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

Dentsu Inc. and Consolidated Subsidiaries
As of June 26, 2015

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, 2015 with regulatory authorities.

Significant Accounting Policies and Estimates

The Company's consolidated financial statements are prepared on the basis of International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board.

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 Company's financial position and operating results during the reporting period. Management continuously evaluates forecasts and assumptions regarding such items as investments, retirement benefits and corporate taxes, as well as contingencies and litigation. Management bases its estimates and assumptions on the consideration of several factors, given past performance and conditions. These results underpin 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

Revenue consists primarily of commissions received for the placement of advertising into different media and consideration received from advertisers and others for providing services, such as assistance in the production of advertising, including creative, and various content-related services.

Revenue from the production of advertising and other advertising-related services is recorded based on the consideration paid as compensation for such services to the Group by advertisers and others less costs incurred. In some cases, revenue is also recorded based on a fixed fee or other compensation.

Revenue from commissions received from advertisers for the placement of advertising is generally recognized when the media is placed. Other revenue is generally recorded when the service is completed, an estimate of the amount of compensation can be reasonably determined and it is probable that the future economic benefit will flow to the Group.

Revenue and costs arising from transactions relating to services other than advertising services are presented as a gross amount.

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

Impairment Loss on Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Property

The Group determines whether there is any indication of potential impairment loss on non-financial assets excluding inventories and deferred tax assets on the closing date. If any such indication exists, an impairment test shall be conducted based on the recoverable amount of relevant assets. Goodwill and intangible assets with indefinite useful lives are not subject to amortization, and are instead tested for impairment loss annually regardless of whether there is any indication of impairment, or every time when there is an indication of impairment loss. The recoverable amount of assets shall be either the fair value of assets or cash-generating units after deducting costs of disposal of the assets, or value in use, whichever is higher. If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount and impairment loss is recognized. In the calculation of its value in use, certain assumptions regarding useful life, future cash flow, growth rate, discount rate, etc., of the asset are used.

These assumptions are determined based on past performance, best estimates, and judgments based on business plans approved by the management of the Company. The assumptions, however, may be affected by modifications in business strategies and changes in market environment. If any change to these assumptions is required, the amount of impairment loss to be recognized may be significantly affected.

Valuation of Financial Instruments

The Group holds financial assets such as securities and derivatives, and uses certain assumptions in the valuation thereof. Fair values are determined in accordance with calculation procedures such as the market approach, as well as referencing market prices. In particular, the fair value of stocks that are actively traded in the market, among other securities and financial assets, is determined based on the market price. The fair value of stocks that are not actively traded in the market is evaluated at the amount calculated by using observable market data, or at the amount calculated primarily by the market approach using unobservable inputs.

Management evaluates whether the valuation of fair value of financial instruments is conducted in a reasonable manner. However, fair value to be recognized may be significantly affected if any revision to the estimate is required due to unforeseeable changes in assumptions that underlie the value.

Valuation of Defined Benefit Obligation

Defined benefit obligation and retirement benefit costs 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, and mortality rates, among others.

Management evaluates whether those assumptions that underlie the above values are reasonable. However, if the actual values of these factors vary from the forecast values, or if the assumptions that underlie these values change, the Company may be significantly impacted by the recognition of such costs or by the recording of such liabilities, on a consolidated basis.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the obligation will be required to be settled, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, provisions are measured based on the present value using a discount rate reflecting the risks specific to the liability.

Such provisions are calculated based on the best estimate, taking uncertainties on the closing date into consideration. However, the amount may be impacted in case of any unforeseeable event s or changes in circumstances. If the actual result varies from the estimate, the amount of obligations to be recorded may be significantly affected.

Collectability of Differed Tax Assets

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

The Group records deferred tax assets based on future taxable income and ongoing tax planning that emphasizes cautious and highly implementable approaches. Thus, we determine that the collectability is evaluated based on reasonable estimates. However, such estimates may be impacted in case of any unforeseeable events or changes in circumstances. If the actual result varies from the estimate, costs to be recognized and assets to be recorded may be significantly affected.

Change of the closing date

Dentsu, Inc. has changed its closing dates from March 31 to December 31, and its subsidiaries with closing dates other than December 31 have also changed their closing dates to December 31. Accordingly, for the fiscal year ended December 31, 2015, the reporting period of the Company and its major subsidiaries engaging in the Japan business covers nine months, from April 1, 2015 to December 31, 2015. The reporting period of subsidiaries engaging in the international business covers 12 months, from January 1, 2015 to December 31, 2015.

Operating Results for the Fiscal Year under Review

Revenue and Gross Profit

Consolidated revenue for the fiscal year under review (the reporting period from April 1, 2015 to December 31, 2015 for the Japan business and the reporting period from January 1, 2015 to December 31, 2015 for the international business) reached 706.4 billion yen, and gross profit totaled 669.4 billion yen (see page 76).

Of the gross profit, 255.7 billion yen (up 6.7% compared to the previous consolidated fiscal year) was generated from the Japan business. The amount exceeded the previous consolidated fiscal year, largely due to the contribution of sponsorship sales, including the 15th IAAF World Championships in Beijing, the 44th Tokyo Motor Show 2015 and the Tokyo 2020 Olympic and Paralympic Games.

Gross profit from the international business was 414.0 billion yen (up 20.6.% compared to the previous consolidated fiscal year). The organic gross profit growth rate in the international business continuously expanded and increased by 9.4% compared to the previous consolidated fiscal year. All regions recorded higher growth than in the previous consolidated fiscal year, with EMEA up 12.2%, the Americas up 4.9%, and APAC up 11.4%.

Selling, General and Administrative Expenses, Other Income, Other Expenses and Operating Profit

Consolidated selling, general and administrative (SG&A) expenses for the consolidated fiscal year under review came to 566.4 billion yen.

Other income was 13.0 billion yen, and other expenses came to 8.7 billion yen.
Major factors behind the decreases from the previous consolidated fiscal year in other income and other expenses are related to the sale of property, plant and equipment, intangible assets and investment property during the previous consolidated fiscal year.

As a result, operating profit for the consolidated fiscal year under review reached 107.2 billion yen (see page 76).

Share of Results of Associates, Finance Income or Costs, and Profit for the Year

Share of results of associates for the consolidated fiscal year under review was 3.9 billion yen, and the net difference between finance income and finance costs came to 5.1 billion yen in costs. As a result, profit before tax came to 106.0 billion yen.

Of the profit for the year, derived by deducting income tax expense from profit before tax, profit attributable to owners of the parent reached 72.6 billion yen (see page 76).

Factors Affecting Operating Results

Consolidated revenue is derived primarily from advertising services in the four traditional mass media format s 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 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 consideration 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.

Current Status of Management Strategies and Outlook

(1) Basic Management Policies

With the completion of the acquisition of Aegis Group plc (current Dentsu Aegis Network Ltd.) in March 2013, the Dentsu Group has evolved into a truly global network. Taking this opportunity, Dentsu formulated the medium-term management plan "Dentsu 2017 and Beyond," implemented in the fiscal year ended March 31, 2014.

In recent years, various advancements in technology have been made, and as the behavior of consumers changes, it has become difficult for many companies to achieve satisfactory results from marketing activities in the absence of coordination between initiatives.

Under these circumstances, the Group strives to evolve into the world's leading global network to contribute to raising corporate value for every type of client.

(2) Targeted Management Indicators

Targets for the fiscal year ending December 31, 2017 were set as follows:

- Gross profit compound annual growth rate (CAGR): 3%–5%;
- Ratio of gross profit generated from markets outside of Japan: 55% or higher;
- Ratio of gross profit generated from digital businesses: 35% or higher; and
- Underlying operating margin: 20% or higher

Note: Underlying operating margin is the underlying operating profit divided by gross profit.

Furthermore, from the previous fiscal year, the Group has applied the International Financial Reporting Standards (hereinafter, "IFRS") instead of the Japanese GAAP. In line with this change, operating margin is now calculated utilizing "underlying operating profit" instead of "operating profit before amortization of goodwill and other intangible assets." There has been no change to target figures.

(3) Tasks to Be Addressed by the Group and Its Management Strategy

Specific challenges and efforts to achieve the goals stated in the medium-term management plan are as follows.

1) Diversifying the portfolio on a global basis

The gross profit organic growth rate in the Group's international business operations for the fiscal year under review was 9.4%, achieving a rate higher than those of its competitors in consecutive years. As a result, the gross profit international ratio reached 54% on a 2015 calendar year basis.

The Group believes the reasons for such robust growth is that, each Group company provides one-stop solutions to meet client needs by cooperating and coordinating, leveraging their unique strengths, and creating expanded business from existing clients, in addition to solid acquisition of new accounts through the Group's unique "One P&L" business model for its international business operations, and that the business in the digital network domain is steadily growing.

Moving forward, the Group will work to globally expand its strengths in the digital domain as well as in the areas of sports marketing and content creation, while making use of M&As to establish and expand a globally competitive global network.

2) Evolving and expanding in the digital domain

Gross profit in the Japanese digital domain on a 2015 calendar year basis increased 22.2% year on year, continuing to achieve double-digit growth.

Outside of Japan, the Group implemented M&As in various digital domain sectors in the fiscal year under review as well. Of the M&As conducted over the course of the year, almost half of the total projects were in the digital domain. Due to growth via M&As and internal growth, the gross profit of the international business operation in the digital domain increased 24.8% compared to the previous consolidated fiscal year.

As a result, the digital domain ratio across the entire Group reached 34% on a 2015 calendar year basis, making progress toward the goal of 35% or higher for the fiscal year ending December 31, 2017.

Under the accelerated digital shift of client marketing activities, the needs for the digital domain are further diverse and advanced in the advertising industry. Such needs include the followings:

- programmatic buying system in the media buying domain,
- digital solution including creative materials and contents, and
- data analysis which contributes to business decision making and consumer engagement strategy

As a result, the role played by the advertisement agency is further expanding. Given the circumstances, the Group will continue to utilize aggressive M&As and work to improve its capabilities and quality of service

3) Re-engineering business processes and improving profitability

Due to the continued cost control such as suppression of the cost increase associated with the revenue growth in both Japan and international business operations, the consolidated underlying operating margin on a 2015 calendar year basis improved 1.4 ppt as compared to the previous consolidated fiscal year to 21.1% (see page 76).

While aiming for growth in the top line in both its Japan and international businesses, the Group will continue to improve operational efficiency and cost controls to increase profitability across the entire Group, toward achieving the goal of "underlying operating margin of 20% or higher," as set forth as one of the objectives of the medium-term management plan.

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

The Group's greatest strength is its strong business platform in Japan, and this has not changed. In its business in this key market for the fiscal year under review, despite concerns over a pullback in demand after the 2014 FIFA World Cup Brazil™ and stagnant personal consumption, the performance of the major subsidiaries in promotion or digital domain has remained strong, yielding positive growth.

In Japan, where consumer behavior is drastically changing, it is becoming difficult to achieve sufficient results unless the individual measures in the marketing activities are organically linked.

In light of these environment changes, the entire Group continues to work on strengthening the capability for digital solutions including the marketing intelligence domain and enhancing the system.

In addition, the Group further strengthens its competitiveness in the mass media business by accumulating the collaboration with players in the media content domain and by making efforts to establish new revenue models and enhancing the value of the diverse media. Furthermore, the Company will work to increase its problem-solving abilities and capability to create profits in a greater number of domains, in its efforts to evolve into a partner who can support the success of its clients from a variety of angles.

Additionally, the Company is providing support for creating marketing plans and sponsorship sales as the exclusive marketing agency for the Tokyo 2020 Olympic and Paralympic Games. Concerning sponsorship sales, six Gold Sponsors (15 sponsors in total) were finalized during the fiscal year under review, and progress has been steady. The Company will continue to fulfill its role as the exclusive marketing agency.

The above is the overview of the medium-term management plan.

As the issues to be addressed, we are also striving to enhance our global CSR activities in addition to the efforts outlined above.

As described in the corporate governance code (implementation began in June 2015), there was growing momentum among our stakeholders to seek ESG (environmental, social, governance), in other words, commitment to CSR activities in the fiscal year under review.

In light of this situation, the Group formulated the "Dentsu Group Medium-term CSR strategy 2020" in December 2015.

The plan has set targets to be achieved by 2020 highlighting the four key domains: environmental conservation, community, supply chain, and responsible marketing communications.

In addition, as a leading member of the Japan Network of the United Nations Global Compact, which is the international CSR initiative, the Company will continuously strive to identify and solve global social issues through our cross-industry network.

Moving forward, we plan to continue our efforts to improve corporate value by enhancing the desirable CSR activities as the leading global group in the communication domain.

For details on individual activities, please refer to the Dentsu Sustainability Report (http://www.dentsu.com/csr/index.html).

Analysis of Capital Resources and Cash Liquidity

Assets, Liabilities and Equity

As of December 31, 2015, total assets decreased by 93,459 million yen, liabilities decreased by 85,139 million yen, and total equity decreased by 8,320 million yen compared to the previous consolidated fiscal year respectively, as affected by the repayment of bonds and borrowings and the acquisition of treasury stock.

Cash Flows

As of December 31, 2015, cash and cash equivalents (hereinafter "cash") amounted to 263,322 million yen down from the 365,379 million yen posted at the end of the previous consolidated fiscal year. As net cash provided by operating activities exceeded net cash used in investing activities and financing activities, cash at the end of the consolidated fiscal year under review decreased 102,057 million yen from the end of the previous consolidated fiscal year

Net cash provided by operating activities amounted to 69,554 million yen (112,388 million was posted at the previous consolidated fiscal year), primarily due to recording of profit before tax.

Net cash used in investing activities amounted to 61,203 million yen (25,510 million yen was posted at the previous consolidated fiscal year), primarily due to purchase of investments in subsidiaries.

Net cash used in financing activities amounted to 95,666 million yen (income of 8,391 million yen was posted at the previous consolidated fiscal year), primarily due to expenditures in repayment of long-term borrowings, purchase of treasury stocks, and payment of dividends.

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. The Group has generally had positive working capital (current assets minus current liabilities) on a consolidated basis. In the previous fiscal year and the fiscal year under review, the Group's working capital recorded positive amounts of 170.6 billion yen and 129.4 billion yen, respectively.

To ensure short-term liquidity, Dentsu established a bank credit line of up to 50.0 billion yen via a syndication arrangement. Also, Dentsu Aegis Network established a bank credit line of 500 million pounds (approximately 89.0 billion yen) as a contingency fund. 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 Groupwide 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 on page 80.

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 2017, Japan's consumption tax rate is scheduled to be raised from 8% to 10%. Such a tax increase may adversely affect the Japanese economy in general, and in particular, curb consumer spending, which could in turn reduce the demand for the Group's services and negatively impact 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, to 54%, in fiscal 2015. With this development, 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.

Risk related to technological innovation and structural changes in the media

Developments in technology and structural changes in the media are having an increasing impact on the Dentsu Group's business. According to 2015 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 December 31, 2017. 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

In Japan, 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

Risks related to international business development

With the acquisition of Aegis, the Dentsu Group's global operations have expanded to over 140 countries and regions. 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.