finance income	–	–	–	–	6,819
Finance expenses	–	–	–	–	48,922
Loss before tax	–	–	–	–	(42,769)
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	20,373	34,788	55,161	–	55,161
Segment assets (Note 4)	1,556,652	2,399,055	3,955,707	(159,978)	3,795,729
(Other asset items)					
Investments accounted for using the equity method	46,965	696	47,662	–	47,662
Capital expenditures	12,995	19,249	32,244	–	32,244
Increase in right-of-use assets	¥7,811	¥15,646	¥23,457	–	¥23,457

Finance

FY2019: Year ended December 31, 2019

(Millions of U.S. Dollars)

	Japan business (Note 6)	International business (Note 6)	Total	Adjustments	Consolidated
Turnover (Note1)	$17,537	$29,533	$47,070	$(93)	$46,977
Revenue (Note 2)	4,144	5,514	9,657	(93)	9,564
Revenue less cost of sales (Note 3)	3,472	5,109	8,581	(7)	8,574
Segment profit (underlying operating profit) (Note 3)	662	624	1,286	(1)	1,285
(Adjusting items)					
Amortization of intangible assets incurred in acquisitions	–	–	–	–	(318)
Selling, general and administrative expenses (Note 5)	–	–	–	–	(12)
Provision of allowance for doubtful accounts	–	–	–	–	(36)
Business restructuring cost	–	–	–	–	(180)
Impairment loss (Note 7)	–	–	–	–	(672)
Other income (Note 5)	–	–	–	–	2
Other expenses (Note 5)	–	–	–	–	(99)
Operating loss	–	–	–	–	(31)
Share of profits of investments accounted for using the equity method	–	–	–	–	5
Revaluation gain on step acquisition	–	–	–	–	20
Finance income	–	–	–	–	62
Finance expenses	–	–	–	–	447
Loss before tax	–	–	–	–	(390)
(Other income and expense items)					
Depreciation and amortization (excluding amortization of intangible assets incurred in acquisitions)	186	318	503	–	503
Segment assets (Note 4)	14,208	21,897	36,105	(1,460)	34,645
(Other asset items)					
Investments accounted for using the equity method	429	6	435	–	435
Capital expenditures	119	176	294	–	294
Increase in right-of-use assets	$71	$143	$214	–	$214

(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 "Selling, general and administrative expenses," "Other income" and "Other expenses" is shown on the following page.
(Note 6) Due to the effect of adoption of IFRS 16 (see "3. Significant Accounting Policies (22) Change in significant accounting policies), segment assets as of January 1, 2019 increased by ¥43,192 million($394 million) in the Japan business and ¥85,054 million($776 million) in the overseas business, respectively.
(Note 7) The breakdown of impairment loss by segment was ¥27 million for domestic business and nil for overseas business, respectively, for the year ended December 31, 2018, and ¥0 million($0 million) for domestic business and ¥73,669 million($672 million) for overseas business, respectively, for the year ended December 31, 2019.

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Selling, general and administrative expenses			
Early retirement benefits	¥72	¥42	$0
Costs associated with merger and acquisitions	1,554	1,414	13
Other	73	(129)	(1)
Total	¥1,700	¥1,327	$12
Other income			
Gain on sale of property, plant and equipment, intangible assets and investment property	¥5	¥141	$1
Other	835	43	0
Total	¥840	¥185	$2
Other expenses			
Loss on sale of property, plant and equipment, intangible assets and investment property	¥1	¥64	$1
Stock-based compensation expenses attributable to the acquiree	4,313	9,568	87
Other	1,263	1,248	11
Total	¥5,578	¥10,881	$99

(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)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Advertising services	¥941,938	¥966,873	$8,825
Information services	72,745	77,352	706
Other services	3,828	3,655	33
Total	¥1,018,512	¥1,047,881	$9,564

(4) Regional information

A. Revenue from external customers

Revenue attributable to the United States within the overseas is ¥195,125 million for the year ended December 31, 2018 and ¥213,445 million($1,948 million) for the year ended December 31, 2019. 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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Japan	¥222,281	¥270,945	$2,473
Overseas (mainly the United Kingdom and the United States)	1,050,788	1,081,320	9,870
Total	¥1,273,069	¥1,352,266	$12,343

(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 ¥782,515 million and ¥219,733 million, respectively, as of December 31, 2018, and ¥748,630 million ($6,833 million) and ¥203,368 million($1,856 million), respectively, as of December 31, 2019.

(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, 2019 are as follows:

Name of acquiree	Place of incorporation
Videobeat	Germany
Filter	USA
Branded	Hong Kong
BJL	UK
Happy Marketer	Singapore
Comunica+A	Spain
Redder	Vietnam
Re: Production	UK
E-Nor	USA
Davanti	New Zealand
Ugam	India
People & Screens	Russia
MuteSix	USA
EBP	China
Ambient Digital	Vietnam and Myanmar
Chef	Columbia
VOYAGE GROUP	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 acquisition 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 ¥60,318 million ($551 million), consisting of cash consideration of ¥35,275 million ($322 million), shares of ¥8,874 million ($81 million) and deferred consideration of ¥16,168 million ($148 million).

Of the shares, ¥6,604 million($60 million) is 243,336 ordinary shares of Cyber Communications, a consolidated subsidiary of the Company, delivered to VOYAGE GROUP as consideration for the acquisition, and is calculated based on the fair value of the equity interest in VOYAGE GROUP.

For the remaining ¥2,270 million($21 million) , the equity interest in People & Screens is calculated at the fair value on the date of acquisition of control.

The remeasurement gain on the step acquisition of the consolidated statement of income was due to the remeasurement of the equity interest in People & Screens, previously held by the Company had at the time of the acquisition of control. ¥2,175 million($20 million) of remeasurement gain was recognized.

Deferred consideration is subject to performance criteria of the acquiree. Acquisition related costs is ¥1,414 million ($13 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	¥53,691	$490
Total liabilities	24,664	225
Fair value of identifiable net assets	29,027	265
Total consideration	60,318	551
Non-controlling interests (Note 1)	6,379	58
Goodwill (Note 2)	¥37,670	$344

(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 ¥10,988 million ($100 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, 2019 were ¥27,113 million ($247 million) and ¥2,902 million ($26 million), respectively.

(Pro forma information)

Assuming that the business combinations were executed at the beginning of the current fiscal year, revenue and loss of the consolidated statement of income for the year ended December 31, 2019 would be ¥1,056,390 million ($9,642 million) and ¥73,616 million ($672 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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Cash and time deposits due within three months	¥416,668	¥414,055	$3,779

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 ¥120,000 million and ¥109,321 million($998 million), respectively, as of December 31, 2018 and 2019.

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Notes and accounts receivable–trade	¥1,340,857	¥1,390,486	$12,692
Other	32,130	37,475	342
Allowance for doubtful accounts	(4,260)	(3,834)	(35)
Total	¥1,368,728	¥1,424,127	$12,999

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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Work-in-process	¥26,449	¥16,513	$151
Other	2,131	4,494	41
Total	¥28,580	¥21,007	$192

The amount of inventories recognized as expense by sales was ¥50,872 million and ¥57,048 million ($521 million) for the years ended December 31, 2018 and 2019, respectively. In addition, the amount of write-down of inventories recognized as expense was ¥418 million and ¥801 million ($7 million) for the years ended December 31, 2018 and 2019, respectively. There was no reversal of write-down of inventories for the years ended December 31, 2018 and 2019.

11. OTHER FINANCIAL ASSETS

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Derivative assets	¥16,792	¥12,815	$117
Equity securities	302,386	374,572	3,419
Debt securities	171	3,090	28
Other	62,238	67,878	620
Allowance for doubtful accounts	(17,963)	(19,085)	(174)
Total	¥363,627	¥439,269	$4,009
Current assets	15,090	15,859	145
Non-current assets	348,537	423,410	3,865
Total	¥363,627	¥439,269	$4,009

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", ¥3,150 million and ¥3,883 million ($35 million), respectively as of December 31, 2018 and 2019 are classified as financial assets measured at fair value through profit or loss, ¥13,103 million and ¥18,634 million ($170 million), respectively as of December 31, 2018 and 2019 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	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 Yen)

Investees	FY2019 (As of December 31, 2019)
Recruit Holdings Co., Ltd.	¥219,501
DAZN Group Limited	48,241
Digital Garage, Inc.	15,130
Tokyo Broadcasting System Holdings, Inc.	4,776
Asahi Group Holdings, Ltd.	4,576
Fighters Sports & Entertainment Co., Ltd.	4,000
Lion Corporation	3,812
TOHO CO., LTD.	3,676
Macromill,Inc.	3,076
Others	85,811
Total	¥392,599

(Millions of U.S. Dollars)

Investees	FY2019 (As of December 31, 2019)
Recruit Holdings Co., Ltd.	$2,003
DAZN Group Limited	440
Digital Garage, Inc.	138
Tokyo Broadcasting System Holdings, Inc.	44
Asahi Group Holdings, Ltd.	42
Fighters Sports & Entertainment Co., Ltd.	37
Lion Corporation	35
TOHO CO., LTD.	34
Macromill,Inc.	28
Others	783
Total	$3,583

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:

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)

FY2019: Year ended December 31, 2019

(Millions of Yen)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
¥31,499	¥12,685

FY2019: Year ended December 31, 2019

(Millions of U.S. Dollars)

Fair value	Cumulative gain or loss recognized in equity as other components of equity
$288	$116

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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Advance payments which are expected to be recognized in profit and loss after more than 12 months	¥6,604	¥7,349	$67

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, 2018 and 2019 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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Non-current assets classified as held for sale			
Cash and cash equivalents	–	¥205	$2
Trade and other receivables	–	136	1
Other financial assets (current)	–	26	0
Other current assets	–	132	1
Property, plant and equipment	–	4	0
Goodwill	–	65	1
Intangible assets	–	59	1
Other financial assets (non-current)	2	2	0
Deferred tax assets	–	34	0
Total	¥2	¥665	$6
Liabilities directly associated with non-current assets classified as held for sale			
Trade and other payables	–	¥111	$1
Other financial liabilities (current)	–	20	0
Income tax payables	–	26	0
Other current liabilities	–	37	0
Total	–	¥195	$2

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

Non-current assets classified as held for sale as of December 31, 2019 consist of assets related to shares held by the Company and subsidiaries in the Japan business.

14. PROPERTY, PLANT AND EQUIPMENT

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

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

FY2019: Year ended December 31, 2019

(Millions of Yen)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	¥68,440	¥110,430	¥17,358	¥196,228
Additions	6,395	999	6,355	13,751
Acquisitions through business combinations	183	–	740	923
Sales or disposals	(525)	–	(574)	(1,099)
Depreciation	(7,914)	–	(6,359)	(14,274)
Impairment losses	(16)	–	–	(16)
Exchange differences on translation of foreign operations	(181)	13	(201)	(369)
Other	72	–	213	286
Balance at the end of the year	¥66,453	¥111,443	¥17,532	¥195,429

FY2019: Year ended December 31, 2019

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
Balance at the beginning of the year	$625	$1,008	$158	$1,791
Additions	58	9	58	126
Acquisitions through business combinations	2	–	7	8
Sales or disposals	(5)	–	(5)	(10)
Depreciation	(72)	–	(58)	(130)
Impairment losses	(0)	–	-	(0)
Exchange differences on translation of foreign operations	(2)	0	(2)	(3)
Other	1	–	2	3
Balance at the end of the year	$607	$1,017	$160	$1,784

(Note) IAS 17 was applied for the year ended December 31, 2018.
IFRS 16 was applied for the year ended December 31,2019. Figures for the current fiscal year do not include right-of-use assets.

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
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
FY2019 (As of December 31, 2019)				
Acquisition cost	¥148,146	¥111,448	¥65,086	¥324,680
Accumulated depreciation and impairment losses	81,692	4	47,553	129,251
Carrying amount	66,453	111,443	17,532	195,429

(Millions of U.S. Dollars)

	Buildings and structures	Land	Other	Total
FY2019 (As of December 31, 2019)				
Acquisition cost	$1,352	$1,017	$594	$2,963
Accumulated depreciation and impairment losses	746	0	434	1,180
Carrying amount	607	1,017	160	1,784

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
FY2018 (As of December 31, 2018)	¥0	¥2,978	¥2,978

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

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

Property, plant and equipment consist of proprietary assets that do not meet the definition of investment property, and right-of-use assets. The carrying amount of the assets are as follows.

(Millions of Yen)

	Total
FY2019 (As of December 31, 2019)	
Proprietary assets	¥195,429
Right-of-use assets	119,687
Carrying amount	¥315,116

(Millions of U.S. Dollars)

	Total
FY2019 (As of December 31, 2019)	
Proprietary assets	$1,784
Right-of-use assets	1,092
Carrying amount	$2,876

15. GOODWILL AND INTANGIBLE ASSETS

(1) Schedule of goodwill and intangible assets

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

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

FY2019: Year ended December 31, 2019

(Millions of Yen)

	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	¥786,851	¥156,357	¥29,747	¥63,681	¥1,036,638
Additions	–	–	17,071	614	17,686
Acquisitions through business combinations	37,670	18,073	392	6,481	62,618
Sales or disposals	–	–	(510)	(92)	(603)
Amortization	–	(24,200)	(8,691)	(10,666)	(43,558)
Impairment losses	(70,187)	(2,649)	(87)	(729)	(73,654)
Exchange differences on translation of foreign operations	365	302	406	(110)	964
Other	96	(102)	284	(325)	(46)
Balance at the end of the year	¥754,796	¥147,780	¥38,612	¥58,854	¥1,000,043

FY2019: Year ended December 31, 2019

(Millions of U.S. Dollars)

	Goodwill	Customer relationships	Software	Other	Total
Balance at the beginning of the year	$7,182	$1,427	$272	$581	$9,462
Additions	–	–	156	6	161
Acquisitions through business combinations	344	165	4	59	572
Sales or disposals	–	–	(5)	(1)	(6)
Amortization	–	(221)	(79)	(97)	(398)
Impairment losses	(641)	(24)	(1)	(7)	(672)
Exchange differences on translation of foreign operations	3	3	4	(1)	9
Other	1	(1)	3	(3)	(0)
Balance at the end of the year	$6,889	$1,349	$352	$537	$9,128

(Note) IAS 17 was applied for the year ended December 31, 2018.
IFRS 16 was applied for the year ended December 31,2019. Figures for the current fiscal year do not include right-of-use assets.

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
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
FY2019 (As of December 31, 2019)					
Acquisition cost	¥825,253	¥273,111	¥140,024	¥120,121	¥1,358,511
Accumulated amortization and impairment losses	70,457	125,331	101,412	61,267	358,467
Carrying amount	754,796	147,780	38,612	58,854	1,000,043

(Millions of U.S. Dollars)

	Goodwill	Customer relationships	Software	Other	Total
FY2019 (As of December 31, 2019)					
Acquisition cost	$7,532	$2,493	$1,278	$1,096	$12,400
Accumulated amortization and impairment losses	643	1,144	926	559	3,272
Carrying amount	6,889	1,349	352	537	9,128

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

(Millions of Yen)

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

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."

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

The carrying amount of the assets are as follows.

(Millions of Yen)

	Total
FY2019 (As of December 31, 2019)	
Proprietary assets	¥1,000,043
right-of-use assets	270
Carrying amount	¥1,000,313

(Millions of U.S. Dollars)

	Total
FY2019 (As of December 31, 2019)	
Proprietary assets	$9,128
right-of-use assets	2
Carrying amount	$9,130

(2) Significant goodwill and intangible assets

The significant portion of goodwill as of December 31, 2019 are goodwill in the APAC region was ¥68,172 million($622 million), and goodwill in other regions (EMEA and Americas) in international business was ¥680,458 million($6,211 million). Significant portion of goodwill was ¥782,515 million in the international business segment as of December 31, 2018.

Goodwill for international business operations was allocated to the International business segment as the cash-generating unit group as of December 31, 2018. However, following the review of the cash-generating unit group at the end of the current fiscal year in light of the business environment in the APAC region, goodwill is allocated to the APAC region as a separate cash-generating unit group. Based on the latest business plan compiled using the most recent results as of December 31, 2019, the Group conducted an annual impairment test of goodwill related to international business operations. As a result, the Group recognized a goodwill impairment loss of ¥70,187 million($641 million) in the APAC region. Recoverable amount of the cash-generating unit group was ¥96,252 million ($879 million) as of December 31, 2019.

Significant intangible assets other than goodwill consist of customer relationships in the international business segment, which amounted to ¥22,351 million($204 million) in the APAC region and ¥125,428 million ($1,145 million) in other regions (EMEA and Americas) as of December

31, 2019, respectively. Significant intangible assets consist of customer relationships in the international business segment, amounting to ¥156,357 million as of December 31, 2018. Among them, the amount recognized when the Company acquired Dentsu Aegis Network Ltd. in March 2013 was ¥96,228 million and ¥90,106 million ($822 million) as of December 31, 2018 and 2019, respectively, which the remaining amortization period at December 31, 2019 is 11 years.

(3) Impairment testing of goodwill

(APAC region)

Recoverable amounts 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 1.5% is set for cash flows beyond the four-year period.

The pre-tax discount rates used for determining value in use are 10.8% as of December 31, 2019.

The operating margin for the year ending December 31, 2020 is expected to be the same level as the year ended December 31, 2019.

Assuming all other variables are constant, the sensitivity analysis of the impairment loss for the key assumptions, in addition to the goodwill impairment loss of ¥70,187 million($641 million) recognized for the year ended December 31, 2019 is as follows.

- 0.1% discount rate increase: additional impairment loss of ¥1,768 million($16 million)
- 0.1% continuous growth decline: additional impairment loss of ¥1,253 million($11 million)
- 0.1% operating margin decline: additional impairment loss of ¥1,197 million($11 million)

(International business (EMEA and Americas))

Recoverable amounts 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 1.61 ~ 1.75% is set for cash flows beyond the four-year period.

The pre-tax discount rates used for determining value in use are 9.0% as of December 31, 2019.

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.

As of December 31, 2018, 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% is set for cash flows beyond the four-year period. And, the pre-tax discount rates used for determining value in use are 8.1%.

16. LEASES

FY2018: Year ended December 31, 2018

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)
	FY2018 (As of December 31, 2018)
Not later than 1 year	
Total of future minimum lease payments	¥1,151
Future finance costs	27
Present value	¥1,123
Later than 1 year and not later than 5 years	
Total of future minimum lease payments	¥2,299
Future finance costs	36
Present value	¥2,263
Later than 5 years	
Total of future minimum lease payments	¥20
Future finance costs	0
Present value	¥20
Total	
Total of future minimum lease payments	¥3,471
Future finance costs	63
Present value	¥3,408

(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)
	FY2018 (As of December 31, 2018)
Not later than 1 year	¥27,740
Later than 1 year and not later than 5 years	73,418
Later than 5 years	82,442
Total	¥183,601

(3) Total of minimum lease payments

The total of minimum lease payments of operating lease contract for the year ended December 31, 2018 is ¥32,624 million.

Finance

FY2019: Year ended December 31, 2019

(1) Expenses and cash flow related to leases

Expenses and cash flow related to leases are as follows.

	(Millions of Yen) FY2019 (Year ended December 31, 2019)	(Millions of U.S. Dollars) FY2019 (Year ended December 31, 2019)
Depreciation expenses by type of right-of-use asset		
Buildings and structures	¥31,515	$288
Software	121	1
Others	159	1
Total depreciation expenses	31,796	290
Interest expense on lease obligations	4,153	38
Expenses for short-term leases and leases of low-value assets	5,651	52
Total cash outflows related to leases	¥42,385	$387

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

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

(Millions of Yen)

	Buildings and structures	Others (property, plant and equipment)	Software	Total
As of December 31, 2019	¥115,303	¥4,383	¥270	¥119,957

(Millions of U.S. Dollars)

	Buildings and structures	Others (property, plant and equipment)	Software	Total
As of December 31, 2019	$1,052	$40	$2	$1,095

The increase in right-of-use assets for the year ended December 31, 2019 was ¥23,457 million($214 million).

(3) Lease obligation

The maturity analysis of the lease obligation is as follows.

	(Millions of Yen) FY2019 (As of December 31, 2019)	(Millions of U.S. Dollars) FY2019 (As of December 31, 2019)
Contractual undiscounted cash flows		
Less than 1 year	¥35,990	$328
1 year to 5 years	76,826	701
More than 5 years	32,786	299
Undiscounted lease obligation balance	145,603	1,329
Discount of lease obligation	(12,540)	(114)
Balance of lease obligations included in other financial liabilities	¥133,063	$1,215
Current	37,343	341
Non-current	¥95,719	$874

(4) Nature of leasing activity

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

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

(5) Sale and leaseback transaction

In the year ended December 31, 2019, the Group entered into a transaction in which it sold a portion of land and buildings in the Japan business and financed it, and leased back the land and buildings for three years from the viewpoint of effective use of assets held by the Group. The resulting cash inflows are included in cash flows from financing activities. There is no repurchase option at the end of the contract period. The gains or losses arising from the sale and leaseback transaction are not material.

(6) Potentially exposed future cash outflows not reflected in the measurement of the lease obligation

In the international business, the Group has lease contracts for buildings that have already been contracted but not yet started as of December 31, 2019, and the lease period of the main transactions is 16 to 20 years. Non-cancellable lease payments total ¥111,952 million($1,022 million). These are not reflected in the measurement of lease obligations.

17. INVESTMENT PROPERTY

(1) Schedule of investment property

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Balance at the beginning of the year	¥37,360	¥37,089	$339
Additions	79	85	1
Depreciation	(341)	(339)	(3)
Sales or disposals	(9)	–	–
Other	–	–	–
Balance at the end of the year	¥37,089	¥36,835	$336
Acquisition cost (balance at the beginning of the year)	¥46,345	¥46,186	$422
Accumulated depreciation and impairment losses (balance at the beginning of the year)	8,984	9,096	83
Acquisition cost (balance at the end of the year)	¥46,186	¥46,269	$422
Accumulated depreciation and impairment losses (balance at the end of the year)	9,096	9,433	$86

(2) Fair value

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

			(Millions of Yen)		(Millions of U.S. Dollars)	
	FY2018 (As of December 31, 2018)		]FY2019 (As of December 31, 2019)		FY2019 (As of December 31, 2019)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property (Level 3)	¥37,089	¥50,375	¥36,835	¥51,981	$336	$474

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)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Rental income	¥2,171	¥2,159	$20
Direct operating expenses	800	762	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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Total carrying amount	¥39,897	¥47,662	$435

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)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Profit for the year	¥2,699	¥517	$5
Other comprehensive income	(545)	(119)	(1)
Comprehensive income for the year	¥2,153	¥397	$4

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

As a result of remeasurement of the equity interest in People & Screens, which was already held by the Company at the time of acquisition of control during the year ended December 31, 2019, revaluation gain on step acquisition of ¥2,175 million($20 million) was recognized, based on the fair value as of the date of acquisition.

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)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Unrecognized losses	¥14	¥30	$0

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (As of December 31, 2017)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Cumulative unrecognized losses	¥15	¥50	$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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Deferred tax assets			
Liability for retirement benefits	¥29,684	¥26,165	$239
Accrued expenses	11,516	10,144	93
Carryforwards of tax losses	7,025	5,811	53
Other	21,794	19,989	182
Total deferred tax assets	¥70,022	¥62,111	$567
Deferred tax liabilities			
Gain on establishment of retirement benefit trust	¥(13,079)	¥(13,072)	$(119)
Unrealized gain on securities	(57,668)	(78,561)	(717)
Valuation differences on intangible assets	(52,695)	(50,129)	(458)
Other	(10,695)	(1,488)	(14)
Total deferred tax liabilities	¥(134,139)	¥(143,253)	$(1,308)
Net deferred tax assets (liabilities)	¥(64,117)	¥(81,141)	$(741)

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (Year ended December 31, 2019)
Net deferred tax assets (liabilities)			
Balance at the beginning of the year	¥(89,151)	¥(64,117)	$(585)
Deferred income taxes	11,324	7,969	73
Deferred taxes related to components of other comprehensive income			0
Exchange differences on translation of foreign operations	1	(0)	(0)
Effective portion of the change in the fair value of cash flow hedges	311	783	7
Net change in financial assets measured at fair value through other comprehensive income	6,345	(24,464)	(223)
Remeasurements of defined benefit plans	3,472	(2,823)	(26)
Changes in deferred tax assets (liabilities) arising from business combinations, and others	3,578	1,510	14
Balance at the end of the year	¥(64,117)	¥(81,141)	$(741)

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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Deductible temporary differences	¥11,314	¥14,528	$133
Carryforwards of tax losses	59,952	77,543	708

The breakdown of carryforwards of tax losses by expiry date as of December 31, 2018 and 2019, for which deferred tax assets are not recognized in the Consolidated Statement of Financial Position, is as follows:

	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of U.S. Dollars)
Within 1 year	¥873	¥912	$8
Within 2 years	148	442	4
Within 3 years	505	998	9
Within 4 years	207	519	5
Within 5 years	1,426	1,127	10
Over 5 years	5,721	7,820	71
Indefinite periods	51,071	65,722	600
Total	¥59,952	¥77,543	$708

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 ¥122,255 million and ¥126,258 million ($1,152 million) as of December 31, 2018 and 2019, 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:

	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of U.S. Dollars)
Current income taxes	¥62,574	¥38,106	$348
Deferred income taxes	(11,324)	(7,969)	(73)

(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, 2018 and 2019. Foreign subsidiaries are subject to income taxes at their respective locations.

(%)

	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)
Effective statutory tax rate	31.0	31.0
(Reconciliation)		
Non-deductible items, such as entertainment expenses	1.0	(2.8)
Non-taxable items, such as dividend income	(0.2)	(0.1)
Changes in contingent consideration	0.0	(2.2)
Changes in put option liability	1.2	(21.1)
Share of profits of investments accounted for using the equity method	(0.6)	0.4
Reduction of deferred tax assets (liabilities) at fiscal year end due to tax rate changes	–	(0.1)
Changes in unrecognized deferred tax assets	1.7	(25.3)
Impairment of goodwill	–	(50.9)
Other	0.4	0.6
Income tax rate after applying of deferred tax accounting	34.5	(70.5)

20. TRADE AND OTHER PAYABLES

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

	FY2018 (As of December 31, 2018) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of U.S. Dollars)
Notes and accounts payable–trade	¥1,273,441	¥1,318,985	$12,039
Other	68,019	71,792	655
Total	¥1,341,461	¥1,390,778	$12,694

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

(2) Assets pledged as collateral for liabilities

Assets pledged as collateral and corresponding liabilities are as follows:

Assets pledged as collateral	FY2018 (As of December 31, 2018) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of U.S. Dollars)
Other financial assets (current assets)	¥54	¥54	$0

Corresponding liabilities	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Notes and accounts payable	¥440	–	–

In addition to the above, other financial assets (current assets) of ¥8 million and ¥8 million ($0 million) are pledged as collateral for guarantee transactions related to the "Official Gazette" (Kanpou), sales etc. as of December 31, 2018 and 2019, 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:

	FY2018 (As of December 31, 2018) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of Yen)	Date of maturity · redemption	FY2019 (As of December 31, 2019) (Millions of U.S. Dollars)
Derivative liabilities	¥2,893	¥3,624	–	$33
Put option liabilities	120,839	140,488	–	1,282
Bonds(Note)	79,746	79,785	2023~2028	728
Short-term borrowings	53,343	60,944	–	556
Current portion of long-term borrowings	51,536	123,872	–	1,131
Short-term lease obligation	1,123	37,343		341
Long-term borrowings	354,233	359,325	2021~2026	3,280
Long-term lease obligation	2,284	95,719	2021~2034	874
Other (mainly contingent consideration)	83,617	79,398	–	725
Total	¥749,617	¥980,501	–	$8,949
Current liabilities	¥152,274	¥257,680		$2,352
Non-current liabilities	597,342	722,821		6,597
Total	¥749,617	¥980,501		$8,949

Derivative liabilities include those to which hedge accounting is applied.

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

Borrowings are classified as financial liabilities measured at amortized cost. The average interest rates of short-term borrowings and long-term borrowings (including the current portion of long-term borrowings) for year ended December 31, 2019 are 4.99% and 2.43%, respectively.

"Other(mainly contingent consideration)" includes financial liabilities measured at fair value through profit or loss of ¥69,267 million and ¥68,470 million ($625 million) as of December 31, 2018 and 2019, respectively. Remaining amounts are classified as financial liabilities measured at amortized cost.

Financial covenants are attached to certain borrowings as of December 31, 2018 and 2019. 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	FY2018 (As of December 31, 2018) (Millions of yen)	FY2019 (As of December 31, 2019) (Millions of yen)	FY2019 (As of December 31, 2019) (Millions of U.S. Dollars)	Interest rate (%)	Collateral	Date of redemption
Dentsu Inc.	First unsecured bond	October 25, 2018	¥34,905	¥34,925	$319	0.110	N/A	October 25, 2023
Dentsu Inc.	Second unsecured bond	October 25, 2018	19,931	19,941	182	0.240	N/A	October 24, 2025
Dentsu Inc.	Third unsecured bond	October 25, 2018	24,910	24,919	227	0.424	N/A	October 25, 2028
Total	–	–	¥79,746	¥79,785	$728	–	–	–

(2) Changes in liabilities arising from financing activities

FY2018: Year ended December 31, 2018

(Millions of Yen)

	Balance at the beginning of the year	Changes from cash flows from financing activities	Non-cash changes: Newly recognized	Non-cash changes: Changes from remeasurements	Non-cash changes: Increase due to business combination	Non-cash changes: Exchange differences and others	Balance at the end of the year
Short-term borrowings	¥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

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

FY2019: Year ended December 31, 2019

(Millions of Yen)

	Balance at the beginning of the year	Changes from cash flows from financing activities	Non-cash changes: Newly recognized	Non-cash changes: Changes from remeasurements	Non-cash changes: Increase due to business combination	Non-cash changes: Exchange differences and others	Balance at the end of the year
Short-term borrowings	¥53,343	¥1,086	–	–	¥269	¥6,245	¥60,944
Long-term borrowings (Note 1)	405,769	79,428	–	–	890	(2,890)	483,197
Lease obligation	144,474	(32,580)	21,182	–	2,275	(2,286)	133,063
Put option liabilities (Note 1, 2)	120,839	(4,318)	6,380	23,640	–	(6,053)	140,488
Bonds	79,746	–	–	–	–	38	79,785
Total	¥804,172	¥43,615	¥27,562	¥23,640	¥3,434	¥(4,947)	¥897,479

FY2019: Year ended December 31, 2019

(Millions of U.S. Dollars)

	Balance at the beginning of the year	Changes from cash flows from financing activities	Non-cash changes: Newly recognized	Non-cash changes: Changes from remeasurements	Non-cash changes: Increase due to business combination	Non-cash changes: Exchange differences and others	Balance at the end of the year
Short-term borrowings	$487	$10	–	–	$2	$57	$556
Long-term borrowings (Note 1)	3,704	725	–	–	8	(26)	4,410
Lease obligation	1,319	(297)	193	–	21	(21)	1,215
Put option liabilities (Note 1, 2)	1,103	(39)	58	216	–	(55)	1,282
Bonds	728	–	–	–	–	0	728
Total	$7,340	$398	$252	$216	$31	$(45)	$8,192

(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:

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

FY2019: Year ended December 31, 2019

(Millions of Yen)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provision for business restructuring	Other provisions	Total
Balance at the beginning of the year	¥2,139	¥523	–	¥3,617	¥6,280
Additional provisions in the year	107	121	6,476	1,074	7,779
Interest expense incurred over the discount period	7	–	–	–	7
Provisions used	(43)	(55)	–	(97)	(195)
Provisions reversed	–	(14)	–	(512)	(526)
Exchange differences on translation of foreign operations	–	–	196	(289)	(93)
Other	(5)	–	–	(301)	(306)
Balance at the end of the year	¥2,205	¥575	¥6,673	¥3,490	¥12,943
Current liabilities	–	¥575	¥6,673	¥1,306	¥8,554
Non-current liabilities	2,205	–	–	2,184	4,389
Total	¥2,205	¥575	¥6,673	¥3,490	¥12,943

FY2019: Year ended December 31, 2019

(Millions of U.S. Dollars)

	Provisions for asset retirement obligations	Provisions for loss on order received	Provision for business restructuring	Other provisions	Total
Balance at the beginning of the year	$20	$5	–	$33	$57
Additional provisions in the year	1	1	59	10	71
Interest expense incurred over the discount period	0	–	–	–	0
Provisions used	(0)	(1)	–	(1)	(2)
Provisions reversed	–	(0)	–	(5)	(5)
Exchange differences on translation of foreign operations	–	–	2	(3)	(1)
Other	(0)	–	–	(3)	(3)
Balance at the end of the year	$20	$5	$61	$32	$118
Current liabilities	–	$5	$61	$12	$78
Non-current liabilities	20	–	–	20	40
Total	$20	$5	$61	$32	$118

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

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

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

(3) Provision for business restructuring
Due to business structural reforms in the international business, the Group has recorded personnel reduction costs, real estate optimization costs, and other related costs that are expected to occur in the future.

These expenses are expected to be paid in the year ending December 31, 2020.

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.

(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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Funded defined benefit obligations	¥125,146	¥124,468	$1,136
Plan assets	(110,700)	(118,089)	(1,078)
Subtotal	14,446	6,379	58
Unfunded defined benefit obligations	15,104	15,000	137
Total	¥29,550	¥21,379	$195
Balance recognized in the Consolidated Statement of Financial Position			0
Liabilities for retirement benefits	¥30,675	¥24,254	$221
Assets for retirement benefits	(1,124)	(2,874)	(26)
Net defined benefit liabilities (assets) recognized in the Consolidated Statement of Financial Position	¥29,550	¥21,379	$195

(2) Schedule of defined benefit obligations

The schedule of defined benefit obligations is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Balance at the beginning of the year	¥136,226	¥140,251	$1,280
Current service cost (Note 1)	8,358	7,212	66
Interest expense (Note 1)	642	596	5
Actuarial gains and losses (Note 2)	4,953	1,196	11
Benefits paid	(8,317)	(10,189)	(93)
Past service cost	1	88	1
Changes due to termination (curtailment or settlement) of defined benefit plans	(759)	–	–
Exchange differences on translation of foreign operations	(852)	313	3
Balance at the end of the year	¥140,251	¥139,469	$1,273

(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, 2018 and 2019 is as follows:

(Years)

	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)
Weighted average duration	9.1	8.8

(3) Schedule of plan assets

The schedule of plan assets is as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Balance at the beginning of the year	¥119,037	¥110,700	$1,010
Interest income	559	485	4
Return on plan assets (excluding amounts included in interest income)	(6,052)	9,000	82
Contributions by the employer	792	395	4
Benefits paid	(2,784)	(2,671)	(24)
Changes due to termination (curtailment or settlement) of defined benefit plans	(564)	–	–
Exchange differences on translation of foreign operations	(286)	177	2
Balance at the end of the year	¥110,700	¥118,089	$1,078

The Group plans to pay contributions of ¥124 million ($1 million) in the year ending December 31, 2020.

(4) Major breakdown of plan assets

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

	(Millions of Yen)						(Millions of U.S. Dollars)		
	FY2018 (As of December 31, 2018)			FY2019 (As of December 31, 2019)			FY2019 (As of December 31, 2019)		
	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	¥76,064	–	¥76,064	¥83,849	–	¥83,849	$765	–	$765
Debt instruments	2,575	170	2,746	2,607	25	2,633	24	0	24
General account of life insurance companies	–	10,250	10,250	–	7,739	7,739	–	71	71
Other	–	21,639	21,639	–	23,866	23,866	–	218	218
Total	¥78,640	¥32,060	¥110,700	¥86,456	¥31,632	¥118,089	$789	$289	$1,078

(Note) Plan assets above include retirement benefit trusts established for defined benefit corporate pension plans and retirement lump-sum payment plans of ¥78,188 million and ¥81,354 million ($743 million), as of December 31, 2018 and 2019, respectively.
As of December 31, 2018 and 2019, 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.

In addition risk corresponding contributions have been made to prepare for future financial deterioration from the year ended December 31, 2019.

(5) Actuarial assumptions

The major items of actuarial assumptions are as follows:

	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019) (%)
Discount rate	0.5	0.3

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

		(Millions of Yen)		(Millions of U.S. Dollars)
	Change in assumptions	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2018 (As of December 31, 2018)
Discount rate	Increase by 0.5%	¥(5,561)	¥(5,486)	$(50)
	Decrease by 0.5%	¥6,018	¥5,903	$54

(6) Defined contribution plans

Expenses recognized due to contributions to defined contribution plans by the Company and consolidated subsidiaries amounted to ¥10,779 million and ¥9,410 million ($86 million) for the years ended December 31, 2018 and 2019, 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, 2018 and 2019 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)
FY2018 (As of December 31, 2018)	288,410,000
Increase (decrease)	-
FY2019 (As of December 31, 2019)	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)
FY2018 (As of December 31, 2018)	6,513,459
Increase (decrease)	5,158,597
FY2019 (As of December 31, 2019)	11,672,056

(Note 1) The above includes 5,156,600 shares of increase due to repurchase based on the resolution of the Board of Directors, 2,116 shares of increase due to repurchase of shares less than one unit, and 169 shares of decrease due to sales of shares less than one unit.

(Note 2) The above includes 150,000 shares of the Company held by Trust E in relation to the performance-linked stock compensation plan as of December 31, 2019.

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 August 7, 2019, in accordance with article 156 of the Companies Act applied with article 165, paragraph 3 of the Companies Act, and the articles of incorporation of the Company.

(i) Type of shares repurchased : Ordinary shares of the Company
(ii) Total number of repurchased shares : 5,156,600 shares
(iii) Total amount of repurchased shares : ¥19,999 million
(iv) Repurchase period : From August 8, 2019 to December 30, 2019
(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

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

FY2019: Year ended December 31, 2019

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividends per share (Yen)	Basis date	Effective date
Board of Directors (February 14, 2019)	**Ordinary shares**	**¥12,685**	**¥45.00**	**December 31, 2018**	**March 7, 2019**
Board of Directors (August 7, 2019)	**Ordinary shares**	**¥13,397**	**¥47.50**	**June 30, 2019**	**September 6, 2019**

FY2019: Year ended December 31, 2019

Resolution	Class of shares	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 14, 2019)	**Ordinary shares**	**$116**	**$0.41**	**December 31, 2018**	**March 7, 2019**
Board of Directors (August 7, 2019)	**Ordinary shares**	**$122**	**$0.43**	**June 30, 2019**	**September 6, 2019**

(Note) The total amount of dividends based on a resolution of the Board of Directors held on August 7, 2019 includes a dividend of ¥7 million ($0 million) for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.

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

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

FY2019: Year ended December 31, 2019

Resolution	Class of shares	Source of dividends	Total dividends (Millions of Yen)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 13, 2020)	**Ordinary shares**	**Retained earnings**	**¥13,152**	**¥47.50**	**December 31, 2019**	**March 5, 2020**

FY2019: Year ended December 31, 2019

Resolution	Class of shares	Source of dividends	Total dividends (Millions of U.S. Dollars)	Dividends per share (U.S. Dollars)	Basis date	Effective date
Board of Directors (February 13, 2020)	**Ordinary shares**	**Retained earnings**	**$120**	**$0**	**December 31, 2019**	**March 5, 2020**

(Note) The total amount of dividends includes a dividend of ¥7 million ($0 million) for the Company's shares held by the Trust E Unit in relation to the Directors' Stock Compensation Trust.

26. Revenue

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

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

(1) Disaggregation of revenue

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

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

FY2019: Year ended December 31, 2019

(Millions of Yen)

	Reporting segment			Intercompany transaction adjustments	Total
	Japan Business	International Business	Subtotal		
Major services					
Advertising business	¥372,928	¥604,061	¥976,989	–	–
Information service business	77,407	–	77,407	–	–
Other business	3,666	–	3,666	–	–
Total	454,002	604,061	1,058,063	(10,182)	1,047,881
Breakdown by regions					
Japan	454,002	–	454,002	–	–
EMEA (Europe, Middle East and Africa)	–	234,880	234,880	–	–
Americas (Americas)	–	258,899	258,899	–	–
APAC (Asia Pacific)	–	110,280	110,280	–	–
Total	¥454,002	¥604,061	¥1,058,063	¥(10,182)	¥1,047,881

FY2019: Year ended December 31, 2019

(Millions of U.S. Dollars)

	Reporting segment			Intercompany transaction adjustments	Total
	Japan Business	International Business	Subtotal		
Major services					
Advertising business	$3,404	$5,514	$8,917	–	–
Information service business	707	–	707	–	–
Other business	33	–	33	–	–
Total	4,144	5,514	9,657	(93)	9,564
Breakdown by regions					
Japan	4,144	–	4,144	–	–
EMEA (Europe, Middle East and Africa)	–	2,144	2,144	–	–
Americas (Americas)	–	2,363	2,363	–	–
APAC (Asia Pacific)	–	1,007	1,007	–	–
Total	$4,144	$5,514	$9,657	$(93)	$9,564

(2) Contract balance

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Receivables arising from contracts with customers	¥1,358,705	¥1,408,810	$12,859
Notes and accounts receivable-trade	1,340,857	1,390,486	12,692
Others	17,847	18,324	167
Contract liabilities	¥56,070	¥59,632	$544

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 years ended December 31, 2018 and 2019 that was included in contract liabilities at the beginning of the period was ¥62,181 million and ¥54,312 million($496 million), respectively. In addition, the amount of revenue recognized during the years ended December 31, 2018 and 2019 from performance obligations satisfied (or partially satisfied) in prior periods is immaterial. There were no material changes in the balance of contract liabilities during the years ended December 31, 2018 and 2019.

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

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Within 1 year	¥13,354	¥21,748	$199
Over 1 year and below 2 years	11,905	4,179	38
Over 2 years and below 3 years	3,364	4,940	45
Over 3 years	7,452	7,954	73
Total	¥36,076	¥38,823	$354

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)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Staff costs	¥543,106	¥549,518	$5,016
Depreciation and amortization	57,734	87,351	797
Other	219,343	198,326	1,810
Total	¥820,184	¥835,195	$7,623

"Other" includes research and development expenses of ¥1,110 million and ¥1,544 million ($14 million) for the years ended December 31, 2018 and 2019, respectively.

28. STAFF COSTS

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Salaries, bonuses and allowances	¥477,565	¥484,743	$4,424
Welfare expenses	68,825	71,469	652
Post-employment benefits costs	19,220	16,733	153
Termination benefits associated with business restructuring	–	13,090	119
Stock-based compensation expenses (excluding those attributable to the acquiree)	–	485	4
Other	72	65	1
Total	¥565,683	¥586,586	$5,354

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

29. OTHER INCOME

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Profit distributions	¥8,528	¥5,818	$53
Foreign exchange gains	446	–	–
Gain on sale of property, plant and equipment, intangible assets and investment property	5	141	1
Rent income	780	1,084	10
Other	1,407	770	7
Total	¥11,168	¥7,814	$71

30. OTHER EXPENSES

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Amortization of long-term prepaid expenses	¥4,031	¥4,577	$42
Loss on sale of property, plant and equipment, intangible assets and investment property	1	64	1
Cash-settled share-based payment	4,313	9,568	87
Foreign exchange losses	–	319	3
Other	3,777	2,650	24
Total	¥12,123	¥17,180	$157

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)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Interest income			
Financial assets measured at amortized cost	¥2,735	¥3,087	$28
Dividend income			
Financial assets measured at fair value through other comprehensive income	3,297	2,957	27
Dividend income and asset management gains from insurance	610	299	3
Other (Note)	197	474	4
Total	¥6,839	¥6,819	$62

(Note) "Other" includes finance income arising from financial instruments measured at fair value through profit or loss of ¥6 million and ¥0 million ($0 million) for the years ended December 31, 2018 and 2019, respectively.

The breakdown of dividend income is as follows:

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Financial assets derecognized during the fiscal year	¥494	¥145	$1
Financial assets held at the end of the fiscal year	2,802	2,812	26

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Interest expense			
Financial liabilities measured at amortized cost	¥13,333	¥20,938	$191
Other	89	118	1
Changes in fair value of contingent consideration	21	3,077	28
Revaluation of put option liabilities (Note 1)	10,723	23,640	216
Foreign exchange losses (Note 2)	44	141	1
Other (Note 3)	341	1,006	9
Total	¥24,553	¥48,922	$447

(Note 1) The Group made changes in estimates regarding the timing of the exercise of put option liabilities related to certain consolidated subsidiaries during the years ended December 31, 2018 and 2019. As a result, finance expenses increased by ¥11,484 million and ¥7,611 million ($69 million) for the years ended December 31, 2018 and 2019, respectively.

(Note 2) Foreign exchange losses include valuation loss on currency derivatives.

(Note 3) "Other" includes finance expenses arising from financial instruments measured at fair value through profit or loss of ¥16 million and ¥61 million ($1 million) for the years ended December 31, 2018 and 2019, 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)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Exchange differences on translation of foreign operations			
Amount arising during the year	¥(47,369)	¥3,042	$28
Reclassification adjustments	(148)	–	–
Before tax effects	(47,518)	3,042	28
Tax effects	1	(0)	(0)
Exchange differences on translation of foreign operations	¥(47,516)	¥3,041	$28
Effective portion of the change in the fair value of cash flow hedges			
Amount arising during the year	¥5,062	¥(4,417)	$(40)
Reclassification adjustments	(5,240)	219	2
Before tax effects	(178)	(4,197)	(38)
Tax effects	311	783	7
Effective portion of the change in the fair value of cash flow hedges	¥133	¥(3,414)	$(31)
Net change in financial assets measured at fair value through other comprehensive income			
Amount arising during the year	¥(29,619)	¥83,769	$765
Before tax effects	(29,619)	83,769	765
Tax effects	6,345	(24,464)	(223)
Net change in financial assets measured at fair value through other comprehensive income	¥(23,273)	¥59,304	$541
Remeasurements of defined benefit plans			
Amount arising during the year	¥(11,005)	¥7,804	$71
Before tax effects	(11,005)	7,804	71
Tax effects	3,472	(2,823)	(26)
Remeasurements of defined benefit plans	¥(7,532)	¥4,981	$45
Share of other comprehensive income of investments accounted for using the equity method			
Amount arising during the year	¥(545)	¥(119)	$(1)
Share of other comprehensive income of investments accounted for using the equity method	¥(545)	¥(119)	$(1)

33. EARNINGS (LOSS) PER SHARE

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

		(Yen)	(U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Basic earnings (loss) per share	¥320.39	(¥287.92)	($2.63)
Diluted earnings (loss) per share	¥320.38	(¥287.94)	($2.63)

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Profit (loss) for the year used for calculation of basic earnings (loss) per share and diluted earnings (loss) per share			
Profit (loss) for the year attributable to owners of the parent	¥90,316	¥(80,893)	$(738)
Amounts not attributable to ordinary equity holders of the parent	–	–	–
Profit (loss) for the year used for calculation of basic earnings (loss) per share	90,316	(80,893)	(738)
Adjustment			
Share options issued by associates	(0)	(4)	(0)
Profit (loss) for the year used for calculation of diluted earnings (loss) per share	¥90,315	¥(80,897)	$(738)
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)	281,897	280,954	
Effect of dilutive potential ordinary shares (Thousands of shares)	–	–	
Weighted average number of ordinary shares outstanding used for the calculation of diluted earnings (loss) per share (Thousands of shares)	281,897	280,954	
Outline of financial instruments that have not been included in the calculation of diluted earnings (loss) per share as they have a reverse dilution effect	–	Performance linked stock compensation plan 74,000 shares	

34. SHARE-BASED PAYMENTS

(1) Performance-linked stock compensation plan of the Company

From the year ended December 31, 2019, the company has introduced a performance-linked stock compensation plan (hereinafter referred to as the "Plan") for executive officers (including directors and executive officers; the same applies hereinafter).

The Plan provides executive officers with a number of points calculated in accordance with the formula specified in the officers' share benefit rules established by the Company's Board of Directors in consideration of the execution of duties in each fiscal year in office, The number will be determined according to the Company's business performance during the three consecutive fiscal years starting from the fiscal year to which the points were awarded. The Company's shares will be paid out for the number of shares calculated based on 50% of the vested points, and cash equivalent for the market value of the number of shares calculated based on the remaining 50% of the vested points, using the closing price per share on the Tokyo Stock Exchange on the day of the calculation (or the closing price on the day immediately before if there are no closing price). The former is accounted for as an equity-settled share-based payment, and the latter is accounted for as an cash-settled share-based payment.

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

Regarding this Plan, the costs recognized in the current fiscal year for the equity-settled share-based payment plan and cash-settled share-based payment plan were ¥351 million($3 million) and ¥133 million($1 million), respectively. Regarding the cash-settled share-based payment plan, the liability balance as of December 31, 2019 was ¥133 million($1 million).

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

	FY2019 (Year ended December 31, 2019)
	Number of rights (points)
Balance at the beginning of the year	–
Grant	74,746
Balance at the end of the year	74,746
Exercisable at the end of the year	–

(Note) 1. There is no exercise price in this Plan.
2. The weighted-average remaining term of this plan as of December 31, 2019 is 2.2 years.

The fair value on the date of grant was determined using the share price on the date of grant, as it was determined to be close to the share price of the Company's shares on the date of grant.

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

	FY2019 (Year ended December 31, 2019)
	Number of rights (points)
Balance at the beginning of the year	–
Grant	74,746
Balance at the end of the year	74,746
Exercisable at the end of the year	–

(Note) 1. There is no exercise price in this system.
2. The weighted-average remaining term of this Plan as of December 31, 2019 is 2.2 years.

The fair value at the grant date for stock options granted during the year ended December 31, 2019 is ¥1,787 ($16.31).

The fair value is determined by calculating the market value of the Company's shares using the Black-Scholes model, as described below, and adjusting this based on the performance during the performance evaluation period.

	FY2019 (Year ended December 31, 2019)
Valuation method	Black-Scholes model
Key inputs and assumptions:	
Measurement date share price	3,775
Exercise price	–
Expected volatility (Note)	27.4%
Option life	2.2 years
Dividend yield	2.5%
Risk-free interest rate	0.0%

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

(2) Cash-settled stock compensation plan for consolidated subsidiaries

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 two 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 ¥4,313 million and ¥9,568 million ($87 million) for the years ended December 31, 2018 and 2019, respectively, and the corresponding liability as of December 31, 2018 and 2019 are ¥12,410 million and ¥21,699 million ($198 million), respectively.

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

				(Yen)	(U.S. Dollars)
		FY2018 (Year ended December 31, 2018)		FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Weighted Average Exercise Price
Balance at the beginning of the year	959,929	¥10,573	971,469	¥10,825	$98.80
Granted	81,431	15,162	15,250	17,705	161.60
Exercised	(33,918)	7,212	(69,254)	7,096	64.77
Expired	(5,269)	13,202	(4,326)	15,011	137.01
Forfeited	(30,704)	12,594	(11,980)	13,724	125.26
Balance at the end of the year	971,469	10,825	901,159	11,104	101.35
Exercisable at the end of the year	621,884	¥9,305	705,773	¥10,309	$94.09

1. The weighted average remaining life of the cash-settled share-based payments plans is 7.0 years and 6.1 years as of December 31, 2018 and 2019, respectively. It is anticipated that those who will be subject to the Stock Compensation Plan will exercise their rights in 2021 due to contractual arrangements with the subsidiary.
2. The weighted average share price upon exercise is ¥15,162 and ¥17,705 ($161.60) for the years ended December 31, 2018 and 2019, respectively.
3. The intrinsic value of the cash-settled share-based payments vested in as of December 31, 2018 and 2019 is ¥11,447 million and ¥19,542 million ($178 million), respectively.

The weighted-average fair value at the measurement date of the stock options granted during the year ended December 31, 2019 is ¥18,050 ($164.75).

Fair value is measured as follows:

		(Yen)	(U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Valuation method used	Black-Scholes model	Black-Scholes model	Black-Scholes model
Key inputs and assumptions:			
Grant date share price	¥26,360	¥35,457	$323.63
Exercise price	¥15,162	¥17,705	$161.60
Expected volatility (Note)	29.9%	29.8%	
Option life	2.0 years	1.0 years	
Dividend yield	0.0%	0.0%	
Risk-free interest rate	3.0%	1.6%	

(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, 2018 and 2019 are as follows:

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Total equity attributable to owners of the parent	¥1,047,619	¥974,977	$8,899
Underlying ROE (%)	9.1	7.5	

(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)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Profit (Loss) for the year (attributable to owners of the parent)	¥90,316	¥(80,893)	($738)
(Adjustment items)			
Adjustment items related to operating profit	41,590	144,110	1,315
Revaluation of contingent consideration and put option liability	10,744	26,718	244
Gain on sale of investments in associates	(52,127)	-	-
Revaluation gain on step acquisition	-	(2,175)	(20)
Tax expenses related to the above items	9,612	(9,094)	(83)
Non-controlling interest profit	(2,716)	(2,544)	(23)
Underlying profit for the year (attributable to owners of parent)	¥97,419	¥76,120	$695

(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."

C. Analysis of trade receivables by due date

(Millions of Yen)

	FY2018 (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 Yen)

	FY2019 (As of December 31, 2019)				
	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	¥66,905	–	–	¥1,171,369	¥1,238,275
Within 30 days	–	–	–	107,600	107,600
Over 30 days, within 60 days	–	–	–	49,093	49,093
Over 60 days, within 90 days	–	–	–	25,831	25,831
Over 90 days	–	–	695	54,915	55,611
Total	¥66,905	–	¥695	¥1,408,810	¥1,476,411

(Millions of U.S. Dollars)

	FY2019 (As of December 31, 2019)				
	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	$611	–	–	$10,692	$11,302
Within 30 days	–	–	–	982	982
Over 30 days, within 60 days	–	–	–	448	448
Over 60 days, within 90 days	–	–	–	236	236
Over 90 days	–	–	6	501	508
Total	$611	–	$6	$12,859	$13,476

D. Analysis of changes in allowance for doubtful accounts

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

(Millions of Yen)

	FY2018 (Year ended December 31, 2018)				
	12-month expected credit losses	Lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	
Balance at the beginning of the year 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 Yen)

	FY2019 (Year ended December 31, 2019)				
	12-month expected credit losses	Lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly since initial recognition	Financial assets that are credit impaired	Receivables arising from contracts with customers	
Balance at the beginning of the year	¥264	–	¥44	¥21,914	¥22,223
Addition	40	–	672	5,922	6,635
Decrease (intended use)	(20)	–	–	(4,409)	(4,430)
Decrease (reversal)	(142)	–	–	(969)	(1,112)
Other	64	–	(20)	(439)	(396)
Balance at the end of the year	¥207	–	695	22,017	22,920

(Millions of U.S. Dollars)

	FY2019 (Year ended December 31, 2019)				
		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	$2	–	$0	$200	$203
Addition	0	–	6	54	61
Decrease (intended use)	(0)	–	–	(40)	(40)
Decrease (reversal)	(1)	–	–	(9)	(10)
Other	1	–	(0)	(4)	(4)
Balance at the end of the year	$2	–	$6	$201	$209

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

	(Millions of Yen)		(Millions of U.S. Dollars)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Contractual outstanding balance	¥1,090	¥3,927	$36

(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, corporate bonds, commercial paper and short-term borrowings, and factoring of receivables.

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, 2018 and 2019 is as follows:

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	81,556	192	192	192	192	35,186	45,600
Subtotal	2,070,404	2,110,005	1,496,170	100,846	127,029	97,686	78,355	209,917
Derivative liabilities	2,893	2,893	645	503	500	850	6	385
Total	¥2,073,297	¥2,112,898	¥1,496,816	¥101,349	¥127,529	¥98,537	¥78,361	¥210,302

FY2019: As of December 31, 2019

(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	¥1,390,778	¥1,390,778	¥1,390,778	–	–	–	–	–
Contingent consideration on acquisition and others	68,470	68,470	22,491	17,071	21,339	4,135	3,431	–
Put option liabilities	140,488	140,488	7,460	92,570	24,632	4,332	8,817	2,673
Borrowings	544,142	581,162	198,638	41,317	68,428	42,552	124,022	106,203
Bonds	79,785	81,363	192	192	192	35,186	154	45,446
Subtotal	2,223,664	2,262,263	1,619,561	151,152	114,593	86,207	136,425	154,323
Derivative liabilities	3,624	3,624	251	309	852	–	576	1,634
Total	¥2,227,288	¥2,265,888	¥1,619,812	¥151,461	¥115,445	¥86,207	¥137,002	¥155,958

FY2019: As of December 31, 2019

(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	$12,694	$12,694	$12,694	–	–	–	–	–
Contingent consideration on acquisition and others	625	625	205	156	195	38	31	–
Put option liabilities	1,282	1,282	68	845	225	40	80	24
Borrowings	4,967	5,305	1,813	377	625	388	1,132	969
Bonds	728	743	2	2	2	321	1	415
Subtotal	20,296	20,649	14,782	1,380	1,046	787	1,245	1,409
Derivative liabilities	33	33	2	3	8	–	5	15
Total	$20,329	$20,682	$14,785	$1,382	$1,054	$787	$1,250	$1,423

C. Undrawn committed facilities

Undrawn committed facilities amounted to ¥326,732 million and ¥342,582 million ($3,127 million) as of December 31, 2018 and 2019, 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, borrowings and others are used to hedge foreign currency transactions that exceed a specified amount in accordance with accounting rules and guidelines.

Certain consolidated subsidiaries use forward foreign exchange contracts and borrowings 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, 2018 and 2019 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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
U.S. Dollars	¥(97)	¥(80)	$(1)
Euros	(50)	(4)	(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)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Profit before tax	¥(452)	¥(416)	$(4)

(7) Hedge accounting

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

		FY2018 (As of December 31, 2018)				
		Content	Notional Amount and Average Price	Within one year	Over one year Within five years	Over five years
Cash flow hedge	Interest rate risk	Interest rate swap	Notional Amount (Millions of Yen)	–	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	–
		Long-term borrowings due within one year	Notional Amount (Millions of U.S. Dollars)	96	–	–
		Long-term borrowings	Notional Amount (Millions of U.S. Dollars)	–	500	–

		FY2019 (As of December 31, 2019)				
		Content	Notional Amount and Average Price	Within one year	Over one year Within five years	Over five years
Cash flow hedge	Interest rate risk	Interest rate swap	Notional Amount (Millions of Yen)	30,000	104,000	–
			Average fixed rate	0.60%	1.39%	–
			Notional Amount (Millions of U.S. Dollars)	400	400	100
			Average fixed rate	1.45%	2.24%	3.13%
			Notional Amount (Millions of Stering Pounds)	–	–	650
			Average fixed rate	–	–	1.70%
	Foreign exchange risk	Foreign exchange contracts (buy)	Notional Amount (Millions of U.S. Dollars)	148	186	74
			Average exchange rate (¥/USD)	91.45	75.22	85.69
			Notional Amount (Millions of Stering Pounds)	2	3	–
			Average exchange rate (¥/GBP)	139.89	137.51	–
	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	–
		Long-term borrowings	Notional Amount (Millions of U.S. Dollars)	–	500	–

The carrying amounts of the hedging instruments of the Company and certain consolidated subsidiaries are as follows. The amount of ineffectiveness of hedges recognized in profit or loss is not material for the years ended December 31, 2018 and 2019.

(Millions of yen)

	FY2018 (As of December 31, 2018)		FY2019 (As of December 31, 2018)		Item in the consolidated statements of financial position
	Carrying Amount		Carrying Amount		
	Assets	Liabilities	Assets	Liabilities	
Cash flow hedge					
Interest rate risk	¥1,121	(¥2,156)	(¥612)	(¥3,462)	(Note)
Foreign exchange risk	16,483	(447)	13,200	(61)	(Note)
Total-cash flow hedges	17,604	(2,603)	12,588	(3,523)	
Hedge of net investment in foreign operations					
Foreign exchange risk	(960)	(65,678)	39	(54,090)	(Note)
Total-hedge of net investment in foreign operations	(960)	(65,678)	39	(54,090)	
Total financial instruments for which hedge accounting is applied	¥16,644	(¥68,282)	¥12,627	(¥57,613)	

(Millions of U.S. Dollars)

	FY2019 (As of December 31, 2019)		Item in the consolidated statements of financial position
	Carrying Amount		
	Assets	Liabilities	
Cash flow hedge			
Interest rate risk	$(6)	$(32)	(Note)
Foreign exchange risk	120	(1)	(Note)
Total-cash flow hedges	115	(32)	
Hedge of net investment in foreign operations			
Foreign exchange risk	0	(494)	(Note)
Total-hedge of net investment in foreign operations	0	(494)	
Total financial instruments for which hedge accounting is applied	$115	$(526)	

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

Finance

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 Yen)

	FY2019: Year ended December 31, 2019		
	Amount incurred	Reclassification adjustment from other comprehensive income to net income	Item in the consolidated statement of income
Cash flow hedge			
Interest rate risk	¥(3,765)	¥641	Finance expenses
Foreign exchange risk	(651)	(422)	Revenue
Total-cash flow hedges	(4,417)	219	
Hedge of net investment in foreign operations			
Foreign exchange risk	1,145	–	–
Total-hedge of net investment in foreign operations	¥1,145	–	

(Millions of U.S. Dollars)

	FY2019: Year ended December 31, 2019		
	Amount incurred	Reclassification adjustment from other comprehensive income to net income	Item in the consolidated statement of income
Cash flow hedge			
Interest rate risk	$(34)	$6	Finance expenses
Foreign exchange risk	(6)	(4)	Revenue
Total-cash flow hedges	(40)	2	
Hedge of net investment in foreign operations			
Foreign exchange risk	10	–	–
Total-hedge of net investment in foreign operations	$10	–	

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 Yen)

	FY2019: Year ended December 31, 2019		
	Cash flow hedge		Hedge of net investments in foreign operations
	Interest rate risk	Foreign exchange risk	Foreign exchange risk
Beginning balance	¥(364)	¥6,729	¥(1,038)
Arising during the year	(3,052)	(716)	1,157
Reclassification adjustments to net income	381	(25)	–
Ending balance	¥(3,036)	¥5,988	¥119

(Millions of U.S. Dollars)

	FY2019: Year ended December 31, 2019		
	Cash flow hedge		Hedge of net investments in foreign operations
	Interest rate risk	Foreign exchange risk	Foreign exchange risk
Beginning balance	$(3)	$61	$(9)
Arising during the year	(28)	(7)	11
Reclassification adjustments to net income	3	(0)	–
Ending balance	$(28)	$55	$1

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 (deduction) and ¥2,323 million ($21 million) (deduction) for the years ended December 31, 2018 and 2019, respectively.

(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, 2018 and 2019 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)	
	FY2018 (As of December 31, 2018)		FY2019 (As of December 31, 2019)		FY2019 (As of December 31, 2019)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	¥405,769	¥404,360	¥483,197	¥484,374	$4,410	$4,421
Bonds	¥79,746	¥80,245	¥79,785	¥80,147	$728	$732

(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, 2018 and 2019.

The followings table includes put option liabilities.

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

FY2019: As of December 31, 2019

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	¥12,815	–	¥12,815
Equity securities	297,224	–	77,348	374,572
Other	1,186	2,702	18,628	22,517
Total	¥298,411	¥15,518	¥95,977	¥409,906
Financial liabilities				
Derivative liabilities	–	¥3,624	–	¥3,624
Put option liabilities	–	–	140,488	¥140,488
Other (mainly contingent consideration)	–	–	68,470	68,470
Total	–	¥3,624	¥208,959	¥212,583

FY2019: As of December 31, 2019

(Millions of U.S. Dollars)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets	–	$117	–	$117
Equity securities	2,713	–	706	3,419
Other	11	25	170	206
Total	$2,724	$142	$876	$3,741
Financial liabilities				
Derivative liabilities	–	$33	–	$33
Put option liabilities	–	–	$1,282	$1,282
Other (mainly contingent consideration)	–	–	625	625
Total	–	$33	$1,907	$1,940

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, 2018 and 2019, are 0.58 and 0.60, respectively.

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

If the profit level improves or deteriorates by 100 bps, the fair values, etc, will increase by ¥ 2,825 million or decrease by ¥ 2,754 million at December 31, 2018, increase by ¥ 2,481 million($23 million) or decrease by ¥ 2,474 million($23 million) yen at December 31, 2019, respectively. If the discount rate increases or decreases by 100 bps, the fair values, etc, will decrease by ¥ 2,851 million or increase by ¥ 2,851 million at December 31, 2018, decrease by ¥ 2,152 million($20 million) or increase by ¥2,210 million($20 million) at December 31, 2019, 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	FY2018 (Year ended December 31, 2018) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of U.S. Dollars)
Balance at the beginning of the year	¥32,181	¥81,110	$740
Other comprehensive income (Note 1)	(7,899)	(3,541)	(32)
Purchases or acquisition	61,743	19,601	179
Sales or settlements	(1,168)	(288)	(3)
Transfers out of Level 3 (Note 2)	(3)	–	–
Other	(3,743)	(905)	(8)
Balance at the end of the year	¥81,110	¥95,977	$876

Financial liabilities	FY2018 (Year ended December 31, 2018) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of Yen)	FY2019 (Year ended December 31, 2019) (Millions of U.S. Dollars)
Balance at the beginning of the year	¥167,667	¥190,083	$1,735
Profit or loss (Note 3)	10,744	26,718	244
Purchases	47,879	22,883	209
Sales or settlements	(29,359)	(27,621)	(252)
Other	(6,848)	(3,103)	(28)
Balance at the end of the year	¥190,083	¥208,959	$1,907

(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, 2018 is due to investees being listed on exchanges.
(Note 3) "Profit or loss" is associated with financial liabilities at fair value through profit or loss and included in finance income or expenses. Profit or loss arising from financial instruments held at fiscal year end amounted to finance expenses of ¥10,744 million and ¥26,718 million ($244 million) for the years ended December 31, 2018 and 2019, respectively.

(10) Offsetting of financial assets and liabilities

The amount of financial assets and liabilities as of December 31, 2018 and 2019, that are against the same counterparty and that are offset in accordance with the criteria for offset, are as follows.

	FY2018 (As of December 31, 2018) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of U.S. Dollars)
	Cash and cash equivalents	Cash and cash equivalents	Cash and cash equivalents
Total recognized financial assets	¥121,466	¥65,939	$602
The amount of financial assets and liabilities offset in accordance with the criteria	(103,137)	(50,496)	(461)
Net amount recorded in Consolidated Statement of Financial Position	¥18,329	¥15,443	$141

	FY2018 (As of December 31, 2018) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of Yen)	FY2019 (As of December 31, 2019) (Millions of U.S. Dollars)
	Borrowings (current)	Borrowings (current)	Borrowings (current)
Total recognized financial liabilities	¥103,301	¥51,374	$469
The amount of financial assets and liabilities offset in accordance with the criteria	(103,137)	(50,496)	(461)
Net amount recorded in Consolidated Statement of Financial Position	¥163	¥877	$8

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 Group's directors

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

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (Year ended December 31, 2018)	FY2019 (Year ended December 31, 2019)	FY2019 (Year ended December 31, 2019)
Remuneration and bonuses	¥1,165	¥753	$7
Stock compensation	–	¥126	$1
Total	¥1,165	¥879	$8

(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 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
CARTA HOLDINGS, INC.	Tokyo, Japan	52.8
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	74.6
Agenciaclick - Midia Interativa S.A.	Sao Paulo, Brazil	100.0
Dentsu Aegis (Shanghai) Investment Co., Ltd.	Shanghai, China	100.0
Beijing Dentsu Advertising Co., Ltd.	Beijing, China	100.0
Aegis Media Asia Pacific Pte Ltd	Singapore, Singapore	100.0
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 28, and affiliates accounted for using the equity method increased by 22, during the year ended December 31, 2019.

37. CONTINGENT LIABILITIES

The contingent liabilities as of December 31, 2018 and 2019 are as follows:

Guarantees of loans and other liabilities

		(Millions of Yen)	(Millions of U.S. Dollars)
	FY2018 (As of December 31, 2018)	FY2019 (As of December 31, 2019)	FY2019 (As of December 31, 2019)
Liabilities on guarantees resulting from a loan scheme for housing funds for employees	¥125	¥89	$1
Liabilities for guarantees of bank loans and others	1,837	1,773	16
Total	¥1,963	¥1,862	$17

38. SUBSEQUENT EVENTS

(Corporate Split for Transition to Holding Company Structure)

The Company resolved at the Board of Directors' Meeting held on February 19, 2019 and the General Meeting of Shareholders held on March 28, 2019 to enter into an absorption-type split agreement with the aim of shifting to a holding company structure. The business of the Company was transferred to the succeeding company on January 1.

As a result, the Company changed its trade name to Dentsu Group, Inc. on January 1, 2020 and transitioned to a holding company.

The impact of the Absorption-type Company Split on the Company's consolidated performance is immaterial.

(Issuance of straight bonds)

At a meeting of the Board of Directors on March 19, 2020, the Company passed a comprehensive resolution on issuance of unsecured straight bonds with the aim of securing the funds necessary for future business development. The total issuance of the bonds will be within ¥ 120,000 million ($1,095 million), and public offerings in Japan are planned. The funds will be used for capital funds, investment and loan funds, repayment of borrowings, and working capital.

(Full acquisition of Merkle and disposal of treasury stock)

At the Board of Directors meeting held on March 25, 2020, it was resolved that OrangeCo Merger Sub, Inc., a wholly owned subsidiary of the Company, merge with Merkle in an attempt to make Merkle a wholly owned subsidiary. In consideration of the merger, it has been resolved that shareholders of Merkle, excluding Dentsu Aegis Network US Holdings Inc., will receive the Company's common stock along with cash payment instead of Markle's shares.

The outline of the disposal of treasury stock with respect to the wholly owned subsidiary of the Company is as follows.

(1) Payment period	From April 9, 2020 to April 17, 2020
(2) Type and number of shares to be disposed	4,743,300 shares of common stock
(3) Disposal price	¥2,467 ($ 22.52) per share
(4) Procured funds	¥11,701 million ($107 million)
(5) Disposal method	Third-party allotment.
(6) Destination of disposal	OrangeCo Merger Sub, Inc.

The rights (put option) that allow shareholders of Merkle to request Dentsu Aegis Network US Holdings Inc., a wholly-owned subsidiary of the Group, to acquire their own shares of Merkle will expire upon the Merger.

At the same time, the Board of Directors has resolved to dispose of treasury stock to provide stock-based compensation for the purpose of retaining the main management of Merkle after the Merger. An overview of the treasury stock disposal related to stock compensation is as follows.

(1) Disposal period	From April 17, 2020 to April 30, 2020
(2) Type and number of shares to be disposed	Common stock 2,581,200 shares
(3) Disposal price	¥2,467 ($ 22.52) per share
(4) Total disposal amount	¥6,367 million ($58 million)
(5) Destination of disposal	Markle's main management team: 25 Common stock: 2,581,200 shares

Regarding the Company's common stock as the stock compensation, the contract between the Company and Merkle and the main management team of Merkle will restrict the transfer of the Company's common stock to be granted under the contract (in principle, the period from the allotment date to December 31, 2023). In the event of certain reasons such as resignation from officers and employees of Merkle without good cause during the transfer restriction period, the Company's common stock will be forfeited free of charge.

(Impact of the spread of new coronavirus infections)
On March 24, 2020, the International Olympic Committee and the Tokyo 2020 Organizing Committee issued a joint statement stating that the Tokyo 2020 Olympic and Paralympic Games had been postponed and held by the summer of 2021 . In addition to this decision, we have confirmed the details of various policies for responding to new coronavirus infectious diseases that were announced individually in Japan and around the world. The impact on financial position and business performance for the year ending December 31, 2020 is under evaluation.

Independent Auditor's Report

To the Board of Directors of Dentsu Group Inc.:

We have audited the accompanying consolidated financial statements of Dentsu Group Inc. (formerly Dentsu Inc.) and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dentsu Group Inc. (formerly Dentsu Inc.) and its consolidated subsidiaries as at December 31, 2019, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

1. We draw attention to Note "38. SUBSEQUENT EVENTS" to the consolidated financial statements, whereby the business of the Company was split and transferred to the Successor Company, and transitioned to a holding company as at January 1, 2020.

KPMG

2. We draw attention to Note “38. SUBSEQUENT EVENTS” to the consolidated financial statements, whereby the International Olympic Committee and the Tokyo 2020 Organizing Committee issue a joint statement stating that the Tokyo 2020 Olympic and Paralympic Games has been postponed.

Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note “2. BASIS OF PREPARATION (3) Functional Currency and Presentation Currency” to the consolidated financial statements.

KPMG AZSA LLC.

May 8, 2020
Tokyo, Japan