Annual Securities Report
(Excerpt)

(Report pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act)

Fiscal year From: October 1, 2022
(The 33rd term) To: December 31, 2023

SEPTENI HOLDINGS CO., LTD.

(E05206)

Contents

[Cover page]

[Document title]	Annual Securities Report
[Clause of stipulation]	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Place of filing]	Director-General, Kanto Local Finance Bureau
[Filing date]	March 28, 2024
[Fiscal year]	The 33rd term (from October 1, 2022 to December 31, 2023)
[Company name]	Kabushiki Kaisha SEPTENI HOLDINGS
[Company name in English]	SEPTENI HOLDINGS CO., LTD.
[Title and name of representative]	Yuichi Kouno, Representative Director
[Address of registered headquarter]	17-1 Nishishinjuku 8-chome, Shinjuku-ku, Tokyo, Japan
[Telephone number]	+81-3-6863-5623 (main)
[Name of contact person]	Kei Hatano, Group Senior Executive Officer
[Nearest place of contact]	17-1 Nishishinjuku 8-chome, Shinjuku-ku, Tokyo, Japan
[Telephone number]	+81-3-6863-5623 (main)
[Name of contact person]	Kei Hatano, Group Senior Executive Officer
[Place for public inspection]	Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo, Japan)

I Business Operations

1. Management Policies, Management Environment, and Issues to be Addressed, etc.

The Group's management policies, management environment, and issues to be addressed, etc. are as follows.

Any description regarding the future below is based on the available information and certain conditions which the Group believes to be reasonable at the end of the fiscal year ended December 31, 2023.

On the business and financial issues of the Group to be addressed

Under the new management structure, the Group's medium-term theme for the fiscal year ending December 31, 2024 and beyond is "Focus & Synergies." Based on the human capital management that has been built up to date, the Group will create synergies among its business segments and within its business areas while evolving its strengths to become a group with multiple strong businesses, aiming to achieve sustainable growth and increase corporate value over the medium to long term.

In the Digital Marketing Business, by dividing the business into three areas: "Marketing Communications Area," "Direct Business Area," and "Data & Solutions Area," the Group will develop area management while reorganizing and strengthening the business. In addition, the Group will work to create group synergies by leveraging the assets of the Digital Marketing Business and aim to create new businesses from within each area.

Furthermore, as growth investments, the Group will consider investments for organic growth and new business creation, as well as M&A for growth in each area of the Digital Marketing Business.

In addition, the Company discovered inappropriate use of expenses (totaling approximately 22 million yen) by the former Representative Director of the Company during the current fiscal year. Based on the results of the investigation by the board of company auditors, the following measures to prevent recurrence have been formulated and implemented after analyzing the causes of the inappropriate use by the former Representative Director of the Company. The former Company's Representative Director has reimbursed the Company for all expenses incurred for such inappropriate use.

- Implementation of re-education for officers with the aim of ensuring thorough compliance.
- Improving and strengthening the system for checking the appropriateness of expenses claimed by officers.
- Stricter regulations and approval process for expense processing regarding the use of travel and transportation expenses by officers.
- Formulating new regulations for use of hired cars by officers.
- Adding check items regarding expenses in internal audits, and continuing auditing of the appropriateness and operating effectiveness of the regulations regarding expenses used by officers.

The Company will continue to regularly review and strengthen its management systems, including its internal control system, to prevent the recurrence of inappropriate use of expenses.

2. Sustainability Approach and Initiatives

The Group's approach and initiatives on sustainability are as follows.

Any description regarding the future in the text is based on the available information and certain conditions which the Group believes to be reasonable at the end of the fiscal year under review.

(1) Sustainability

The Group believes that contributing to the resolution of social issues through its corporate activities is what is required by its stakeholders to realize the Group's mission of "To inspire the world with entrepreneurship" and its vision, and thus, it is promoting sustainability activities.

In its sustainability activities, the Group has set out its mission and vision as a basic policy, and it is actively promoting activities with the aim of achieving sustainable growth of the Group, improving corporate value, and realizing a sustainable society.

(i) Governance

The Group reorganized the CSR Committee in January 2022 and launched the Sustainability Committee as an advisory body to the Board of Directors. Chaired by the Group President and Chief Executive Officer, this committee is comprised of future generation employees aged 30 and below, female managers, ESG leaders in each reportable segment, and external advisors. The Sustainability Committee examines policies, themes, and measures related to sustainability and reports the status of activities to the Board of Directors on a regular basis. In addition, particularly important matters related to sustainability are resolved at meetings of the Board of Directors.

(ii) Strategy

The Group has set forth the following four materialities as key issues for realizing the sustainable growth of the Group and the enhancement of corporate value.

I. Response to Climate Change
II. Enhancement of Corporate Value by Empowering People Who Create a New Era
III. Realization of a "Nameraka*" Society Through Creativity and Technology
IV. Building an Advanced Governance System to Support Discontinuous Growth

By addressing the aforementioned materialities, the Group aims to achieve its vision and realize its mission of "To inspire the world with entrepreneurship."

*"nameraka": the Company defines "nameraka" as a harmonious state without friction and barriers.

(iii) Risk management

In order to recognize significant events that may affect the Group's business management, to identify, analyze and assess risks that may harm the growth and development of the business and to make responses to the risks such as aversion, mitigation, transfer, etc., the Group has established the "Group Risk Management Regulations." In addition, it set up the Group Risk Management Committee as a body to oversee and manage such risks in an integrated and effective manner under the common policy as the Group. It constructs the PDCA cycle of risk management operations and promotes risk management in the Group as a whole to achieve sustainable development. The Group Risk Management Committee and the Sustainability Committee also work together to promote risk management with regard to sustainability-related risks.

(iv) Indicators and targets

The Group has set KPIs and targets linked to subcategories for the four materialities.

The Sustainability Committee monitors the performance and progress of each indicator, and promotes efforts to achieve the targets, mainly by the person in charge of each materiality.

Please refer to the Group's website below for details of initiatives.

https://www.septeni-holdings.co.jp/en/csr/policy.html

(2) Climate change

Given that a sustainable and sound global environment are prerequisites for business operations, the Group recognizes the high importance of addressing climate change and promotes activities with this in place as the materiality of sustainability activities.

In light of this, the Group endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in October 2023 and has implemented information disclosure based on the TCFD framework.

(i) Governance

The Sustainability Committee, an advisory body to the Board of Directors and chaired by the Group President and Chief Executive Officer, discusses and examines sustainability activities and climate-related issues. The status of activities related to climate issues is reported regularly to the Board of Directors.

(ii) Strategy

The Group conducted scenario analysis on the risks, measures and opportunities brought about by climate change.
Please refer to the Group’s website below for details of scenario analysis.
https://www.septeni-holdings.co.jp/en/csr/activity/environment.html

(iii) Risk management

The Group identifies climate change risks as one of the themes related to sustainability. The Sustainability Promotion Department evaluates the importance of risks and opportunities related to climate change based on their impact on the Group businesses, and the Sustainability Committee makes decisions. In the evaluation, the Group conducts hearings with related group companies and departments as necessary.

The Group Risk Management Committee and the Sustainability Committee work together to promote risk management in order to comprehensively manage risks related to the identified climate change with other risks of the Group.

(iv) Indicators and targets

The Group has set targets related to GHG emissions.
Please refer to the Group’s website below for details of GHG emissions results and reduction targets.
https://www.septeni-holdings.co.jp/en/csr/activity/environment.html

(3) Human capital

As stated in the first clause of the Group’s vision, “To be a place where people are empowered to create a new era,” the Septeni Group regards people as the most valuable asset and focuses on their development.

Since starting the Digital Marketing Business in 2000, the Group has continued to expand business along with the development of the market. However, in growth industries like the Group’s business sector, the competition for acquiring skilled talent has been extremely fierce. In such a business environment, the Group believes that how it recruits, develops, and retains high-potential human resources is a critical factor that significantly influences corporate competitiveness.

For this reason, the Group has focused on achieving “individual optimization and reproducibility in human resource development” and “creation of an environment in which individual employees can demonstrate their abilities.” Through these initiatives, the Group aims to sustainably increase the value of its human capital.

(i) Strategy

a. Human resource development policy

The Group defines the concept of human resources development not as a matter of “being developed” but rather as one of “developing through the accumulation of positive experiences in the workplace.” The idea is that mutual interaction between the individual personality (P) people are born with and the environments (E) surrounding them influences their growth (G). The Group expresses this in the form of its HR Development Equation ($G=P\times E$).

The Group has been working on achieving individual optimization and reproducibility in talent development by combining a talent database accumulated over more than 20 years and technology for analysis, with the “development equation” as the foundation of human resource development ((Notes) 1).

In addition, the Company established the Human Capital Lab in one of the Group’s organizations in 2016 with the aim of further developing its human resource development. The Group is working to improve quality by building a system of close collaboration with experts and researchers both inside and outside the company.

Please refer to the Group’s website below for the various initiatives and research results related to human resource development.

https://www.septeni-holdings.co.jp/en/csr/activity/new-era/hr.html

b. Internal environment improvement policy

The Group has been continuously investing in human capital with the aim of “creating an environment in which individual abilities can be easily demonstrated.” For example, based on the concept of “creating a state where everyone is working autonomously and actively in valuable jobs regardless of time and place,” the Group has developed a system that allows employees to choose their own work styles, such as a flextime system, a telecommuting system, and a side job system.

The Group also has been working on creating a conducive environment for women, including implementing women's skills development programs, supporting work-life balance, and providing assistance to employees returning from childcare leave. In addition to these efforts, the Group has been committed to achieving equity and inclusion across other attributes such as gender, age, nationality, and race.

In addition to initiatives to support the diverse work styles of employees, the Group has raised salary levels twice in the past and raised the rate of incentive subsidy for the Employee Stock Ownership Plan with the aim of enhancing competitiveness in the human resources market and fostering employee ownership. The Group will continue to invest in human capital to build a system that can improve employee job satisfaction and maximize performance, with the aim of sustainably increasing corporate value.

(Notes) With regard to employee data, the Group has established and implemented HR Guidelines, a basic policy for the utilization of human resource data. Based on the philosophy that “the improvement of corporate value is achieved through the growth of individuals,” the Group has established an appropriate management and operation system.

(ii) Indicators and targets

The Group has set the ratio of female employees in managerial positions at the Company and domestic consolidated subsidiaries as a KPI for measuring the active participation of diverse human resources, aiming to achieve a target of 30% by FY2030 (FY2023 results: 25.8%).

3. Business Risks

The main matters that may constitute risk factors among the information related to the Group's business conditions are presented hereunder. Information that is not necessarily considered a business risk by the Group but constitutes important information necessary for making investment decisions or for understanding the Group's business activities is also actively presented from the standpoint of information disclosure for investors. The Group's policy is to recognize the potential for risks to materialize and then work to mitigate that potential and appropriately address any risk that does materialize.

Unless otherwise described, forward-looking statements in the following risks are based on the Group's judgement made on the filing date of Annual Securities Report and may therefore differ from actual results due to potential uncertain factors.

In order to recognize significant events that may affect the Group's business management, to identify, analyze and assess risks that may harm the growth and development of the business and to make responses to the risks such as aversion, mitigation, transfer and others, the Group has established the "Group Risk Management Regulations." In addition, it set up the "Group Risk Management Committee" as a body to oversee and manage such risks in an integrated and effective manner under the common policy as the Group. It constructs the PDCA cycle of risk management operations and promotes risk management in the Group as a whole to achieve sustainable development. Risk management policies of the entire Group as well as assessment of and responses to the risks related to strategic decision-making such as management strategy and merger and acquisition shall be treated as the exclusive prerogatives of the Group's board of directors. In making these management decisions, the Group assesses the risks appropriately.

(i) Trends in Internet advertising market and competitive environment

The Internet advertising industry, which is the main area of business developed by the Group, has rapidly expanded in recent years, for dozen years or so. However, the advertising business, and not just Internet advertising, tends to be highly susceptible to prevailing business conditions. If business conditions deteriorate going forward and the market size does not expand as much as expected due to the reduction of advertising expenses by advertisers, among other factors, the Group's business activities, financial position and operating results may be significantly affected.

In addition, the competitive environment remains intense, so the Group is taking a variety of measures to establish a competitive advantage and bolster its overall competitiveness. However, these measures may not bear fruit and may not necessarily lead to the establishment of a competitive advantage, and if this is the case, the Group's business activities, financial position and operating results could be impacted considerably.

(ii) Securing and development of human resources

The Group considers human resources to be the greatest asset that underpins its growth. It also recognizes that the recruitment and development of outstanding individuals and continuous efforts to secure human resources in line with its business expansions and global development are key challenges for the Company. With this in mind, the Group places its maximum effort into the securing and development of competent human resources by preparing a better environment to work, constructing a satisfying support system and promoting work style reforms. That said, failure to secure or develop the necessary human resources due to intensifying competition for human resources, a supply-demand balance in the staffing market or other factors may have a material impact on the business activities, financial position, operating results and growth of the Group.

(iii) New Businesses

Going forward, the Group will continue to create and develop new businesses proactively to achieve sustainable growth and diversify revenue sources. However, the launch of new businesses may lead to the inclusion of risk factors that are uniquely associated with such businesses, while at the same time numerous unpredictable risks including sudden changes in the business environment may arise in the course of the execution of new businesses. As a result, if the goals of the initial business plan cannot be achieved, there is the potential for the Group's business activities, financial position and operating results to be substantially impacted.

(iv) Business expansion through mergers and acquisitions (M&As)

The Group's policy is to use M&As effectively as a measure to accelerate business expansion. It makes decisions on M&As after conducting a preliminary survey of target companies in conjunction with a range of subjects, including financial details and contract related matters, and examining risks exhaustively. Nevertheless, the Group may experience a problem that it does not understand during preliminary surveys, such as contingent liabilities or unrecognized liabilities that occur or are identified after the completion of relevant M&As, or need to post impairment losses on goodwill if it does not make expected progress in business development. In such cases, there is potential for the Group's business activities, financial position and operating results to be substantially impacted. In addition, if any new business that the Group has not traditionally engaged in is included as the result of the acquisition of a company, there will be an additional risk factor related to such business.

(v) Overseas business

The Group has been developing businesses aggressively in numerous countries and regions overseas, including the United States and Asia. Consequently, the presence of its overseas business is increasing steadily. However, overseas business involves risks, including changes in global economic trends, fluctuations in foreign currency exchange rates, laws and regulations governing investment and competition, differences in business practices, industrial relations, and international politics, and the Group makes its maximum efforts to implement some measures. If these risks materialize, the Group's business activities, financial position and operating results may be impacted considerably.

(vi) Personal information management

A number of the Group companies handle personal information in the ordinary course of business. These companies have been improving their management system based on their personal information protection policy established chiefly pursuant to the Act on the Protection of Personal Information, while also proactively working to acquire certificates on information security, such as the Privacy Mark and ISMS. By doing so, they have been exercising the utmost care to manage personal information properly and prevent any leak. In addition, they are in the process of examining and adopting a framework for personal information protection in various countries, including the General Data Protection Regulation and the California Consumer Privacy Act, from a range of perspectives. Even so, there is no denying the possibility of the leak of personal information attributable to any system failures, intentional or unintentional errors committed by internal or outside concerned parties, and/or criminal acts, among other factors. If this is the case, the Group may face claims for damages and losses, lose its credibility, and its business activities, financial position and operating results may be significantly affected.

(vii) System risk

A majority of the Media Platform Business and a part of the Digital Marketing Business provide services to clients from server-based computer systems via the Internet. We are constantly taking measures to ensure stable operation of these systems, including system augmentation and reinforcement of backup systems. However, if computer systems or communication networks are shut down by device failure, natural disaster, dramatic and unanticipated increases in access, computer viruses, or other circumstances, it could force services to be suspended, and this could diminish the trust placed in us by clients. Such a turn of events has the potential to seriously impact the Group's business activities, financial position and operating results.

(viii) Media Platform Business

The Group develops business in the media platform market, and this market is characterized by dramatic changes in user needs as well as large numbers of competitors. The Group is striving to increase revenue by working to provide media, products, etc. with high user satisfaction levels, but if we are unable to appropriately respond to changes in user needs and intensifying competition and therefore unable to provide appealing media, products, etc., there is the potential for the Group's business activities, financial position and operating results to be substantially impacted; for example, by a decrease in fee revenues. In addition, the Media Platform Business provides content to users through platform providers such as social networking services and app markets. For this reason, if these companies change their business policies, etc. and transaction terms are revised or it becomes no longer possible to provide content, it could seriously impact the Group's business activities, financial position and operating results.

(ix) Intellectual property rights

The Group recognizes the importance of protecting and controlling intellectual property rights and operating each business with the utmost care to avoid infringement of any third party's intellectual property rights. However, in the case that we infringe on a third party's intellectual property rights, due to procedural flaws or errors caused by officers and employees, there is a possibility that we will be requested to pay compensation for damages or stop using such rights, and this has the potential to seriously impact the Group's business activities, financial position and operating results.

On the other hand, the Group is taking proper measures to protect its intellectual property rights, pertaining to services and content owned by the Group, from infringement by third parties. However, if, for some reason, the Group's intellectual rights are infringed, there is the possibility that the Group's business activities, financial position and operating results will be materially affected, due to such effects as a decline in competitive advantage.

(x) Internal control systems

Positioning the enhancement of corporate governance as a key management challenge, the Group is implementing diverse measures to maximize its corporate value. In addition, to secure the proper implementation of operations and the reliability of financial reports, it is working to establish, improve and operate a system that makes the relevant internal control systems function effectively. However, if sufficient internal control systems are not established in a timely fashion due to a rapid expansion of business or other factors, the Company may have difficulties operating businesses appropriately, which may have a significant impact on the Group's business activities, financial position and operating results.

(xi) Dependence on a specific client

In the Digital Marketing Business, transactions with a specific client may expand sharply against the backdrop of an increase in the advertising budget and an improvement in the cost-effectiveness of Internet advertising, among other factors, thereby leading to an increased presence in the sales breakdown. In this case, if transactions with the relevant client decline significantly due to a change in its business policy or other reasons such as operating results trends, the Group's business activities, financial position and operating results may be significantly affected.

(xii) Laws and regulations

The Group's main business domain is not subject to any legal restriction that significantly limits the development of businesses at this point. That said, given the diverse use of the Internet, it is possible that relevant laws and regulations will be newly established in the future, existing laws and regulations will be revised or interpreted differently, and/or voluntary industrial restrictions will be established as rules equivalent to laws and regulations, coupled with a request for compliance therewith. If this is the case, the Group's business activities, financial position and operating results may be substantially impacted, depending on the details of the requirements.

(xiii) Operational risks

When executing operations, the Group takes a variety of measures, such as double checking through third parties excluding those in charge of relevant operations and the use of a range of information systems to improve accuracy, efficiency and a security level in operations. However, with some operations carried out by people, there may be errors in paperwork due to misrecognition on the part of officers and employees or malfunctions, among other factors. Depending on the type of operation, errors in paperwork may result in a hindrance to stable services, the occurrence of economic losses and/or the leak of personal information, among other issues, which may seriously impact the Group's business activities, financial position and operating results.

The Group has been working on the standardization and documentation of internal regulations and paperwork processes. Nevertheless, knowledge necessary for the execution of operations may not be fully shared or possessed due to organizational restructuring and an increase in the number of employees resulting from the expansion of the Group's businesses. An increase in paperwork errors and decline in productivity that may occur as a result could seriously impact the Group's business activities, financial position and operating results.

(xiv) Corporate social responsibility

The Group understands that corporate social responsibility, such as the implementation of environmentally friendly initiatives, the improvement of working conditions and respect for human rights, constitutes important management issues for the sustainable development of society. With this in mind, the Group has been acting to create such a society in all business activities in which it engages, including those related to supply chains. However, despite the Group's efforts, if it has any issues related to environmental contamination, industrial safety and health such as the occurrence of industrial accidents, and/or any issues related to human rights such as discrimination of foreign workers, the Group's social credibility will be downgraded, which could cause clients to terminate transactions or the Group to withdraw from some businesses. If this is the case, the Group's business activities, financial position and operating results may be affected significantly.

(xv) Severe fluctuations in asset prices of securities holdings

The Group may hold marketable securities whose prices have the potential for substantial fluctuations (declines) due to the performance of individual companies and trends in financial markets, including shares in business partners and investment targets, etc. and various financial instruments for effectively utilizing surplus funds. If these asset values substantially decline due to drastic changes in the economic environment, etc., it could exert a major impact on the Group's business activities, financial position and operating results; for example, profits may decline as a result of being forced to recognize valuation losses or sales losses.

(xix)Impacts of disasters

Natural disasters, fires, abnormal weather conditions attributable to climate change (torrential rainfall, floods and water shortages), the global spread (pandemic) of severe infections with high fatality rates, wars, and/or terrorist attacks, among other matters, may seriously affect the Group's business activities, financial position and operating results if they take place in countries or regions in which the Group conducts its businesses.

In addition, the Group, along with the implementation of preliminary disaster reduction programs, has been taking proactive measures through the placement of a system for confirming the safety of employees and providing training and educational programs according to its business continuity plan (BCP), in which procedures for recovery and action guidelines are described in the event of an emergency. Even so, if additional expenses need to be allocated for countermeasures due to the occurrence of large-scale disasters, there is the potential for the Group's business activities, financial position and operating results to be substantially impacted.

The Company will also continue to closely monitor and respond appropriately to geopolitical risks associated with the situation in Ukraine, Israel and Palestine, etc., as well as the impact of these risks on the economy. The Group does not have a base in Ukraine, Russia, Israel, and Palestine, and recognizes that there is little direct impact. However, if the military conflict between the two countries intensifies or prolongs, indirect risks such as persistently high raw material and fuel prices and the acceleration of global inflation may emerge and increase uncertainty, which could have a material impact on its business activities, financial condition and results of operations.

Furthermore, with the penetration of ESG, there is a possibility that there will be a rise in environmental awareness, such as climate change measures, a rapid change in social awareness, and the strengthening of environmental regulations worldwide and changes in various governmental policies, such as disaster countermeasures, associated with them. While the Group will endeavor to respond promptly while constantly monitoring trends and changes in the external environment, its business activities, financial condition and results of operations may be seriously affected if the Group needs to review its business strategies and systems.

(xvii) Reputational risks

Information about the Group's businesses, officers and employees may be disseminated through various media such as social media. The dissemination of such information may contain information that is not based on accurate information and that is based on speculation. Regardless of the accuracy of the content or whether it is applicable to the Group, the perception or behavior of clients, users, investors, etc. may be affected. The Company will disclose appropriate information in the capital markets to enable investors to value the Company's shares in accordance with the correct information, including immediate disclosure of the Group's views on this unclear information in the event of unclear information that could have a material impact on the stock price. At the same time, the Company endeavors to provide appropriate information through the Group's corporate website. However, the dissemination of such information could result in damage to the social credibility of the Group and cause the departure of its clients and users, which could seriously harm its business activities, financial condition and results of operations.

(xviii)Capital and business alliance with Dentsu Group Inc.

The Company concluded a capital and business alliance agreement with Dentsu Inc. (current trade name: Dentsu Group Inc.) on October 30, 2018 and concluded a new capital and business alliance agreement with Dentsu Group Inc. on October 28, 2021. Currently, the Company is working on a range of measures to maximize business synergies through the establishment of a close collaborative business relationship with Dentsu Group Inc. pursuant to the agreement, while maintaining our independence and autonomy as a listed company. That being said, initially expected results may not occur due to unexpected incidents following the conclusion of the agreement or changes in the business environment, among other factors. Besides, the capital and business alliance may be terminated in the future for certain reasons. Taking these factors into consideration, the capital and business alliance with Dentsu Group Inc. may have a significant impact on the Group’s business activities, financial position and operating results.

4. Management's Discussion and Analysis of Financial Condition, Results of Operations and Cash Flows

(1) Analysis of operating results

Due to a change in the fiscal year-end, the fiscal year under review is the 15-month period from October 1, 2022 to December 31, 2023, and the rate of year-over-year change in consolidated results on a financial reporting basis is not stated.

In addition, because the results of COMICSMART INC. and its subsidiaries, etc. have been reclassified as discontinued operations, revenue, operating profit, Non-GAAP operating profit and profit before tax represent the amount of continuing operations, excluding discontinued operations.

As a reference, the results of profit and loss and the rate of year-over-year change from the previous fiscal year are presented, assuming that both the previous year and the current fiscal year are the 12-month period from January to December.

(Earnings for the fiscal year under review)

In 2022, the rate of individuals owning smartphones in Japan increased to 77.3% and exceeded 90% among people in their 20s to 50s, showing the quantitative expansion is ongoing. At the same time, the purpose of using smartphones has diversified with the increase in the rate of social media use, and there have been remarkable qualitative changes (Source: Ministry of Internal Affairs and Communications, "Results of FY2022 Communication Usage Trend Survey"). With smartphones becoming the main Internet devices, in the services and applications markets, the expansion of content business such as video, music, and e-books is accelerating. In addition, the use of social media is expanding beyond communication to include areas such as payments and purchasing, further strengthening its influence. As a result, demand for marketing support using the respective media features, data, and AI is growing further. Moreover, in the Japanese advertising market in 2022, Internet advertising expenditures reached ¥3.0912 trillion (114.3% compared to the previous year), surpassing four Traditional Media advertising expenditures (¥2.3985 trillion, or 97.7% compared to the previous year) (Source: Dentsu Inc., "2022 Advertising Expenditures in Japan"). In this way, the COVID-19 crisis has triggered a major wave of digital transformation (DX) in all industries, further increasing demand for digital marketing in the advertising industry.

Under these circumstances, in the main Digital Marketing Business, despite the economic impact, it acquired new clients, expanded existing businesses, and promoted collaboration with the Dentsu Group. It also made up-front investments centered on strengthening investment in human capital.

As a result, revenue was ¥34,267 million, operating profit was ¥4,949 million, Non-GAAP operating profit was ¥5,091 million, profit before tax was ¥6,652 million, profit was ¥4,267 million and profit attributable to owners of parent was ¥4,319 million.

The Group discloses consolidated operating results in terms of both its internal measures which management relies upon in making decisions (the "Non-GAAP financial measures") and those under IFRS. Non-GAAP operating profit is a profit indicator of constant business performance determined by excluding gain and loss related to acquisition actions and temporary factors from the IFRS-based operating profit. Management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Group and industry peers and year-on-year comparison by stakeholders and can provide useful information in understanding the underlying operating results and outlook of the Group. Gain and loss related to acquisition actions refer to amortization of acquisition-related intangible assets, M&A expenses, etc., and unusual items refer to one-off items, such as share-based payment expenses, impairment losses, and gain and loss on sales of fixed assets, which the Group believes shall be excluded for the purposes of preparing an outlook based on certain rules.

Adjustments from operating profit to Non-GAAP operating profit are as follows. Due to a change in the fiscal year-end, the fiscal year under review is the 15-month period from October 1, 2022 to December 31, 2023, and the rate of year-over-year change in consolidated results on a financial reporting basis is not stated:

(Million yen)

	FY2022 (Fiscal year ended September 30, 2022)	FY2023 (Fiscal year ended December 31, 2023)	Change of amount	Rate of change
Operating profit	6,166	4,949	–	–
Adjustment (Amortization of acquisition-related intangible assets)	31	51	–	
Adjustment (Share-based payment expenses)	129	39	–	
Adjustment (Others)	240	52	–	
Non-GAAP operating profit	6,565	5,091	–	–

Operating results by reportable segments are as follows. Revenue and Non-GAAP operating loss for the Media Platform Business represent the amount before the results of COMICSMART INC. and its subsidiaries, etc. have been reclassified as discontinued operations.

(i) Digital Marketing Business

The Digital Marketing Business consists of business segments that provide comprehensive DX support, centered on digital marketing.

In the fiscal year under review, despite the economic impact, it acquired new clients, expanded existing businesses, and promoted collaboration with the Dentsu Group. It also made up-front investments centered on strengthening investment in human capital.

As a result, revenue was ¥32,112 million, and Non-GAAP operating profit was ¥8,527 million.

(ii) Media Platform Business

The Media Platform Business consists of IP Platform Business “GANMA!,” Employment Platform Business “ViViViT,” Platform Business of Social Contribution “gooddo,” Childcare Platform Business “Babyful” etc.

In the fiscal year under review, the segment grew mainly in the IP Platform Business, and the loss narrowed. However, other businesses underperformed under the post-COVID environment.

As a result, revenue was ¥5,839 million, and Non-GAAP operating loss was ¥656 million.

(Reference)

The following figures show the status of profit and loss and the rate of year-over-year change on a calendar year basis, assuming that the accounting period of the Group was the 12-month period from January to December for both the previous fiscal year and the current fiscal year.

As the results of COMICSMART INC. and its subsidiaries, etc. have been reclassified as discontinued operations, revenue, operating profit, Non-GAAP operating profit and profit before tax represent the amount of continuing operations, excluding discontinued operations.

Revenue was ¥27,674 million (down 0.6% year on year), operating profit was ¥3,922 million (down 22.3% year on year), Non-GAAP operating profit was ¥4,016 million (down 25.9% year on year), profit before tax was ¥5,660 million (down 27.2% year on year), profit was ¥3,699 million (down 26.7% year on year), and profit attributable to owners of parent was ¥3,736 million (down 25.9% year on year).

(2) Overview of financial positions

Total assets increased by ¥4,875 million compared to the previous fiscal year and reached ¥93,606 million. This is mainly due to an increase of ¥1,546 million in trade receivables, ¥907 million in investment accounted for using equity method, and ¥809 million in right-of-use assets.

Total liabilities increased by ¥1,924 million compared to the previous fiscal year and reached ¥27,901 million. This is mainly due to trade payables increased by ¥2,140 million.

Total equity increased by ¥2,951 million compared to the previous fiscal year and reached ¥65,705 million. This is mainly due to a record of profit of ¥4,267 million and an increase of ¥658 million from changes without loss of control of subsidiaries, while a decrease of ¥1,278 million from purchase of treasury shares and dividends paid of ¥963 million.

(3) Overview of cash flows

“Cash and cash equivalents” decreased by ¥467 million and totaled ¥20,873 million. The following are the details and factors of each cash flows in the fiscal year under review.

(i) Cash flows from operating activities

As a result of operating activities in the fiscal year under review, cash inflows totaled ¥3,785 million (cash inflows of ¥3,650 million in the previous fiscal year). This was mainly due to a record of ¥6,652 million in profit before tax from continuing operations, ¥1,856 million in dividends received and ¥2,271 million in increase in trade payables, while a record of ¥1,851 million in equity in earnings of affiliates, ¥1,909 million in increase in trade receivables and ¥3,740 million in income taxes paid.

(ii) Cash flows from investing activities

As a result of investing activities in the fiscal year under review, cash outflows totaled ¥2,020 million (cash outflows of ¥30,553 million in the previous fiscal year). This was mainly due to a record of ¥1,109 million in purchase of securities, ¥933 million in purchase of investments accounted for using the equity method, and ¥828 million in payments of contingent consideration.

(iii) Cash flows from financing activities

As a result of financing activities in the fiscal year under review, cash outflows totaled ¥1,835 million (cash inflows of ¥31,229 million in the previous fiscal year). This was mainly due to repayments of long-term loans payable of ¥2,000 million, purchase of treasury shares of ¥1,278 million, dividends paid of ¥963 million, and repayments of lease liabilities of ¥752 million, while there was a net increase in short-term borrowings of ¥3,000 million.

(4) Actual purchases and sales

(i) Actual purchases

The information is omitted as purchasing is generally in line with sales.

(ii) Actual sales

The actual sales (net sales) of the segments in the fiscal year ended December 31, 2023 are as follows:

Segment name	Amount (Million yen)
Digital Marketing Business	168,076
Media Platform Business	5,839
Adjustments	-4,196
Total	169,719

(Notes) 1. Inter-segment transactions have been eliminated.

2. Net sales represent the sum of the amount billed to clients and the amount billable to clients by the Group (excluding discounts), and are not disclosures in accordance with IFRS.
3. Due to a change in the fiscal year-end, the fiscal year under review is the 15-month period from October 1, 2022 to December 31, 2023, and the rate of year-over-year change is not stated.
4. Adjustments include revenue related to the operation of the holding company and the elimination of profit and loss transactions between reportable segments. It also includes the amount of ¥-3,014 million for the reclassification to discontinued operations of the performance of COMICSMART INC. and its subsidiaries, etc., which are included in the Media Platform Business.
5. The actual sales to each major transaction counterparty and its ratio to the total actual sales in the past two fiscal years are as follows. Due to a change in the fiscal year-end, the fiscal year under review is the 15-month period from October 1, 2022 to December 31, 2023.

Major transaction counterparty	FY2022 (Fiscal year ended September 30, 2022)		FY2023 (Fiscal year ended December 31, 2023)	
	Amount (Million yen)	Ratio (%)	Amount (Million yen)	Ratio (%)
Dentsu Inc.	19,142	14.7	22,753	13.4

(5) Factors with a significant impact on operating results

Details that correspond to the factors with a significant impact on operating results are described in “3. Business Risks.”

(6) Management’s awareness of issues and policies for the future

Details regarding management’s awareness of issues and policies for the future are described in “1. Management Policies, Management Environment, and Issues to be Addressed, etc.”

(7) Fund sources and fund liquidity

The Group is determined to work to develop new services and businesses, with a view toward achieving sustainable growth by maintaining and enhancing our business competitiveness, while expanding the scale of its business operations and diversifying our sources of revenue. These demands for funds shall basically be financed by cash on hand, while raising funds as appropriate.

Liquidity risk and its management method are described in “29. Financial instruments” in “Notes to the Consolidated Financial Statements” in “1. Consolidated Financial Statements, etc.” of “V. Financial Information.”

(8) Significant accounting estimates and assumptions used for the estimates

The Group's consolidated financial statements are prepared in accordance with IFRS, pursuant to the provisions of Article 93 of the "Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements." Estimates that are deemed necessary for preparing these consolidated financial statements are carried out in accordance with reasonable standards.

Significant accounting policies, accounting estimates, and assumptions used for such estimates, as adopted in the Group's consolidated financial statements, are described in "2. Basis of preparation" and "3. Significant accounting policies" in "Notes to the Consolidated Financial Statements" in "1. Consolidated Financial Statements, etc." of "V. Financial Information."

II Financial Information

1. Method of preparation of consolidated financial statements and non-consolidated financial statements, etc.

(1) The Group’s consolidated financial statements are prepared based on International Financial Reporting Standards (“IFRS”), pursuant to the provisions of Article 93 of the “Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance Order No. 28 of 1976; the “Regulation on Consolidated Financial Statements”).

(2) The Company’s non-consolidated financial statements are prepared pursuant to the “Regulation on Terminology, Forms, and Preparation Methods of Financial Statements” (Ministry of Finance Order No. 59 of 1963; the “Regulation on Financial Statements”).

The Company is qualified as a company allowed to file specified financial statements, and thus prepares its non-consolidated financial statements pursuant to the provisions of Article 127 of the Regulation on Financial Statements.

2. Audit certificate

Pursuant to the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act, the consolidated financial statements for the fiscal year ended December 31, 2023 (from October 1, 2022 to December 31, 2023) and the non-consolidated financial statements for the fiscal year ended December 31, 2023 (from October 1, 2022 to December 31, 2023) were audited by KPMG AZSA LLC.

3. Change in fiscal year-end

Due to a partial amendment of the Articles of Incorporation at the 32nd Ordinary General Meeting of Shareholders held on December 21, 2022, the Company changed its fiscal year-end from September 30 to December 31.

Accordingly, the fiscal year under review and the business year under review are for the 15-month period from October 1, 2022 to December 31, 2023.

4. Specific measures to ensure the appropriateness of the consolidated financial statements, etc.

The Company adopts specific measures to ensure the appropriateness of its consolidated financial statements, etc. In particular, the Company has become a member of the Financial Accounting Standards Foundation, and has participated in training on newly established or revised accounting standards, etc., in order to obtain an adequate understanding of the details of accounting standards, etc. and to make appropriate disclosures.

5. Development of a framework for appropriately preparing consolidated financial statements, etc. in accordance with IFRS

The Company has developed a framework for appropriately preparing consolidated financial statements, etc. in accordance with IFRS. The details of the framework are as follows.

For application of IFRS, the Company obtains as appropriate, press releases and statements of accounting standards issued by the International Accounting Standards Board, in order to understand the latest standards. Furthermore, for the purpose of preparing appropriate consolidated financial statements, etc. pursuant to IFRS, the Company formulates Group accounting policies and guidelines in accordance with IFRS, and carries out accounting based thereon.

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

(i) Consolidated Statement of Financial Position

(Thousand yen)

	Notes	FY2022 (As of September 30, 2022)	FY2023 (As of December 31, 2023)
Assets			
Current assets			
Cash and cash equivalents	29	21,340,076	20,873,416
Trade receivables	8, 21, 29	18,285,273	19,830,799
Inventories		103,154	72,849
Other financial assets	9, 29	98,953	101,550
Other current assets	10	757,815	1,997,253
Subtotal		40,585,272	42,875,867
Assets held for sale	6	—	807,491
Total current assets		40,585,272	43,683,358
Non-current assets			
Property, plant, and equipment	11	235,022	257,486
Right-of-use assets	13	1,090,965	1,899,500
Goodwill	7, 12	4,693,055	4,693,055
Intangible assets	7, 12	525,138	432,366
Investments accounted for using equity method	31	33,342,226	34,249,351
Other financial assets	9, 29	6,904,527	7,106,364
Other non-current assets		24,244	13,260
Deferred tax assets	16	1,330,663	1,271,250
Total non-current assets		48,145,841	49,922,632
Total assets		88,731,112	93,605,990

(Thousand yen)

	Notes	FY2022 (As of September 30, 2022)	FY2023 (As of December 31, 2023)
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade payables	14, 29	16,891,357	19,031,397
Other financial liabilities	15, 29	4,910,042	4,414,965
Income taxes payable		557,879	421,929
Other current liabilities	18, 21	2,847,110	2,227,759
Subtotal		25,206,388	26,096,050
Liabilities directly associated with assets held for sale	6	—	236,525
Total current liabilities		25,206,388	26,332,575
Non-current liabilities			
Other financial liabilities	15, 29	531,226	1,369,940
Provisions	17	159,063	152,549
Deferred tax liabilities	16	80,366	46,137
Total non-current liabilities		770,655	1,568,627
Total liabilities		25,977,043	27,901,201
Equity			
Equity attributable to owners of parent			
Share capital	19	18,428,004	18,428,004
Capital surplus	19	25,309,728	25,426,993
Treasury shares	19	-575,707	-1,396,624
Retained earnings		19,671,818	23,185,222
Other components of equity	19	-128,588	-49,731
Total equity attributable to owners of parent		62,705,254	65,593,864
Non-controlling interests		48,815	110,925
Total equity		62,754,069	65,704,788
Total liabilities and equity		88,731,112	93,605,990

(ii) Consolidated Statement of Profit or Loss

(Thousand yen)

	Notes	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Continuing operations			
Revenue	4, 21	27,589,386	34,266,611
Cost of sales	22	5,023,904	6,799,214
Gross profit		22,565,482	27,467,397
Selling, general and administrative expenses	22, 28	16,176,779	22,499,702
Other income		23,314	66,173
Other expenses	23	246,238	84,734
Operating profit		6,165,779	4,949,134
Finance income	24	2,068,952	5,760
Finance costs	24	334,594	153,485
Share of profit of investments accounted for using equity method	31	1,066,228	1,850,739
Profit before tax		8,966,365	6,652,148
Income tax expenses	16	2,659,861	1,727,766
Profit from continuing operations		6,306,504	4,924,381
Discontinued operations			
Loss from discontinued operations	5	-555,831	-657,107
Profit		5,750,673	4,267,275
Profit (loss) attributable to:			
Owners of parent		5,733,564	4,318,831
Non-controlling interests		17,109	-51,556
Total		5,750,673	4,267,275
Earnings per share	27		
Basic earnings (loss) per share (Yen)			
Continuing operations		33.50	23.56
Discontinued operations		-2.96	-2.82
Total		30.54	20.74
Diluted earnings (loss) per share (Yen)			
Continuing operations		33.40	23.50
Discontinued operations		-2.95	-2.81
Total		30.45	20.68

(iii) Consolidated Statement of Comprehensive Income

(Thousand yen)

	Notes	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Profit		5,750,673	4,267,275
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net changes in financial assets measured at fair value through other comprehensive income	19, 25	25,055	201,646
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	19, 25	114,591	28,097
Cash flow hedges	19, 25, 29	8,356	2,990
Share of other comprehensive income of investment accounted for using equity method	19, 25	—	3,664
Total other comprehensive income, net of tax		148,001	236,397
Total comprehensive income		5,898,674	4,503,672
Comprehensive income attributable to:			
Owners of parent		5,881,565	4,555,228
Non-controlling interests		17,109	-51,556
Comprehensive income		5,898,674	4,503,672

(iv) Consolidated Statement of Changes in Equity

(Thousand yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total		
Balance at October 1, 2021		2,125,384	3,901,272	-1,691,842	14,322,283	-230,678	18,426,419	18,869	18,445,288
Profit		−	−	−	5,733,564	−	5,733,564	17,109	5,750,673
Other comprehensive income		−	−	−	−	148,001	148,001	−	148,001
Total comprehensive income		−	−	−	5,733,564	148,001	5,881,565	17,109	5,898,674
Issuance of new shares	19	16,302,620	16,161,638	−	−	−	32,464,257	−	32,464,257
Dividends of surplus	20	−	−	−	-429,940	−	-429,940	−	-429,940
Purchase of treasury shares	19	−	−	-26	−	−	-26	−	-26
Obtaining of control of subsidiaries	7, 19	−	5,102,147	1,116,161	−	−	6,218,308	14,902	6,233,210
Other		−	144,671	−	45,911	-45,911	144,671	-2,064	142,606
Total transactions with owners		16,302,620	21,408,456	1,116,135	-384,029	-45,911	38,397,270	12,838	38,410,107
Balance at September 30, 2022		18,428,004	25,309,728	-575,707	19,671,818	-128,588	62,705,254	48,815	62,754,069

(Thousand yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total		
Balance at October 1, 2022		18,428,004	25,309,728	-575,707	19,671,818	-128,588	62,705,254	48,815	62,754,069
Profit (loss)		−	−	−	4,318,831	−	4,318,831	-51,556	4,267,275
Other comprehensive income		−	−	−	−	236,397	236,397	−	236,397
Total comprehensive income		−	−	−	4,318,831	236,397	4,555,228	-51,556	4,503,672
Dividends of surplus	20	−	−	−	-962,966	−	-962,966	−	-962,966
Purchase of treasury shares	19	−	-2,506	-1,275,942	−	−	-1,278,448	−	-1,278,448
Disposal of treasury shares	19	−	-455,025	455,025	−	−	−	−	−
Changes without loss of control of subsidiaries	30	−	542,167	−	−	−	542,167	115,350	657,516
Other		−	32,629	−	157,539	-157,539	32,629	-1,684	30,945
Total transactions with owners		−	117,265	-820,917	-805,426	-157,539	-1,666,618	113,665	-1,552,953
Balance at December 31, 2023		18,428,004	25,426,993	-1,396,624	23,185,222	-49,731	65,593,864	110,925	65,704,788

(v) Consolidated Cash Flow Statement

(Thousand yen)

	Notes	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Cash flows from operating activities			
Profit before tax from continuing operations		8,966,365	6,652,148
Loss before tax from discontinued operations	5	-725,652	-666,259
Adjustments:			
Depreciation and amortization		767,297	967,653
Interest and dividend income		-2,446	-4,562
Interest expenses		24,920	26,229
Share of loss (profit) of investments accounted for using equity method		-1,066,228	-1,850,739
Loss (profit) on valuation of securities		-2,032,753	42,700
Other	26	183,323	70,391
Changes in working capital			
Decrease (increase) in trade receivables		1,242,834	-1,908,593
Decrease (increase) in inventories		16,657	27,526
Increase (decrease) in trade payables		-19,550	2,271,407
Other	26	-1,234,828	-1,431
Subtotal		6,119,938	5,626,471
Interest received		2,255	4,462
Dividends received		34,227	1,855,868
Interest paid		-25,202	-28,144
Income taxes refund		—	66,438
Income taxes paid		-2,481,389	-3,739,690
Cash flows provided by (used in) operating activities		3,649,828	3,785,405
Cash flows from investing activities			
Proceeds from sale of securities		99,998	311,068
Purchase of securities		-1,311,447	-1,109,047
Purchase of property, plant, and equipment		-37,769	-168,007
Purchase of intangible assets		-72,805	-12,573
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation		—	43,065
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	7	162,427	—
Payments of contingent considerations		—	-828,080
Purchases of investments accounted for using equity method	31	-31,312,999	-932,830
Payments for loans receivable		-609,149	—
Collection of loans receivable		2,165,465	—
Other	26	363,304	676,358
Cash flows provided by (used in) investing activities		-30,552,974	-2,020,045

	Notes	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
			(Thousand yen)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	26	—	3,000,000
Repayments of long-term borrowings	26	-851,551	-2,000,350
Repayments of lease liabilities	26	-605,802	-751,749
Dividends paid	20	-429,940	-962,966
Proceeds from issuance of shares	19	32,402,037	—
Proceeds from sale of treasury shares	19	—	221,993
Purchase of treasury shares	19	-26	-1,278,448
Other	26	713,924	-63,181
Cash flows provided by (used in) financing activities		31,228,641	-1,834,702
Effect of exchange rate changes on cash and cash equivalents		114,591	29,118
Net increase (decrease) in cash and cash equivalents		4,440,086	-40,223
Cash and cash equivalents at beginning of period		16,899,990	21,340,076
Net increase (decrease) in cash and cash equivalents from transfer to assets held for sale	6	—	-426,437
Cash and cash equivalents at end of period		21,340,076	20,873,416

Notes to the Consolidated Financial Statements

1. Reporting entity

SEPTENI HOLDINGS CO., LTD. (the "Company") is a company established and incorporated in Japan. The addresses of its registered headquarters and main offices are disclosed on its website (https://www.septeni-holdings.co.jp/en/). The Company's consolidated financial statements were prepared with December 31, 2023 as the year-end date, and comprise the Company and its subsidiaries (the "Group"), as well as equity in its affiliates. The parent company of the Company is Dentsu Group Inc.

The Group's main businesses are described in "(1) Overview of reportable segments" in "Note 4. Information on Reportable Segments."

2. Basis of preparation

(1) Compliance with IFRS

Pursuant to the provision of Article 93 of the Regulation on Consolidated Financial Statements, the consolidated financial statements of the Group have been prepared in compliance with IFRS since the Company qualifies as a "specified company complying with designated international accounting standards" prescribed in Article 1-2 of the said Regulation.

(2) Basis of measurement

The Group's consolidated financial statements are prepared on a historical cost basis, with the exception of certain financial instruments that are measured at fair value.

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, and figures are rounded to the nearest thousand yen.

(4) Significant accounting judgments, estimates, and assumptions

In preparing the consolidated financial statements, management is required to make judgments, estimates, and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

Such estimates and underlying assumptions are reviewed on an ongoing basis. The effects of the review of the accounting estimates are recognized in the accounting period in which the review was conducted and in future accounting periods.

Information regarding the judgments made in applying accounting policies that have a significant impact on the amounts recognized on the consolidated financial statements is included in the following notes:

- Note 3. (1) Basis of consolidation
- Note 3. (6) Financial instruments
- Note 3. (16) Revenue

Estimates involving significant risks that may lead to significant adjustments to the carrying amount of assets and liabilities in the next fiscal year, and assumptions that serve as the basis of such estimates are as follows:

・Fair value of assets acquired and liabilities assumed through business combinations	Note 3. (2) Business combinations Note 7. Business combinations Note 29. (4) Liquidity risk management Note 29. (9) Fair value of financial instruments
・Fair value of financial instruments	Note 3. (6) Financial instruments
・Impairment of financial assets	Note 3. (6) Financial instruments
・Impairment of non-financial assets	Note 3. (10) Impairment of assets Note 12. (4) Impairment test of goodwill
・Provisions	Note 3. (12) Provisions
・Share-based remuneration	Note 3. (15) Share-based payment
・Recoverability of deferred tax assets	Note 3. (17) Income taxes

(5) Adoption of new statements of accounting standards and interpretations

(Amendments to IAS 12 “income taxes”)

Effective from the fiscal year under review, the Group adopted the “International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12).” The amendments clarify that IAS 12 applies to income taxes resulting from tax laws enacted or substantially enacted to introduce the Pillar Two GloBE Rules (global minimum tax) of the OECD's BEPS initiative. However, it provides for temporary exceptions to the requirements to recognize and disclose information about deferred tax assets and liabilities for income taxes arising from global minimum tax rules. The Group applies the exceptional measures set forth in IAS 12 and does not recognize or disclose information about deferred tax assets and liabilities for income taxes arising from global minimum tax rules.

(6) Statements of accounting standards and interpretations not yet applied

None of the announced statements of accounting standards and interpretations that have been newly established or amended by the approval date of the consolidated financial statements have a significant impact.

(7) Change in fiscal year-end

The Company and its subsidiaries whose fiscal year-end are not December 31 changed fiscal year-end to December 31.

As a result of this change, the previous fiscal year was from October 1, 2021 to September 30, 2022, and the current fiscal year was from October 1, 2022 to December 31, 2023, which is not completely comparable to the previous fiscal year.

3. Significant accounting policies

(1) Basis of consolidation

(i) Subsidiaries

Subsidiaries are investee entities (including structured entities) that are controlled by the Group. If the Group owns a majority of the voting rights of an investee entity, it is deemed to be under the Group’s control in principle, and is included as a subsidiary. If the Group does not own a majority of the voting rights, but has exposure or rights to variable return arising from its involvement in the investee entity, while retaining the capability to influence such return by exercising its power over the investee entity, it is deemed to be under the Group’s control, and is included as a subsidiary.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when the Group obtains control until the date when it loses control.

Changes in the equity in subsidiaries is accounted for as capital transactions if the control continues, and the difference between the adjusted amount of non-controlling interests and the fair value of considerations is recognized directly in equity attributable to owners of the Company. If the Group loses control over a subsidiary, gains or losses derived from such loss are recognized in profit or loss.

(ii) Investments in affiliates

Affiliates are investee entities (including structured entities) over which the Group has significant influence on financial and management policies, but which the Group does not control or jointly control.

Investments in affiliates are recognized at cost at the time of acquisition, and are subsequently accounted for using the equity method. Their carrying amount includes goodwill recognized at the time of acquisition. Goodwill included in the carrying amount is calculated as the difference between the company’s equity in the net fair value of identifiable assets (including customer-related assets) and the liabilities of the affiliates and the investment cost.

The consolidated financial statements include the Group’s equity in the affiliates’ profit or loss, as well as other comprehensive income.

In addition, whether there is objective evidence of impairment of investment in an affiliate is determined by the management, based on information regarding significant changes in the value of the investment with an adverse impact indicating the potential irrecoverability of the investment cost arising from the market or economic environment, as supported by observable data related to loss events.

(iii) Reporting date

The end of the reporting period for all subsidiaries is consistent with the Company.

If the last day of the reporting period differs between the Company and its affiliates, the financial statements of the subsidiaries and affiliates are used based on provisional settlement as of the consolidated closing date.

(iv) Transactions eliminated in the consolidated financial statements

The amounts of receivables, payables, transactions, and unrealized gains and losses arising from inter-Group transactions are eliminated when preparing the consolidated financial statements.

(2) Business combinations

Business combinations are accounted for using the acquisition method. Consideration for acquisition is measured as the sum of the fair values at the acquisition date (the date of obtaining control) of the assets transferred in exchange for control over an acquiree, the liabilities assumed, and the equity instruments issued by the Company. Acquisition-related cost is recognized in profit or loss when incurred.

In the case where initial accounting for a business combination is not complete by the end of the fiscal year, during which such business combination occurs, provisional amounts are reported on the items for which the accounting treatment is incomplete. If such incomplete state was anticipated beforehand, provisional amounts are adjusted during the measurement period (not to exceed one year), or additional assets acquired or liabilities assumed are recognized, in order to reflect new information obtained regarding facts or circumstances on the acquisition date, which are considered would have affected the amounts recognized on the acquisition date had they been brought to light.

In a business combination, following the identification of the acquirer, identifiable assets acquired and liabilities assumed of the acquired subsidiary are measured at fair value on the acquisition date, except for the following:

- Deferred tax assets or deferred tax liabilities measured in accordance with IAS 12 “Income Taxes”
- Assets or liabilities related to the employee benefits contracts, as measured in accordance with IAS 19 “Employee Benefits”
- Liabilities related to the share-based remuneration contract of the acquiree, as measured in accordance with IFRS 2 “Share-based Payment”
- Non-current assets or disposal groups classified and measured in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

If the sum of the consideration for the business combination transferred, the amount of non-controlling interests in the acquiree, and the fair value on the acquisition date of the equity in the acquiree held previously by the Company exceeds the net fair value of the identifiable assets acquired and liabilities assumed, such excess is recorded as goodwill in the consolidated statement of financial position. Conversely, if the above-mentioned sum falls short of such net fair value, such shortfall is recognized directly in profit or loss in the consolidated statement of profit or loss. The Group chooses whether to measure non-controlling interests at fair value or based on the proportion of non-controlling interests relative to the recognized identifiable net assets, for each business combination transaction.

The additional acquisition of non-controlling interests following the obtaining control are accounted for as a capital transaction. The difference between the adjusted amount of non-controlling interests and the fair value of the consideration paid or received is recognized directly in capital surplus, and no goodwill is recognized from such transaction.

(3) Foreign currency translation

(i) Foreign currency denominated transactions

Foreign currency denominated transactions are translated into the functional currency of each Group company at the exchange rate on the transaction date. Foreign currency denominated monetary assets and liabilities remeasured at the year-end date are retranslated into the functional currency at the exchange rate on the year-end date. Foreign currency denominated non-monetary assets and liabilities measured at fair value are retranslated into the functional currency at the exchange rate on the fair value measurement date.

Foreign currency differences arising from the settlement of these transactions, as well as those arising from the translation of foreign currency denominated monetary assets and liabilities at the exchange rate on the year-end date are recognized in profit or loss. However, if profit or loss from non-monetary items is recorded in other comprehensive income, foreign currency differences therefrom are also recorded in other comprehensive income.

(ii) Foreign operations

Assets and liabilities of foreign operations (including goodwill arising from acquisitions and adjustments of fair value) are translated into Japanese yen at the exchange rate on the year-end date, while revenue and expenses are translated into Japanese yen at the average exchange rate during the corresponding fiscal year. However, in cases where the exchange rate fluctuates significantly, such translation is based on the exchange rate on the transaction date.

Foreign currency translation differences arising from the translation of financial statements of foreign operations are recognized in other comprehensive income. With regard to full disposal of equity in a foreign operation or partial disposal thereof involving the loss of control or significant influence, such translation differences are reclassified to profit or loss, as part of profit or loss on disposal.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits convertible into cash as needed, and short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash and are so near to maturity that they present an insignificant risk of changes in value.

(5) Inventories

Inventories consist of merchandise and work in process, and are measured at the lower of cost or net realizable value. Costs are calculated primarily by using the weighted average method, while inventories with no substitutability are calculated by using the specific identification method.

(6) Financial instruments

(i) Non-derivative financial assets

The Group initially recognizes trade and other receivables on the date such receivables arise. All other financial assets are initially recognized on the contract date when the Group becomes a party to the contract of the financial instruments.

The Group derecognizes financial assets when the contractual rights to cash flows from the financial assets expire, or the contractual rights to receive cash flows from the financial assets are transferred in a transaction that substantially transfers to another party all of the risks and economic benefits associated with ownership of the financial assets. Equity in the transferred financial assets held in an ongoing manner by the Group is recognized as separate assets and liabilities.

An outline of the classification of non-derivative financial assets and the method for measurement thereof is as follows:

a. Financial assets measured at amortized cost

Investments in debt instruments with contractual cash flows that comprise principal and interest on the principal amount paid on certain dates, and are held by the Group based on a business model designed to collect contractual cash flows are measured at amortized cost. Transaction costs that are directly attributable to the acquisition of financial assets measured at amortized cost are added to its fair value.

Following initial recognition, amortized cost is measured by using the effective interest method, involving an appropriate deduction of impairment loss. Interest income, foreign exchange gain and loss, and impairment loss related to financial assets measured at amortized cost are recognized in profit or loss.

b. Financial assets measured at fair value through other comprehensive income (“financial assets measured at FVTOCI”)

Investments in debt instruments with contractual cash flows that comprise principal and interest on the principal amount paid on certain dates, and are held by the Group based on a business model designed to collect contractual cash flows and sell such financial assets are measured at fair value. In this case, interest income, foreign exchange gain and loss, and impairment loss are recognized in profit or loss by using the effective interest method, while changes in fair value other than the foregoing are recognized in other comprehensive income (with possible reclassification to profit or loss).

The Group may (irrevocably) opt to measure investments in equity instruments not held for trading at fair value at initial recognition, and recognize changes therein in other comprehensive income. In this case, changes in fair value are recognized in other comprehensive income (with no reclassification to profit or loss). In the case of derecognition, cumulative changes in fair value that are recognized in other comprehensive income are directly transferred to retained earnings. Dividends are recognized in profit or loss unless they apparently represent a partial collection of investment cost.

Transaction costs that are directly attributable to the acquisition of a financial asset measured at FVTOCI are added to its fair value.

c. Financial assets measured at fair value through profit or loss (“financial assets measured at FVTPL”)

Financial assets other than those described above are measured at fair value, while changes therein are recognized in profit or loss. Transaction costs that are directly attributable to the acquisition of financial assets measured at FVTPL are recognized in profit or loss when incurred.

The Group does not designate any debt instruments as those to be measured at fair value through profit or loss for the purpose of eliminating or significantly reducing an accounting mismatch.

(ii) Impairment of financial assets

In recognizing amortized cost or impairment of debt instruments measured at fair value through other comprehensive income, the Group assesses at each year-end date whether the credit risk associated with a concerned financial asset or group of financial assets increased significantly after initial recognition. Specifically, if credit risk has not increased significantly after initial recognition, the 12-month expected credit losses are recognized as loss allowance. On the other hand, if credit risk has increased significantly after initial recognition, the expected credit loss during the remaining period is recognized as loss allowance. Whether or not credit risk has increased significantly is determined based on the change in default risk.

For trade receivables arising from normal transactions by the Group, a loss allowance is recognized, based simply on historical credit loss due to a short collection period, at an amount equivalent to the expected credit losses during the remaining period after initial recognition.

Expected credit losses are measured based on the difference between the contractual cash flows payable to a business according to a contract and the cash flows a business expects to receive as present value.

If the Group has no reasonable expectation to collect a financial asset in whole or in part, a reduction is made directly to the carrying amount of the whole financial asset.

(iii) Non-derivative financial liabilities

The Group recognizes a financial liability on the transaction date when it becomes a party to the contract for the financial instruments. The Group derecognizes the financial liabilities only when they are extinguished, that is, when the obligations in the contract are discharged, cancelled, or expired.

The Group has borrowings, trade and other payables as non-derivative financial liabilities, and transaction costs that are subject to initial recognition at fair value and are directly attributable to the acquisition of financial liabilities measured at amortized cost are deducted from such fair value.

Following initial recognition, the aforementioned liabilities are measured at amortized cost by using the effective interest method.

Contingent considerations are recognized at fair value at the time of acquisition. If it falls into measurement during the measurement period, changes in fair value after the acquisition involve adjustments to the acquisition cost; otherwise, such changes are recognized in profit or loss as changes in fair value.

(iv) Derivatives and hedge accounting

The Group owns various derivative financial instruments as a means to hedge foreign exchange and other risks.

The Group recognizes changes in the fair value of derivatives as profit or loss. However, the effective portions of cash flow hedges are recognized as other comprehensive income.

At the inception of hedging, the Group formally designates and documents the hedging relationship to which hedge accounting is to be applied, as well as the objectives and strategies of risk management for undertaking the hedge. This documentation includes specific hedging instruments, hedged items, nature of the risk to be hedged, and the assessment methods of the effectiveness of the hedging relationship. These hedges are expected to meet the prerequisites: (i) economic relationships exist between the hedged items and hedging instruments; (ii) the impact of the credit risk does not significantly exceed the changes in value arising from the economic relationship; and (iii) the hedging ratio of the hedging relationship is identical to the ratio based on the actual quantities of the hedged items and hedging instruments. These prerequisites are verified continuously, to determine whether the hedging relationship will remain effective in the future.

The Group adopts cash flow hedges by designating as hedging instruments derivative financial instruments that meet the criteria for hedge accounting. Cash flow hedges are hedges against exposure to the variability of cash flows that arises from specific risks associated with recognized assets or liabilities, or from forecast transactions that are highly likely to be made, which have an impact on profit or loss.

Portions of gains or losses on hedging instruments that are determined to be effective hedges are recognized as other comprehensive income. The amount recognized as other comprehensive income is transferred from other comprehensive income to profit or loss in the same fiscal year as that in which the hedged cash flows have an impact on profit or loss. In cases where hedged items result in the recognition of a non-financial asset or non-financial liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the initial carrying amount of such non-financial asset or non-financial liability. Any ineffective portions of qualified hedges are recognized as profit or loss.

(v) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and presented on a net basis in the consolidated statement of financial position only when the Group has a legally enforceable right to offset the balances of such assets and liabilities, and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(7) Property, plant and equipment

Property, plant and equipment are measured under the cost model and carried at their cost, less any accumulated depreciation and impairment. The cost of property, plant and equipment includes expenses that are directly incidental to the acquisition of such assets, and the initial estimated costs of dismantling and removing the assets as well as restoring the premises to the original condition.

Regarding depreciation expense, the depreciable amount is calculated primarily by the straight-line method over the respective estimated useful life of each component. The depreciable amount is calculated by subtracting residual value from the cost of the asset.

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

・ Buildings and accompanying facilities: 3 to 15 years
・ Tools, furniture and fixtures: 3 to 20 years

The depreciation method, estimated useful life, and residual value are reviewed at each year-end date and revised as appropriate.

(8) Goodwill and intangible assets

(i) Goodwill

The measurement of goodwill at initial recognition is described in “(2) Business combinations.” Goodwill is not amortized. If amortization is found to be necessary as a result of impairment test, an impairment loss is recorded. Goodwill is measured at cost less the accumulated impairment loss.

(ii) Other intangible assets

Separately acquired intangible assets are measured at cost at initial recognition. Intangible assets acquired as a result of a business combination are recognized separately from goodwill at initial recognition, and measured at fair value on the acquisition date.

Measurement after initial recognition is carried out under the cost model. Intangible assets with definite useful lives are measured at cost less accumulated amortization and impairment, while those with indefinite useful lives are measured at cost less accumulated impairment losses.

Research and development expenses incurred within the Group are recognized as expenses when incurred, except for expenditures for development activities that meet capitalization requirements (internally generated intangible assets). Internally generated intangible assets are measured at initial recognition, at the sum of the expenditures that incurred in the period from the date when all the capitalization requirements are met until the development is completed.

Intangible assets with definite useful lives are amortized over their estimated useful lives, under the straight-line method. Intangible assets with indefinite useful lives are not amortized, and impairment tests are carried out at each year-end date until their useful life becomes apparent.

The estimated useful lives of major intangible assets are as follows:

・ Software: 3 to 5 years
・ Customer relationships: 11 years

The amortization method, estimated useful life, and residual value are reviewed at each year-end date and revised as appropriate.

(9) Leases

The Group determines whether a contract is or contains a lease, at the time of its inception. The Group chooses to treat consideration in a contract containing a lease at its inception date or reevaluation date by deeming each lease component and related non-lease component as a single lease component, without distinguishing it from non-lease components at each underlying asset class, as a practical expedient measure as allowed under IFRS 16. In addition, the lease term consists of the non-cancellable term plus a period covered by the extension option that is likely to be exercised with reasonable certainty, as well as a period covered by a cancellation option that is unlikely to be exercised with reasonable certainty.

(Lessee)

(i) Right-of-use assets

Right-of-use assets are recognized on the inception date of lease. Right-of-use assets are measured at acquisition cost on the inception date of lease, where the acquisition cost consists of the total of the initially measured lease liabilities, lease payments paid prior to the inception date of the lease less the lease incentive received, initial direct costs incurred, and estimated cost to be incurred by the lessee in restoring the underlying asset to its original condition, as required under the terms of the lease.

After the inception date of lease, right-of-use assets are measured under the cost model, at acquisition cost less accumulated depreciation and impairment. Right-of-use assets are depreciated from the inception date until the end of the useful lives of the right-of-use assets or the end of the lease term, whichever is earlier, unless the Group is reasonably certain to acquire the ownership of the right-of-use assets at the end of the lease term. The useful lives of the right-of-use assets are determined in the same manner as used for property, plant and equipment.

(ii) Lease liabilities

Lease liabilities are recognized on the inception date of lease. Lease liabilities are measured at the present value of the lease payments that are yet to be paid, as of the inception date of lease. If the interest rate implicit in the lease is readily determinable, such lease payments are discounted by using such interest rate, or otherwise discounted by using the lessee's incremental borrowing rate. The lease payments included in the measurement of lease liabilities consist primarily of fixed lease payments, lease payments for the extension period if such extension option is likely to be exercised with reasonable certainty, and payments of a penalty for cancellation of the lease unless it is reasonably certain that the contract will not be prematurely canceled.

After the inception date of lease, the carrying amount of the lease liabilities is adjusted to reflect the interest rate on the lease liabilities and the lease payments paid. In case of a review of the lease liabilities or a lease modification, the lease liabilities are remeasured to adjust the right-of-use asset.

(10) Impairment of assets

(i) Financial assets

Impairment of financial assets is described in "(ii) Impairment of financial assets" in "(6) Financial instruments."

(ii) Non-financial assets

The Group assesses at each year-end date whether there is any indication that the carrying amount of its non-financial assets, excluding inventories and deferred tax assets, etc., may be impaired. If such an indication is found, the recoverable amounts of such assets are estimated.

Goodwill and intangible assets with indefinite useful lives or those not yet available for use are tested for impairment to estimate recoverable amount whenever there is an indication, or at least annually regardless of whether there is such indication.

The recoverable amount of an asset or a cash-generating unit is calculated at the higher of its value in use or its fair value less the cost of disposal. The value in use is calculated by discounting the estimated future cash flows to the present value, using a pre-tax discount rate that reflects the time value of money, the risks specific to the asset, etc. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets through its continued use.

The allocation of goodwill to cash-generating units is determined based on the unit for managing goodwill for the purpose of internal control, which is within the scope of a business segment.

Since corporate assets do not generate independent cash inflows, if there is an indication of impairment of corporate assets, this is assessed by calculating the recoverable amount of the cash-generating unit to which the corporate assets belong.

If the recoverable amount of an asset or a cash-generating unit is less than its carrying amount, such asset is devalued to its recoverable amount and an impairment loss is recognized. An impairment loss recognized in association with cash-generating units is first allocated so as to reduce the carrying amount of goodwill allocated to the unit, with the remaining amount allocated so as to reduce other assets, according to the proportion of the carrying amount of other assets in the unit.

For an impairment loss that is recognized in the prior periods of assets other than goodwill, the Group assesses whether there is any indication of a decrease or disappearance of the loss at each year-end date. If there is any indication of a reversal of the impairment loss and the estimated amount used to determine the recoverable amount changes, the impairment loss is reversed. The impairment loss is reversed up to the carrying amount less any necessary depreciation or amortization expenses that would have been determined had no impairment loss been recognized.

However, the goodwill-related impairment loss is not reversed.

Since the goodwill that forms part of the carrying amount of investment in entities accounted for using equity method is not separately recognized, it is not tested for impairment separately. If there is an indication of impairment supported by objective evidence in the investment in entities accounted for using the equity method, the carrying amount of the entire investment amount is tested for impairment as a single asset. There is no indication of impairment in the investment in Dentsu Digital Inc., as there is no objective evidence to support such impairment.

(11) Employee benefits

Short-term employee benefits are not discounted, but are recorded as expenses upon provision of the related services. Regarding bonuses, the Group is legally or constructively obligated to pay bonuses, and when reliable estimates are available, an estimated amount to be paid under the relevant system is recognized as a liability.

(12) Provisions

Provisions are recognized when there are present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates regarding the amount of the obligations are available.

If the time value of money has a significant effect, provisions are calculated by discounting the estimated future cash flows to the present value, by using the pre-tax discount rate reflecting the time value of money and the risks specific to the liability. An increase in provisions due to the passage of time is recognized as finance costs.

(13) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

Non-current assets or disposal groups that are expected to be recovered in carrying amounts not by continuous use but by sale are classified as non-current assets and disposal groups held for sale, when they are highly likely to be sold within one year, they are available for immediate sale in their present condition, and management of the Group is committed to such sale. In such case, the non-current assets are neither depreciated nor amortized, and are measured at the carrying amount or fair value less the cost of sales, whichever is lower.

(ii) Discontinued operations

A discontinued operation is a corporate component that has already been disposed or classified as held for sale, and represents a major independent business domain or an operational area of the Group, or represents a part of the unified plan for disposing a major independent business domain or operational area. Such a component is presented or disclosed as a discontinued operation, separate from continuing operations.

(14) Equity

(i) Common shares

Common shares issued by the Company are accounted for by recognizing the issue price in share capital and capital surplus, while the direct issue cost (after tax effect) is deducted from capital surplus.

(ii) Treasury shares

When purchasing treasury shares, consideration paid including direct transaction costs after tax effect are recognized in equity, as a deduction item. In the case of the sale of treasury shares, the difference between its carrying amount and the consideration received at sale is recognized in capital surplus.

(15) Share-based payment

(i) Share option plan

The Group has introduced a share option plan for providing equity-settled share-based payment. The fair value of share-based remuneration at the grant date is recognized as expenses over the vesting period from the grant date, while recognizing the corresponding amounts as increases in other components of equity. The fair value of the granted share options is calculated by using the Black Scholes model, etc., in consideration of the various conditions of the options.

(ii) Share-based remuneration plan

The Group has introduced a performance-linked share-based remuneration plan for providing equity-settled share-based payment.

The fair value of the equity-settled share-based remuneration on the grant date is recognized as expenses over the vesting period from the grant date, while recognizing the corresponding amounts as increases in equity.

(16) Revenue

Revenue is recognized based on the following five-step approach:

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group provides services to customers through the Digital Marketing Business and the Media Platform Business.

(i) Digital Marketing Business

The Digital Marketing Business provides services including the distribution and placement of advertising, as well as creative/marketing support services on digital media, etc. provided by media companies.

Performance obligations are satisfied regarding the distribution and placement of advertising on the digital media, etc. provided by media companies, primarily when advertising is actually distributed and/or placed on the digital media, and for creative/marketing support services, etc., primarily when products are delivered or services are provided. Revenue is therefore recognized upon the respective point of time of satisfaction of such performance obligations.

For transactions in the Digital Marketing Business, the Group records the revenue primarily at the consideration received from clients as remuneration for the services provided by the Group less the relevant cost, or at a certain remuneration paid in the form of a commission. However, for some transactions for which the Group determines that it acts justifiably as a principal, consideration received from clients and costs are recorded on a gross basis. Consideration for transactions is primarily received within one year after the satisfaction of performance obligations, and does not contain a significant financing component.

(ii) Media Platform Business

The Media Platform Business provides services including the distribution and placement of advertising on the digital media provided by the Group, as well as the provision of e-books, etc.

Performance obligations are satisfied regarding the distribution and placement of advertising on the digital media provided by the Group, primarily when advertising is actually distributed and/or placed on the digital media, and for the provision of e-books, etc., primarily when products are delivered. Revenue is therefore recognized upon the respective point of time of satisfaction of such performance obligations.

For transactions in the Media Platform Business, revenue and costs are recorded on a gross basis, because the Group determines that it acts justifiably as a principal. Consideration for transactions is primarily received within one year after the satisfaction of performance obligations, and does not contain a significant financing component.

(17) Income taxes

Income tax expense comprises current income taxes and deferred income taxes, and is recognized in profit or loss, except for taxes arising from business combinations, and from other comprehensive income or the items recognized directly in equity.

Current income taxes are measured at an amount that is expected to be paid to or refunded from the tax authority. The tax rate and tax law that are applied for calculating the tax amount are in force or effectively in force by the year-end date in a country where the Group conducts its business activities, and generates profit or loss that is subject to taxation.

For deferred tax assets, deductible temporary differences, unused tax losses, and unused tax credits are recognized within the range that is highly likely to be usable for future taxable profit. Deferred tax assets are under a recoverability review at each year-end date. Deferred tax liabilities are recognized regarding taxable temporary differences, in principle.

However, deferred tax assets or deferred tax liabilities are not recognized regarding the following temporary differences:

・Temporary differences arising from the initial recognition of assets or liabilities in transactions other than business combinations that affect neither accounting profit nor taxable profit

・Temporary differences arising from the initial recognition of goodwill

・In cases where deductible temporary differences associated with investments in subsidiaries and affiliates are unlikely to be reversed in the foreseeable future, or taxable profit against which such deductible temporary differences could be utilized is unlikely to be available

・In cases where the timing of reversal of taxable temporary differences associated with investments in subsidiaries and affiliates can be controlled, and such temporary differences are unlikely to be reversed in the foreseeable future

Deferred tax assets and deferred tax liabilities are measured by using the tax rate that is expected to be applied at the time of reversal of the temporary differences, based on the law in force or effectively in force at the year-end date.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets and current tax liabilities, and they are related to income taxes imposed on the same taxable entity, or they are related to income taxes imposed by the same tax authority on different taxable entities, with the intent to make settlement on a net basis.

The Company and its domestic wholly-owned subsidiaries apply the Japanese group relief, in which they file an income tax return and pay taxes as one consolidated tax-filing group.

(18) Earnings per share

Basic earnings (loss) per share are calculated by dividing profit (loss) attributable to owners of parent by the weighted average number of common shares outstanding less the number of treasury shares during the period. Diluted earnings (loss) per share are calculated, with reference to the impact of all potential common shares with dilutive effects, by adjusting profit (loss) attributable to owners of parent and the weighted average number of shares outstanding less the number of treasury shares.

4. Information on Reportable Segments

(1) Overview of reportable segments

The Group has a holding company structure where the Company is a holding company, and its subsidiaries (or their groups) are business units. Activities directly related to revenue generation are conducted solely by the business units.

The Group's reportable segments are based on business segments for which separate financial information is available and that the highest decision-maker examines on a regular basis to determine the distribution of management resources and evaluate the results. In consideration of similarities among the economic characteristics of each business segment and their quantitative importance and for the purpose of enabling the users of the financial statements to appropriately evaluate the Group's businesses and the economic circumstances, and their effects on the businesses, the Group discloses information on two reportable segments: the Digital Marketing Business and the Media Platform Business.

(i) Digital Marketing Business

The Digital Marketing Business consists of businesses that provide comprehensive DX support, mainly in the marketing domain, such as marketing support through online-offline integration centered on the sales and operation of digital advertising, and the development and provision of solutions utilizing data and AI.

(ii) Media Platform Business

The Media Platform Business consists of IP Platform Business (the name changed from the Manga Content Business from the current fiscal year) "GANMA!," Employment Platform Business "ViViViT," Platform Business of Social Contribution "gooddo," Childcare Platform Business "Babyful" etc. This segment includes business units that have commenced operation in recent years and have not made a profit due to prior investment for revenue generation. The highest decision-maker makes decisions on the distribution of management resources to those business units and evaluates their results, assuming risks and economic values that allow the Group to recover the investment costs through future revenue generation.

(2) Measurement of reportable segments' profit and loss

Segment profit uses Non-GAAP operating profit based on IFRS adjusted for gain and loss related to acquisition actions such as amortization of acquisition-related intangible assets and M&A expenses and temporary factors such as share-based payment expenses, impairment losses, and gain and loss on sales of fixed assets. Non-GAAP operating profit is a profit indicator of constant business performance determined by excluding gain and loss related to acquisition actions and temporary factors from the IFRS-based operating profit. Management believes that disclosing Non-GAAP measures facilitates comparison between the Group and industry peers and year-on-year comparison by stakeholders and can provide useful information in understanding the underlying operating results and outlook of the Group. Gain and losses related to acquisition actions refer to amortization of acquisition-related intangible assets and M&A expenses, and unusual items refer to one-off items, such as share-based payment expenses, impairment losses, and gain and loss on sales of fixed assets, which the Group believes shall be excluded for the purposes of preparing an outlook based on certain rules.

The prices of inter-segment transactions are determined based on the prices of transactions with external clients.

(3) Information on reportable segments' profit and loss

Previous consolidated fiscal year (from October 1, 2021 to September 30, 2022)

(Thousand yen)

	Digital Marketing *2	Media Platform *3	Total	Adjustments *4	Consolidated
Segment revenue	25,861,984	3,296,727	29,158,711	-1,569,324	27,589,386
Segment profit (loss) *1	9,211,291	-844,464	8,366,827	-1,801,650	6,565,177

(Notes) 1. The segment profit is Non-GAAP operating profit.

2. The segment revenue and segment profit in the Digital Marketing Business include segment revenue and segment loss related to JNJ INTERACTIVE INC., which was transferred on November 30, 2023.
3. The segment revenue and segment loss in the Media Platform Business show the amount before reclassification of the results of COMICSMART INC. and its subsidiaries, etc.
4. The breakdown of adjustments is as follows. Expenses related to the operation of the holding company consist of personnel expenses, etc. The results of COMICSMART INC. and its subsidiaries, etc. are reclassified to "transfer to discontinued operations."

(Thousand yen)

	Revenue and expenses related to the operation of the holding company and elimination of profit and loss transaction between reportable segments	Transfer to discontinued operations	Adjustments
Segment revenue	-339,787	-1,229,537	-1,569,324
Segment profit (loss)	-2,511,599	709,949	-1,801,650

Current consolidated fiscal year (from October 1, 2022 to December 31, 2023)

(Thousand yen)

	Digital Marketing *2	Media Platform *3	Total	Adjustments *4	Consolidated
Segment revenue	32,111,575	5,838,993	37,950,568	-3,683,957	34,266,611
Segment profit (loss) *1	8,526,919	-655,910	7,871,009	-2,779,703	5,091,306

(Notes) 1. The segment profit is Non-GAAP operating profit.

2. The segment revenue and segment profit in the Digital Marketing Business include segment revenue and segment loss related to JNJ INTERACTIVE INC., which was transferred on November 30, 2023.
3. The segment revenue and segment loss in the Media Platform Business show the amount before reclassification of the results of COMICSMART INC. and its subsidiaries, etc.
4. The breakdown of adjustments is as follows. Expenses related to the operation of the holding company consist of personnel expenses, etc. The results of COMICSMART INC. and its subsidiaries, etc. are reclassified to "transfer to discontinued operations."

(Thousand yen)

	Revenue and expenses related to the operation of the holding company and elimination of profit and loss transaction between reportable segments	Transfer to discontinued operations	Adjustments
Segment revenue	-669,472	-3,014,485	-3,683,957
Segment profit (loss)	-3,444,787	665,084	-2,779,703

Adjustments of segment profit (loss) to profit before tax

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Segment profit (non-GAAP operating profit)	6,565,177	5,091,306
Selling, general and administrative expenses		
Amortization of acquisition-related intangible assets	-30,614	-51,023
Share-based payment expenses	-128,729	-38,877
Other profit (loss) (net)	-240,056	-52,273
Financial profit (loss) (net)	1,734,358	-147,725
Share of profit of investments accounted for using equity method	1,066,228	1,850,739
Profit before tax	8,966,365	6,652,148

(4) Information regarding products and services

This is omitted, as identical information is disclosed in "(3) Information on reportable segments' profit and loss."

(5) Information by region

A breakdown of revenue by region is as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Japan	26,181,376	33,067,767
Other	1,408,010	1,198,844
Total	27,589,386	34,266,611

(Note) The information is based on the location of the clients, in principle.

A breakdown of non-current assets (excluding investments, financial instruments, and deferred tax assets that are accounted for using the equity method) by region is as follows:

(Thousand yen)

	FY2021 (Ended September 30, 2021)	FY2022 (Ended September 30, 2022)
Japan	6,493,483	7,226,327
Other	74,941	69,339
Total	6,568,424	7,295,667

(6) Information on major clients

Among revenue from external clients, the Digital Marketing Business is the primary segment having a client that solely represents 10% or more of the revenue on the consolidated statement of profit or loss. The total revenue from the aforementioned clients for the fiscal year ended September 30, 2022 and the fiscal year ended December 31,2023 was ¥4,082,406 thousand and ¥4,731,075 thousand, respectively.

5. Discontinued operations

The Company resolved at the Board of Directors meeting held on December 19, 2023 to sell 74,000 of the 116,400 shares of COMICSMART INC. held by the Company (the transfer date is scheduled to be March 29, 2024). As of the date of the transfer, the Company's ownership of the voting rights in COMICSMART INC. and its subsidiaries, etc. decrease from 89.42% to 32.57%. The Company will lose control of COMICSMART INC. and COMICSMART INC. will become its equity-method affiliate.

As a result, the profit and loss of COMICSMART INC. and its subsidiaries, etc. from October 1, 2022 to the expected date of loss of control have been separated from continuing operations and presented as discontinued operations.

(1) Performance of discontinued operations

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Revenue	1,229,794	3,014,566
Expenses	1,955,446	3,680,825
Loss before tax from discontinued operations	-725,652	-669,259
Income tax expense	-169,821	-9,152
Loss from discontinued operations	-555,831	-657,107

(Notes) Revenue includes other income and finance income.

(2) Cash flows of discontinued operations

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Cash flows from operating activities	-480,638	-645,144
Cash flows from investing activities	-19,814	-44,782
Cash flows from financing activities	1,265,988	—
Net cash flow	765,536	-689,926

6. Disposal group held for sale

As a result of the decision to sell COMICSMART INC. shares, all assets and liabilities held by COMICSMART INC. and its subsidiaries, etc. are presented as a disposal group held for sale. The disposal group's fair value less costs to sell (the expected sale price) exceeds its carrying amount, and therefore, such assets and liabilities are measured at their carrying amounts.

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Assets held for sale		
Cash and cash equivalents	—	426,437
Trade receivables	—	332,498
Others	—	48,556
Total	—	807,491
Liabilities directly associated with assets held for sale		
Trade receivables	—	106,773
Others	—	129,752
Total	—	236,525

7. Business combinations

FY2022 (From October 1, 2021 to September 30, 2022)

The Company and Dentsu Group Inc. concluded, on October 28, 2021 a capital and business alliance agreement (the "Capital and Business Alliance Agreement"), with the intention of becoming the nation's largest digital marketing partners that lead the development of the industry, by providing the most excellent solutions to its clients, based on an organizational environment in which personnel with a wide variety of talents gather to work with full job satisfaction, through the business collaboration between the Company and Dentsu Group Inc. Pursuant to the Capital and Business Alliance Agreement, the Company carried out a share exchange on January 4, 2022 (the "Share Exchange") with Dentsu Direct Inc., a wholly-owned subsidiary of Dentsu Group Inc., through which the Company became the wholly-owning parent company in the Share Exchange and Dentsu Direct Inc. became the wholly-owned subsidiary in the Share Exchange.

Matters regarding the Share Exchange

The Company carried out the Share Exchange with Dentsu Direct Inc. on January 4, 2022, and Dentsu Group Inc. carried out the Share Exchange through Dentsu Direct Inc.

・Method and the effective date of the Share Exchange

The Share Exchange is a share exchange in which the Company is a wholly-owning parent company and Dentsu Direct Inc. is a wholly-owned subsidiary. The Share Exchange was approved by the resolutions of the general meetings of shareholders of both the Company and Dentsu Direct Inc. The effective date of the Share Exchange was January 4, 2022.

・Details of allotment in the Share Exchange

Company name	The Company (Wholly-owning parent company in the share exchange)	Dentsu Direct Inc. (Wholly-owned subsidiary in the share exchange)
Share exchange ratio	1	3,274
Number of shares to be delivered upon the Share Exchange	The Company's common shares: 12,768,600 shares	

(Notes) 1. Allotment ratio of shares for the Share Exchange (share exchange ratio)
3,274 common shares of the Company were allotted and delivered per share of Dentsu Direct Inc.

2. Number of new shares of the Company issued as a result of the Share Exchange
The Company allotted and delivered 12,768,600 common shares of the Company through the Share Exchange. Of the shares delivered, 10,724,240 shares were allotted from the Company's treasury shares and 2,044,360 common shares were newly issued.

・Overview of the accounting treatment

The Share Exchange was accounted for using the acquisition method under IFRS 3 "Business Combinations." The following table presents a breakdown of the fair value of the assets acquired and liabilities assumed of Dentsu Direct Inc. and the subsidiary as of the acquisition date, as well as the consideration for the acquisition.

(Thousand yen)

Cash and cash equivalents	162,427
Trade receivables	3,442,657
Other current assets and non-current assets	2,100,529
Trade payables	-2,867,292
Other current liabilities and non-current liabilities	-1,298,166
Non-controlling interests (Note) 2	-14,902
Goodwill (Note) 3	4,693,055
Total	6,218,308
Common shares of the Company delivered on the acquisition date (Note) 4	6,218,308
Total consideration for the acquisition	6,218,308

(Notes) 1. The fair value of the assets acquired and liabilities assumed is calculated by comprehensively taking into account financial and asset conditions scrutinized through due diligence by external specialist agencies and corporate value assessments by external specialist agencies.
2. Non-controlling interests are measured by multiplying the fair value of the identifiable net assets of the acquiree on the date of obtaining control less the portion attributable separately to non-controlling shareholders, by the shareholding ratio after the business combination.
3. Goodwill primarily represents the future excess earning power that is expected to be derived from business development, going forward. The goodwill recognized is not expected to be deductible for tax purposes.
4. The common shares of the Company delivered for the Share Exchange included 10,724,240 treasury shares held by the Company that were allotted for the Share Exchange. Common shares delivered on the acquisition date were measured at an amount based on the closing price of the day immediately preceding the acquisition.
5. Acquisition-related costs associated with the business combination of ¥63,000 thousand are recorded in “other expenses.”
6. The contingent considerations included in other current liabilities and non-current liabilities are calculated according to the performance of the subsidiary of the acquiree. The maximum amount may be ¥828,080 thousand.

・The amount allocated to intangible assets other than goodwill and its breakdown and amortization period

The fair value of the intangible assets identified in the business combination is measured by using the excess earnings method, based on the business plan including assumptions such as a client declining rate and discount rate.

(Thousand yen)

Type	Amount	Amortization period (years)
Customer relationships	449,000	11 years

・Profit or loss information after the date of obtaining control in the business combination

Revenue and profit after the date of obtaining control at Dentsu Direct Inc. and the subsidiary, as included in the consolidated statement of profit or loss for the fiscal year ended September 30, 2022, are ¥4,141,388 thousand and ¥258,095 thousand, respectively.

・Pro forma information

Assuming that the business combination was taken place at the beginning of the fiscal year, revenue and profit for the fiscal year ended September 30, 2022 would be ¥30,243,203 thousand and ¥5,850,122 thousand, respectively.

The pro forma information has not been audited. This information does not necessarily indicate events that may occur in the future. Furthermore, it does not indicate the operating results of the Group, in the case of investments actually made at the beginning of the fiscal year.

FY2023 (From October 1, 2022 to December 31, 2023)

Not applicable.

8. Trade receivables

A breakdown of trade receivables is as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Notes receivable and trade receivables	18,315,215	19,864,034
Loss allowance	-29,942	-33,234
Total	18,285,273	19,830,799

(Notes) 1. Trade receivables are presented at an amount after deduction of loss allowance in the consolidated statement of financial position.

2. Changes in loss allowance are as stated in "Note 29. Financial instruments."

9. Other financial assets

A breakdown of other financial assets is as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Financial assets measured at amortized cost		
Leasehold and guarantee deposits	773,874	699,097
Other	113,900	138,916
Loss allowance	—	-18,020
Financial assets measured at FVTOCI		
Shares	965,076	1,695,276
Other	1,000,000	1,000,000
Financial assets measured at FVTPL		
Investments in limited partnership	4,121,535	3,692,644
Other	29,095	—
Total	7,003,480	7,207,914
Current assets	98,953	101,550
Non-current assets	6,904,527	7,106,364
Total	7,003,480	7,207,914

(Note) The fair value, etc. of financial instruments is as stated in "Note 29. Financial instruments."

10. Other current assets

A breakdown of other current assets is as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Income taxes refund receivable	55,069	1,518,274
Consumption taxes refund receivable	384,869	39,521
Other	317,877	439,457
Total	757,815	1,997,253

11. Property, plant and equipment

(1) Acquisition cost, accumulated depreciation and impairment, and carrying amount of property, plant and equipment

(Thousand yen)

	Buildings and accompanying facilities	Furniture and fixtures	Other	Total
Beginning of FY2022 (October 1, 2021)				
Acquisition cost	660,721	569,220	3,256	1,233,196
Accumulated depreciation and impairment	555,651	367,262	–	922,913
Carrying amount	105,070	201,958	3,256	310,284
FY2022 (Ended September 30, 2022)				
Acquisition cost	618,807	605,671	10,066	1,234,543
Accumulated depreciation and impairment	545,139	444,316	10,066	999,521
Carrying amount	73,667	161,355	0	235,022
FY2023 (Ended December 31, 2023)				
Acquisition cost	637,620	666,545	10,066	1,314,230
Accumulated depreciation and impairment	544,683	501,995	10,066	1,056,744
Carrying amount	92,936	164,550	0	257,486

(2) Reconciliation of the carrying amount of property, plant and equipment

FY2022 (From October 1, 2021 to September 30, 2022)

(Thousand yen)

	Buildings and accompanying facilities	Furniture and fixtures	Other	Total
Balance at beginning of period	105,070	201,958	3,256	310,284
Purchase	7,470	22,901	–	30,372
Business combinations	1,859	5,473	0	7,332
Sell or disposal	-863	-3,686	-0	-4,549
Depreciation (Note) 1	-41,035	-69,405	–	-110,440
Impairment losses (Note) 2	-2,522	-4,321	–	-6,844
Other	3,688	8,435	-3,256	8,867
Balance at end of period	73,667	161,355	0	235,022

FY2023 (From October 1, 2022 to December 31, 2023)

(Thousand yen)

	Buildings and accompanying facilities	Furniture and fixtures	Other	Total
Balance at beginning of period	73,667	161,355	0	235,022
Purchase	82,380	109,531	–	191,911
Loss of control of subsidiaries	-230	-301	–	-531
Sell or disposal	-0	-1,954	–	-1,954
Depreciation (Note) 1	-47,156	-79,626	–	-126,782
Impairment losses (Note) 2	-719	-14,741	–	-15,460
Transfer to assets held for sale	-8,466	-9,130	–	-17,596
Other	-6,540	-584	–	-7,125
Balance at end of period	92,936	164,550	0	257,486

(Notes) 1. Depreciation is included in "cost of sales," "selling, general and administrative expenses" and "loss from discontinued operations" on the consolidated statement of profit or loss.

2. Impairment losses are recognized as certain businesses in the Digital Marketing Business and the Media Platform Business were no longer expected to generate revenue as initially anticipated. Impairment losses are included in "other expenses" and "loss from discontinued operations" on the consolidated statement of profit or loss. The recoverable amount is calculated based on value in use, which is considered as nil herein.

12. Goodwill and intangible assets

(1) Acquisition cost, accumulated amortization and impairment, and carrying amount of goodwill and intangible assets

(Thousand yen)

	Goodwill	Intangible assets			
		Software	Customer relationships	Other	Total
Beginning of FY2022 (October 1, 2021)					
Acquisition cost	–	301,628	–	1,257	302,885
Accumulated depreciation and impairment	–	234,338	–	1,257	235,595
Carrying amount	–	67,290	–	–	67,290
FY2022 (Ended September 30, 2022)					
Acquisition cost	4,693,055	408,356	449,000	22,852	880,208
Accumulated depreciation and impairment	–	317,066	30,614	7,391	355,071
Carrying amount	4,693,055	91,290	418,386	15,461	525,138
FY2023 (Ended December 31, 2023)					
Acquisition cost	4,693,055	421,259	449,000	2,518	872,777
Accumulated depreciation and impairment	–	356,330	81,636	2,444	440,411
Carrying amount	4,693,055	64,928	367,364	74	432,366

(2) Reconciliation of the carrying amount of goodwill and intangible assets

FY2022 (From October 1, 2021 to September 30, 2022)

(Thousand yen)

	Goodwill	Intangible assets			
		Software	Customer relationships	Other	Total
Balance at beginning of period	–	67,290	–	–	67,290
Purchase	–	52,046	–	20,344	72,389
Business combinations	4,693,055	10,579	449,000	214	459,793
Sell or disposal	–	-2,381	–	–	-2,381
Amortization (Note) 1	–	-36,220	-30,614	-5,053	-71,887
Impairment losses (Note) 2	–	–	–	-85	-85
Other	–	-23	–	41	18
Balance at end of period	4,693,055	91,290	418,386	15,461	525,138

FY2023 (From October 1, 2022 to December 31, 2023)

(Thousand yen)

	Goodwill	Intangible assets			
		Software	Customer relationships	Other	Total
Balance at beginning of period	4,693,055	91,290	418,386	15,461	525,138
Purchase	–	9,636	–	9,255	18,891
Amortization (Note) 1	–	-40,455	-51,023	-15,000	-106,478
Impairment losses (Note) 2	–	-1,335	–	5	-1,330
Transfer to assets held for sale		-3,664	–	–	-3,664
Other	–	9,455	–	-9,647	-191
Balance at end of period	4,693,055	64,928	367,364	74	432,366

(Notes) 1. Amortization is included in “cost of sales,” “selling, general and administrative expenses” and “loss from discontinued operations” on the consolidated statement of profit or loss.

2. Impairment losses are recognized as certain businesses in the Digital Marketing Business and the Media Platform Business were no longer expected to generate revenue as initially anticipated. Impairment losses are included in “other expenses” and “loss from discontinued operations” on the consolidated statement of profit or loss. The recoverable amount is calculated based on value in use, which is considered as nil herein.

(3) Significant goodwill and intangible assets

FY2022 (Ended September 30, 2022)

Significant goodwill and intangible assets in the fiscal year ended September 30, 2022 are ¥4,693,055 thousand of goodwill and ¥418,386 thousand of customer relationships associated with the obtaining control over Dentsu Direct Inc., which is part of the Digital Marketing Business. The remaining amortization period of customer relationships as of the end of the fiscal year ended September 30, 2022 is 10 years.

FY2023 (Ended December 31, 2023)

Significant goodwill and intangible assets in the fiscal year ended December 31, 2023 are ¥4,693,055 thousand of goodwill and ¥367,364 thousand of customer relationships associated with the obtaining control over Dentsu Direct Inc., which is part of the Digital Marketing Business. The remaining amortization period of customer relationships as of the end of the fiscal year ended December 31, 2023 is 9 years.

(4) Impairment test of goodwill

FY2022 (From October 1, 2021 to September 30, 2022)

In conducting the impairment test of goodwill, the Group's goodwill has been allocated to Dentsu Direct Inc., which is part of the Digital Marketing Business. The recoverable amount of Dentsu Direct Inc., as a cash-generating unit, is calculated based on its value in use. The value in use is calculated based on the business plan for the three fiscal years following the next fiscal year, as approved by the management, which anticipates increases in future sales revenue and business growth beyond the plan period. Cash flows beyond the three-year period are calculated by discounting the estimated future cash flows to the present value using a perpetual growth rate. The discount rate is calculated based on the pre-tax weighted average cost of capital at 12.9%, reflecting the current market assessments of the time value of money and inherent risks. The perpetual growth rate is determined at 0.9% in consideration of the situation of countries and industries to which the cash-generating unit belongs. This perpetual growth rate is not exceeding the long-term average growth rate of the industries in which the cash-generating unit operates.

Furthermore, the management assumes that, even if the discount rate and the perpetual growth rate used in the aforementioned impairment test change within reasonably predictable range, it is not likely for such change to cause significant impairment to the cash-generating unit.

FY2023 (From October 1, 2022 to December 31, 2023)

In conducting the impairment test of goodwill, the Group's goodwill has been allocated to Dentsu Direct Inc., which is part of the Digital Marketing Business. The recoverable amount of Dentsu Direct Inc., as a cash-generating unit, is calculated based on its value in use. The value in use is calculated based on the business plan for the three fiscal years following the next fiscal year, as approved by the management, which anticipates increases in future sales revenue and business growth beyond the plan period. Cash flows beyond the three-year period are calculated by discounting the estimated future cash flows to the present value using a perpetual growth rate. The discount rate is determined based on the pre-tax weighted average cost of capital at 12.2%, reflecting the current market assessments of the time value of money and inherent risks. The perpetual growth rate is determined at 0.7% in consideration of the situation of countries and industries to which the cash-generating unit belongs. This perpetual growth rate is not exceeding the long-term average growth rate of the industries in which the cash-generating unit operates.

Furthermore, the management assumes that, even if the discount rate and the perpetual growth rate used in the aforementioned impairment test change within reasonably predictable range, it is not likely for such change to cause significant impairment to the cash-generating unit.

13. Lease transactions

The Group has entered into lease agreements for its offices. The lease term for major offices is three years without a renewal clause. The Group is under no restrictions associated with the lease agreement such as a purchase option and an escalation clause.

A breakdown of profit or loss on leases is as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Depreciation of right-of-use assets		
Buildings and accompanying facilities	580,070	728,974
Other	4,899	5,418
Total	584,969	734,393
Impairment losses of right-of-use assets		
Buildings and accompanying facilities	25,671	10,520
Total	25,671	10,520
Interest expense on lease liabilities	5,431	7,167
Lease of low-value assets and short-term leases	312,874	411,983

A breakdown of the carrying amount of right-of-use assets is as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Right-of-use assets		
Buildings and accompanying facilities	1,082,772	1,896,725
Other	8,193	2,775
Total	1,090,965	1,899,500

Increases in right-of-use assets for the fiscal year ended September 30, 2022 and the fiscal year ended December 31, 2023 are ¥47,845 thousand and ¥1,553,447 thousand, respectively.

The total cash outflows related to leases for the fiscal year ended September 30, 2022 and the fiscal year ended December 31, 2023 amounted to ¥611,233 thousand and ¥759,170 thousand, respectively.

For maturity analysis of lease liabilities, please refer to “Note 29. Financial instruments (4) Liquidity risk management.”

Lease liabilities are included in “Other financial liabilities (current)” and “Other financial liabilities (non-current).”

Leases with a remaining term of 12 months or less are applicable to exemption from the recognition of right-of-use assets and lease liabilities.

14. Trade payables

A breakdown of trade payables is as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Trade payables	16,891,357	19,031,397
Total	16,891,357	19,031,397

15. Other financial liabilities

A breakdown of other financial liabilities is as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Financial liabilities measured at amortized cost		
Other payables	1,011,768	817,223
Short-term borrowings	–	3,000,000
Long-term borrowings	2,000,350	–
Other	510,911	79,794
Financial liabilities measured at FVTPL		
Derivatives	3,969	–
Lease liabilities	1,086,190	1,887,887
Contingent considerations	828,080	–
Total	5,441,268	5,784,905
Current liabilities	4,910,042	4,414,965
Non-current liabilities	531,226	1,369,940
Total	5,441,268	5,784,905

(Note) The fair value of financial instruments is as stated in “Note 29. Financial instruments.”

The Group’s borrowings are under no financial covenants.

The average interest rate on short-term borrowings is 0.400%. An average interest rate represents the weighted average interest rate applicable to the balance as of the end of the fiscal year ended December 31, 2023.

16. Deferred tax assets, deferred tax liabilities, and income tax expense

(1) Deferred tax assets and deferred tax liabilities

Breakdowns of deferred tax assets and deferred tax liabilities by major cause of occurrence are as follow:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Deferred tax assets		
Intangible assets	855,936	829,175
Other	704,130	698,485
Total	1,560,066	1,527,659
Deferred tax liabilities		
Retained earnings at affiliates	153,722	156,513
Customer relationships	128,110	112,487
Other	27,937	33,547
Total	309,769	302,546
Net amount	1,250,297	1,225,113

Changes in deferred tax assets and deferred tax liabilities on a net basis are as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Balance at beginning of period	1,569,185	1,250,297
Deferred tax assets recognized in profit or loss	-264,483	-35,451
Deferred tax assets recognized in other comprehensive income	321	10,268
Effects of business combinations	-54,726	–
Balance at end of period	1,250,297	1,225,113

Deductible temporary differences and tax loss carried forward (as of the expiry date) for which deferred tax assets were not recognized in the consolidated statement of financial position are as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Deductible temporary differences	1,009,115	561,268
Tax loss carried forward		
Year 1	92,798	9,692
Year 2 through Year 4	163,035	20,646
Year 5 onward	485,093	250,676
Total	740,926	281,014

There are no taxable temporary differences regarding investments in subsidiaries for which deferred tax liabilities were not recognized in the fiscal year ended September 30, 2022 and the fiscal year ended December 31, 2023.

(2) Income tax expense

A breakdown of income tax expense is as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Current tax expense:		
Current tax expense	2,414,123	1,692,315
Subtotal	2,414,123	1,692,315
Deferred tax expense		
Origination and reversal of temporary differences	245,738	35,451
Subtotal	245,738	35,451
Total	2,659,861	1,727,766

Statutory effective tax rate applicable for the fiscal year ended December 31, 2023 is calculated based on the corporate income tax, inhabitant tax, and enterprise tax in Japan at 30.6% (30.6% for the fiscal year ended September 30, 2022).

Reconciliation between the statutory effective tax rate and the actual tax rate in income tax expense is as follows:

(%)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Statutory effective tax rate	30.6	30.6
Non-deductible expenses such as entertainment expenses	0.3	0.8
Share-based payment expenses	0.2	0.1
Share of profit (loss) of investments accounted for by using equity method	-1.9	-4.3
Increase or decrease in unrecognized deferred tax assets	1.7	1.0
Gain on sale of shares of subsidiaries	–	-1.2
Other	-1.2	-1.0
Actual tax rate in income tax expense	29.7	26.0

17. Provisions

The details and changes of provisions are as follows:

FY2022 (From October 1, 2021 to September 30, 2022)

(Thousand yen)

	Asset retirement obligations	Other	Total
Balance at beginning of period	131,444	23,646	155,090
Increase during the period	10,081	–	10,081
Decrease during the period (intended use)	-10,081	–	-10,081
Other	–	3,973	3,973
Balance at end of period	131,444	27,619	159,063

FY2023 (From October 1, 2022 to December 31, 2023)

(Thousand yen)

	Asset retirement obligations	Other	Total
Balance at beginning of period	131,444	27,619	159,063
Increase during the period	16,219	–	16,219
Decrease during the period (intended use)	-22,400	–	-22,400
Other	–	-333	-333
Balance at end of period	125,263	27,287	152,549

In order to be prepared to fulfill obligation to restore site to original condition at future relocation from leased office pursuant to office lease agreement, asset retirement obligations are estimated, recognized and measured in consideration of the situation of each specific premises based on the expected period of use determined in reference to the past record of restoration as well as service life of interior fixtures at offices.

These expenses are expected to be paid largely after no less than one year, which, however, is subject to factors including the future business plan.

18. Other current liabilities

A breakdown of other liabilities is as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Other current liabilities		
Accrued consumption taxes	374,468	574,171
Accrued bonuses	732,012	573,068
Accrued vacation pay	373,885	432,673
Other	1,366,745	647,847
Total	2,847,110	2,227,759

19. Equity and other equity items

(1) Total number of shares authorized, total number of shares issued, and number of treasury shares

(Shares)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Total number of shares authorized		
Balance at beginning of period	370,080,000	370,080,000
Balance at end of period	370,080,000	370,080,000
Total number of shares issued		
Balance at beginning of period	138,916,500	211,079,654
Share exchange (Note) 2	2,044,360	–
Third-party allotment (Note) 3	70,118,794	–
Balance at end of period	211,079,654	211,079,654
Number of treasury shares		
Balance at beginning of period	12,463,440	1,739,243
Share exchange (Note) 2	-10,724,240	–
Acquisition based on request for purchase of shares less than one unit	43	–
Granted to beneficiary of the directors' remuneration board incentive plan (BIP) trust	–	-1,374,698
Acquisition based on the resolution at the Board of Directors (Note) 4	–	2,200,000
Acquisition by the directors' remuneration board incentive plan (BIP) trust (Note) 5	–	1,400,000
Balance at end of period	1,739,243	3,964,545

(Notes) 1. Shares issued by the Company are no par value common shares without any restrictions on rights, and all issued shares are fully paid up.

2. Total number of shares issued increased by 2,044,360 shares due to the share exchange carried out with the effective date of January 4, 2022, in the fiscal year ended September 30, 2022. In addition, 10,724,240 treasury shares (including 40 shares less than one unit) were allotted. The details are stated in "Note 7. Business combinations."

3. Total number of shares issued increased by 70,118,794 shares due to the third-party allotment, which was paid in on January 4, 2022, in the fiscal year ended September 30, 2022.

4. The Company acquired its own shares as below based on the resolution on February 9, 2023, in the fiscal year ended December 31, 2023.
- Class of shares acquired: Common shares
- Total number of shares acquired: 2,200,000 shares
- Total amount of share acquisition costs: ¥744,512 thousand
- Acquisition period: From February 17, 2023 to March 17, 2023
- Method of Acquisition: Market purchase on the Tokyo Stock Exchange

5. The Company acquired 1,400,000 shares of the common shares of the Company (total amount of share acquisition costs: ¥531, 430 thousand) though the BIP trust. The Company's shares held by the BIP trust are recognized as treasury shares.

(2) Share capital and capital surplus

FY2022 (From October 1, 2021 to September 30, 2022)

The Company allocated its shares to Dentsu Group Inc. through a third-party allotment of shares under the following conditions after necessary procedures based on laws and regulations, etc., and Dentsu Group Inc. underwrote them.

- Number of shares for subscription: Common shares: 70,118,794 shares (issuance of 70,118,794 new shares)
- Issue price: ¥465 per common share
- Amount to be incorporated into share capital: ¥232.5 per common share
- Amount of fund raising: ¥32,605,239,210
- Payment date: January 4, 2022
- Use of the funds: The funds are mainly used as part of the fund for acquiring shares (consideration for acquisition at ¥31,312,999 thousand) of Dentsu Digital Inc., which were owned by Dentsu Group Inc.

Under certain provisions of the Companies Act of Japan, 50% or more of the payment or delivery for accepting the issued shares may be incorporated into share capital, while the remainder may be incorporated into legal capital surplus.

FY2023 (From October 1, 2022 to December 31, 2023)

The decrease in capital surplus due to the disposal of treasury shares was due to granting to the beneficiary of the directors' remuneration BIP trust. The details of the share-based remuneration plan are stated in "Note 28. Share-based payment."

The effect of changes without loss of control of subsidiaries on capital surplus is omitted because the same information is disclosed in "Note 30. Subsidiaries."

(3) Retained earnings

Under certain provisions of the Companies Act of Japan, 10% of the amount paid as dividend of surplus shall be set aside as legal capital surplus or as legal retained earnings until the sum of these two reserves reaches 25% of share capital.

(4) Changes in other components of equity

A breakdown of other components of equity and the details of their increase or decrease are as follows:

FY2022 (From October 1, 2021 to September 30, 2022)

(Thousand yen)

	Changes in fair value of financial assets measured at FVTOCI	Exchange differences on translation of foreign operations	Cash flow hedges	Total
Balance at beginning of period	-284,901	65,568	-11,346	-230,678
Amount arising during the year	25,055	114,591	8,356	148,001
Amount transferred to retained earnings	-45,911	–	–	-45,911
Balance at end of period	-305,758	180,159	-2,990	-128,588

FY2023 (From October 1, 2022 to December 31, 2023)

(Thousand yen)

	Changes in fair value of financial assets measured at FVTOCI	Exchange differences on translation of foreign operations	Cash flow hedges	Total
Balance at beginning of period	-305,758	180,159	-2,990	-128,588
Amount arising during the year	201,646	31,761	2,990	236,397
Amount transferred to retained earnings	-157,539	–	–	-157,539
Balance at end of period	-261,651	211,921	–	-49,731

20. Dividends

The Company pays the year-end dividend only. The Articles of Incorporation of the Company stipulate that the Company may determine dividends of surplus, etc. by a resolution of the board of directors pursuant to the provisions of Article 459, paragraph (1) of the Companies Act. However, since the fiscal year under review is a 15-month period due to a change in the Company's fiscal year-end, the year-end dividends for the fiscal year under review is determined by the general meeting of shareholders.

(1) Total amount of dividend

FY2022 (From October 1, 2021 to September 30, 2022)

Date of resolution	Class of shares	Total amount of dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
November 25, 2021	Common shares	435,854	3.40	September 30, 2021	December 3, 2021

(Note) The above total amount of dividend includes ¥5,913 thousand of dividend paid to the Company's shares held by the directors' remuneration BIP trust.

FY2023 (From October 1, 2022 to December 31, 2023)

Date of resolution	Class of shares	Total amount of dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
November 22, 2022	Common shares	970,966	4.60	September 30, 2022	December 2, 2022

(Note) The above total amount of dividend includes ¥8,000 thousand of dividend paid to the Company's shares held by the directors' remuneration BIP trust.

(2) Dividend with its record date falling within the fiscal year, while its effective date falling in the next fiscal year

FY2022 (From October 1, 2021 to September 30, 2022)

Date of resolution	Class of shares	Total amount of dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
November 22, 2022	Common shares	970,966	4.60	September 30, 2022	December 2, 2022

(Note) The above total amount of dividend includes ¥8,000 thousand of dividend paid to the Company's shares held by the directors' remuneration BIP trust.

FY2023 (From October 1, 2022 to December 31, 2023)

Date of resolution	Class of shares	Total amount of dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
March 27, 2024 Ordinary General Meeting of Shareholders	Common shares	1,086,174	5.20	December 31, 2023	March 28, 2024

(Note) The above total amount of dividend includes ¥9,175 thousand of dividend paid to the Company's shares held by the directors' remuneration BIP trust.

21. Revenue

(1) Disaggregation of revenue

Disaggregation of revenue recognized in contracts with customers is as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Digital Marketing Business (Japan)	24,458,161	30,921,890
Digital Marketing Business (overseas)	1,403,823	1,189,686
Media Platform Business	3,296,727	5,838,993
Adjustments	-1,569,324	-3,683,957
Total	27,589,386	34,266,611

(Note) Adjustments include revenue related to the operation of the holding company and the elimination of profit and loss transactions between reportable segments. It also includes the amount of ¥-3,014,485 thousand (¥-1,229,537 thousand for the fiscal year ended September 30, 2022) for the reclassification to discontinued operations of the performance of COMICSMART INC. and its subsidiaries, etc., which are included in the Media Platform Business.

(2) Contract balance

Balances of receivables and contract liabilities from contracts with customers are as follows:

FY2022 (From October 1, 2021 to September 30, 2022)

(Thousand yen)

	Beginning of FY2022 (October 1, 2021)	FY2022 (Ended September 30, 2022)
Receivables from contracts with customers		
Notes receivable and trade receivables	16,085,450	18,285,273
Contract liabilities	420,948	429,552

FY2023 (From October 1, 2022 to December 31, 2023)

(Thousand yen)

	Beginning of FY2023 (October 1, 2022)	FY2023 (Ended December 31, 2023)
Receivables from contracts with customers		
Notes receivable and trade receivables	18,285,273	19,830,799
Contract liabilities	429,552	239,426

In the consolidated financial statements, receivables from contracts with customers, including notes receivable and trade receivables, are included in trade receivables, while contract liabilities are included in other current liabilities.

Of the revenue recognized in the fiscal year ended September 30, 2022 and the fiscal year ended December 31, 2023, the amount included in contract liabilities as of the beginning of the fiscal years were ¥420,948 thousand and ¥429,552 thousand, respectively. In the fiscal year ended September 30, 2022 and the fiscal year ended December 31, 2023, the amount of revenue recognized in performance obligations fulfilled (either wholly or partially) in previous periods was not material. In addition, there were no significant changes in the balances of contract liabilities in the fiscal year ended September 30, 2022 and the fiscal year ended December 31, 2023.

22. Cost of sales and selling, general and administrative expenses

A breakdown of cost of sales and selling, general and administrative expenses is as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Cost of goods sold	4,892,953	3,895,947
Officers' remunerations (Note)	1,197,603	1,796,732
Share-based payment expenses (Note)	128,729	38,877
Employee benefit expenses	8,438,131	14,062,018
Sales promotion and advertising expenses	655,566	441,324
Depreciation and amortization	748,180	945,345
Other	5,139,521	8,118,673
Total	21,200,683	29,298,916

(Note) Officers' remunerations and share-based payment expenses represent remunerations for directors (including outside directors) of the Company, Group Executive Officers, and officers of subsidiaries.

23. Other expenses

A breakdown of other expenses is as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Impairment losses	32,600	20,971
Loss on retirement of fixed assets	6,882	1,954
Advisory expenses	147,730	42,610
Other	59,026	19,199
Total	246,238	84,734

24. Finance income and finance costs

A breakdown of finance income is as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Interest income		
Financial assets measured at amortized cost	2,241	4,453
Dividend income		
Financial assets measured at FVTOCI	200	100
Gain on investments in securities		
Financial assets measured at FVTPL	2,032,753	–
Other	33,757	1,207
Total	2,068,952	5,760

The breakdown of finance costs is as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Interest expenses		
Financial liabilities measured at amortized cost	24,920	26,229
Loss on investments in securities		
Financial liabilities measured at FVTPL	–	42,700
Changes in fair value of contingent considerations	293,640	–
Other	16,033	84,556
Total	334,594	153,485

25. Other comprehensive income

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

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Net change in fair value of financial assets measured through other comprehensive income		
Amount arising during the year	21,999	190,400
Reclassification adjustments	–	–
Before tax effects	21,999	190,400
Tax effects	3,056	11,246
After tax effects	25,055	201,646
Exchange differences on translation of foreign operations		
Amount arising during the year	114,591	28,097
Reclassification adjustments	–	–
Before tax effects	114,591	28,097
Tax effects	–	–
After tax effects	114,591	28,097
Cash flow hedges		
Amount arising during the year	-7,907	-2,899
Reclassification adjustments	18,997	6,867
Before tax effects	11,091	3,969
Tax effects	-2,735	-979
After tax effects	8,356	2,990
Share of other comprehensive income of investments accounted for using equity method		
Amount arising during the year	–	3,664
Reclassification adjustments	–	–
Before tax effects	–	3,664
Tax effects	–	–
After tax effects	–	3,664

26. Information on cash flows

(1) Breakdowns of other under cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities are as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Cash flows from operating activities		
Adjustments		
Impairment losses	32,600	27,310
Other	150,723	43,081
Total	183,323	70,391
Changes in working capital		
Increase (decrease) in accrued consumption taxes	-812,372	548,549
Increase (decrease) in accrued bonuses	-189,856	-140,536
Changes in contingent considerations	293,640	–
Other	-526,241	-409,444
Total	-1,234,828	-1,431
Cash flows from investing activities		
Proceeds from distributions from investment partnerships	77,304	710,918
Proceeds from refund of leasehold and guarantee deposits	290,141	7,302
Other	-4,141	-41,861
Total	363,304	676,358
Cash flows from financing activities		
Other (Note)	713,924	-63,181
Total	713,924	-63,181

(Note) For the fiscal year ended September 30, 2022, it refers to income related to transactions with the effective date of October 1, 2022.

(2) Reconciliation of liabilities from financing activities

FY2022 (From October 1, 2021 to September 30, 2022)

(Thousand yen)

	Long-term borrowings	Lease liabilities
Balance at beginning of period	2,849,976	1,643,866
Changes from financial cash flows		
Increase (decrease) in long-term borrowings	-851,551	–
Increase (decrease) in lease liabilities	–	-605,802
New leases	–	44,338
Increase through business combinations	1,925	3,788
Balance at end of period	2,000,350	1,086,190

FY2023 (From October 1, 2022 to December 31, 2023)

(Thousand yen)

	Short-term borrowings	Long-term borrowings	Lease liabilities
Balance at beginning of period	–	2,000,350	1,086,190
Changes from financial cash flows			
Increase (decrease) in short-term borrowings	3,000,000	–	–
Increase (decrease) in long-term borrowings	–	-2,000,350	–
Increase (decrease) in lease liabilities	–	–	-751,749
New leases	–	–	1,553,447
Increase through business combinations	–	–	–
Balance at end of period	3,000,000	–	1,887,887

(3) Non-cash transactions

Significant non-cash transactions are as follows:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Right-of-use assets acquired through leases	44,338	1,553,447

(Note) In the fiscal year ended September 30, 2022, share exchange was carried out with the effective date of January 4, 2022. The details are stated in “Note 7. Business combinations.”

27. Information on earnings per share

The basis of the calculation of earnings per share is as below.

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Profit (loss) attributable to owners of parent (thousand yen)		
Continuing operations	6,289,395	4,906,493
Discontinued operations	-555,831	-587,663
Total	5,733,564	4,318,831
Average number of common shares outstanding during the fiscal year (thousand shares)	187,767	208,285
Number of potential shares with dilutive effects		
Number of share acquisition rights (thousand shares)	513	511
Average number of shares outstanding in consideration of the number of potential shares with dilutive effects (thousand shares)	188,280	208,796
Basic earnings (loss) per share (yen)		
Continuing operations	33.50	23.56
Discontinued operations	-2.96	-2.82
Total	30.54	20.74
Diluted earnings per share (yen)		
Continuing operations	33.40	23.50
Discontinued operations	-2.95	-2.81
Total	30.45	20.68

28. Share-based payment

(1) Share option plan

The Company introduced a share option plan as share-based payment for a period up to the fiscal year ended September 30, 2016. Share options are granted to officers of the Company and its subsidiaries, based on the details approved by the Ordinary General Meeting of Shareholders and the Board of Directors of the Company.

(i) Details of the share option plan

Overall terms of contract are as follows:

Share options based on Article 280-20 and Article 280-21 of the former Commercial Code revised in 2001

	Number of shares granted (shares) (Note) 1	Grant date	Exercise period of share options	Vesting conditions
1st series share options in share-based payment arrangement	1,980,000	June 28, 2004	From June 29, 2004 to December 18, 2033	(Note) 2
2nd series share options in share-based payment arrangement	600,000	March 15, 2005	From March 16, 2005 to December 16, 2034	(Note) 2
3rd series share options in share-based payment arrangement	490,000	January 31, 2006	From February 1, 2006 to December 20, 2035	(Note) 2

(Notes) 1. For the 1st series share options in share-based payment arrangement and the 2nd series share options in share-based payment arrangement, the number of shares is stated on the post-share split basis, reflecting the share split conducted on May 20, 2005 (two for one) and the share split conducted on October 1, 2013 (200 for one). For the 3rd series share options in share-based payment arrangement, the number of shares is stated on the post-share split basis, reflecting the share split conducted on October 1, 2013 (200 for one). For all share options, the numbers of shares are stated on the post-share split basis, reflecting the share split conducted on October 1, 2016 (five for one).

2. The conditions for exercise (loss of office as a director or a company auditor of the Company) shall be satisfied after the grant date.

(ii) Number of share options and weighted average exercise price

Share options based on Article 280-20 and Article 280-21 of the former Commercial Code revised in 2001

	FY2022 (From October 1, 2021 to September 30, 2022)		FY2023 (From October 1, 2022 to December 31, 2023)	
	Number of shares (shares)	Weighted average exercise price (yen)	Number of shares (shares)	Weighted average exercise price (yen)
Share options unexercised at the beginning of the fiscal year	520,000	7	520,000	7
Granted	–	–	–	–
Exercised	–	–	–	–
Lapsed	–	–	–	–
Expired at maturity	–	–	–	–
Share options unexercised at the end of the fiscal year	520,000	7	520,000	7
Share options exercisable at the end of the fiscal year	210,000	7	210,000	7
Range of exercise prices	¥7		¥7	
Weighted average remaining years under contract	11.8 years		10.6 years	
Weighted average share price as of the exercise date	–		–	

(2) Share-based remuneration plan

(i) Details of the share-based remuneration plan

The Company introduced the share-based remuneration plan as a form of share-based payment in the fiscal year ended September 30, 2017. The share-based remuneration plan grants (and provides) shares to directors of the Company (excluding outside directors and those who are non-residents of Japan) and Executive Officers of the Group (excluding those who are non-residents of Japan; hereinafter directors and Executive Officers collectively referred to as "Directors, etc."), based on the details as approved at the 26th Ordinary General Meeting of Shareholders held on December 20, 2016 (renewal of the plan was resolved at the Board of Directors meeting held on November 26, 2019 and renewal and partial amendment of the plan was resolved at the 32nd Ordinary General Meeting of Shareholders held on December 21, 2022).

This plan adopts the framework of a Board Incentive Plan trust (the "BIP trust"). The BIP trust works as an incentive plan for officers based on the performance-linked share-based remuneration plans and restricted share-based remuneration plans in the United States, providing a performance-linked share-based remuneration plan in which shares of the Company acquired by the BIP trust (and the cash equivalent to the cash-converted value of the Company's shares) are granted (and provided) to the eligible Directors, etc., according to their roles and the degree of achievement, etc. of performance goals.

(ii) Fair value of the points granted

Fair value of the Company's shares, etc. delivered commensurate with the number of points granted is measured based on the observable market price reflecting the expected dividend.

Weighted average fair value of the Company's shares granted during the period is ¥301 for the fiscal year ended December 31, 2023 (¥301 for the fiscal year ended September 30, 2022.)

(iii) Increase or decrease of the number of points during the year

(Points)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Balance at beginning of period	–	405,486
Issuance	405,486	969,212
Granted and provision	–	-1,374,698
Balance at end of period	405,486	–

(iv) Expenses recorded under the share-based remuneration plan

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Share-based payment expenses	144,671	32,629
Total	144,671	32,629

Share-based payment expenses are recorded under selling, general and administrative expenses in continuing operations on the consolidated statement of profit or loss, which amounted ¥128,729 thousand in the fiscal year ended September 30, 2022 and ¥38,877 thousand in the fiscal year ended December 31, 2023, and under loss from discontinued operations of discontinued operations, which amounted ¥15,942 thousand in the fiscal year ended September 30, 2022 and ¥-6,247 thousand in the fiscal year ended December 31, 2023.

29. Financial instruments

(1) Capital management

The Group's basic policy of capital management is building and maintaining a sound financial structure to continue sustainable growth and maximize corporate value.

It should be noted that there are no significant capital regulations applicable to the Group.

(2) Financial risk management

In the course of conducting business activities, the Group is exposed to various risks, including credit risk, liquidity risk, market risk (currency risk, interest rate risk, and market price risk). The Group is carrying out risk management based on certain policies for the prevention and mitigation of these risks.

Meanwhile, the Group's policy dictates that derivative transactions are conducted only within the scope of actual requirements to hedge against exchange rate fluctuations and other risks, avoiding any speculative trading.

(3) Credit risk management

The Group holds receivables from many business partners. In connection with these receivables, the Group is exposed to credit risk, which is the risk of financial loss if a business partner fails to fulfill its contractual obligations.

The Group manages this type of risk by placing credit limits for each business partner based on the credit management regulations. Regular monitoring of business partners' situations allows us to manage due dates and balances, as well as to early detect and mitigate the risk of non-recovery due to financial deterioration. The Group recognizes and measures expected credit loss, taking into account the transactional, financial and economic status of our business partners, which are obtained through our credit management practice.

The Group does not have an excessively concentrated credit risk with any single business partner or group, and believes the overall exposure to credit risk is not significant; therefore, has not disclosed an expected credit loss matrix.

The impaired carrying amount of financial assets presented in the consolidated statement of financial position reflects the Group's maximum exposure to credit risk of financial assets without considering any collateral or other credit enhancements.

The Group calculates loss allowance by categorizing receivables into trade receivables and non-trade receivables.

If any part of a financial asset is deemed unrecoverable or very difficult to collect, it is considered a default and treated as a credit-impaired financial asset.

Changes in loss allowance are as follows:

(Thousand yen)

	Financial assets recorded at an amount equivalent to the 12-month expected credit losses	Financial assets recorded at an amount equivalent to the lifetime expected credit losses			Total
		Financial assets not classified as credit-impaired financial assets	Credit-impaired financial assets	Trade receivables	
Balance as of October 1, 2021	–	–	3,346	18,970	22,316
Transfer to lifetime expected credit losses	–	–	–	–	–
Transfer to credit-impaired financial assets	–	–	3,134	–	3,134
Transfer to 12-month expected credit losses	–	–	–	–	–
Financial assets derecognized during the fiscal year	–	–	-495	–	-495
Direct write-off	–	–	–	–	–
Other	–	–	987	4,000	4,987
Balance as of September 30, 2022	–	–	6,972	22,970	29,942
Transfer to lifetime expected credit losses	–	–	–	–	–
Transfer to credit-impaired financial assets	–	–	18,068	–	18,068
Transfer to 12-month expected credit losses	–	–	–	–	–
Financial assets derecognized during the fiscal year	–	–	-3,261	–	-3,261
Direct write-off	–	–	-245	–	-245
Other	802	–	948	5,000	6,751
Balance as of December 31, 2023	802	–	22,482	27,970	51,255

In the fiscal year ended September 30, 2022 and the fiscal year ended December 31, 2023, there were no significant changes in the carrying amounts of financial instruments that had material impact on loss allowance.

Furthermore, there were no outstanding contractual receivables of financial assets for which collection efforts continue after the direct write-off.

A portion of trade receivables is secured through guarantee contracts with credit guarantee companies. These credit guarantee contracts stipulate that, in the event of a business partner default, a predetermined amount of insurance money is paid to the Group by the credit guarantee company, thereby mitigating the credit risk exposure associated with trade receivables.

(4) Liquidity risk management

The Group uses borrowings from financial institutions as a source of funds to support business activities. Together with trade payables, the Group is exposed to liquidity risk, where there is a risk of not being able to meet obligations to repay financial liabilities as they come due.

The Group is engaged in risk management through maintaining sufficient cash and deposits balances, setting up cash flows from operating activities, arranging credit lines that are available on demand with financial institutions, and continuously monitoring cash flow plans against actual results.

Outstanding financial liabilities (including derivative financial instruments) by maturity are as follows:

FY2022 (Ended September 30, 2022)

(Thousand yen)

	Carrying amount	Outstanding amount under contract	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years
Non- derivatives								
Financial liabilities								
Trade payables	16,891,357	16,891,357	16,891,357	–	–	–	–	–
Lease liabilities	1,086,190	1,090,320	593,978	492,594	3,748	–	–	–
Accounts payable - other	1,011,768	1,011,768	1,011,768	–	–	–	–	–
Contingent considerations	828,080	828,080	828,080	–	–	–	–	–
Long-term borrowings	2,000,350	2,003,267	2,003,267	–	–	–	–	–
Other	510,911	510,911	475,061	–	–	–	–	35,850
Derivatives								
Financial liabilities								
Interest rate derivatives	3,969	3,969	3,969	–	–	–	–	–
Total	22,332,624	22,339,672	21,807,479	492,594	3,748	–	–	35,850

(Note) The net receivables and payables arising from derivative transactions are presented on a net basis.

FY2023 (Ended December 31, 2023)

(Thousand yen)

	Carrying amount	Outstanding amount under contract	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years
Non- derivatives								
Financial liabilities								
Trade payables	19,031,397	19,031,397	19,031,397	–	–	–	–	–
Short-term borrowings	3,000,000	3,000,000	3,000,000	–	–	–	–	–
Lease liabilities	1,887,887	1,901,637	559,312	523,678	491,838	326,810	–	–
Accounts payable - other	817,223	817,223	817,223	–	–	–	–	–
Other	79,794	79,794	44,944	–	10,000	–	–	24,850
Total	24,816,302	24,830,052	23,452,877	523,678	501,838	326,810	–	24,850

(5) Market risk management

(i) Currency risk

Given its international business operations, the Group conducts transactions in various currencies, and therefore exposed to foreign currency fluctuation risks related to foreign currency-dominated business activities.

The Group manages this type of risk by using derivatives such as forward foreign exchange contracts to hedge a portion of it.

a. Foreign exchange sensitivity analysis

For the fiscal year ended September 30, 2022 and the fiscal year ended December 31, 2023, if the Japanese yen, which is the functional currency, appreciated by 1% against the US dollar, the impact on the profit before tax in the consolidated statement of profit or loss would be as follows.

However, this is based on the assumption that currencies other than those used in the calculation do not fluctuate and all other variables remain constant.

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Profit before tax	-6,332	-4,499

b. Derivatives and hedge accounting

Not applicable.

(ii) Interest rate risk

Through its borrowings from financial institutions with interest amounts subject to fluctuations in market interest rates, the Group is exposed to interest rate risk that fluctuates future cash flows of interest.

The Group manages this type of risk by using interest rate swaps to fix cash flows. As this arrangement reduces the Group’s exposure to interest rate risk to a limited level, reducing the impact of the interest rate fluctuations to a minor level, disclosure of the interest rate sensitivity analysis is omitted.

a. Derivatives and hedge accounting

The Group has entered into interest rate swap contracts that fix interest payments to hedge against interest rate risk associated with a portion of its variable-rate borrowings. The impact of these transactions are as follows:

i. Impact of hedging on the consolidated statement of financial position

The details of hedging instruments designated as cash flows hedge are as follows:

(Thousand yen)

		Contract amount	Applicable interest rate	Assets	Liabilities
FY2022 (Ended September 30, 2022)					
Interest rate risk	Current	2,000,000	Floating rate receivable: Japanese yen TIBOR for one month Fixed payment: 0.83%	–	3,969
	Non-current	–	–	–	–
FY2023 (Ended December 31, 2023)					
Not applicable.					

Financial assets and financial liabilities arising from derivative contracts are recorded under “other financial assets” and “other financial liabilities” on the consolidated statement of financial position.

The fluctuations in fair value of hedging instruments used as a basis to calculate ineffective portion of hedges closely match the fluctuations in value of hedged items, making the ineffective portion of the hedges insignificance.

There are no derivative transactions that are not subject to hedge accounting other than those described above.

The amounts recognized in other components of equity related to cash flow hedges are as follows:

(Thousand yen)

	Amounts recognized in other components of equity related to ongoing hedge relationships	Amounts recognized in other components of equity related to discontinued hedge relationships
FY2022 (Ended September 30, 2022)		
Interest rate risk	-2,990	–
FY2023 (Ended December 31, 2023)		
Interest rate risk	–	–

ii. The impact of hedging on the consolidated statement of profit and loss and other comprehensive income:

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)		FY2023 (From October 1, 2022 to December 31, 2023)	
	Amounts recognized in other comprehensive income	Amounts reclassified from other components of equity to the consolidated statement of profit or loss	Amounts recognized in other comprehensive income	Amounts reclassified from other components of equity to the consolidated statement of profit or loss
Interest rate risk	11,091	18,997	3,969	6,867

(iii) Market price risk

The Group is primarily exposed to market price fluctuation risks arising from equity instruments (shares).The Group manages this type of risk by regularly reviewing financial conditions of issuers and fair values, and periodically reassessing its holdings.

a. Market price sensitivity analysis

For the fiscal years ended September 30, 2022 and the fiscal year ended December 31, 2023, a hypothetical 10% decline in market prices of equity instruments held would have affected other comprehensive income (before tax effect) on the consolidated statement of comprehensive income and profit before tax on the consolidated statement of profit or loss as follows.

However, this subject to the assumption that all other variables remain constant.

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Other comprehensive income (before tax effects)	-196,508	-269,528
Profit before tax	-412,154	-369,264

(6) Classification of financial instruments

The carrying amounts of the Group's financial assets and financial liabilities, categorized by classification, are as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Financial assets		
Financial assets measured at amortized cost		
Cash and cash equivalents	21,340,076	20,873,416
Trade receivables	18,285,273	19,830,799
Other financial assets (current)	98,953	101,550
Other financial assets (non-current)	788,820	718,443
Total	40,513,123	41,524,208
Financial assets measured at FVTOCI		
Other financial assets (non-current)	1,965,076	2,695,276
Total	1,965,076	2,695,276
Financial assets measured at FVTPL		
Other financial assets (non-current)	4,150,630	3,692,644
Total	4,150,630	3,692,644
Financial liabilities		
Financial liabilities measured at amortized cost		
Trade payables	16,891,357	19,031,397
Other financial liabilities (current)	3,487,179	3,862,168
Other financial liabilities (non-current)	35,850	34,850
Total	20,414,386	22,928,415
Financial liabilities measured at FVTPL		
Other financial liabilities (current)	3,969	–
Total	3,969	–

(7) Financial assets measured at FVTOCI

For financial assets designated as financial assets measured at FVTOCI, the principal issuers and their fair values are detailed below:

(Thousand yen)

Issuer	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Kamiyama Marugoto Scholarship Fund	1,000,000	1,000,000
Nyle Inc.	39,438	219,409
HOMMA Group Inc.	376,104	184,182
jig.jp co., ltd.	–	93,818
Gunosy Inc.	30,640	30,880

(8) Derecognition of financial assets measured at FVTOCI

Following regular portfolio reviews, the Group sold financial assets measured at FVTOCI and subsequently derecognized them. The fair values at the time of derecognition, the cumulative gains or losses (pre-tax) from disposal, and dividend income are outlined below:

(Thousand yen)

FY2022 (From October 1, 2021 to September 30, 2022)			FY2023 (From October 1, 2022 to December 31, 2023)		
Fair value	Cumulative gains or losses	Dividend income	Fair value	Cumulative gains or losses	Dividend income
99,998	66,174	–	311,068	227,067	–

(Note) Cumulative gains or losses (net of tax) in other comprehensive income transferred to retained earnings were ¥45,911 thousand for the fiscal year ended September 30, 2022, while ¥157,539 thousand for the fiscal year ended December 31, 2023.

(9) Fair value of financial instruments

(i) Fair value hierarchy

For financial instruments measured at fair value, the fair value measurement amount is classified into three levels, from Level 1 through Level 3, depending on the observability and materiality of the inputs used for measurement.

Level 1: Fair value measured at (unadjusted) market price in the active market for identical assets and liabilities

Level 2: Fair value measured by using directly or indirectly observable inputs other than those used for Level 1

Level 3: Fair value measured by using unobservable inputs

Reclassifications between fair value hierarchy levels are recognized as if they occurred at the beginning of each reporting period.

There are no financial assets and financial liabilities measured at fair value on a non-recurring basis.

FY2022 (Ended September 30, 2022)

(Thousand yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Shares	30,640	–	934,436	965,076
Investments in limited partnership	–	–	4,121,535	4,121,535
Other	–	–	1,000,000	1,000,000
Total	30,640	–	6,055,972	6,086,612
Financial liabilities				
Derivatives	–	3,969	–	3,969
Contingent considerations	–	–	828,080	828,080
Total	–	3,969	828,080	832,049

FY2023 (Ended December 31, 2023)

(Thousand yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Shares	344,107	–	1,351,169	1,695,276
Investments in limited partnership	–	–	3,692,644	3,692,644
Other	–	–	1,000,000	1,000,000
Total	344,107	–	6,043,814	6,387,921

(ii) Valuation process

For financial instruments classified as Level 3, the responsible department determines the valuation technique based on the policies and procedures of fair value measurement and assesses their fair value accordingly. The results of the fair value measurement are approved by an appropriately authorized individual in charge.

In Level 3 fair value measurements, if one or more of the unobservable inputs are changed to reasonably possible alternative assumptions, the increase or decrease in fair value is not significant.

(iii) Reconciliation of financial instruments classified as Level 3, from the balance at beginning of period to the balance at end of period

a. Financial assets

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Balance at beginning of period	2,814,705	6,055,972
Profit or loss (Note) 1	2,032,753	-42,700
Other comprehensive income (Note) 2	74,071	-226,207
Purchase or acquisition	1,311,447	1,009,053
Sale	-99,998	-1,948
Transfer from Level 3 to Level 1	–	-39,438
Other (Note) 3	-77,006	-710,918
Balance at end of period	6,055,972	6,043,814

b. Financial liabilities

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Balance at beginning of period	–	828,080
Profit or loss (Note) 1	293,640	–
Increase due to business combinations	534,440	–
Settlement	–	-828,080
Balance at end of period	828,080	–

(Notes) 1. It is related to financial assets and financial liabilities measured at FVTPL and included in “finance income” and “finance costs” on the consolidated statement of profit or loss.

2. It is related to financial assets measured at FVTOCI and included in “net changes in financial assets measured at fair value through other comprehensive income” on the consolidated statement of comprehensive income.

3. “Others” mainly consist of distributions from limited partnerships for investment.

(iv) Financial instruments measured at amortized cost

Since the carrying amount of financial instruments measured at amortized cost is identical or approximate to fair value, disclosure of the fair value is omitted. The fair value of borrowings is classified into Level 2.

(v) Method for calculating fair value

Method for calculating fair value of financial instruments is as follows:

a. Cash and cash equivalents, trade receivables, and trade payables

As fair value is approximate to the carrying amount due to short-term settlement, the carrying amount is treated as fair value.

b. Other financial assets and other financial liabilities

The fair value of listed shares is calculated based on the market price at the fiscal year end. The fair value of unlisted shares is measured by using a valuation technique based on the market price of similar shares in view of transaction trends on a case-by-case basis. The fair value of investments in limited partnership is measured by using a valuation technique based on net asset value. Derivatives, which are financial assets or financial liabilities measured at fair value, are calculated based on, among other factors, the prices provided by partner financial institutions.

For borrowings with variable interest rates, the fair value is nearly equivalent to the carrying amount, as market interest rates are reflected in a short period. Therefore, the carry amount is treated as the fair value.

The fair value of contingent considerations is measured using an amount calculated by the discounted cash flow method, which incorporates unobservable inputs. Significant unobservable inputs primarily include future profit levels and discount rates. The fair value will increase (decrease) with an improvement (deterioration) in profit levels, and decrease (increase) with a rise (fall) in discount rates.

For other financial assets and financial liabilities not mentioned above, which are typically settled in a short period, the fair value approximates the carrying amount. Thus, the carrying amount is considered as the fair value.

30. Subsidiaries

(1) Major subsidiaries

Name	Address	Reportable segment	Voting rights holding or held (%)	
			FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
SEPTENI CO., LTD.	Shinjuku-ku, Tokyo	Digital Marketing Business	100.0	100.0
Septeni Data Solutions, Inc.	Shinjuku-ku, Tokyo	Digital Marketing Business	100.0	100.0
Dentsu Direct Inc.	Minato-ku, Tokyo	Digital Marketing Business	100.0	100.0
COMICSMART INC.	Shinjuku-ku, Tokyo	Media Platform Business	100.0	89.4%

(2) Impact on capital surplus due to changes in ownership interests in consolidated subsidiaries that do not result in a loss of control

This was mainly due to the receipt of ¥715,988 thousand from 3 parties other than the Group through a third-party allocation by COMICSMART INC., a subsidiary of the Company. with October 1, 2022 as the payment date. As a result, capital surplus increased ¥568,303 thousand and non-controlling interests increased ¥118,173 thousand.

31. Investments accounted for by using the equity method

(1) Investments in affiliates (including the goodwill that forms part of the carrying amount of investment in entities accounted for using equity method)

(i) Condensed consolidated financial information of significant affiliates

Dentsu Digital Inc.

a. General information

Dentsu Digital Inc. (located in Minato-ku, Tokyo) provides consulting, development, implementation, operation, and execution in all domains of digital marketing.

b. Condensed consolidated financial information

The condensed consolidated financial information of Dentsu Digital Inc., which has been accounted for by using the equity method since January 4, 2022, is as follows:

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Current assets	33,641,476	43,271,362
Non-current assets	6,296,492	6,005,849
Current liabilities	27,013,834	37,445,272
Non-current liabilities	1,022,354	369,134
Equity	11,901,779	11,462,805
Equity interest ownership ratio (%)	25.0%	25.0%
The Group's interest in equity	2,975,445	2,865,701
Goodwill and consolidation adjustment	29,281,049	29,287,400
Carrying amount of investment	32,256,494	32,153,102

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Sales revenue	28,934,668	52,428,314
Profit	3,774,227	6,941,074
Other comprehensive income	–	14,657
Comprehensive income	3,774,227	6,955,730
Profit attributable to owners of parent	3,773,980	6,939,341
Other comprehensive income attributable to owners of parent	–	14,657
Comprehensive income attributable to owners of parent	3,773,980	6,953,998

(Note) In the fiscal year ended December 31, 2023, the amount of dividend the Company received from Dentsu Digital Inc. was ¥1,817,552 thousand. In the fiscal year ended September 30, 2022, no dividend was received from Dentsu Digital Inc.

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Share of profit	943,495	1,734,835
Share of other comprehensive income	–	3,664
Share of comprehensive income	943,495	1,738,499

On October 28, 2021, the Company and Dentsu Group Inc. concluded a capital and business alliance agreement (the "Capital and Business Alliance Agreement"). Pursuant to the Capital and Business Alliance Agreement, on January 4, 2022, the Company acquired a part of common shares (25.00%) of Dentsu Digital Inc. from Dentsu Group Inc. (the "Share Transfer"), resulting in Dentsu Digital Inc. becoming an affiliate accounted for by using the equity method.

Matters pertaining to the Share Transfer

On January 4, 2022, Dentsu Group Inc. transferred 3,675 common shares of Dentsu Digital Inc. to the Company, which were duly acquired by the Company.

・ Number of shares and ownership percentage of voting rights held by the Company before and after the transfer

	Number of shares held	Ownership percentage of voting rights
Before the transfer	- shares	–
After the transfer	3,675 shares	25.00%

(ii) Investments in non-significant affiliates

The financial information regarding investments in individually non-significant affiliates, which are accounted for by using the equity method, is as follows: Note that these amounts are after considering the Company's shareholding ratio.

(Thousand yen)

	FY2022 (Ended September 30, 2022)	FY2023 (Ended December 31, 2023)
Total carrying amount of investments	1,085,733	2,096,249

(Thousand yen)

	FY2022 (From October 1, 2021 to September 30, 2022)	FY2023 (From October 1, 2022 to December 31, 2023)
Share of profit	122,733	115,903
Share of other comprehensive income	–	–
Share of comprehensive income	122,733	115,903

(iii) and factory,inc.

On October 25, 2022, the Company and and factory,inc. ("and factory") concluded a capital and business alliance agreement (the "Capital and Business Alliance Agreement"), based on the agreement on the direction that realizing business collaboration as a medium- to long-term partner will contribute to the enhancement of the corporate value of both companies. Pursuant to the Capital and Business Alliance Agreement, effective November 10, 2022, the Company underwrote new shares to be issued by and factory through a third-party allotment (the "Third-Party Allotment"), and acquired the shares of and factory held by Mr. Takamasa Ohara, the Chairman of the Board of Directors of and factory (the "Acquisition of Shares") in order to make the company an equity method affiliate of the Company.

(1) Matters related to the Third-Party Allotment

The outline of the Third-Party Allotment is as follows:

(1) Number of shares underwritten	1,408,450 shares
(2) Paid-in amount	¥500,000 thousand in total

(2) Matters related to the Acquisition of Shares

Outline of the Acquisition of Shares is as follows:

(1) Number of shares acquired	988,898 shares
(2) Acquisition amount	¥351,059 thousand in total

(3) Matters related to acquisition-related expenses

Acquisition-related expenses related to the Third-Party Allotment of new shares and the Acquisition of Shares were ¥81,771 thousand.

(4) Number of shares and ownership percentage of voting rights held by the Company before and after the transfer

	Number of shares held	Ownership percentage of voting rights
Before the transfer	- shares	–
After the transfer	2,397,348 shares	21.29%

32. Related parties

(1) Transactions with related parties

Transactions between the Group and its affiliates and balances of receivables and payables are as follows:

(Thousand yen)

Category	Name	Transaction content	FY2022 (From October 1, 2021 to September 30, 2022)		FY2023 (From October 1, 2022 to December 31, 2023)	
			Transaction amount	Unsettled balance	Transaction amount	Unsettled balance
Subsidiary of the parent company	Dentsu Inc.	Sales of advertisement (Note) 1	19,141,813	2,536,653	22,752,610	2,129,395
Parent company	Dentsu Group Inc.	Loaning of funds (Note) 3	1,045,853	–	–	–
		Collection of funds (Note) 3	1,218,798	–	–	–
		Receiving interest (Note) 3	188	–	–	–
		Share exchange (Note) 4	6,218,308	–	–	–
		Share transfer (Note) 5	31,249,999	–	–	–
		Issuance of shares through third-party allotment (Note) 6	32,605,239	–	–	–
Officer	Koki Sato	Settlement of advances (Note) 7	–	–	22,715	–
A company in which a majority of the voting rights are held by its officers and their relatives on its own account	Animal Spirits No. 1 Investment Business Limited Partnership (Note) 8	Investment in investment business limited partnership (Note) 9	–	–	80,000	80,000

(Notes) 1. The transaction amount represents "net sales" and "cost of sales," which are presented in gross amounts.

2. The transactions with the parent company and subsidiary of the parent company above are determined after negotiations while considering market prices and business content.
3. Some of the Company's consolidated subsidiaries participated in CMS (cash management system) introduced by Dentsu Group Inc. However, CMS contracts between these consolidated subsidiaries and Dentsu Group Inc. have been cancelled. The interest rate on loans is reasonably determined by considering market interest rates. The transaction amounts are stated as the average of the increases and decreases throughout the fiscal year.
4. The share exchange aimed to make Dentsu Direct Inc. a wholly-owned subsidiary of the Company, and the share exchange ratio was reasonably determined through negotiations based on the calculation by an independent third-party institution. Furthermore, the transaction price was reasonably determined through negotiations based on the calculation by an independent third-party institution.
5. The transfer of shares aimed to convert Dentsu Digital Inc. into an equity method affiliate of the Company, and the transaction price was reasonably determined through negotiations based on the price calculated by an independent third-party institution.
6. The transaction price for the issuance of shares through third-party allotment was reasonably determined through negotiations based on the price calculated by an independent third-party institution.

7. Settlement of advances is the amount of voluntary refunds related to the improper use of expenses by the Company's Representative Director.
8. It is operated by Animal Spirits No. 1 Limited Liability Partnership, of which Animal Spirits Ltd. is a partner, as an unlimited liability partner, and the Company's director, Yusuke Asakura, effectively holds the authority to decide business execution.
9. Investments in an investment business limited partnership are made pursuant to the limited partnership agreement.

(2) Remuneration for key executive management

The information is omitted as the same information is disclosed in "Note 22. Cost of sales and selling, general and administrative expenses."

33. Subsequent events

At the meeting of the Board of Directors held on December 19, 2023, the Company resolved to sell (with a planned transfer date of March 29, 2024) 74,000 shares of the 116,400 shares of COMICSMART INC. it holds in order to help COMICSMART INC. achieve sustainable growth and maximization of its corporate value. On the date on which the aforementioned shares will be transferred, the Company's ratio of voting rights held in COMICSMART INC. and its subsidiaries, etc. will fall from 89.42% to 32.57%, and it will lose control of the aforementioned company. As a result, the Company plans to make the aforementioned company an affiliate accounted for using the equity method and record of a profit of approximately ¥2.23 billion related to the sale of shares of COMICSMART INC.

34. Approval of the consolidated financial statements

The consolidated financial statements were approved by Koki Sato, Representative Director, Group President and Chief Executive Officer on March 27, 2024.

(2) Other Information

Quarterly financial information in the fiscal year ended December 31, 2023

(Cumulative period)	Three months	Six months	Nine months	Twelve months	Full year
Revenue (thousand yen)	6,592,461	13,661,261	20,164,781	26,926,947	34,266,611
Profit before tax (thousand yen)	992,542	3,385,899	3,574,882	4,737,788	6,652,148
Profit attributable to owners of parent (thousand yen)	582,626	2,155,643	2,031,026	2,768,957	4,318,831
Basic earnings per share (yen)	2.78	10.28	9.71	13.28	20.74

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter	Fifth quarter
Basic earnings (loss) per share (yen)	2.78	7.49	-0.60	3.56	7.48

(Note) Revenue and profit before tax are the amount of continuing operations, excluding discontinued operations. For the details of discontinued operations, please refer to "Note 5. Discontinued Operations."