Question—Could you kindly summarize the Dentsu Group’s performance in the fiscal year ended March 31, 2004?

Answer—In Japan, our principal market, the economy improved for the first time in three years. According to government figures released on May 18, 2004, nominal GDP grew 0.7% in the year under review.

Complementing these positive economic signs was a continued recovery in the domestic advertising market, which began to turn around in the second half of the period. The Dentsu Group responded swiftly by stepping up efforts to secure new and expand existing accounts. As a result, consolidated revenue reached ¥290,480 million, up 2.8% from the previous period. Operating income rose 30.6%, to ¥39,456 million, and net income amounted to ¥22,562 million, compared with a net loss of ¥4,618 million in the previous period. In short, the Group reported a year-on-year improvement in its financial performance for the first time in three years. These results underscore our success in earning the trust of clients—success achieved through the tireless efforts of all Group employees—and our ability to act as “A Partner in Creating Value.”

Question—What are the main reasons for this improvement?

Answer—An important factor was the progress we made in implementing key management reforms. I would also cite three other major reasons.

First, we were quick to address the trend among large advertisers to consolidate their advertising activities. The Dentsu Group has a broad lineup of services and a framework that allows clients to access those services through a single contact point. We have also made ourselves more accountable to our clients. These and other factors were highly evaluated and enabled us to secure large-scale accounts from clients in diverse industries.

Second, we worked aggressively to meet the domestic advertising needs of solidly performing industries. We worked swiftly to secure and expand accounts from manufacturers of the three new “crown jewels” of the Japanese economy—personal video recorders (PVRs), flat-screen televisions and digital cameras. This strategy bore fruit and contributed to a successful year for the Group.

Third, we achieved growth in both overseas and new markets. We received a solid boost from the expanding advertising market in Asia, especially China. At the same time, two subsidiaries in the content-related business—Geneon Entertainment and Geneon Entertainment (USA)—were newly consolidated from the second half of the period. Both companies performed strongly and contributed to the growth in consolidated revenue.

Question—How do you envisage the Japanese advertising market will evolve in the future?

Answer—Total domestic advertising expenditures in calendar year 2003 were ¥5.7 trillion, down 0.3% from 2002. While this represented the third consecutive year of decline, the market began to turn around in the second half of 2003. Growth in the advertising market is linked closely to GDP and private-sector capital investment patterns, and we expect indicators of both these factors to be solid throughout the fiscal year ending March 31, 2005. A number of events in calendar year 2004 will have a favorable impact on the domestic advertising market, including the Athens 2004 Olympic Games and elections to the House of Councillors in Japan. Expo 2005 Aichi, Japan, which will open in March 2005, is a major event that will heighten awareness of the importance of coexisting in harmony with nature and realizing a recycling-oriented society, which in turn will foster new consumption and lifestyle patterns. We expect increased advertising placements and marketing opportunities to emerge from this event.

Against this background, the Nikkei Advertising Research Institute conducted its 2004 survey of advertising behavior among prominent Japanese advertisers. According to the results of the survey, released in April 2004, domestic advertising expenditures are expected to grow 0.2% in the fiscal year ending March 31, 2005, marking the first increase in three years. Looking further ahead, the Japan Center for Economic Research (JCER) forecasts that expenditures in calendar year 2004 will rise 3.2%, followed by 1.6% growth in 2005. According to 2003 Advertising Expenditures in Japan,
released in February 2004, our own team of experts estimates that expenditures will grow 2.3% in 2004 and that the market will show sustained growth in the foreseeable future in line with the gradual recovery of the domestic economy.

**Question**—Can you tell us about your vision for the future?

**Answer**—In June 2002, when I became president, I announced our corporate vision of becoming “A Partner in Creating Value.” This means gaining a solid understanding of clients, media-related companies and consumers, and assisting each in the creation of value. By linking these three constituent parts in an optimal manner, we contribute to the flow of the overall economy and act as an engine of energy and vitality. Our current corporate vision is a one-step progression beyond our Total Communications Services vision and will help the Dentsu Group diversify from communications into the creation of new businesses, content development and lifestyles.

I constantly emphasize to our employees that “all accounts acquired are proof of our trustworthiness” and “all profit secured is a measure of the value we create.” The trust that clients place in us is the genesis of the services we provide. If we can build trust, our business will evolve. Creating value means delivering services that satisfy client needs and achieving results that exceed their expectations. We at the Dentsu Group believe that our financial success stems from the ability to create such value.

**Question**—What are the Dentsu Group’s key strengths?

**Answer**—The secret behind the Dentsu Group’s competitive edge lies in its corporate culture of challenge and innovation. Our first key strength, therefore, is our relentless spirit of challenge and innovation in providing the best services. Looking back throughout our history, in the latter half of the 1950s we embraced the concept of full-scale marketing and public relations. Introducing modern advertising
business models and market research techniques, we played an important role in the evolution of the industry. In the 1980s, we preceded the so-called “mega-agencies” in Europe and North America with our integrated marketing communications concept, Total Communications Services. Based on this concept, we satisfied client needs by offering “one-stop solutions” that cover all areas of communications, including marketing and trade and sales promotion.

In the area of sports and entertainment marketing, we have built a strong track record extending beyond the advertising of such major sporting events as the Olympic Games and FIFA World Cup™, expositions and other international cultural events to include event planning and operations, and the broadcasting rights-related business. In the content-related business, we have accumulated a wealth of expertise over a number of years. Going forward, we will harness the various business strengths of the Dentsu Group to function as “A Partner in Creating Value,” linking clients, media-related companies and consumers to deliver marketing, communications and a broad range of other services that help create value.

Our second strength derives from the strong relationships of trust we enjoy with clients and media companies. Since the days when the advertising business centered mainly on newspapers and magazines, the Dentsu Group has maintained trust-based relationships with numerous media companies. At the time of the launch of commercial radio in Japan in 1951, and commercial television in 1953, we formed close ties with broadcasting companies and were instrumental in their establishment by providing know-how related to broadcast advertising. The large number of clients that have stayed with us over many years is an aspect of our history that makes us very proud.

The Dentsu Group’s spirit of challenge and innovation has remained unchanged. Even in the face of major changes in the media realm, including the recent launch of digital terrestrial broadcasting and broadband’s growing dominance, we have contributed to the development and proliferation of various businesses.

Our third strength lies in the Dentsu Group’s human resources. Talented people hold the key to success in many businesses, and I believe that human resources are an exceptionally valuable asset for Dentsu and constitute the force behind our spirit of challenge and innovation. In The Gunn Report 2003, which evaluates the creativity levels of advertising companies, Dentsu ranked seventh among all agencies in the world. Moreover, of the 15 past recipients of the Creator of the Year award in Japan, 14 have been from Dentsu. These and other honors underscore the wealth of creative talent that supports our advertising business. In addition, in a survey of university students scheduled to enter the job market in the year ending March 31, 2006, we were ranked second, after Toyota Motor Corporation, among companies that graduates would most like to work for.

By attracting such talented people and giving them numerous skill-development and practical experience opportunities, we continue to maintain a framework that supports strong teamwork and allows individuals to fully demonstrate their capabilities, thereby further reinforcing the value of the Dentsu Group’s human resources.

Question—What are your strategies for future growth?

Answer—As part of our efforts to remain “A Partner in Creating Value,” we have adopted a “4-2-2 Strategy,” which we are promoting throughout the Group.

The “4” part of the strategy refers to the four markets on which the Dentsu Group is focusing its efforts: the domestic advertising market; advertising-related markets; new markets; and overseas markets.

The first “2” of the strategy indicates the two approaches we are using in these four markets; activities to further reinforce our existing business models, and innovation-based activities aimed at developing new business models. We will continue to focus on these activities in an effort to expand our business.
The second “2” represents our two key policies in the area of human resources: the nurturing and developing of individual capabilities, and the promotion of strong teamwork. This will help open new frontiers for the future. It is our belief that the origin of Dentsu’s services and the foundation for its growth lie in its human assets—the people who come up with new ideas, make breakthroughs and deepen the Group’s strategic concepts.

By steadily developing our business according to the “4-2-2 Strategy,” we will strive to achieve sustained growth over the medium and long terms.

Question—Can you please elaborate on your strategies for these four markets?

Answer—In the Japanese advertising market, our basic strategy is to expand market share by accurately grasping the needs of clients.

In recent years, an increasing number of advertisers have sought to consolidate their media service activities and reduce the number of media service providers and advertising companies with which they deal. This change is based on a growing need for more efficient advertising spending and the better integration of their various marketing activities. As a consequence, accounts are becoming increasingly concentrated among the top companies, and the industry is witnessing reorganization and mergers as agencies strive to reinforce their media buying power and generate more stable profitability.

To strengthen its client services, the Dentsu Group is building a flexible client service organization and structure that enable the provision of comprehensive services. We are placing particular attention on building an operating structure that helps our account executives better understand our clients’ sophisticated needs and address them directly, as well as a flat, customizable framework that allows for flexible responses to differing client needs. In addition, we are increasing the
efficiency of our media services and developing the most appropriate tools for preparing optimal media plans for our clients, while actively researching the effectiveness of our advertising services to make us more accountable. These efforts have earned high praise from clients.

Another key element in our growth strategy for the domestic advertising market is the reinforcement of the Dentsu Group as a whole. In the fiscal year ended March 31, 2004, we reorganized our regional network of domestic Dentsu subsidiaries. We also established three planning boutiques and an advertising company specializing in the fashion industry.

Looking ahead, we anticipate strong growth in the Internet advertising market, as well as in demand for direct response and other new service genres. Harnessing and combining the specialist expertise of Dentsu and our Group companies, we will actively cultivate new sources of revenue in the domestic advertising market.

---

**Advertising-Related Markets**

*Answer—* We anticipate further growth in the markets for sales promotion, public relations, market research, direct marketing and e-solution services, owing to the increasing sophistication and specialization of markets peripheral to advertising.

Due to the burgeoning use of the Internet and mobile communications, techniques for sales promotion and in-store promotion methods are changing dramatically. Recognizing these opportunities, we are working to raise our level of specialization and improve cost competitiveness in various advertising-related markets. In the process, we plan to raise our profile as a provider of Total Communications Services and target further business expansion and corporate growth in the future. One example of our achievements to date is Dentsu e-marketing One, established on April 1, 2004, the business of which is planning and proposing strategies to assist clients in the development of new marketing strategies.
New Markets

Answer—Since the Los Angeles 1984 Olympic Games, the Dentsu Group has extensively pursued opportunities in the area of sports marketing. For the 2002 FIFA World Cup™, for example, our involvement covered every aspect of the event, from assisting bidding activities to sales of television broadcasting rights and related commercial airtime, sales of official sponsorship and supplier rights, as well as providing assistance for event operations. We succeeded in harnessing our Groupwide strengths, demonstrating the diverse and sophisticated expertise in sports marketing we have amassed to date. We are also focusing on the entertainment business, including investing in movies and animated films—both of which are closely linked with the media business—as well as developing ways to use such content in advertising campaigns and as an advertising medium through effective product placements.

In the sports and entertainment markets, the Dentsu Group’s extensive expertise allows it to link producers and rights holders with clients, media companies and consumers. Given the growing importance of sports and entertainment from the content perspective, the Dentsu Group is further honing its strengths in these markets. Spearheaded by Group companies iSe International Sports and Entertainment (iSe) and Geneon Entertainment, we are striving to build more profit-oriented business models and expand the scope of our overseas activities.

Overseas Markets

Answer—In overseas markets, we are seeking to become “A Partner in Creating Value” by building long-term relationships with clients and delivering services globally through the network of Publicis Groupe S.A., with whom we have a strategic alliance. At the same time, we are using our own network to provide optimal services that respond to the needs of our clients and to the specific characteristics of different markets.

We expect advertising markets in the rest of Asia, excluding Japan, to grow strongly, probably to the extent that the combined size of these markets will approach the size of the Japanese market within a few years. For this reason, the Group has positioned the rest of Asia as its most important overseas markets. Manufacturers in a wide range of industries are rapidly expanding their advertising activities in the Chinese market. In response, we are upgrading our local network, which now includes bases in Beijing, Shanghai, Guangzhou and Shenzhen. In June 2004, the Chinese Advertising Association, in their annual survey of advertising companies in China for calendar year 2003, ranked Beijing Dentsu as the country’s number one advertising company in terms of revenue, propelling Beijing Dentsu from third place in 2002 to first place in 2003, with a 69% year-on-year jump in revenue. This underscores the top-class performance of Beijing Dentsu, which was established in 1994.

We are also investing heavily in Asian markets other than China. In 2001, for example, we established Dentsu Asia in Singapore to oversee our Asian operations, and in 2003 we set up Dentsu Vietnam in Vietnam and Dentsu Communications (Bangalore) in India, thereby completing a network of independent operations encompassing all of Asia’s key advertising markets. We further expanded our sales network in India in February 2004 with the establishment of Dentsu Marcom.

While expanding our service coverage in Asia, we are also reinforcing our client services. In the media agency area, for example, we set up Media Palette (Taiwan) in 1999, followed by Dentsu Media Palette (Thailand), which began operations in May 2003. In November 2003, we established Clipper MotherAsia, a wholly owned subsidiary, as the core company of a creative planning boutique network covering Asia, in Hong Kong.

We will target increased revenue by further expanding our sophisticated lineup of Total Communications Services and delivering to our overseas clients the same range and quality of service that we offer our clients in Japan.

Question—For some time, you have been building a solid operating foundation. How will you continue this process in the future?

Answer—We posted favorable results in the fiscal year ended March 31, 2004. Supporting this good performance
was excellent progress in our management reforms—progress that has permeated throughout the Group. To achieve steady growth in the future, we must carry out further reforms to tackle the diversity of potential changes in the operating environment. Supporting our growth strategy is our “three building blocks” management reform concept, which will underpin our efforts to build a solid business foundation.

The first building block is “building people.” To this end, from the fiscal year ending March 31, 2005, we will implement a full-scale reform of our personnel system aimed at enabling individual employees to manifest their capabilities to the maximum extent possible.

The second building block is “building infrastructures.” This means creating more advanced information infrastructures to support the efforts of upper-level and operational-level management. In a process that started in April 2004, we are gradually adopting new operational and management accounting systems as part of an overhaul of our management processes.

The third building block is “building an effective organization.” This refers to simplifying and flattening our Groupwide organizational structure to bring upper-level management closer to the business front lines, thereby ensuring swifter and more optimal decision making.

Generating happiness means using our specialized strengths in communications to contribute to the success of clients and media-related companies, and to enrich the lives of consumers. Creating vitality means utilizing our expertise in such areas as sports and entertainment marketing. This will help promote widespread emotional responses, thereby energizing people and making them feel better as a result. Contributing to the realization of peace entails doing what we can to promote harmony between people, which is the basis for human happiness and economic prosperity.

For many years, Dentsu has promoted the recycling of resources and supported the volunteer activities of its employees. In October 2003, we established the Corporate Philanthropy Department, which is spearheading various Groupwide initiatives aimed at benefiting society. From 2004, Dentsu has become involved in UNESCO’s World Terakoya Movement “Kururimpa” Project, which is designed to provide educational opportunities for people who have been unable to go to school because of poverty or the upheavals of war. We will expand our programs to promote peace throughout the world by contributing the know-how and effort that only the Dentsu Group can offer. This is what I perceive to be Dentsu’s social mission.

Question—What do you perceive to be the Dentsu Group’s social mission?

Answer—At the present time, the world is grappling with a host of difficult problems, such as environmental issues, growing economic imbalances, civil strife and ethnic tensions. In such a climate, it is important that each and every one of us endeavors to create new levels of value.

In this context, “value” created by the Dentsu Group assumes major significance, not only from the business perspective but also in terms of social responsibility. Put simply, it is our responsibility to clients, media-related companies and consumers to act as a catalyst that helps to generate happiness and vitality and, in so doing, hopefully contribute to promoting peace.