

Progress of Medium-term Management Plan "Dentsu 2017 and Beyond"

With the completion of the acquisition of Aegis in March 2013, the Dentsu Group has evolved into a truly global network. Under this opportunity, Dentsu formulated the medium-term management plan "Dentsu 2017 and Beyond" which started from the fiscal year ended March 31, 2014.

In recent years, various advancements in technology have been made, and as consumer behavior changes, it has become difficult for many companies to achieve satisfactory results from marketing activities in the absence of coordination between initiatives. As such marketing convergence advances, the Group strives to evolve into the world's leading global network to contribute to raising corporate value for every type of client.

Under this policy, the current medium-term management plan has defined the following four points as its framework.

- ① Diversifying the portfolio on a global basis
- ② Evolving and expanding in the digital domain
- ③ Re-engineering business processes and improving profitability
- ④ Further reinforcing the business platform in the core Japanese market

From the fiscal year under review, the Group has applied IFRS in addition to Japanese GAAP. In line with this change, operating margin is now calculated utilizing "underlying operating profit" instead of "adjusted operating income". Additionally, the fiscal year-end of the Company and subsidiaries that do not have a fiscal year-end of December 31 are scheduled to be changed to December 31. As a result, for the fiscal year ending December 31, 2015, the fiscal year will be the nine-month period from April 1, 2015 to December 31, 2015 for the Company and subsidiaries that do not have a fiscal year-end of December 31, and for subsidiaries with a fiscal year-end of December 31, the twelve-month period from January 1, 2015 to December 31, 2015.

Targets for the fiscal year ending December 31, 2017

- Organic gross profit growth of **3-5%** (5 year CAGR)
- Ratio of gross profit from international (non-Japanese) business of **55%** or higher
- Ratio of gross profit from the digital domain of **35%** or higher
- Underlying operating margin of **20%** or higher

(Note) Underlying operating margin = Underlying operating profit / gross profit

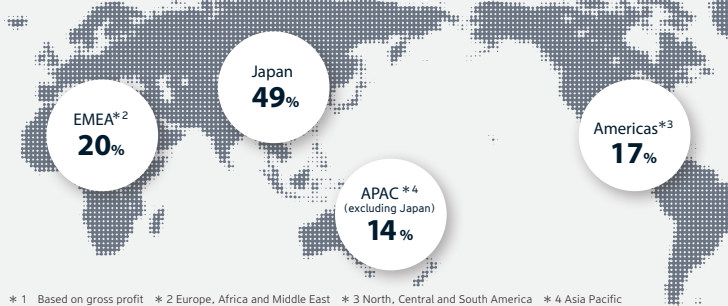
① Diversifying the portfolio on a global basis

The gross profit organic growth rate in the group's international business for the fiscal year under review was 10.3%, achieving a rate higher than competitors in consecutive years. As a result, the composition ratio of international business gross profit increased by 4.0 points year-on-year, to 50.7%. The Group believes reasons for such strong growth to include

- Through the Group's unique "One P&L" business model for international business, each group company sets shared business targets, realizes seamless cooperation, and provides superior comprehensive client services.
- Based on the above, each group company provides one-stop solutions to meet client needs by cooperating and coordinating, leveraging their unique strength, creating expanded business from existing clients, in addition to solid acquisition of new accounts

Moving forward, utilizing the client bases that the Company and the former Aegis group have built up to this point, the Group will work to globally expand its strength in the digital sector and the sports content-business, while making use of M&A to establish and expand a globally competitive global network.

The Composition Ratio of Business by Major Region in FY2014



M&As conducted in the digital sector in FY2014

11

Gross profit digital domain ratio

30%

(In international business, digital domain ratio is 43%.)

② Evolving and expanding in the digital domain

Gross profit of the Japanese digital sector for the fiscal year under review was 12% year-on-year, continuing to achieve double-digit growth.

Overseas, the Group implemented M&A in various digital sectors in the fiscal year under review as well. Of the M&As conducted over the course of the year, 11 were in the digital sector, which is approximately half of the activity. In recent years, programmatic trading is accelerating growth in the digital sector. Programmatic trading is a transaction method that automatically purchases advertising space in various media based on a variety of data, in order to meet client needs and match degrees of interest from users. Within the Group, AMNET is responsible for business in this domain overseas, and its turnover in the fiscal year under review has doubled compared to the previous fiscal year. Due to growth via M&A and internal growth, the composition of digital in international business grew by 2 points year-on-year, to 43%.

As a result, the share of digital across the entire Group was up by 3 points to 30% for the fiscal year under review, making progress toward the goal of 35% for the fiscal year ending December 31, 2017.

In the digital sector, the Group will continue to utilize aggressive M&A and work to improve its capabilities and quality of service.

③ Re-engineering business processes and improving profitability

Plans for underlying operating margin for the fiscal year under review called for lower results than during the previous fiscal year. This was in order to conduct forward investment in the international business to strengthen infrastructure and implement shared services to improve services in the IT and finance sectors. These investments in the international business to strengthen infrastructure did not significantly exceed budgeted amounts, and made steady progress in line with initial schedules.

Additionally, in the Japan business, steady progress was made for measures to reduce costs, and aided by the effects of continued cost controls, the underlying operating margin in the Japan business was 23.9%, an improvement of 0.3 points year-on-year.

While aiming for growth in the top line in both the 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 the strong business platform in Japan, and this has not changed. In the Japan business for the fiscal year under review, despite concerns about a pullback in demand after the consumption tax increase following the rush in demand before the consumption tax increase, positive growth was secured, despite the strong growth demonstrated during the previous year.

In Japan as well, the speed of marketing convergence is advancing. In light of such changes to the environment, the Group has already begun to strengthen capabilities in domains such as CRM, business intelligence, and e-commerce.

By expanding business in such domains, further improving service quality in the promotion and creative domains, and adding an additional layer of strength to competitiveness in the mass media business, 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” to support the success of clients from a variety of angles.

Additionally, the Company was designated as the exclusive marketing agency for The Tokyo Organising Committee of the Olympic and Paralympic Games. As a result, the Company will provide support for creating marketing plans and sponsor sales. Concerning sponsor sales, nine gold sponsors were finalized during the fiscal year under review, and progress has been steady. The Company will continue to fulfill its role to serve the above committee as a marketing partner.

Underlying
operating margin
in the Japan business
was

23.9%