To Our Shareholders

Tadashi Ishii
Representative Director
President & CEO

Looking Back on Fiscal 2013

Firstly, I would like to take this opportunity to express, on behalf of the Dentsu Group, my sincere appreciation to you for your invaluable support and understanding of our efforts.

The economic tone in Japan during the fiscal year ended March 31, 2014 (hereinafter "fiscal 2013" or "the fiscal year under review") was one of gradual recovery, supported by an improved performance in the corporate sector—especially among exporters—and renewed capital investment, against a backdrop of monetary easing and the government's economic policy. In this environment, the calendar year-based *Advertising Expenditures in Japan* for 2013, as compiled by Dentsu, revealed an increase in spending for the second straight year, up 1.4% over 2012, to 5,976.2 billion yen. The spending trend was particularly noticeable in the second half of fiscal 2013, buoyed by the effect of economic recovery as well as a rush of buying activity ahead of the April 2014 increase in the consumption tax.

Overseas, however, even positive developments could not dispel a lingering sense of uncertainty regarding the global economy. The U.S. economy stayed on its gradual recovery course, and the economic downturn in Europe showed signs of finally bottoming out. These bright spots, however, were dimmed by a slight concern over slowdowns in emerging economies, particularly China, where growth has remained consistently strong in recent years. But the growth rate for worldwide advertising expenditures, as compiled by Carat, a subsidiary of the Dentsu Group, in September 2014 for the 2013 calendar year showed an increase of 3.6% over the previous year. By region, Latin America grew 9.7% (an all-time high); Asia Pacific, 5.1%; Central and Eastern Europe, 5.0%; and North America, 4.2%. Western Europe, however, was still seen to be in decline, at 1.4%.

In anticipation of growth in worldwide advertising expenditures, Dentsu acquired the U.K.-listed, global media and digital communications agency, Aegis Group plc, marking a new step by the Group toward becoming a truly global player. Post-acquisition integration is nearly complete and has already enabled us to capture several new client accounts.

In Japan, with clients needing us more than ever, our emphasis was on resourceful use of digital technology and Big Data as well as efforts to provide integrated solutions. These responses to market needs combined with a rush in demand ahead of the consumption tax increase to push business results beyond the original performance forecast for the fiscal year under review. Of note, on a non-consolidated basis, net income reached all-time highs.

Consolidated billings (net sales) for fiscal 2013 climbed 19.0% year on year, to 2,309,359 million yen; gross profit jumped 71.1%, to 594,072 million yen; operating income before amortization of goodwill and other intangible assets soared 81.7%, to 114,186 million yen; operating income rose 22.3%, to 71,490 million yen; and net income increased 6.8%, to 38,800 million yen.

Progress on Current Medium-term Management Plan "Dentsu 2017 and Beyond"

In a business environment where globalization and marketing convergence[1] continue to remain key industry growth drivers, the Dentsu Group aims to develop as a truly global agency network that contributes to the business success of its clients on a global basis and, ultimately, maximizes their corporate value through approaches that transcend the boundaries of the typical advertising business available historically.

The acquisition of Aegis, completed in March 2013, marked a new stage in the Group's journey toward its stated destination—to become a truly global agency network—and "Dentsu 2017 and Beyond" provides the roadmap there. This medium-term management plan, launched in fiscal 2013, highlights four strategic themes—1) Diversifying the portfolio on a global basis, 2) Evolution and expansion of the digital domain, 3) Re-engineering business processes and improving profitability, and 4) Further reinforcing the business platform in the core Japanese market. These strategies are being implemented to match the business environment that prevails in each geographic region. I believe that "Dentsu 2017 and Beyond" is off to a terrific start, substantiated by solid progress toward our stated targets. As the numbers below demonstrate, fiscal 2013—the first year of the five-year plan—delivered year-on-year improvement on a consolidated basis.

Our organic growth rate in fiscal 2013 exceeded the range projected for the period under "Dentsu 2017 and Beyond," largely due to the significant contribution from operations in Japan, where we continued to outperform the market. The growth rate for overseas operations also improved favorably, helped by exchange rates. And the digital domain comprised a larger percentage of overall growth, while the operating margin steadily improved. These achievements indicate to me that the first year of our medium-term management plan got off to a great start.

Fiscal 2013 was also the last year of the previous medium-term management plan, which was launched in 2009. Even if the impact from the Aegis acquisition is disregarded, we were close to reaching the numbers—consolidated operating income of 70 billion yen, operating margin of 20% or higher, and ROE of 8%—set under "Dentsu Innovation 2013." We will maintain our strong management effort, as we go forward toward the new medium-term management plan, with the same energy that enabled us to achieve the targets under the previous medium-term plan.

KPIs for new medium-term management plan

	FY2012 (Actual)	FY2013 (Actual)	FY2017 Target
Gross profit organic growth rate[2]	—	7.7%	3%–5% (CAGR[4])
Gross profit overseas business ratio	43%	48%	55% or higher
Gross profit digital domain ratio	24%	28%	35% or higher
Operating margin before amortization of goodwill[3]	17%	19.2%	20% or higher

Note: The consolidated fiscal year of the Dentsu Group commences on April 1 and ends in March of the following year. For example, fiscal 2013 commenced on April 1, 2013 and ended on March 31, 2014.

[1] New marketing paradigm reflecting spread of digital media and social media in recent years as well as changing consumer behavior patterns and progress in all kinds of technologies

[2] Organic growth rate represents the constant currency year-on-year growth after adjusting for the effect of business acquired or disposed of since the beginning of the previus year

[3] Operating income before amortization of goodwill and other intangible assets ÷ gross profit × 100
Operating income before amortization of goodwill and other intangible assets: Operating income + amortization of goodwill + amortization of other intangible assets (excl. depreciation of software)

[4] Compound average growth rate

Four Strategic Themes of "Dentsu 2017 and Beyond"

Fiscal 2014 is already the second year of the current medium-term management plan, and I would like to update you on the implementation status of the strategies that lie behind the numerical targets set under the five-year plan as well as our direction going forward in the context of the four strategic themes.

1. Diversifying the portfolio on a global basis

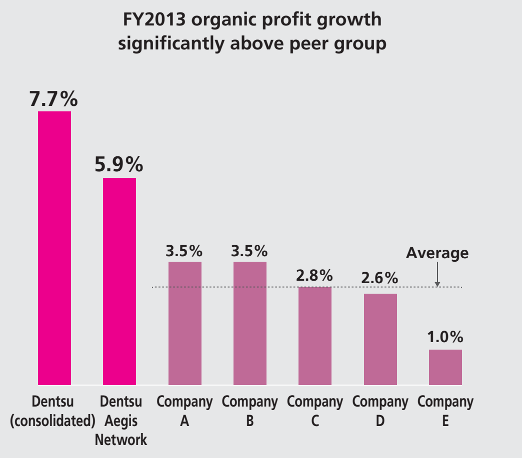
First off, diversifying the portfolio on a global basis is an issue of paramount importance. In March 2013, the former Aegis Group and the former Dentsu Network were integrated into Dentsu Aegis Network, established to manage our international operations outside of Japan. This new structure will sustain the growth momentum built by the two networks, while leveraging greater synergy from each.

The capture of new accounts and Dentsu Aegis Network's commendable growth rate since the acquisition of Aegis, which greatly exceeds that of its competitors, illustrate a smooth integration process. The high organic gross profit growth of Dentsu Aegis Network is also due to the unique "One P&L" operating model, which is highly valued by our clients and is clearly functioning as intended. In addition, in March 2014, Carat—a core agency brand under the Dentsu Aegis Network umbrella—was ranked as the No. 1 Global Media Network by RECMA, a leading research company evaluating the media agency industry. Supported by the unique "One P&L" operating model and approach, Dentsu Aegis Network will continue to be able to deliver a high performance level in fiscal 2014 onward.

Gross profit
Overseas business ratio

FY2012 (Actual) **43**%
▼
FY2013 (Actual) **48**%
▼
FY2017 **55**% or higher

Diversifying the portfolio on a global basis



2. Evolution and expansion of the digital domain

Advances in digital technology in various domains are bringing about huge changes in the way clients of the Dentsu Group execute business processes. Aggressive and seamless use of digital technology, which seemingly evolves on a daily basis, is a crucial factor in business success. Given these conditions, it is our goal to provide leading-edge solutions that support our clients' business success more directly. The digital domain is therefore a growth driver for the Group.

360i, Isobar and iProspect—all under the Dentsu Aegis Network umbrella—have established high profiles, their status further secured by awards from industry media. These brands, boasting top-class competitiveness on a global level, are drivers of growth in the Group's digital domain. Of course, the digital business will remain a priority pursuit in Japan, as well, with solid prospects fueled by double-digit growth in digital business gross profit in fiscal 2013.

Acquisitions in the digital domain represent a powerful tool for reinforcing capabilities, and we will continue to resourcefully utilize such business-building opportunities. At the same time, we will execute whatever investment in digital is deemed necessary, promote knowledge-sharing within the Group, and integrate R&D functions, as such pursuits will enrich the content of digital services on a global basis.

Gross profit

Digital domain ratio

FY2012 (Actual) **24**%

▼

FY2013 (Actual) **28**%

▼

FY2017 **35**% or higher

3. Re-engineering business processes and improving profitability

To facilitate proactive investment and business development on a global basis and thereby ensure sustainable growth, we need a revenue base that generates stable cash flow. Efforts to improve profitability in core businesses are vital and represent an issue that requires ongoing attention. Therefore, we are tackling cost control, streamlining the functions of Group companies, including Dentsu Inc., in each service domain and implementing the necessary realignment, and also promoting restructuring of the value chain to maximize profits. In addition, we are reviewing assets in possession from a profitability perspective, with a view to boosting asset efficiency.

In fiscal 2013, business in Japan showed a huge improvement in profitability. Going forward, we aim to raise profitability still higher through sustained cost control in addition to continued efforts to reduce costs on a consolidated basis and elevate operating efficiency along with a concerted effort to expand highly profitable fee businesses. Meanwhile, Dentsu Aegis Network will be working on its functional management platforms, systems and processes, with a focus on IT, finance and human resources, to prepare for the future. This should support a higher operating margin at Dentsu Aegis Network.

Operating margin before amortization of goodwill

FY2012 (Actual) **17**%

▼

FY2013 (Actual) **19.2**%

▼

FY2017 **20**% or higher

4. Further reinforcing the business platform in the core Japanese market

With the acquisition of Aegis, the Dentsu Group has become a truly global agency network. But our core competence has not changed: Our solid business base in Japan remains our greatest strength. We will achieve sustainable growth by honing a sharper competitive edge in this market, improving profitability and reinforcing the business platform still further.

Currently, the size of the advertising market in Japan has slipped to 90% of its 2007 peak, but the Group's Japan business over the past few years has consistently and quite soundly outperformed the market. Fiscal 2013 was no different, with gross profit reaching an all-time high.

Together with media companies, our Group has stepped up efforts to restructure media values. These efforts have resulted in the solid underlying strength of the mass media business, which fortunately, is contrary to what we had expected several years ago. On the other hand, the non-mass media domain, including digital and promotion, has improved its ability to respond to clients' issues by developing and improving technologies and methods. This domain has grown into a crucial revenue base. We will continue to evolve toward the profit structure of an integrated solution model, where the two wheels of mass and non-mass domains rotate to generate revenue.

Gross profit

Organic growth rate

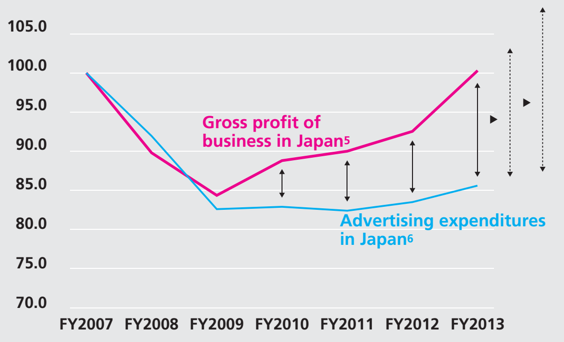
FY2013 consolidated **7.7%**
(Japan business) **(9.2%)**

▼

FY2012–FY2017 consolidated **3%–5%**

Further reinforcing the business platform in the core Japanese market

The Dentsu Group's business in Japan vs. Advertising expenditures in Japan (Changes from FY2007 = 100)



[5] Dentsu's non-consolidated gross profit plus gross profit of subsidiaries in Japan
[6] Source: *Advertising Expenditures in Japan*, modified on a fiscal year basis (Dentsu)

Performance Forecast for Fiscal 2014

As announced in May 2014, the consolidated performance outlook for fiscal 2014, ending March 31, 2015, calls for billings (net sales) of 2,371.2 billion yen, up 2.7% year on year; gross profit of 623.0 billion yen, up 4.9%; operating income before amortization of goodwill and other intangible assets of 115.5 billion yen, up 1.2%; and operating income of 72.5 billion yen, up 1.4%. Net income is expected to settle at 31.1 billion yen, down 19.8%.

Market Outlook

The global ad market is expected to grow 5.0% year on year, to 554.2 billion dollars in 2014 (January to December). Many regions are seeing an upward trend in advertising activity, buoyed by several major events, including the Sochi 2014 Olympic and Paralympic Games; the 2014 FIFA World Cup™ in Brazil; and midterm elections in the United States. The spotlight, however, is on Latin America, where tremendous growth is projected, as well as the Asia Pacific, where demand continues to steadily expand. Even in Western Europe, the forecast is brighter, with a prediction of 2.7% growth. Sluggish conditions had persisted in that region in 2012 and 2013—only the United Kingdom showed positive growth—and while challenges linger in some parts of Europe, the overall perspective points to recovery. Stable growth is also seen for the U.S. market. In Japan, concerns remain over the short-term impact that the higher consumption tax will have on spending. But the prediction for year-on-year ad market growth is 2.0% in 2014 and 2015, supported by an economy in recovery mode and Tokyo's selection as host city for the 2020 Olympic and Paralympic Games. This would mark the fourth consecutive year of year-on-year growth.

Let me touch on strategies for each region.

In the United States, the world's largest ad market, there is still sufficient room for the Dentsu Group to capture a larger market share. But business expansion is directly linked to the size of the client base, particularly the U.S. blue-chip global advertisers, so we will focus on building market share through developing stronger alliances between our existing networks to reach more companies.

Asia and emerging nations will continue to present high growth opportunities, and we are ready to capitalize on evolving demand. However, some countries and regions require us to enhance our business platform, and to achieve this, we will pursue an aggressive M&A policy to secure business scale and leading positions in these markets.

In the mature markets of Japan and Western Europe, the Group has already established a solid business platform. Therefore, our objective will be to sustain and reinforce the existing business platform, and toward this end we will strive to raise profitability while creating and securing new growth opportunities that transcend conventional advertising business.

Our aim, as a management team, is to achieve results that exceed market growth, wherever in the world that market is. We will continue to provide our clients with the best services, becoming a key partner in their on-going success and development.

Last but certainly not least, let me address what will be a key factor in the success of "Dentsu 2017 and Beyond"—the Tokyo 2020 Olympic and Paralympic Games. As announced in April 2014, the Tokyo Organising Committee of the Olympic and Paralympic Games named Dentsu as its marketing agency. We acknowledge that this appointment comes with considerable obligation and responsibility, and we will do our utmost as marketing agency to ensure the success of these major events. The Tokyo 2020 Olympic and Paralympic Games carry great significance. Naturally, they make the year 2020 special. But they also provide an opportunity to create a new future for Japan beyond 2020. We want to be an integral part of this process, and guided by the corporate philosophy "Good Innovation.," we will draw on the composite strengths of the Group to contribute to growth and innovation throughout Japan.

As a global network promoting the "Good Innovation." ideal, we will continue to bring creativity and change to society, and we will strive to boost our value as a group that clients consistently view as the best partner for their needs regardless of where in the world they are. These efforts will underpin growth into the future.

On behalf of the Dentsu Group, I am very grateful for the continued support and guidance of shareholders.

September 2014

T. Ishii

Tadashi Ishii
Representative Director
President & CEO