Message

Message form Chief Financial Officer

REFORMS, TRANSFORMATION TO BOOST CORPORATE VALUE

FY2017 Performance

FY2017 (ended December 31, 2017) saw the Dentsu Group engage in reforms and transformation in both Japan and overseas.

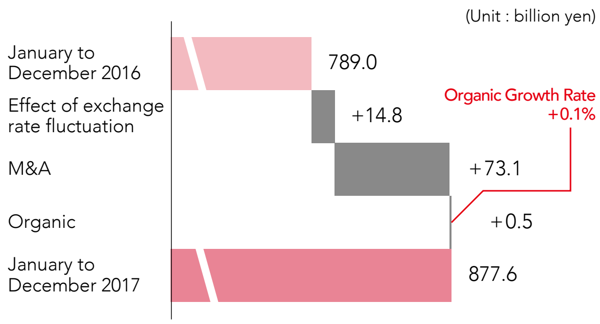
Marking the ongoing transition to digitization, many of our clients around the world revamped their traditional marketing activities, and there were signs of a temporary slowdown in ad spending. According to the global ad spend growth forecast published in June 2018 by our international head office, Dentsu Aegis Network (hereinafter "DAN"), the global growth rate for calendar 2017 was 3.3%. Broken down by region, Japan grew 1.6%, the area comprising Europe, the Middle East and Africa (hereinafter "EMEA") 3.2%, the Americas 3.1% and the Asia–Pacific region (excluding Japan; hereinafter "APAC") 4.0%.

The Dentsu Group continued to emphasize its priority on working environment reforms and corporate infrastructure development in Japan, while stressing Group-wide business transformation. In Japan, amid the environmental changes reflecting ongoing technological innovations, we engaged in business improvement efforts designed to provide the value demanded by society, not just our customers. We focused on ensuring legal compliance in our domestic business, with emphasis on eliminating overwork, and on establishing a corporate infrastructure that will lead to sustainable growth. In the area of international business, conducted by DAN, we accelerated our efforts to become a 100% digital economy business by 2020. Ongoing strategic M&A activities have allowed us to expand our ratio of digital business, bolster our scale and capabilities, and acquire talents with an entrepreneurial spirit.

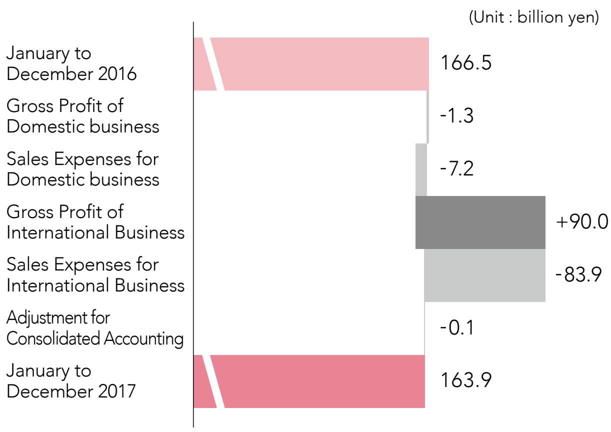
As a result, gross profit was ¥877.6 billion (a year-on-year increase of 11.2%, or 9.2% on a constant-currency basis), mainly due to acquisitions (up ¥73.1 billion year on year) and the currency effect (up ¥14.8 billion year on year). At the same time, with expenses of ¥7.0 billion for work environment-related reforms in Japan, the underlying operating profit was ¥163.9 billion (down 1.6% year on year; 3.8% on a constant-currency basis). (Diagrams 1 and 2)

In Japan, gross profit for the Group was nearly the same as for the previous fiscal year, despite growth in the digital domain. It stood at ¥361.9 billion (down 0.4% year on year; organic growth down 0.3% by the same comparison). This was mainly due to the absence of major events such as the

Diagrams 1: Growth of Gross Profit



Diagrams 2: Underlying Operation Profit



2016 Olympic Games in Rio de Janeiro held the previous year. The Group's operating profit* in Japan was down 8,8% year on year, with Japan business accounting for ¥88.8 billion. The decrease mainly was due to the sluggish organic growth of gross profit, as well as to expenses related to working environment reforms.

The Group's international business, meanwhile, continued to show growth, with an overall gross profit of ¥516.0 billion (up 21.1% year on year), mainly due to aggressive M&A activities and contributions from the acquisition of Merkle Group Inc., in September 2016. The constant currency basis growth rate increased 17.1% year on year, while the organic growth rate rose only a slight at 0.4% year on year, reflecting the slowdown in advertising markets.

Broken down by region, the gross profit growth rate in the Americas increased 28.7% year on year (organic growth declined 1.5% by the same comparison), in the EMEA 22.3% year on year (organic growth up 3.1%), and in APAC 9.0% (organic growth down 0.6%). International business accounted for ¥75.1 billion of the underlying operating profit (up 8.8% year on year; up 3.5% on a constant-currency basis by the same comparison).

In addition, the digital domain ratio was 43.2% on a consolidated basis (37.3% in FY2016), with year-on-year increases in Japan business of 22.2% (19.7% in FY2016), and in international business of 57.9% (52.3% in FY2016).

* Underlying operating profit is a key performance indicator to measure recurring business performance. It is calculated as operating profit less one-off items, such as amortization of acquisition-related intangible assets, M&A-related expenses, impairment losses, and gains/losses on sales of non-current assets.

Arinobu Soga

Director
Executive Officer

FY2018 Key Measures

Looking at our business in Japan, work environment-related reforms will remain our top priority during FY2018 (ending December 31, 2018), while at the same time we will promote infrastructure development with a view to attaining future growth. In line with the Working Environment Reform Plan announced on July 27, 2017, we will complete the promised office environment reforms and infrastructure development started in 2017.

Our working environment-related reforms mark a new phase in the Group's growth, as we seek to optimize the time and energy of each employee so as to create an environment that is truly efficient. We see this as a necessary step in our bid to provide our clients with higher value services, help realize social innovations, and ensure the personal growth of employees and the Company.

On the Japan business front, in FY2018 we will strive to enhance sustainable corporate value by investing in necessary reforms.

In FY2017, the Group's investments associated with office environment-related reform amounted to ¥7.0 billion on a non-consolidated basis. This comprised ¥1.3 billion for the addition of 300 employees to remedy the staffing shortfall; ¥4.0 billion for internal work inventories, in line with operational efficiencies related to the introduction of IT, robotic process automation (RPA), information communications technology (ICT), as well as measures including outsourcing and strict labor management; and ¥1.7 billion for office environment-related improvements.

In FY2018, we plan to invest ¥13.0 billion to accelerate work environment-related reforms. We will strengthen our efforts in the areas of IT, RPA, and ICT that were effective last fiscal year, and implement major changes to our internal operational and human resource systems. To this end, we plan to spend ¥8.0 billion on measures to increase operational efficiency and manage labor appropriately; ¥2.5 billion on office environment-related improvements; and ¥2.5 billion on hiring additional employees.

While maintaining the 2017 momentum our international business enjoyed from the Group's all-time high procurement of new businesses*, we will continue investing in data-related capabilities. Reflecting our long-term business perspective, we also will invest in projects that provide a common platform and shared services that contribute to operational standardization, rapid decision-making, and increased work efficiency. Further, we plan to continue enhancing scale and capabilities, engaging in M&As, and acquiring talent with an entrepreneurial spirit.

According to the global ad spend growth forecast published by DAN in June 2018, global growth for calendar 2018 stood at 3.9%, with growth in Japan 1.6%, the EMEA 3.1%, the Americas 3.8% and APAC 5.7%. Given this environment, the Group will continue to seek organic growth exceeding that of the competition.

* The net new business wins minus losses in 2017 amounted to an all-time high of $5.2 billion.

Capital Policy and Dividends

The Dentsu Group's top priority is to continue allocating capital for aggressive investment in growth domains in Japan and overseas to achieve sustainable profit growth.

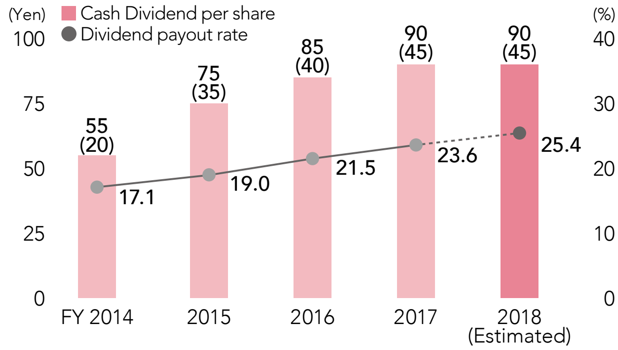
Our policy is to enhance our intrinsic corporate value, and realize stronger competitiveness, higher profitability, and business growth. At the same time, we are focusing on management stability and financial soundness. This we are doing through investments to create further business opportunities, in response to increasingly international corporate activities and the advance of digitization.

Shareholder returns are an important management issue. Reflecting the changes in the management environment surrounding the Company, we will attempt to provide comprehensive returns, and aim to increase the return on equity over the medium term. This we shall do by maximizing corporate value through long-term business growth, by achieving sustainable and stable dividends, and through flexible share buybacks. (Diagram 3)

Dividends are determined in consideration of the need for stable internal reserves to ensure sustainable investments in business growth, consolidated earning trends, and financial conditions. In FY2017, we paid a dividend of ¥90 per share, comprising an interim dividend of ¥45 per share and a year-end dividend of ¥45 per share.

Your continued understanding and support for the Dentsu Group is highly appreciated.

Diagrams 3: Cash Dividend



• Dividend payout rate: Underlying Net Profit (Equity attributable to owners of the parent) base
• ( ) : interim dividend per share

Message

Message form Domestic Business Director

ACHIEVING SUSTAINABLE GROWTH IN THE JAPAN BUSINESS

For FY2017, 41.2% of the Group-wide gross profit and 54.1% of the underlying operating profit make Japan the Dentsu Group's largest market. The Group handles a broad variety of business in Japan, mainly involving advertising. At the more than 50 directly owned Group subsidiaries working on Japan business, there are approximately 17,000 employees in the Group, and including those at Dentsu, the Parent Company.

The World Economic Outlook 2018, published by the International Monetary Fund (IMF) in April, predicts that the world economic growth rate for 2018 and 2019 will be +3.9%. The forecasts for Japan are growth of +1.2% in 2018 and +0.9% in 2019. Japan is expected to have lower economic growth than the United States and China. The organization's outlook for economic growth in both the latter nations, which have a higher GDP and larger advertising markets than Japan, indicates that they are forecast to grow in the upper two percentile range and six percentile range, respectively. Nevertheless, we believe that there is potential for both economic expansion in Japan and growth in Dentsu's business in Japan, where the Company was founded.

In order that the Group's Japan business might realize sustainable growth during the 2020 Tokyo Olympic and Paralympic Games and beyond, we are engaged in working environment reforms, involving full-scale initiatives launched in 2016 and are promoting changes in the Japan business. The changes in line with the business transformation engaged in by the entire Dentsu Group are being introducing to expand our Japan business are based on the following three pillars, and are designed to achieve sustainable growth.

Strengthening Marketing Competitiveness

The People Driven Marketing™, Dentsu Group's planning platform, introduced in 2017, is used in advertising and a wide range of other areas. Also since 2017, as a planning platform we have been promoting extensive standardization within the Group. Further, through proactive collaboration with partners possessing highly specialized and advanced technologies, we have been carrying out functional advances and already are seeing results.

In February 2018, we announced our acquisition of Data Artist Co., Ltd., one of Japan's leaders in the AI domain. We are already using that company's excellent AI technologies to enhance services in advertising and other areas, and to sharpen our competitive edge.

We also plan to use the technologies to bolster our corporate foundation by increasing Group-wide operational efficiency and further optimizing human resource management.

Amid the rapid advance and practical applications of various technologies, and from the perspective of succeeding with transformations in areas of our Japan business, it is important to proactively use technologies at the forefront of our industry.

Expanding Business Domains in Japan

Expanding our business domains in Japan, which have advertising business at its core, is one of the key elements in the transformation in order to achieve sustainable growth.

Business supporting customer company management, and intended thereby to achieve business transformation and expansion, is an area generally referred to as business design. Here we aim to acquire business opportunities since it is a domain that holds great potential for growth.

Besides steadily acquiring business design opportunities, we are promoting the start of business in such areas as data management, support for sales force automation, and customer relationship management. In addition, we are encouraging the introduction of cloud-based marketing in corporations. We plan to continue expanding our business domain in Japan by combining Dentsu Group capabilities with outside expertise and cutting-edge technologies.

Attempting to Establish a Position as Customer Business Partner

Advancing competitive capabilities in the marketing domain, together with business domain expansion in Japan, are services designed to resolve business issues directly faced by Dentsu Group customer companies.

While we often have led business promotions jointly with customers, if such cooperation is to increase, we must continue seeking business investment opportunities in Japan.

Dentsu currently has a client base in Japan comprising several thousand companies. But, considering the Group as a whole, the number and variety of companies is even greater. Indicative of the massive potential of the Dentsu Group is the fact that it is in constant contact with a range of clients, including media companies, platform developers, rights holders, content creators, organizations and public institutions.

As last year, 2018 represents a period of reform and fundamental development. Ensuring the health and individual growth of all Japan-based Dentsu Group employees, by supporting them individually as they work to expand their potential and broaden their possibilities, are the most important requirements for our Japan business to grow.

With the goal of realizing sustainable growth in our Japan business, we aim to advance and expand our traditional business domains, while attempting to establish a position as a client business partner.

Hiroshi Igarashi

Director
Executive Officer

Message

Message from International Business Director

Tim Andree

Director and Executive Vice President, Dentsu Inc.
Executive Chairman, Dentsu Aegis Network

Ten years ago, I became the first non-Japanese Executive Officer in the history of the company. At that time, the executive management of Dentsu recognized that although we had a long and distinguished history of leadership in the Japanese market, macro economic forecasts for Japan showed slowing growth, a mature market and a declining and aging population. In addition, management recognized that our leadership role in traditional media would inevitably be challenged by the fast growing developments in the global digital domain. In 2008, Dentsu's overseas business amounted to just 10% of the Group's revenue and our digital activities made only a small contribution. Through strategic expansion and investment, in just ten years, the Dentsu Group has transformed into a truly global business. By FY2017, Dentsu Group's revenues had almost tripled. 59% of our Group revenues are now generated outside of Japan, and of those revenues, 57.9% come from digital. The Dentsu Group strategy of digitalization and globalization has worked effectively to increase our global competitiveness and our corporate value. Dentsu has transformed itself from a powerful Japanese company with limited impact outside of Japan to a formidable global competitor headquartered in Japan.

Strategic acquistions have played an important role in accelerating our globalization and digitalization. 2018 marks the five year anniversary of Dentsu's largest acquisition, Aegis Media. The timing provides an opportunity to reflect on the changes to our business we have seen over that time.

Aegis Media was 15,000 people when we acquired the company in 2013. When we merged Dentsu's global operations and Aegis in 2014 to create Dentsu Aegis Network, we were an organization of 22,000 people. Since then we have made 150 additional acquisitions and investments, have grown organically on average by 6% and now just four years later we are 42,000 people. Dentsu Aegis Network now operates in 145 countries and regions and our revenue footprint continues to diversify. The Americas now contributes to 40% of our global (excluding Japan) revenue, EMEA 35% and APAC 25%.

Our strategic acquisitons have not only improved our competitiveness globally and driven operational growth, but have contributed to our balance sheet as ROIC over the past 10 years on the portfolio of our acquisitons has significantly exceeded our cost of capital.

Our unique operating model is well-established and removes barriers to collaboration; we're set-up to connect our capabilities around our clients. Our people blend creativity, agility and a pioneering spirit with the process, systems and rigour that data and technology-led marketing demands.

2017 Business Review

In 2017, for the first time, Dentsu's global operations grew in line with the peer group average rather than significantly above the market and competitors as had occurred every year since establishing Dentsu Aegis Network in 2014. A variety of explanations point to both cyclical and structural pressures that impacted the entire industry in 2017. Yet, in the midst of a challenging operating environment, we won more new business than ever before – an achievement that will provide a tailwind to our performance in 2018.

Our offer is built around data, insight and 'addressability', putting a direct relationship with consumers at the heart of how brands are built – and that is clearly resonating with our clients. In 2018, we will fully leverage M1™, a proven product in the US market. M1™ will be rolled out across our largest markets by the end of 2018.

We continue to use M&A investment as a means of accelerating our strategy. In 2017, we brought in new talent and key capabilities to the organization through strategic acquisitions that, once integrated, will drive future organic growth and continued competitiveness.

2018 strategy will prioritize growing revenue, both organically and inorganically. To drive continued competitiveness and sustainable growth, investment in the business is required. 2018 is an investment year for Dentsu Aegis Network to provide common platforms and systems across our Network. Those investments will stimulate sustainable long-term growth.

Client-Centricity

Understanding our clients' business, moreover their consumers, remains critical – solving clients' challenges is our business. We make our clients' most important marketing assets—their brands—win in a changing world.

In a rapidly changing marketplace, we help our clients maximise the value of data and drive competitive advantage for their brands—turning consumer data into addressable insight, powered by dynamic content, that delivers consumer engagement. We do this through global platforms such as M1™ and our Global Data Innovation Centre in Singapore—where data scientists and the best technology talent are driving innovation in machine learning, artificial intelligence and cognitive algorithms to augment our expertise in data analytics, media and marketing.

Our investment in data, technology and analytics is differentiating. We also have a different proposition – focussed on the growth certainty that every business will need a digital economy solution, creating competitive advantage through the insight and addressability our data strategy provides.

People-Centricity

Ours is a people business, so we have to take care of our employees. At every level, we are people serving people serving people. A network of agencies, supporting agency people, serving clients, serving customers and consumers. For this reason, talent is both our biggest expense and our biggest asset. We recognise the power of praise and recognition, the importance of leading with integrity, and instilling a culture of collaboration.

A principle I learned as a young executive in Japan, and which has been proven as invaluable as it is true, is the principle *Genchi Genbutsu*, which means "go and see." It suggests that for a manager to truly understand a situation, one needs to go to the *genba* or, the "frontline" - where work is done, where value is created, and where problems are identified and solved. This is a tangible, practical and effective way to challenge the status quo and I encourage our leaders across the business to engage with these principles .

Our future is in the hands of the next generation of leaders; the quality of our people and their passion for our business gives me confidence in the future of the Dentsu Group.

International Business Strategy

Jerry Buhlmann

Senior Vice President, Dentsu Inc.
CEO, Dentsu Aegis Network

2018 Marks the Fifth Anniversary of the Creation of Dentsu Aegis Network

Completed in March 2013, the acquisition of Aegis Group by Dentsu was the largest ever deal seen in the advertising sector. Since then, much has been achieved. Our revenues have increased three-fold, with 57.9% of our revenue now generated from digital activities – an industry leading figure. Our workforce has grown from 15,000 to more than 42,000 people and we have made 150 acquisitions and investments, transforming our capabilities and talent. However, while we have a lot to be proud of, we remain focused on the future and the opportunities that lay ahead.

2017 was a challenging year for our industry and our business. We posted a resilient performance despite many of our clients pulling back some of their marketing spend. Within the context of a challenging environment, we responded well, we mobilised around a new reality and delivered the right response quickly.

We controlled our discretionary cost line and focused on new business, delivering a record year for net new business at $5.2 billion, a result I am very proud of. We introduced strong, new management to three of our five largest markets (US, UK & China). The speed of our response generated momentum towards the end of the year, providing a tailwind into 2018.

Managing Complexity in a Fast Changing Environment

Looking forward, many of the forces that made 2017 challenging remain in 2018 and, if anything, will accelerate. We are seeing structural changes in the market. Advertising spend growth is lagging GDP growth for the first time and in 2018 digital advertising spend will overtake TV spend.

To address these issues we have continued to invest in data capabilities. Our competitive advantage comes through the insight and addressability data provides, this is critical to our long-term success in a changing industry. The M1 platform is a key pillar of our data strategy and is the first phase in realising our vision for all media planning and activation to be people based. 2018 will see the roll out of the M1 platform in a number of key markets.

Data governance remains a key priority for Dentsu Aegis Network and data privacy and protection is fast becoming a focus of our clients and society as a whole. We have combined data, legal and compliance professionals together under new data governance councils to ensure our data protection officers and compliance staff are actively involved in the decisions we make around data – helping ensure we continue to act responsibly, fairly and ethically.

Strategic Priorities for 2018

Continued focus on our key strategic priorities will drive momentum and growth across the business.

1. Purposefully grow revenue in high margin, high growth sectors
2. Strengthen our point of differentiation around data and People Based Marketing
3. Leverage media and content to create more scaled investment opportunities
4. Enhance our integrated solutions offering in service of client needs
5. Maximise efficiency across our operations
6. Continue to evaluate market transformation opportunities to grow capability

In a high change environment a focus on growth and investment is key and frames everything we do.

We have a high performance culture underpinned by one set of values – collaborative, agile, pioneering, responsible, ambitious. To move faster we need to continue to build on our culture; allowing for greater collaboration between brands on a local, regional and global level. We plan to crystallise our integrated solutions offer that enables our network brands to operate together better.

2018 will see a more proactive approach to transformation. The investment in and transformation of the business continues as we build shared global systems and platforms. This allows us to execute more effectively and drives efficiencies through the business, such as shared services. We will continue to invest in the business through 2018 to drive long-term sustainable growth. We have a strong, cash generative balance sheet, which is an important tool in remaining competitive.

Despite the challenges of 2017, we are still on course for our long-term target of £5billion revenue by 2020. We will embrace the storm of disruption so that we emerge stronger, more successful and more valuable to our clients.

The strength of our network and the way we operate the business brings an advantage. Uniquely in our sector, we have a vision, to innovate the way brands are built; and a purpose, to be a 100% digital economy business by 2020. We remain commercially agile, focused on the opportunities the digital economy provides and ready to embrace the disruption it brings.

M&A Strategy

Nick Priday

Senior Vice President, Dentsu Inc.
CFO, Dentsu Aegis Network

2017 was a Challenging Year for the Industry

In 2017 Dentsu Aegis Network reported revenue of £3.6 billion, which represents total revenue growth of 17.1% at constant currency exchange rates. In 2017, our growth was primarily driven by acquisitions, as organic growth came under pressure.

2017 was a challenging year for Dentsu Aegis Network, our clients and the industry as a whole. As a result, we missed our budget globally and in all three regions. A disappointing performance given our track record of outperformance versus the industry. However, our trading comparatives were much tougher than those of the holding companies.

We did experience an improvement in our momentum towards the end of the year. After a first quarter which was relatively strong, the second quarter saw a sharp slowdown and was the weakest quarter of 2017. Performance stabilised in the third quarter, and then growth returned in fourth quarter where we reported organic revenue up by 1.2 per cent.

In 2018 we forecast a return to organic growth driven by an improving market and strong new business wins in 2017. In 2018 and beyond we envisage returning to a more balanced revenue growth profile of organic growth and acquisitions.

A Record Year for Net New Business

2017 was a record year for net new business in terms of media billings. We won $5.2 billion dollars of net new business, well above the average of the previous three years and more than double that achieved in 2016. We won the biggest media pitch of the year as well as the biggest creative assignment.

These wins demonstrate the talent and capability we have in our organisation as well as the competitiveness of our product. The level of new business wins in 2017 are expected to contribute one to two percent of organic revenue growth in 2018. This helps drive our expectation that our organic revenue growth will improve in 2018 and for us to return to a position of outperformance against the sector.

Acquisitions Provide Scale, Capability Infill and Entrepreneurial Talent

We continue to show strategic intent in the market to accelerate our strategy. 2017 saw Dentsu Aegis Network make a total of 31 acquisitions and investments, 25 of which were new acquisitions. This brought in some fantastic talent to help us transform our business, almost three thousand people moved to DAN in 2017 – a real benefit to the network. There was activity across all three regions with an emphasis on data, CRM and performance marketing businesses as well as adding new innovative capabilities, such as with the Gleam acquisition, which is a digital-first, talent management business.

Cash Performance

We finished 2017 with a strong cash position driven by close management of working capital. The introduction of a cash performance metric to the senior management bonus scheme has yielded results.

Net debt / EBITDA, our leverage measurement, at the end of 2017 was 1.1x, lower than that of 2016, despite topping the M&A league table across the sector for the second year in succession. This gives the business capacity to continue to invest in targeted acquisitions going forward.

2018 is an Investment Year as We Seek to Accelerate Our Business Transformation

In 2017 the underlying operating margin declined in line with our budget – the margin contraction reflects planned investments and the impact from slower top line growth in a challenging market. Investment in the business for long term growth will continue in 2018 to support common platforms and shared global systems across our network. This will allow the business to operate efficiently at scale.

Further inward investment will standardize business operations, support faster decision making and improve efficiency. We expect to see further margin moderation in 2018 with a return to growth in 2019 & 2020.

Driving Growth Across the Business

Rolling out best in class systems and platforms will be a key enabler of our strategy. A number of key initiatives will be activated throughout 2018 to improve our efficiency. The introduction of Salesforce; further roll out of our Key Account Planning (KAP) function to a greater number of global clients and the expansion of the Growth Platform, a shared platform to increase collaboration across the network.

In the five years since the creation of Dentsu Aegis Network, the Group has seen enormous transformation. Looking forward, we will continue to evolve further and faster in order to exceed our clients' expectations and drive future growth.