Management's Discussion and Analysis of Financial Position and Operating Results

Dentsu Inc. and Consolidated Subsidiaries
As of June 27, 2014

Any forward-looking statements in the following discussion and analysis are based on the judgment of management as of the date that Dentsu Inc. (hereinafter "Dentsu" or "the Company") filed its securities report for the fiscal year ended March 31, 2014 with regulatory authorities.

Significant Accounting Policies and Estimates

The Group's consolidated financial statements are prepared on the basis of Japanese GAAP.

In the preparation of these consolidated financial statements, management discloses the amounts of the reported asset and liability figures as well as those of off-balance sheet transactions such as contingent liabilities, as of the date the accounts are closed. Management also estimates the impact of these figures on the Group's financial position and operating results during the reporting period. Management continuously evaluates forecasts and assumptions regarding such items as allowance for doubtful accounts, investments and corporate taxes, as well as financing activities, retirement benefits, contingencies and litigation. Management bases its estimates and assumptions on the consideration of several factors, given past performance and conditions. These results underpin assumptions regarding asset and liability book values and reported revenue and expense figures. However, uncertainties are inherent in such results and estimates may vary from actual results.

The critical accounting policies described below are those that management considers to have specific potential to affect the financial position and operating results of the Group. Such policies may also include important assumptions and estimates used in creating the Company's consolidated financial statements and therefore have a material impact on these statements.

Revenue Recognition

Consolidated revenue consists primarily of commissions received from media companies for the placement of advertising into different media formats and payments received from advertisers and other clients for providing services, such as assistance in the production of advertising, including creative, and various content-related services. Revenues from payments received from advertisers for the placement of advertising are generally recognized when the media placement appears. Other revenue is generally recognized when the service is complete, an estimate of the value can be reasonably determined and the potential for economic benefit is high.

Dentsu Group companies receive commissions from media companies for the sale of media time and/or space to advertisers. In Japan, advertising companies generally purchase media time and/or space from media companies at the request of advertisers and resell the purchased time and/or space to the advertisers at the same prices as those charged by the media companies. The commissions received for the placement of advertising are typically a percentage of the price advertisers pay for the media time and/or space. This percentage is generally negotiated between the relevant Group company and media company. In practice, however, prevailing industry custom dictates that the commission portion be netted against payment due to the media company with the balance paid to that company.

Revenue from the production of advertising and other advertising services consists of payments made by advertisers and other clients to the relevant Group company as compensation for such services. Payments for these services are generally negotiated as a markup on the prices charged to the Group companies for services provided by third parties and/or Dentsu subsidiaries. In some cases, the Group companies may also agree to a fixed fee or other compensation arrangements.

Allowance for Doubtful Accounts

An amount is recorded as allowance for doubtful accounts, based on estimated losses that might occur if expected amounts from clients become uncollectible. If the financial position of advertisers or other clients deteriorates and their ability to pay decreases, this allowance may have to be raised.

Impairment Losses on Investments

To ensure continuous growth into the future, the Group pursues investments in new businesses and overseas businesses, and undertakes investment opportunities with partners. These investments include shares in publicly listed companies, the prices of which may fluctuate widely, as well as shares in unlisted companies with difficult-to-determine share values. In the event that a decline in the value of an investment is determined to be other than temporary, an impairment loss is recorded on that investment. If market conditions worsen or the performance of an investment target deteriorates, an unrecoverable investment or losses not reflected in current book values may arise, requiring the Group to record valuation losses.

Deferred Tax Assets

The Group records consolidated deferred tax assets based on future taxable income and ongoing tax planning that emphasizes cautious and highly implementable approaches. However, if management decides that some or all of these deferred tax assets are unrecoverable, such assets may have to be recorded as expenses for the period in which such decision is made.

Net Defined Benefit Liability

Retirement benefit costs and obligations are recorded on the basis of pension actuarial calculations. These calculations are dependent upon such factors as the discount rate, future compensation levels, employee turnover, mortality rates based on recent statistical values, and long-term expected rates of investment return on pension plan assets. If the actual values of these factors vary from their forecast values, or if the assumptions that underlie these values change, the Company may be impacted by the recognition of such costs or by the recording of such liabilities, on a consolidated basis.

Operating Results for the Fiscal Year under Review

Net Sales and Gross Profit

Consolidated net sales for the fiscal year under review reached 2,309.3 billion yen (up 19.0% from the previous fiscal year).

Of this amount, the Advertising segment contributed 2,246.5 billion yen (up 19.6%), largely due to the inclusion of revenues from Aegis, which Dentsu acquired in the previous fiscal year, in the Company's accounts starting in the fiscal year under review.

Sales in the Information Services segment amounted to 74.8 billion yen (up 5.3%). This segment involves the operations of Information Services International-Dentsu, Ltd., which is engaged primarily in the provision of IT solutions, such as information system configuration. During the fiscal year under review, despite slight declines in revenues of enterprise solutions and communication IT, large sales growth from financial solutions resulted in overall sales growth for the segment.

The Other Business segment posted sales of 15.8 billion yen (down 4.1%). This decrease in sales reflects such factors as the Company's withdrawal from the human resources placement business.

As a result, the Group posted consolidated gross profit of 594.0 billion yen (up 71.7%) for the fiscal year under review. Both the consolidated net sales and gross profit figures exceeded those of the previous fiscal year.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative (SG&A) expenses for the fiscal year under review came to 522.5 billion yen (up 81.8% from the previous fiscal year).

There was an overall increase in expenses from the previous fiscal year, due to the incorporation of Aegis, as well as an increase in amortization of goodwill and other intangible assets. Salaries and allowances accounted for 46.0% (up 0.1 percentage point) of gross profit.

Operating Income, Non-Operating Income & Expenses and Net Income

As the increased amount of gross profit was greater than that of SG&A expenses for the fiscal year under review, operating income came to 71.4 billion yen (up 22.3% from the previous fiscal year).

Non-operating income amounted to 22.5 billion yen (up 125.6%), reflecting increases in purchase discounts, profit distributions, and equity in the earnings of affiliated companies. Non-operating expenses came to 11.5 billion yen (up 22.1%), due to such increases as interest expense, which led to a non-operating balance of 11.0 billion yen (up 1870.6%), and income before income taxes and minority interests amounted to 81.1 billion yen (up 28.2%).

Net income, from which income taxes–current, income taxes–deferred, and minority interests in net income were deducted from the above, reached 38.8 billion yen (up 6.8%).

Factors Affecting Operating Results

Consolidated revenue is derived primarily from advertising services in the four traditional mass media formats and other advertising services, mainly interactive media and out-of-home, or OOH, media (billboard, transit and other), as well as related creative services. Commissions from media companies on the sale of media time and/or space represent the largest contribution to revenue, with the key revenue source being commissions for advertising time and/or space through the four traditional mass media formats.

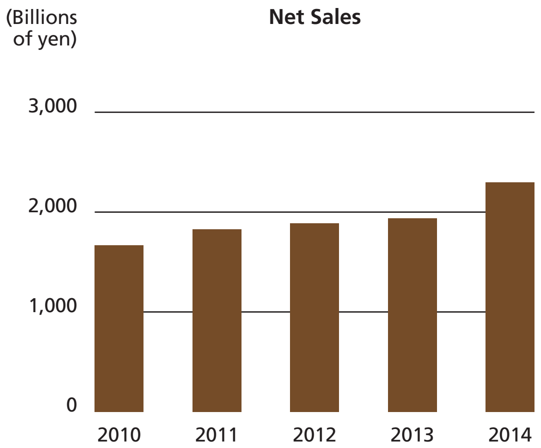
The main factors affecting revenue from advertising in these traditional mass media formats are described below:

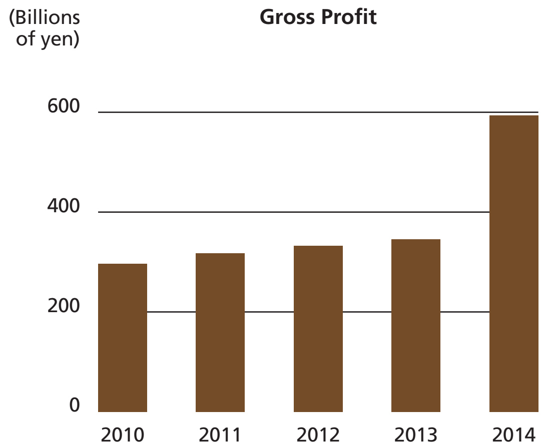
- Overall advertising expenditures, which fluctuate with changing industry conditions such as general economic conditions, technological innovations, deregulation and heightened competition;
- The Group's competitive position vis-à-vis other advertising companies;
- Rates charged by media companies for advertising time and/or space; and
- Changing advertiser needs for advertising across different media.

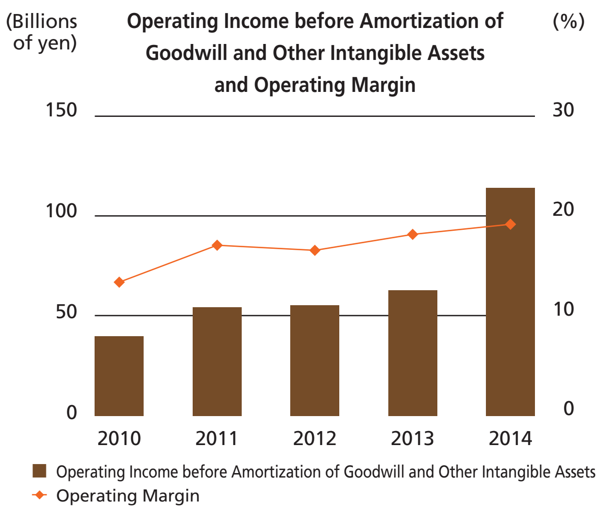
With increasing popularity in recent years, the Internet is firmly in second place, behind television, as the medium garnering the most contact time in homes across Japan. As the media environment evolves, the needs of advertisers become increasingly sophisticated. Advertisers are particularly interested in effective and efficient media planning that integrates the Internet, mobile phone and other interactive media with the traditional mass media formats. Increasingly, they seek verification of advertising effectiveness. To accurately address these client needs, the Dentsu Group strives to provide high value-added cross-media campaigns.

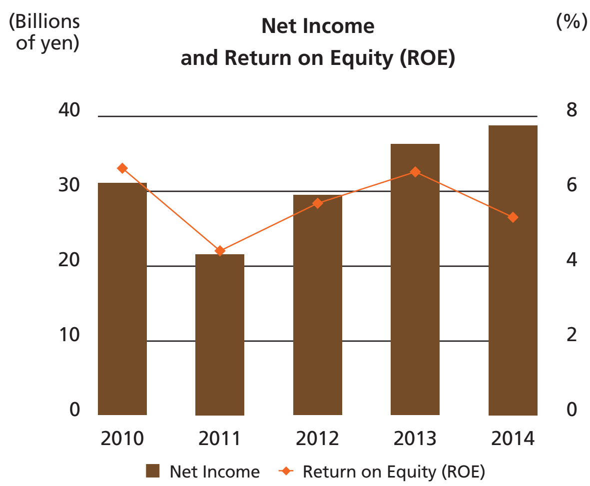
Recent trends indicate heightened appreciation for integrated services that cover a broad spectrum of media domains as well as tools that verify cost efficiency and advertising effectiveness. The Group believes this will result

(Years ended March 31)









in an increase in the number of transactions between advertisers and full-service advertising companies.

The Group frequently provides promotional services and other advertising services in combination with advertising in the four traditional mass media. For example, in promotional services, clients typically combine advertising campaigns in traditional mass media with point-of-purchase, or POP, displays, promotional events and other approaches to encourage consumers to buy the client company's products or subscribe to its services. Demand for traditional mass media advertising may fluctuate independently of demand for combined services, but the factors that influence one type of advertising will impact the other types as well.

The Group also secures revenue from services related to entertainment and sports marketing. These services include the production, marketing and establishment of marketing tie-ins for, and the selling or brokering of, sponsorship, broadcasting and other rights to such content as movies, sports events, music and other forms of entertainment. A breakdown of revenue from such services shows net proceeds or commissions on the purchase and sale of content-related rights, returns on rights or interests in content owned as well as payments for services. Revenue may vary depending on such factors as the location and timing of the entertainment and sports events, the terms under which the Group companies acquire the rights, the level of consumer demand for, or interest in, the associated content, and the level of demand for these rights, especially by advertisers and broadcasters.

In addition, the Group earns revenue from solutions services, including customer relationship management (CRM), e-marketing and system configuration. Revenue from these services is not only affected by factors that impact advertising services but also investment trends pertaining to system development.

As the factors that influence revenue, trends in revenue may differ among the countries in which the Group operates, based on such factors as the business climate in each country, developments in specific industries, the competitive position of the Group vis-à-vis other advertising companies, as well as market practices regarding remuneration for services and shifts in demand among clients for advertising in different media. Exchange rate fluctuations between the yen, the reporting currency for the Company's consolidated results, and the currencies of other countries in which the Group operates also have an effect on revenue from overseas advertising services.

In March 2013, Dentsu acquired the shares of Aegis of the United Kingdom, making Aegis a consolidated subsidiary. As the acquisition of the shares was deemed to have taken place on January 1, 2013, and Aegis's settlement date is December 31, Aegis's results have been reflected in Dentsu's consolidated statement of income since the first quarter of the fiscal year under review.

Current Status of Management Strategies and Outlook

The global economy is in a state of flux, with the characteristics of each region influencing the others. Even now, the U.S. economy continues to grow steadily, while Asia and emerging markets continue with relatively high growth. Meanwhile, the Japanese and European economies have reached a stage of maturity, and have reached sizes that make them key economic regions. The Dentsu Group completed the acquisition of Aegis in March 2013. Through this acquisition, the Group is building a truly global network, and it has become vital that it pursues strategies tailored to the business environments of each region worldwide. In a time of increasing marketing convergence, innovation in the digital domain is expected to become an even more essential element for the success of clients' businesses.

Under these circumstances, the Dentsu Group's goal is to be an agency network that goes beyond the framework of conventional advertising business, to continually contribute to the success of clients' businesses, and maximize their corporate value on a global scale.

Based on this core policy, the Group formulated a new medium-term management plan, Dentsu 2017 and Beyond, which commenced in the fiscal year ended March 31, 2014.

The new medium-term management plan includes the following numerical targets for the fiscal year ending March 31, 2018:

- Organic growth rate of gross profit: 3%–5% (compound average growth rate)
- Overseas ratio of gross profit: 55% or higher
- Digital domain ratio of gross profit: 35% or higher
- Operating margin before amortization of goodwill and other intangible assets: 20% or higher

The Group has formulated the following strategies to achieve these numerical targets:

(1) Create a global network to support the businesses of our clients worldwide

We will use the client base built by the Company and Aegis as a stepping stone to roll out the Group's strengths in the digital domain and its sports content business on a global scale. At the same time, we will also use M&A to develop a competitive global network worldwide.

We will act to achieve this goal in each of our major markets. In North America, where the economy is showing steady growth, we will win new global clients and increase client account sizes by strengthening our partnerships with existing high-growth networks, and enhancing our service lineup. In the rapidly growing emerging markets, we will actively leverage M&A and business investments to build a foundation for offering top-class solutions in each of these markets. In the Japanese and Western European markets, where we have solid business platforms, the Group will pursue the benefits of scale. It will create and offer new value, rather than remain mired in conventional advertising businesses.

(2) Enhance competitiveness in the digital domain forming the core of our solutions

Marketing convergence is transforming our clients' business processes, and has made digital solutions a key factor for business success. We will respond to this trend by offering leading-edge solutions that more directly support the success of our clients' businesses. At the same time, we will do what is needed to make this happen, including making investments, sharing knowledge within the Group, and integrating our R&D capabilities.

(3) Reform business processes and increase profitability

The Group's goal is to achieve sustainable growth by actively investing and developing businesses worldwide.

Achieving this requires a revenue platform that can generate a steady cash flow, and we are committed to improving the profitability of our core businesses. We see this as an ongoing task. We will work to control costs on a global basis. We will inventory our capabilities—including those of the Company—in each area of service, and reorganize when necessary. We will also restructure our value chain to maximize profits.

We will also optimize our asset holdings for profitability, and improve our asset efficiency.

(4) Reinforce the business platform in the Japanese market, which forms the largest share of the Group's business

Although the Group attained a full-scale global network through the acquisition of Aegis, its greatest strength remains the solid business platform in Japan. In Japan, the Group will further reinforce its competitiveness and improve profitability in order to achieve sustainable growth.

Japan is the region where Dentsu has the most resources for supporting every facet of its clients' businesses, and where it has the strongest relations with its clients. We are committed to becoming the Group's role model for next-generation business by expanding our service domain in Japan.

(5) CSR initiatives

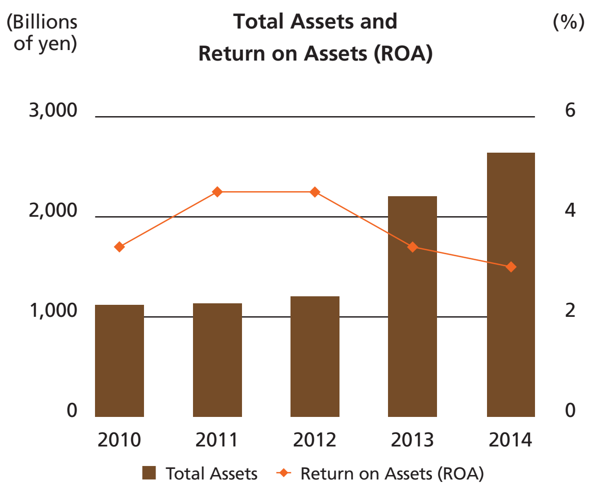
The Group has formulated the Dentsu Group Code of Conduct as the Dentsu Group's basic principles for CSR in order to handle its global expansion. The new Dentsu Group Code of Conduct is based on the ISO 26000 international standard for social responsibility (SR), and defines a framework of seven core subjects: corporate governance, respect for human rights, ensuring a safe and civilized working environment, environmental protection, fair business practices, addressing consumer issues, and contributing to the community. Our CSR activities are based on this framework.

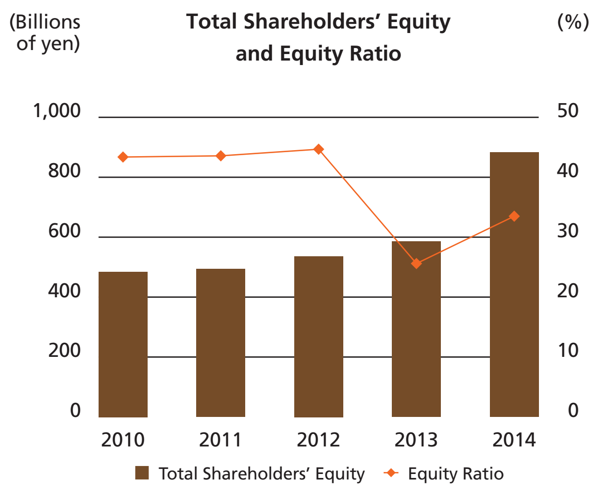
Firstly, we continued to support recovery from the Great

East Japan Earthquake in fiscal 2013 by supporting the Tohoku Rokkon (Six-Soul) Festival, and participating in the Michinoku Fukkou Jigyou Partners (consortium of major companies for recovery). In the field of human rights, we are committed to raising awareness of human rights through such efforts as continuing our call for “human rights slogans.” Human rights are especially important to the Group, because awareness of human rights is essential for communication, and communication is the core of our business. In the field of environmental protection, in 2008 we were certified as an “Eco First Company,” and we continue a wide range of environmental efforts aimed at achieving a sustainable society. In areas relating to business, we are committed to helping to resolve the food-related challenges facing Japan. One example is our ongoing “Food Action Nippon” campaign, which aims to improve Japan’s food self-sufficiency rate.

We will continue our active commitment to CSR both in Japan and around the world, in order to help solve the challenges facing society as a leading global group in communication services. We will do this by working more closely with Dentsu Aegis Network Ltd., which carries out a wide range of CSR activities worldwide, one example of which is the “30 Days of Green” environmental effort. For more information about Dentsu’s CSR activities, see the Dentsu CSR Report (http://www.dentsu.com/csr/index.html).

(Years ended March 31)





Analysis of Capital Resources and Cash Liquidity

Assets, Liabilities and Net Assets

Total assets as of March 31, 2014 increased 432.7 billion yen from March 31, 2013, due to an increase in notes and accounts receivable–trade. Meanwhile, total liabilities increased 132.8 billion yen, due to increases in notes and accounts payable–trade and long-term debt. Total net assets increased 299.8 billion yen, due to such factors as an increase in foreign currency translation adjustments and posting of net income.

Cash Flows

As of March 31, 2014, cash and cash equivalents (hereinafter "cash") increased to 227.1 billion yen from the 207.5 billion yen posted at the end of the previous fiscal year. As net cash provided by operating activities and net cash provided by financing activities exceeded net cash used in investing activities, cash at the end of the fiscal year under review increased by 19.5 billion yen from the previous fiscal year.

Net cash provided by operating activities amounted to 97.5 billion yen, compared with 83.2 billion yen in the previous fiscal year. Net cash provided by operating activities increased 14.2 billion yen from the previous fiscal year, due mainly to increases in income before income taxes and minority interests, depreciation and amortization, and amortization of goodwill.

Net cash used in investing activities amounted to 318.0 billion yen, compared with 51.2 billion yen in the previous fiscal year. Net cash used in investing activities increased 266.8 billion yen from the previous fiscal year, due mainly to an increase in payments for the purchase of investment in consolidated subsidiaries.

Net cash provided by financing activities amounted to 226.5 billion yen, a reversal from the 5.3 billion yen in net cash used in financing activities in the previous fiscal year. Net cash provided by financing activities increased 231.8 billion yen from the previous fiscal year, due mainly to proceeds from long-term debt, proceeds from disposal of treasury stock, and proceeds from issuance of common stock.

Capital Requirements

The Group's principal working capital requirements are payments for the purchase of advertising time and/or space and the production of advertisements, as well as personnel costs and other SG&A expenses.

In recent years, capital requirements have increased for investments in the digital and global domains in the course of exploring different advertising opportunities.

Financial Policy

The Group's primary source of funds is cash generated from internal reserves, short-term borrowings and the issuance of commercial paper. In the past, the Group has generally had positive working capital (current assets minus current liabilities) on a consolidated basis. In the previous fiscal year, the Group recorded 295.4 billion yen in accrued accounts payable related to the acquisition of Aegis. As a result, current liabilities exceeded current assets by 194.9 billion yen. However, in the fiscal year under review, current assets exceeded current liabilities by 115.1 billion yen.

To ensure short-term liquidity, Dentsu established a bank credit line for up to 50 billion yen via a syndication arrangement. In addition, to improve cash efficiency within the Group, a cash management system (CMS) was introduced so that Dentsu could borrow cash from domestic consolidated subsidiaries. A Group-wide finance system is now in place that enables nearly all domestic consolidated subsidiaries that require funding to borrow funds acquired for this purpose from other domestic consolidated subsidiaries with excess cash. Also, a global CMS has been introduced at Dentsu Aegis Network, through which overseas cash is consolidated in London.

The Japanese rating agency Rating and Investment Information, Inc., or R&I, has assigned a rating of AA- to Dentsu's long-term debt and a rating of a-1+ to its short-term debt.

Management Issues and Future Policies

See Current Status of Management Strategies and Outlook.

Operating and Other Risks

The operating results, share price and financial position of Dentsu and, by extension, the Dentsu Group are subject to various risks, as described below.

Any forward-looking statements in the following discussion are based on the judgment of management as of the date of filing the securities report.

Overall Industry-related Risk

Risk related to fluctuations in the economic and business environments

The financial results of the Dentsu Group and other companies in the advertising industry are highly susceptible to changes in the market and business conditions because many advertisers adjust their spending in response to changes in these conditions.

Management has taken steps, such as diversifying the types of services the Group provides and geographic regions in which the Group operates, to reduce exposure to the impact of fluctuations in economic and business environments. Nonetheless, the Group's financial results may be influenced by macroeconomic trends in Japan and fluctuations in the operating environment of key domestic industry sectors that have significant advertising expenditures. In addition, changes in business conditions outside Japan, such as an economic slowdown or exchange rate fluctuations, could also adversely affect business conditions in Japan, and therefore adversely affect the results of operations of the Group's business in Japan.

In April 2014, Japan's consumption tax rate was raised from 5% to 8%. In October 2015, the tax rate is scheduled to be further increased to 10%. Such a tax increase may adversely affect the Japanese economy in general, and in particular by reducing consumer spending, which could in turn reduce the demand for the Group's services and adversely affect its results of operations.

The Great East Japan Earthquake that occurred in March 2011 adversely affected the Japanese economy due to supply chain disruptions, electricity shortages and other factors. While economic and business conditions in Japan have improved since then, there is no assurance that conditions may not deteriorate again in the future, including as a result of future earthquakes or other natural disasters.

With the acquisition of the major British advertising agency Aegis in March 2013, the proportion of the Group's gross profit accounted for by its operations outside of Japan increased significantly from approximately 18% in fiscal 2012 to approximately 48% in fiscal 2013. As a result, downturns in the economies and business environments of the principal markets in which the Group operates outside of Japan could have an increased adverse impact on its overall results of operations. In particular, with the acquisition of Aegis, the Group has increased its exposure to the European Union, which is currently experiencing a sluggish economic environment as well as an ongoing sovereign debt crisis affecting several European countries.

Risk related to technological innovation and structural changes in the media

Developments in technology and new media advertising markets are having an increasing impact on the Dentsu Group's business. According to *2013 Advertising Expenditures in Japan* (issued by Dentsu), Internet advertising expenditures have continued to grow since the first survey in 1996 and have reached a level surpassing the amounts allocated to newspaper, magazine or radio advertising, which are three of the four traditional mass media (newspapers, magazines, radio and television).

Management believes that the development of Internet-based and other new media advertising should contribute to expanding the overall advertising market by generating synergies between advertising in the four traditional mass media and such new advertising. The Dentsu Group also believes that it has already secured a leading position in Japan not only in advertising in the four traditional mass media but also in Internet advertising, and the Group continues to seek to explore and exploit further business opportunities.

Nevertheless, if the Group cannot cope appropriately with changes in the media structure associated with the rapid pace of technological innovation, its results of operations could be adversely affected.

Risk related to shortfalls in financial targets and other goals

Pursuant to the Dentsu Group's new medium-term management plan—Dentsu 2017 and Beyond—the Group has set financial targets and other goals to be achieved by the fiscal year ending March 31, 2018. For example, the Group intends to continue to increase the proportion of its revenue from business outside of Japan by enhancing and extending its new global network formed with the acquisition of Aegis. However, the Group's ability to achieve its financial targets and other goals is based on a number of underlying assumptions, including assumptions regarding factors beyond its control such as growth in advertising expenditures globally, foreign currency exchange rates and interest rates, as well as general economic growth rates of countries in which the Group operates. If any of these assumptions proves to be inaccurate, the Group may be unable to achieve its financial targets and other goals. In addition, there is no assurance that management will be able to successfully implement the medium-term management plan.

Risk related to common business practices

The common practice in Japan is for advertising agencies to purchase time and/or space from media companies on their own behalf, rather than on behalf of their advertiser clients. Accordingly, Dentsu Group companies are liable for payment to media companies regardless of whether they receive payment from their clients. This practice exposes the Group to the risk of payment default by advertiser clients, including as the result of the bankruptcy of clients. An increase in payment defaults by clients could adversely affect the Group's results of operations. The nature of the advertising business is such that sudden changes in advertising proposals and actual advertisements are frequent. The Group strives to preclude problems related to work for clients through measures such as encouraging the conclusion of basic written contracts with them, but unforeseen events or disputes with clients may arise.

Overseas, especially in Europe and the Americas, relationships between advertisers and advertising agencies are usually exclusive within a particular industry. In Japan, however, these relationships are typically less exclusive. Accordingly, the Dentsu Group, like other advertising agencies in Japan, handles multiple clients in a single industry. If the practice in Japan were to change in favor of exclusive relationships, and if the Group's efforts to respond to such a change were ineffective, its results of operations could be adversely affected.

Competition-related Risk

Risk related to competition among advertising agencies

The Dentsu Group faces increasing competition from advertising agencies in Japan and overseas.

In Japan, mergers among domestic advertising companies or other reorganizations of the domestic industry, or further entry into the market by large global advertising companies, could alter the structure of Japan's advertising industry and increase the competitive pressure that the Group faces. Going forward, the Group's results of operations could be adversely affected by increased competition to secure clients if the Group is unable to respond effectively to changes in the structure of the industry or standard business practices prompted by such developments.

Outside of Japan, the Group competes with large global advertising companies, some of which have greater geographic scope and greater financial, human and other resources than the Group, as well as with smaller agencies that specialize in one or more countries or local markets. To the extent that the Group is not able to remain competitive and obtain and retain key clients, its results of operations may be adversely affected.

Risk related to competition from new market entries and from adjacent industries

The rapid expansion and diversification of the advertising field is giving rise to competition from an increasing number of companies in adjacent industries, including general trading and consulting companies. Fields related to Internet advertising and social networking services are also seeing a sharp increase in the number of new market entrants, and the Dentsu Group competes with these companies in the development and expansion of new businesses. If the Group is unable to respond effectively to client needs in such business domains from either a service or a cost perspective, or if the entrance of new companies into these new markets suddenly causes rapid changes in customary advertising business practices, the Group's results of operations could be adversely affected.

Risk Related to Advertisers and Media Companies

The Dentsu Group has formed business ties with major advertisers in Japan and has maintained stable, long-term relationships with a large majority of its current clients.

The Group has also established strong relationships with Japan's mass media companies, which enhances its ability to coordinate operations and sales activities between advertisers and media companies, and thereby facilitate transactions.

However, if the Group is unable to provide services that match the needs of existing or new advertisers and media companies, the Group may be adversely affected, including by the termination of business relationships, the reduction of accounts or unfavorable changes in the terms of business.

In recent years, advertisers have sought to consolidate their media service activities with one advertising agency to boost advertising efficiency and reduce costs. For this and other reasons, the Group and other advertising companies have experienced a decrease in the profitability of mass media advertising services. If this trend persists, the Group's results of operations could be further adversely affected.

Risk Related to Efforts to Reinforce Domestic Service Capabilities

Risk related to the development of information technology processes and databases

The Dentsu Group is currently involved in research and development on information technology processes and databases that verify the effectiveness of clients' advertising activities and marketing budgets. Through these efforts, management seeks to bring latent demand to the surface and expand its share of the Japanese advertising market. However, it is unclear if or when the results of these efforts will be marketable and put to practical use. Moreover, even if the Group is able to develop marketable services from its R&D activities, these services may not produce the results the Group expects, especially if the needs of clients have changed significantly or technological challenges preclude widespread use of the services.

Risk related to investments in media and Internet advertising businesses

To reinforce the Dentsu Group's position in the media markets and otherwise expand its business, the Group has made investments in the four traditional mass media, OOH media (out-of-home media such as transit and billboard) and satellite media (broadcast and communication satellites), as well as in related research and business development programs. However, if demand for media advertising becomes stagnant or competition in the media advertising market intensifies, profits and other business results may not be sufficient to generate the return the Group expects from these investments in R&D and commercialization.

In the Internet advertising domain, as advertising methods diversify and demands from clients expand, the Dentsu Group has been actively establishing alliances with leading, specialized agencies as well as investing in other specialized companies and technologies. These moves support the Group's efforts to further promote and propose cross-media campaigns that are aimed at creating effective synergies among multiple media and creative outlets that are effective in light of target consumers' behavior patterns. The Group is also focusing on performance-based advertising, a method of ad delivery which utilizes platforms that employ ad technologies processing vast amounts of data to provide automatic or instantaneous optimization of advertising. However, if the Group's efforts fail to adequately address the rapid progress in technologies and services associated with the Internet advertising domain, the Group may be unable to realize its initially expected return on these investments.

Risk related to expansion of the promotion business

The importance of promotional activities has been rising for advertisers, and the market is expanding. Taking advantage of this opportunity, the Dentsu Group has established several specialized companies in promotion-related fields such as point-of-purchase marketing, flyer production, direct business and client access in order to expand its future promotion business. However, if demand for these services falls short of expectations, or if the Group is unable to maintain competitiveness with other solutions providers, the Group may not realize the return on investments that it expects.

Risk Related to Content Business

The Dentsu Group actively invests in the acquisition of rights to, and in the production of, films, television programs, sports events and music, and seeks to generate profits from the production, distribution, sale and licensing of films and other content as well as from the sale of sponsorships, broadcasting rights and content-related advertising. However, these projects may extend over several fiscal years and require significant acquisition costs and financial commitments. In addition, media that provide content have been diversifying in recent years. Moreover, the success of the Group's content business depends primarily upon acceptance by the general public, which can be difficult to predict. Therefore, if these investments in content or events do not develop as planned or do not realize the benefits expected, the Group's results of operations may be adversely affected.

Risk Related to Global Businesses

Risk related to the acquisition of Aegis

On March 26, 2013, the Dentsu Group completed the acquisition of Aegis for approximately £3,164 million. The acquisition of Aegis, which has a leading position in Europe and a strong position in other global markets, is an integral part of the Group's strategy to grow beyond the Japanese market. However, there can be no assurance that the Group will be able to recoup this substantial investment through successfully integrating Aegis's business. Specifically, the anticipated benefits and synergies resulting from the acquisition are subject to, among other things, the following uncertainties:

- The Group may face significant challenges in combining Aegis's infrastructure, management and information technology systems with Dentsu's.
- Management's focus on the integration could result in distraction from other operating objectives.
- There may be difficulties in conforming standards, controls, procedures and accounting and other policies, as well as business cultures and compensation structures.
- The Group may not be able to retain key clients of Aegis.
- The Group may not be able to retain key personnel at Aegis.
- The Group may not be able to successfully leverage Aegis's networks in Europe, the United States and emerging markets to increase its share of the global advertising market.

The Group continues to pursue strategic business acquisitions globally as a part of its ongoing growth strategy. However, if it is not able to achieve the anticipated benefits of these acquisitions in full or in a timely manner, the Group could be required to recognize impairment losses; it may not be able to recoup its investment; and its business, financial position and results of operations could be materially and adversely affected.

The Group's consolidated interest-bearing debt increased substantially in connection with the acquisition of Aegis because the Group incurred significant loans to finance the acquisition. Servicing and repaying the debt may limit the Group's ability to finance on acceptable terms new transactions that would otherwise advance its corporate strategy.

Additional risks related to overseas business development

With the acquisition of Aegis, the Dentsu Group's global operations have expanded to over 100 countries. The Group's global operations are subject to a number of risks, including but not limited to the following:

- difficulties in monitoring and coordinating operations in such a large number and wide range of jurisdictions;
- heightened exposure to any downturn affecting the global economy;
- risks related to foreign laws, regulations and policies, including capital and exchange controls;
- differences in, or conflicts among, the taxation regimes in the different jurisdictions in which the Group operates;
- changes with respect to taxation, including impositions or increases of withholding and other taxes on remittances and other payments by the Group's overseas subsidiaries;
- fluctuations in foreign currency exchange rates;
- varying standards and practices in the legal, regulatory and business cultures in which the Group operates, including potential inability to enforce contracts or intellectual property rights and restrictions on employment matters;
- trade restrictions and changes in tariff;
- risks related to political instability and uncertain business environments;
- changes in the political or economic relationship between Japan and the other countries and regions in which the Group operates;
- acts of terrorism, war, epidemics and other sources of social disruption; and
- difficulties associated with managing local personnel and preventing misconduct by local third-party alliance partners.

Any one or more of these or other factors could increase the Group's costs, reduce its revenues or disrupt its operations, with possible material adverse effects on its business, financial condition and results of operations.

Risk related to impairment losses on goodwill and other intangible assets

The Dentsu Group carries significant amounts of goodwill and other intangible assets on its balance sheet, particularly as a result of the acquisition of Aegis. Under Japanese GAAP, the Group is required to examine such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recognition of such impairment charges may adversely affect the Group's business, financial condition and results of operations.

Risk Related to Maintaining and Developing Human Resources

The growth potential and competitiveness of the Dentsu Group are highly dependent upon attracting, retaining and developing excellent human resources. Therefore, Group companies strive to attract the necessary talent by hiring a stable number of new graduates and by recruiting mid-career professionals with expertise and experience that will make an immediate contribution. At the same time, the Group endeavors to promote personnel development by offering training opportunities according to the position and ability of each individual. However, these efforts could be sidetracked for all sorts of reasons, making it difficult to attract exceptional people or keep them within the Group. If this were to occur, the Group's growth potential and its competitive edge could be adversely affected.

Moreover, the Group is continuing to address issues inherent in the management of a greater number of employees in diverse cultural and geographic areas, particularly with the integration of a large number of new overseas employees in connection with the acquisition of Aegis. There can be no assurance that the Group will be able to attract or retain key employees and successfully manage them. The Group's inability to do so could disrupt its business and have a material adverse effect on its financial condition, results of operations and competitive position.

Risk Related to Reliance on Information Technology Systems

The Dentsu Group relies on information technology systems and infrastructure to process transactions, summarize results and manage its business, including maintaining client marketing and advertising information. The Group's information technology systems are potentially vulnerable to system failures and network disruptions, malicious intrusion and random attack. Likewise, data security incidents and breaches by employees and others with or without permitted access to its systems may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. Additionally, the Group utilizes third parties to store, transfer or process data. While the Group has taken prudent measures to protect its data and information technology systems, there can be no assurance that its efforts will prevent system failures or network disruptions or breaches in its systems, or in systems of third parties the Group uses, which could adversely affect its results of operations.

Risk Related to Legal or Regulatory Changes

Advertising companies in Japan, including those under the Dentsu Group umbrella, are subject to a number of laws and regulations, including the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors and the Act on the Protection of Personal Information. At the current time, management does not anticipate that these laws and regulations will have any material impact on the Group's business. However, the financial results of the Dentsu Group and other advertising companies could be adversely affected if existing laws or regulations governing the advertising activities of advertisers or the format or content of advertisements are strengthened, if new laws or regulations are introduced, or if existing laws and regulations are reinterpreted.

Members of the Group handle personal and other advertiser information in the course of doing business. The Dentsu Group's information security system is certified to international standards, and the utmost care is given to safeguarding information entrusted to the Group. However, in the unlikely event of an information leak or other such incident occurring, the Group's credibility could be severely compromised. This could adversely affect its financial results.

Risk of Litigation

The Dentsu Group could become involved in litigation brought against it directly or indirectly in association with the execution of business by members of the Group, including claims by clients, organizations, consumers or owners of intellectual property.