

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dentsu Inc. and Consolidated Subsidiaries

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Summary of Significant Accounting Policies and Practices

(a) Description of Business

Dentsu Inc. (the “Company”) and consolidated subsidiaries (hereafter collectively referred to as “Dentsu”) are engaged in providing various communications services through the mass media, such as newspapers, magazines, radio and television, as well as creative, sales promotion, event marketing, interactive communications, e-solutions, public relations, market research, direct marketing, brand consulting, sports marketing, entertainment and other services.

Dentsu’s principal business is conducted in Japan, and also in the Americas, Europe and Asia, through its worldwide network.

(b) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan (“Japanese GAAP”). Foreign subsidiaries maintain their books in conformity with the financial accounting standards of the countries of their domicile.

The accompanying consolidated financial statements reflect the adjustments which management believes are necessary to make them conform with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

(c) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries after elimination of all significant intercompany balances and transactions.

(d) Revenue Recognition

Substantially all revenue is derived from commissions for placement of advertisements in various media. Additionally, revenue is derived from payment for the performance of creative, sales promotion, event marketing, new media, sports marketing and other services. Commission revenue is recognized at the time of placement. Other revenue is recognized when the service is completed as specified in the relevant contracts or purchase orders and collection is reasonably assured.

Dentsu’s revenue recognition policies are in compliance with the Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) 101, “Revenue Recognition in Financial Statements” as updated by SAB 104, “Revenue Recognition.” SAB 101 and 104 summarize certain of the SEC staff’s views in applying generally accepted accounting principles to revenue recognition in financial statements.

(e) Cash Equivalents

For purposes of the consolidated statements of cash flows, Dentsu considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(f) Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards No. 52 (“SFAS 52”), “Foreign Currency Translation.” Under SFAS No. 52, the assets and liabilities of the Company’s subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (expense), and those resulting from translation of financial statements are excluded from the consolidated statements of income and are accumulated under the balance sheet caption, “Accumulated other comprehensive income (loss).”

(g) Billable Production Orders in Process

Billable production orders in process consist principally of costs incurred in providing communications services to clients. Such amounts are generally billed to clients when services are rendered, when costs are incurred for radio and television productions and when print production is completed.

(h) Investment Securities

Marketable securities and investment securities are classified as debt and equity securities in one of three categories: available-for-sale, trading or held-to-maturity. Debt securities classified as "held-to-maturity" securities are reported at amortized cost. Debt and equity securities classified as "trading" securities are reported at fair value, with unrealized gains and losses included in earnings.

Other debt and equity securities are classified as "available-for-sale" securities and are reported at fair value, with unrealized gains or losses, net of deferred taxes, included in accumulated other comprehensive income (loss) in the stockholders' equity section of the consolidated balance sheets. Dentsu did not hold any "trading" securities at March 31, 2003 and March 31, 2004. The cost of investments sold is determined using the weighted-average method.

A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in the reduction of the carrying amount to fair value. The impairment amount is charged to earnings and a new cost basis for the security is established. Dividend income is recognized when earned.

(i) Derivative Financial Instruments

On April 1, 2001, Dentsu adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," and No. 138 ("SFAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133." Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value.

All derivatives are recognized on the consolidated balance sheets at their fair value. On the date the derivative contract is entered into, Dentsu designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), a foreign currency fair value or cash flow hedge ("foreign currency" hedge) or a hedge of a net investment in foreign operations. Dentsu formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective for undertaking various hedge transactions for transactions where hedge accounting is applied. This process includes linking all derivatives that are designated as fair value, cash flow or foreign currency hedges to specific assets and liabilities on the consolidated balance sheets or to specific firm commitments. Dentsu also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, Dentsu discontinues hedge accounting prospectively. Amounts excluded from the assessment of hedge effectiveness are charged to earnings.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair value hedge, along with the gain or loss on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly

effective and that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign currency hedges are recorded in either earnings or other comprehensive income (loss), depending on whether the hedge transaction is a fair value hedge or a cash flow hedge.

Dentsu discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is dedesignated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, Dentsu continues to carry the derivative on the consolidated balance sheets at its fair value, and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, Dentsu continues to carry the derivative on the consolidated balance sheets at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the consolidated balance sheets and recognizes any gain or loss in earnings. In all other situations in which hedge accounting is discontinued, Dentsu continues to carry the derivative at its fair value on the consolidated balance sheets, and recognizes any changes in its fair value in earnings. Changes in the fair value of derivatives which do not meet the hedge criteria are immediately charged to earnings.

The cumulative effect adjustment upon the adoption of SFAS No. 133 and 138, net of the related income tax effect, resulted in a decrease in net income of approximately ¥503 million and an increase in other comprehensive income of approximately ¥107 million. By March 31, 2002, Dentsu had reclassified ¥107 million of this gain to earnings. Earnings per share (both basic and diluted) decreased ¥367 as a result of the cumulative effect adjustment. Due to the immateriality of the amount, the cumulative effect adjustment to net income of ¥503 million was recognized in other expense in the consolidated statement of income for the year ended March 31, 2002.

Prior to the adoption of SFAS No. 133 and 138, derivative financial instruments held by Dentsu were comprised principally of foreign exchange contracts entered into to manage currency risk and interest rate swaps to manage interest rate risk. Derivative financial instruments that were designated and effective to hedge forecasted transactions for which there was no firm commitment were marked to market, and gains and losses on such derivatives were recorded in other income (expense). Foreign currency derivative financial instruments generally qualified for hedge accounting if their maturity dates corresponded to the existing hedged assets and liabilities denominated in foreign currencies. Gains and losses on such derivative financial instruments were recognized and recorded in other income (expense) at the end of the year and at settlement, as were the offsetting foreign exchange gains and losses on the hedged items. Gains and losses on the hedging derivative financial instruments that were designated and effective as hedges of firm commitments were deferred and recognized in income when the sale of the hedged item occurred. Amounts receivable or payable under derivative financial instruments used to manage interest rate risks arising from financial assets and liabilities were recognized as a component of interest income or expense of such related underlying assets or liabilities.

The provisions of SFAS No. 133 affect Dentsu's accounting for credit linked bonds with embedded derivatives. Dentsu invests in credit linked bonds, including credit derivative components, in accordance with its investment policy. Under the provisions of SFAS No. 133, the initial values of the credit linked bonds were each split into a debt component and an embedded derivative component since the embedded derivative component, which is a credit derivative, is not clearly and closely related to the host contract. Changes in the fair values of the embedded derivative components are recorded in other income (expense). Dentsu obtains the fair values of the embedded derivatives from financial institutions.

(j) Investments in Affiliated Companies

For investments in affiliated companies owned 20% to 50%, certain investments are accounted for using the equity method and other investments are carried at cost. Dentsu's equity in undistributed earnings of the investments in companies carried at cost is not significant.

(k) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Property, plant and equipment under capital leases are stated at the present value of minimum lease payments.

Depreciation of property, plant and equipment is calculated principally by the declining-balance method, except for buildings which are calculated principally by the straight-line method, over the estimated useful lives of the assets. Property, plant and equipment held under capital leases are also amortized by the declining-balance method.

The estimated useful lives of depreciable assets are as follows:

Buildings	3 to 65 years
Machinery and equipment	2 to 20 years

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(l) Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," and Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS 142 requires that goodwill no longer be amortized, but instead tested for impairment at least annually, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. SFAS 142 also requires recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 144. Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment until its life is determined to no longer be indefinite.

Dentsu adopted the provisions of SFAS 141 and 142 on April 1, 2002, and in connection therewith, performed a transitional impairment evaluation of its goodwill. Dentsu determined that its goodwill was not impaired as of April 1, 2002.

Prior to the adoption of SFAS 142, goodwill and all other intangible assets were amortized over the periods of expected benefit on a straight-line basis. Realizability of these intangible assets were assessed by determining whether the amortized balance of the goodwill or other intangible assets were recoverable by comparison to the undiscounted future operating cash flows of the related acquired operation, or asset, as applicable. If deemed impaired, the amount of impairment was measured based on the discounted projected cash flows using a discount rate reflecting Dentsu's average cost of funds.

(m) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(n) Accrued Pension and Severance Costs

The Company and certain of its subsidiaries have various pension plans covering substantially all of their employees who meet eligibility requirements in Japan and in certain foreign countries. Most benefits are based on years of service and employees' compensation and vest after three years of service. Prior service costs that result from amendments to the plan are amortized over the average remaining service period of the employees expected to receive benefits. Unrecognized net gains and losses are amortized over the average remaining service period of employees expected to receive benefits.

(o) Stock-Based Compensation

The following information has been adjusted for all periods to reflect the two-for-one stock split that became effective on May 20, 2004.

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, including FASB Interpretations No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25," issued in March 2000, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123. The following table illustrates the effect on net income if the fair-value-method had been applied to all outstanding and unvested awards in each period.

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Net income (loss), as reported	¥27,044	¥(4,618)	¥22,562	\$208,137
Add: Stock-based employee compensation expense included in reported net income (loss), net of tax	24	32	8	74
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	23	31	224	2,067
Pro forma net income (loss)	¥27,045	¥(4,617)	¥22,346	\$206,144

	Yen			U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Basic—as reported	¥ 9,857	¥(1,666)	¥ 8,367	\$ 77.19
Basic—pro forma	9,857	(1,666)	8,287	76.45
Diluted—as reported	9,856	(1,667)	8,366	77.18
Diluted—pro forma	9,857	(1,666)	8,286	76.44

(p) Net Income (Loss) per Share

Basic net income (loss) per share has been computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the year. Diluted net income (loss) per share assumes the dilution that could occur if securities of other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. Basic and diluted net income (loss) per share have been adjusted for all periods to reflect the two-for-one stock split that became effective on May 20, 2004.

(q) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management of Dentsu to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment; valuation allowances for receivables and deferred income tax assets; valuation of derivative instruments; and obligations related to employee benefits. Actual results could differ from those estimates.

(r) Impairment of Long-Lived Assets

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 provides a single accounting model for long-lived assets and assets to be disposed of. SFAS 144 also changes the criteria for classifying an asset as held-for-sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. Dentsu adopted SFAS 144 on April 1, 2002. The adoption of SFAS 144 did not have a material effect on Dentsu's consolidated financial position or results of operations.

In accordance with SFAS 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(s) Issuance of Stock by Subsidiaries

With respect to transactions of a subsidiary or an associated company issuing its shares to third parties, the resulting gains or losses arising from the change in interest of the Company are recorded in income or loss for the period when such shares are issued. However, in situations where such transactions are regarded as part of a broader reorganization contemplated or planned by the Company, they are accounted for as equity transactions in the consolidated financial statements.

(t) Internal-Use Software

Dentsu accounts for internal-use software costs in accordance with Statement of Position ("SOP") No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," issued by the American Institute of Certified Public Accountants. Based on SOP No. 98-1, certain internal-use software costs are capitalized once specific criteria are met and these costs are amortized on a straight-line basis over a five-year period.

(u) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to make them conform to the presentation used for the year ended March 31, 2004.

(v) Recently Issued Accounting Standards

- (i) In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is discounted and accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, Dentsu will recognize a gain or loss on settlement. Dentsu was required to and adopted the provisions of SFAS No. 143 for the fiscal year beginning April 1, 2003. The adoption of SFAS No. 143 did not have a material impact on Dentsu's results of operations and financial position for the year ended March 31, 2004.
- (ii) In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," effective for fiscal years beginning January 1, 2003. SFAS No. 146 requires that companies record costs associated with exit or disposal activities when they are incurred and can be measured at the fair value of a liability. The adoption of SFAS No. 146 did not have a material impact on Dentsu's results of operations and financial position.
- (iii) In January 2003, the FASB issued interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. The interpretation applies immediately to variable interests in variable interest entities created and acquired after January 31, 2003. For variable interest in variable interest entities created before February 1, 2003, the interpretation is applicable no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The adoption of FIN 46 did not have a material impact on Dentsu's results of operations and financial position.
- (iv) In January 2003, the Emerging Issues Task Force ("EITF") reached a final consensus on EITF Issue No. 03-2 ("EITF 03-2"), "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities." EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees' Pension Fund ("EPF") plan, which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the entire separation process of a substitutional portion from an entire plan (including a corporate portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed. Dentsu's management presently expects that this separation may have a significant effect on Dentsu's financial condition or results of operations. However, the final amount of the impact could be significantly different depending on any change in the amounts of the pension benefit obligation or plan assets to be transferred.

- (v) In December 2003, the FASB revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," an amendment of SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pensions Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new SFAS No. 132 revised employers' disclosures about pension plans and other postretirement benefit plans. It did not change the measurement or recognition of those plans required by SFAS No. 87, 88 and 106. While retaining the disclosure requirements of SFAS No. 132, the new SFAS No. 132 requires additional disclosures about assets, obligations, cash flows, and net periodic benefit costs of defined benefit plans and other defined benefit postretirement plans. The provisions of the new SFAS No. 132 are generally effective for financial statements with fiscal years ending after December 15, 2003, excluding the disclosure of certain information about foreign plans, which shall be effective for fiscal years ending after June 15, 2004. In accordance with the transition provisions of the new SFAS No. 132, Note 16, Pension and Other Postretirement Benefits, has been expanded to include the new disclosures as of and for the year ended March 31, 2004.
- (vi) In November 2003, the EITF reached a consensus on EITF Issue No. 03-01 ("EITF 03-01"), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-01 establishes additional disclosure requirements for each category of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," investments in a loss position. In March 2004, the EITF also reached a consensus on the additional accounting guidance for other-than-temporary impairments and its application to debt and equity investments. In accordance with the new disclosure requirements under EITF 03-01, Note 3 has been expanded to include certain additional information regarding Dentsu's securities investments.
- (vii) In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how certain financial instruments with characteristics of both liabilities and equity shall be classified and measured. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on Dentsu's results of operations and financial position for the year ended March 31, 2004.

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Financial Statement Translation

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥108.4=US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on June 30, 2004. This translation should not be construed as a representation that all the amounts shown could be converted into U.S. dollars.

Marketable Securities and Investment Securities

The carrying amounts of gross unrealized holding gains, gross unrealized holding losses and fair value for available-for-sale securities and held-to-maturity securities by major security type at March 31, 2003 and 2004 are as follows:

	Millions of yen			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2003				
Current:				
Available-for-sale:				
Debt securities	¥ 7,370	¥ 0	¥ 23	¥ 7,347
Held-to-maturity:				
Debt securities	1,242	—	—	1,242
	¥ 8,612	¥ 0	¥ 23	¥ 8,589
Noncurrent:				
Available-for-sale:				
Debt securities	¥13,744	¥ 780	¥ 71	¥14,453
Equity securities	24,162	10,132	1,987	32,307
	¥37,906	¥10,912	¥2,058	¥46,760
March 31, 2004				
Current:				
Available-for-sale:				
Debt securities	¥ 5,122	¥ 14	¥ 18	¥ 5,118
Held-to-maturity:				
Debt securities	40	—	—	40
	¥ 5,162	¥ 14	¥ 18	¥ 5,158
Noncurrent:				
Available-for-sale:				
Debt securities	¥ 1,656	¥ 0	¥ 16	¥ 1,640
Equity securities	13,858	22,538	353	36,043
	¥15,514	¥22,538	¥ 369	¥37,683
	Thousands of U.S. dollars			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2004				
Current:				
Available-for-sale:				
Debt securities	\$ 47,251	\$ 129	\$ 166	\$ 47,214
Held-to-maturity:				
Debt securities	369	—	—	369
	\$ 47,620	\$ 129	\$ 166	\$ 47,583
Noncurrent:				
Available-for-sale:				
Debt securities	\$ 15,277	\$ 0	\$ 148	\$ 15,129
Equity securities	127,841	207,915	3,256	332,500
	\$143,118	\$207,915	\$3,404	\$347,629

Net unrealized gain on available-for-sale securities, net of related taxes and minority interests, decreased by ¥3,599 million at March 31, 2003, and increased by ¥7,849 million (\$72,408 thousand) at March 31, 2004.

In March 2004, the Company contributed certain marketable equity securities, not including those of its subsidiaries and affiliated companies, to an employee retirement benefit trust, with no cash proceeds thereon. The fair value of these securities at the time of contribution was ¥6,142 million (\$56,661 thousand). Upon contribution of these available-for-sale securities, the net unrealized gain of ¥386 million (\$3,561 thousand) was realized and was disclosed in "Other—net" on the consolidated statements of income. Since the unrealized gain, net of tax, had already been recorded as accumulated other comprehensive income, the contribution itself did not impact the amount of comprehensive income.

Maturities of marketable securities and investment securities classified as available-for-sale and held-to-maturity at March 31, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair value	Cost	Fair value
Available-for-sale:				
Due within one year	¥ 1,455	¥ 1,469	\$ 13,423	\$ 13,552
Due after one year through five years	51	51	470	470
Due after five years	1,004	988	9,262	9,114
Mutual and other funds	4,268	4,250	39,373	39,207
Equity securities	13,858	36,043	127,841	332,500
Held-to-maturity:				
Due within one year	40	40	369	369

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The proceeds from sales of available-for-sale securities were ¥54,091 million, ¥73,688 million and ¥26,813 million (\$247,352 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively. The gross realized gains on the sale of available-for-sale securities were ¥1,857 million, ¥62 million and ¥4,705 million (\$43,404 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively. The gross realized losses on the sale of available-for-sale securities were ¥41 million, ¥268 million and ¥7 million (\$65 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively.

Certain marketable equity securities with aggregated carrying amount of ¥84,867 million (\$782,906 thousand) as of March 31, 2003 and 2004 are considered restricted stocks and are accounted for by the cost method. Therefore, those restricted stocks are excluded from noncurrent equity securities in this footnote.

The following table presents the gross unrealized losses on, and fair value of, Dentsu's investment securities with unrealized losses, aggregated by investment category and the length of time that individual investment securities have been in a continuous unrealized loss position, at March 31, 2004.

	Millions of yen					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
Debt securities	¥2,616	¥ (34)	¥—	¥—	¥2,616	¥ (34)
Equity securities	2,023	(353)	—	—	2,023	(353)
Total	¥4,639	¥(387)	¥—	¥—	¥4,639	¥(387)

	Thousands of U.S. dollars					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
Debt securities	\$24,133	\$ (314)	\$—	\$—	\$24,133	\$ (314)
Equity securities	18,662	(3,256)	—	—	18,662	(3,256)
Total	\$42,795	\$(3,570)	\$—	\$—	\$42,795	\$(3,570)

At March 31, 2004, Dentsu determined that the decline in value for securities with unrealized losses shown in the above table is not other-than-temporary in nature.

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Derivative Instruments and Hedging Activities

Overall risk profile and risk management policy

Dentsu is exposed to the risk of changes in foreign exchange rates and interest rates in the normal course of business. Dentsu purchases certain media contents and makes certain investments in foreign companies using foreign currency principally denominated in U.S. dollars, Euro and Swiss francs. Derivative instruments are comprised principally of foreign exchange contracts, foreign currency options and interest swaps utilized by the Company and certain of its subsidiaries to reduce these risks. Dentsu assesses foreign currency exchange rate risk and interest rate risk by continually monitoring changes in these exposures and by evaluating hedging opportunities. It is Dentsu's policy that it does not enter into derivative instruments for trading purposes.

Dentsu is also exposed to credit-related losses in the event of non-performance by counterparties, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are internationally recognized financial institutions and contracts are diversified with major financial institutions.

Foreign currency exchange rate risk management

Dentsu purchases certain media content and makes certain investments in foreign companies using foreign currency principally denominated in U.S. dollars. Since those payments are denominated in foreign currency, Dentsu is exposed to foreign currency exchange rate risk and enters into forward exchange contracts and currency option contracts for the purpose of hedging these risk exposures.

Dentsu principally uses forward exchange contracts and currency option contracts to manage certain foreign currency exchange exposures principally from the exchange of Japanese yen into U.S. dollars, Euro and Swiss francs. These contracts are primarily used to hedge foreign currency exposure of variability in Japanese yen equivalent cash flows associated with certain forecasted transactions, firm commitments and related settlement of the resultant foreign-currency denominated payables. Dentsu measures the volume and due date of future net cash flows by currency every month. In accordance with their policy, a specific portion of foreign currency exposure resulting from forecast transactions, firm commitments and related settlement of the resultant foreign-currency denominated payables are hedged by using forward exchange contracts and currency option contracts, which principally mature within one year.

Interest rate risk management

Dentsu's exposure to market risk of changes in interest rates relates principally to its debt obligations. These debt obligations expose Dentsu to variability in the future cash outflow of interest payments due to changes in interest rates. Management believes it is important to minimize the variability caused by interest rate risk, when deemed appropriate.

To meet this objective, one of the subsidiaries of the Company entered into interest rate swaps to manage variability of cash flows resulting from interest rate changes. The interest rate swaps change the variable-rate cash flows on debt obligations to fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the subsidiary receives variable interest rate payments and makes fixed interest rate payments, thereby creating fixed-rate long-term debt. The hedging relationship between the interest rate swap and its hedged item is highly effective in achieving offsetting changes in cash flows resulting from interest rate risk. However, these contracts do not qualify for hedge accounting since they do not meet the hedging criteria contained in SFAS No. 133. Changes in fair values are immediately recognized in earnings under the caption of other income (expense).

Cash flow hedge

Changes in fair value of forward exchange contracts and currency option contracts designated and qualifying as cash flow hedges of forecasted transactions, firm commitments and recognized assets and liabilities are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (expense) in the same period as the hedged items affect earnings.

Dentsu excludes the time value component of the hedging instruments from the assessment of hedge effectiveness. The effective portions of changes in the fair value of foreign exchange contracts designated and qualifying as cash flow hedges and reported in accumulated other comprehensive loss, net of the related tax effect, amounted to ¥148 million, ¥16 million and ¥181 million (\$1,670 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively. The amounts of the hedging ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the year ended March 31, 2004. It is expected that approximately ¥11 million (\$101 thousand) of accumulated other comprehensive loss relating to existing forward exchange contracts will be reclassified into other income and expenses during the year ending March 31, 2005. As of March 31, 2004, the maximum length of time over which the Company is hedging its exposure of the variability in future cash flows associated with one firm commitment is 51 months.

Hedge accounting is applied to two firm commitments which meet the hedging criteria of SFAS No. 133. For all other derivative instruments, hedge accounting is not utilized. Changes in the fair value of derivative instruments entered into to hedge foreign currency cash flow variability of recognized assets or liabilities, firm commitments and forecasted transactions that do not meet the hedging criteria of SFAS No. 133, are immediately recognized in earnings as other income (expense).

The contract or notional amounts of derivative financial instruments held as of March 31, 2004 are summarized as follows:

	Currency	Millions of yen	Thousands of U.S. dollars
		March 31, 2004	March 31, 2004
Forward exchange contracts:			
To sell foreign currencies	USD	¥ 109	\$ 1,006
	CHF	1,649	15,212
To buy foreign currencies	USD	3,493	32,223
	CHF	2,399	22,131
	GBP	379	3,496
	EUR	1,053	9,714
Currency option contracts:			
Buy put option to buy foreign currencies	USD	10	92
Sell call option to sell foreign currencies	USD	10	92
Embedded derivatives contracts:			
Credit derivative contracts	—	1,000	9,225

The fair values of these contracts at March 31, 2004 are shown in Note 5.

5

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments in cases for which it is practicable to estimate the value:

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(a) Cash and cash equivalents, time deposits, trade receivables, short-term loans, current installments of long-term debt, trade payables, accrued expenses and other current liabilities—The carrying amount approximates fair value because of the short maturity of these instruments.

(b) Marketable securities and investment securities—The fair values of substantially all the marketable securities and investment securities are estimated based on quoted market prices for these instruments.

(c) Noncurrent receivables—The fair values of noncurrent receivables are estimated based on the amount of future cash flows associated with each receivable discounted using the current rates at which similar loans or receivables would be made to borrowers or customers with similar credit ratings and for comparable maturity, or based on the quoted market prices for the same or similar issues.

(d) Long-term debt—The fair values of long-term debt are estimated based on the amount of future cash flows associated with each instrument discounted using the Company's current borrowing rate for similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues.

(e) Derivatives—The fair values of forward exchange contracts, currency option contracts, interest rate swap contracts and credit derivative contracts are estimated by obtaining quotes from financial institutions.

The carrying amounts and estimated fair values of the financial instruments at March 31, 2003 and 2004 are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2003		March 31, 2004		March 31, 2004	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Nonderivatives:						
Assets:						
Marketable securities	¥ 8,589	¥ 8,589	¥ 5,158	¥ 5,158	\$ 47,583	\$ 47,583
Investment and others	131,627	124,172	122,550	158,620	1,130,535	1,463,284
Noncurrent receivables	7,609	7,529	9,988	9,013	92,140	83,146
Liabilities:						
Long-term debt	135,581	141,049	116,112	116,717	1,071,144	1,076,725
Derivatives:						
Forward exchange contracts:						
Asset position	306	306	132	132	1,218	1,218
Liability position	13	13	264	264	2,435	2,435
Currency option contracts:						
Asset position	7	7	—	—	—	—
Liability position	76	76	12	12	111	111
Credit derivative contracts:						
Liability position	30	30	1	1	9	9
Interest rate swap contracts:						
Asset position	—	—	—	—	—	—
Liability position	2	2	—	—	—	—

The carrying amounts of the nonderivative assets and liabilities are included in the consolidated balance sheets under the indicated captions. The carrying amounts of the forward exchange contracts in an asset position are included in prepaid expenses and other current assets, while those in a liability position are included in other current liabilities.

It is not practicable to estimate the fair value of investments in unlisted companies due to a lack of market prices and difficulty in estimating fair value without incurring excessive cost. The carrying amount of these investments totaled ¥46,231 million and ¥54,464 million (\$502,435 thousand) at March 31, 2003 and 2004, respectively.

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Leases

Dentsu is obligated under various capital leases that expire at various dates during the next six years.

At March 31, 2003 and 2004, the gross amounts of property, plant and equipment and related accumulated amortization recorded under capital leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2003	March 31, 2004	March 31, 2004
	¥	¥	\$
Buildings	239	295	2,721
Machinery and equipment	10,414	10,224	94,317
Software	619	2,477	22,851
Less: Accumulated amortization	7,018	7,331	67,629
	¥ 4,254	¥ 5,665	\$52,260

Amortization of assets held under capital leases is included within depreciation expense.

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2004:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
	March 31, 2004	March 31, 2004
2005	¥2,834	\$26,144
2006	2,148	19,816
2007	1,335	12,316
2008	686	6,328
2009	218	2,011
2010 and thereafter	46	424
Total minimum lease payments	7,267	67,039
Less: Amount representing interest	220	2,030
Present value of net minimum lease payments	7,047	65,009
Less: Current obligations	2,725	25,138
Long-term capital lease obligations	¥4,322	\$39,871

Rental expenses under operating leases for the years ended March 31, 2003 and 2004 were ¥10,726 million and ¥6,699 million (\$61,799 thousand), respectively. The minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2004 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
	March 31, 2004	March 31, 2004
2005	¥1,218	\$11,236
2006	965	8,902
2007	686	6,329
2008	485	4,474
2009	330	3,044
2010 and thereafter	639	5,895
Total minimum future rentals	¥4,323	\$39,880

Dentsu occupies offices and other facilities under lease arrangements accounted for as operating leases. Deposits made under such arrangements aggregated ¥8,316 million (\$76,716 thousand) at March 31, 2004 and are reflected in noncurrent receivables in the accompanying consolidated balance sheets.

Goodwill and Other Intangible Assets

Other assets include goodwill and other intangible assets.

The components of acquired intangible assets excluding goodwill at March 31, 2003 and 2004 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2003		March 31, 2004		March 31, 2004	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Intangible assets subject to amortization:						
Software	¥34,764	¥21,050	¥47,575	¥27,329	\$438,884	\$252,113
Other	1,175	986	1,989	1,276	18,348	11,771
Total	¥35,939	¥22,036	¥49,564	¥28,605	\$457,232	\$263,884
Intangible assets not subject to amortization						
	¥ 264	¥ —	¥ 443	¥ —	\$ 4,087	\$ —

Aggregate amortization expenses for the years ended March 31, 2003 and 2004 were ¥4,348 million and ¥6,238 million (\$57,546 thousand), respectively. Estimated amortization expense for the next five years ending March 31 is: ¥6,547 million (\$60,397 thousand) in 2005, ¥5,413 million (\$49,935 thousand) in 2006, ¥4,193 million (\$38,681 thousand) in 2007, ¥1,806 million (\$16,661 thousand) in 2008, and ¥196 million (\$1,808 thousand) in 2009.

The changes in the carrying amount of goodwill for the year ended March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
	March 31, 2004	March 31, 2004
Balance at beginning of year	¥16,840	\$155,351
Goodwill acquired during the year	1,364	12,583
Goodwill written off	—	—
Translation adjustment	—	—
Balance at end of year	¥18,204	\$167,934

Reconciliation of “Net income (loss)” and “Net income (loss) per share” to the amounts adjusted for the exclusion of goodwill amortization, which has been adjusted for all periods to reflect the two-for-one stock split that became effective on May 20, 2004, for the years ended March 31, 2002, 2003 and 2004 is as follows:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Net income (loss):				
Reported net income (loss)	¥27,044	¥(4,618)	¥22,562	\$208,137
Add back: Goodwill amortization (net of tax)	2,348	—	—	—
Adjusted net income (loss)	¥29,392	¥(4,618)	¥22,562	\$208,137

	Yen			U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Basic net income (loss) per share:				
Reported net income (loss)	¥ 9,857	¥(1,666)	¥8,367	\$77.19
Add back: Goodwill amortization (net of tax)	856	—	—	—
Adjusted net income (loss)	¥10,713	¥(1,666)	¥8,367	\$77.19
Diluted net income (loss) per share:				
Reported net income (loss)	¥ 9,856	¥(1,667)	¥8,366	\$77.18
Add back: Goodwill amortization (net of tax)	856	—	—	—
Adjusted net income (loss)	¥10,712	¥(1,667)	¥8,366	\$77.18

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Short-Term Loans and Long-Term Debt

Short-term loans consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2003	March 31, 2004	March 31, 2004
Bank borrowings	¥ 9,372	¥14,675	\$135,378
Commercial paper	43,559	—	—
	¥52,931	¥14,675	\$135,378

The weighted average interest rates on short-term loans outstanding at March 31, 2003 and 2004 were 0.35% and 1.58%, respectively.

Land and buildings with a carrying amount at March 31, 2004 of ¥815 million (\$7,518 thousand) were pledged to secure certain short-term loans.

At March 31, 2004, Dentsu had ¥231,462 million (\$2,135,258 thousand) available through multiple bank lines of credit, under which Dentsu may borrow on an overdraft or may issue commercial paper.

Long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2003	March 31, 2004	March 31, 2004
Loans, principally from banks and insurance companies, maturing in installments through 2022; bearing weighted average interest of 1.63% and 1.59% at March 31, 2003 and 2004	¥143,924	¥135,386	\$1,248,949
0% Japanese yen convertible bonds, due 2011	200	200	1,845
	144,124	135,586	1,250,794
Less: Amount due within one year	8,543	19,474	179,650
	¥135,581	¥116,112	\$1,071,144

The aggregate annual maturities of long-term debt outstanding at March 31, 2004 were as follows:

Year ending March 31,	Thousands of U.S. dollars	
	Millions of yen March 31, 2004	March 31, 2004
2005	¥ 19,474	\$ 179,649
2006	19,490	179,797
2007	19,400	178,967
2008	17,615	162,500
2009	5,113	47,168
2010 and thereafter	54,494	502,712
	¥135,586	\$1,250,793

Investment securities with a carrying amount at March 31, 2004 of ¥833 million (\$7,685 thousand) were pledged to secure certain long-term debt.

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due the bank.

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Interest Cost

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Dentsu capitalizes interest cost as a component of the cost of buildings. The summary of interest cost incurred is as follows:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Interest cost capitalized	¥1,984	¥1,234	¥ —	\$ —
Interest cost charged to income	1,874	1,352	2,608	24,059
Total interest cost incurred	¥3,858	¥2,586	¥2,608	\$24,059

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Subsidiary Stock Transactions

During November 2000, Information Services International-Dentsu, Ltd. ("ISID"), a provider of information related services and a 60.45%-owned subsidiary of Dentsu, completed its initial public offering ("IPO") and issued 2,500,000 shares (¥22,445 million). As a result of the IPO, Dentsu's ownership in ISID was reduced from 60.45% to 50.25%. The gain on the issuance of common stock as a result of this IPO was ¥10,606 million or ¥6,151 million, net of tax. During February 2001, Dentsu repurchased 600,000 shares of ISID for ¥4,442 million from a minority shareholder. Approximately ¥3,231 million of the purchase price was allocated to goodwill. During May 2001, the Company repurchased an additional 1,105,800 shares of ISID for ¥10,503 million also from a minority shareholder. Approximately ¥8,279 million of the purchase price was allocated to goodwill. As a result of these transactions, Dentsu's ownership in ISID increased from 50.25% to 61.77%. Given that these transactions are regarded as part of a broader corporate reorganization, such transactions were accounted for as equity transactions in the consolidated financial statements.

The financial position, results of operations and cash flows of ISID have been included in the accompanying consolidated financial statements in all periods presented.

Income Taxes

Total income taxes were allocated as follows:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Income before income taxes and minority interests	¥24,700	¥ 5,315	¥19,584	\$180,664
Stockholders' equity—accumulated other comprehensive income (loss)	(2,383)	(8,336)	13,621	125,655
	¥22,317	¥(3,021)	¥33,205	\$306,319

Domestic and foreign components of income before income taxes and minority interests (“income before income taxes”), and the current and deferred income tax expense (benefit) attributable to such income before income taxes for the years ended March 31, 2002, 2003 and 2004 are summarized as follows:

	Millions of yen		
	Japanese	Foreign	Total
March 31, 2002			
Income before income taxes	¥ 53,452	¥ 278	¥ 53,730
Income taxes:			
Current	28,624	1,037	29,661
Deferred	(4,910)	(51)	(4,961)
Income (loss) before minority interests	¥ 29,738	¥ (708)	¥ 29,030
March 31, 2003			
Income before income taxes	¥ 14	¥ 873	¥ 887
Income taxes:			
Current	32,020	773	32,793
Deferred	(27,299)	(179)	(27,478)
Income (loss) before minority interests	¥ (4,707)	¥ 279	¥ (4,428)
March 31, 2004			
Income before income taxes	¥ 41,594	¥2,099	¥ 43,693
Income taxes:			
Current	21,462	1,249	22,711
Deferred	(3,014)	(113)	(3,127)
Income (loss) before minority interests	¥ 23,146	¥ 963	¥ 24,109
March 31, 2004			
	Thousands of U.S. dollars		
	Japanese	Foreign	Total
Income before income taxes	\$383,709	\$19,363	\$403,072
Income taxes:			
Current	197,989	11,522	209,511
Deferred	(27,804)	(1,043)	(28,847)
Income (loss) before minority interests	\$213,524	\$ 8,884	\$222,408

The significant components of deferred income tax expense (benefit) attributable to income before income taxes are as follows:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Deferred tax expense (exclusive of the effects of other components listed below)	¥(4,644)	¥(25,794)	¥(1,729)	\$(15,950)
Increase (decrease) in the beginning-of-the-year balance of the valuation allowance for deferred tax assets	(317)	(1,684)	(1,398)	(12,897)
	¥(4,961)	¥(27,478)	¥(3,127)	\$(28,847)

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in normal tax rates of approximately 42% for the years ended March 31, 2002, 2003 and 2004. The foreign subsidiaries are subject to taxes based on income at rates ranging from 25% to 52%.

On March 31, 2003, a reduction in the income tax rate for business tax was enacted in Japan, and is effective from April 1, 2004. With this adoption, the aggregated statutory income tax rate for domestic companies will be approximately 41% for the year ending March 31, 2005. The effect of the change in the tax rate on the balance of deferred tax assets and liabilities was ¥1,585 million and ¥354 million (\$3,266 thousand) for the years ended March 31, 2003 and 2004, respectively.

The effective tax rate of the Company for the years ended March 31, 2002, 2003 and 2004 differs from the normal Japanese income tax rate for the following reasons:

	March 31, 2002	March 31, 2003	March 31, 2004
Normal income tax rate	42.0%	42.0%	42.0%
Expenses not deductible for tax purposes	2.2	234.6	4.4
Valuation allowance	—	89.3	(1.7)
Changes to Japanese income tax rates	—	178.8	0.8
Other	1.8	54.8	(0.7)
Effective tax rate	46.0%	599.5%	44.8%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2003 and 2004 are presented below:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2003	March 31, 2004	March 31, 2004
Deferred tax assets:			
Accrued pension cost	¥ 54,405	¥ 49,226	\$ 454,114
Accrued vacation and bonuses	7,887	10,400	95,941
Operating loss carryforwards	5,433	3,483	32,131
Loss on sales of investment securities	23,319	22,858	210,867
Other	13,181	13,882	128,063
Total gross deferred tax assets	104,225	99,849	921,116
Less: Valuation allowance	(1,714)	(3,112)	(28,708)
Total deferred tax assets	102,511	96,737	892,408
Deferred tax liabilities:			
Gain on securities contribution to employee retirement benefit trust	(12,076)	(12,235)	(112,869)
Gain from issuance of subsidiaries' common stock	(4,836)	(4,836)	(44,613)
Unrealized gains on marketable securities	(3,502)	(8,475)	(78,183)
Capitalized interest	(4,401)	(4,293)	(39,603)
Other	(2,408)	(1,952)	(18,007)
Total gross deferred tax liabilities	(27,223)	(31,791)	(293,275)
Net deferred tax assets	¥ 75,288	¥ 64,946	\$ 599,133

The valuation allowance for deferred tax assets at April 1, 2002 was ¥30 million. The net change in the total valuation allowance for the years ended March 31, 2003 and 2004 was an increase of ¥1,684 million and ¥1,398 million (\$12,897 thousand), respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods for which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

At March 31, 2004, certain of the Company's subsidiaries had operating loss carryforwards for income tax purposes of approximately ¥8,338 million (\$76,919 thousand), which are available to offset future taxable income, if any.

With the exception of ¥813 million (\$7,500 thousand) with no expiration period, total available operating loss carryforwards expire at various dates primarily up to 5 years.

At March 31, 2003 and 2004, Dentsu did not recognize deferred tax liabilities of ¥398 million and ¥961 million (\$8,865 thousand), respectively, for undistributed earnings of the Company's foreign subsidiaries that were reinvested or were determined to be reinvested. At March 31, 2003 and 2004, the undistributed earnings not subject to deferred tax liabilities were ¥3,055 million and ¥4,715 million (\$43,496 thousand), respectively.

The following table represents a summary of the amount of net deferred tax assets included in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2003	March 31, 2004	March 31, 2004
Deferred tax assets—current	¥12,825	¥14,625	\$134,917
Deferred tax assets—non-current	62,474	50,333	464,327
Deferred tax liabilities—current	—	—	—
Deferred tax liabilities—non-current	(11)	(12)	(111)
Net deferred tax assets	¥75,288	¥64,946	\$599,133

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Common Stock

The shares of common stock of the Company were listed on the First Section of the Tokyo Stock Exchange on November 30, 2001. At the same time as the listing, 25,000 shares of common stock were issued by the Company with the aggregate net proceeds of ¥9,975 million as a result of an offering in Japan. As a result of this issuance, common stock and additional paid-in capital increased ¥4,038 million and ¥5,866 million, respectively, after deducting expenses for the offering.

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On May 20, 2004, the Company completed a two-for-one stock split to reduce the investment amount per share, enhance the liquidity of shares and facilitate the expansion of the shareholder base, and, by leaving unchanged the level of the amount of dividends per share both preceding and following the stock split, to increase the return on investment for the shareholders. The two-for-one stock split increased the number of outstanding shares of common stock by 1,390,920 shares. The common stock account remained unchanged because the new shares were distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account in accordance with the Japanese Commercial Code. The above share information does not reflect the increase derived from this stock split.

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Legal Reserve and Dividends

The Japanese Commercial Code provides that dividends be paid based on retained earnings determined in conformity with the financial accounting standards of Japan, with certain restrictions, and that an amount equal to at least 10% of cash dividends and of certain other items be appropriated as a legal reserve until such reserve equals 25% of stated capital. The legal reserve is not available for dividends but may be used to reduce a deficit or transferred to common stock.

The Japanese Commercial Code, amended effective October 1, 2001, provides that an amount equal to at least 10% of cash dividends and of certain other items be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equals 25% of common stock. The portion of such aggregated amount in excess of 25% of common stock may become available for dividends subsequent to release to retained earnings.

Certain foreign subsidiaries are also required to appropriate earnings to legal reserves under the laws of their respective countries.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the period represent dividends paid out during the period and related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for the dividend of ¥500 (\$4.61) per share aggregating to ¥674 million (\$6,218 thousand), for the

year ended March 31, 2004, or for the related appropriation to the legal reserve, proposed by the Board of Directors in April 2004 subject to approval by shareholders in June 2004.

In accordance with the Japanese Commercial Code, there are certain restrictions on the payment of dividends in connection with the repurchased treasury stock. As a result of restrictions on the repurchased treasury stock, retained earnings of approximately ¥15,442 million (\$142,454 thousand) at March 31, 2004 were restricted as far as the payment of cash dividends was concerned.

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Stock-Based Compensation

The number of shares and the exercise prices in the following information have been adjusted for all periods to reflect the two-for-one stock split that became effective on May 20, 2004.

In June 2001, the Company granted stock options to 12 directors and 20 employees of the Company after approval by shareholders in June 2001. Under the plan, the right is granted to acquire 6,400 treasury shares of the Company at an exercise price of ¥281,440. The exercise price of the right was the higher of either ¥190,000 per share or the average market price for three months from the date of listing in the domestic stock exchange market. The average market price for the three-month period from the date of listing was ¥281,440. The options were fully vested on July 1, 2003. The Company acquired 6,400 shares of its common stock for the plan during the year ended March 31, 2002.

In June 2003, the Company granted stock options to directors, executive officers and employees of the Company and directors of its subsidiaries after approval by shareholders in June 2003 pursuant to Article 280-20 and 280-21 of the Japanese Commercial Code. Under the plan, the stock options were granted to acquire up to 12,000 shares of common stock of the Company. The exercise price of the stock options will be established as the higher of (i) the quoted market price of the Company's common stock (as listed on the Tokyo Stock Exchange) on issuance date or (ii) the monthly average market price of the Company's common stock prior to issuance date. The options will fully vest on July 8, 2005 subject to a provision which grants immediate vesting for employees terminated due to normal retirement, completion of a term as a director or decision by management.

The following table summarizes information about stock option plan activity for the year ended March 31, 2004:

	Number of shares	Weighted average exercise price (Yen)	Weighted average remaining life	Exercise price (Yen)	
				Low	High
Outstanding at March 31, 2003	6,400	¥281,440	4.3 years	¥281,440	¥281,440
Granted	11,380	228,500	6.0 years	228,500	228,500
Exercised	—	—	—	—	—
Forfeited or expired	—	—	—	—	—
Outstanding at March 31, 2004	17,780	247,556	4.6 years	228,500	281,440
Exercisable at March 31, 2004	6,400	281,440	3.3 years	228,500	281,440

	Number of shares	Weighted average exercise price (U.S. dollars)	Weighted average remaining life	Exercise price (U.S. dollars)	
				Low	High
Outstanding at March 31, 2003	6,400	\$2,596	4.3 years	\$2,596	\$2,596
Granted	11,380	2,108	6.0 years	2,108	2,108
Exercised	—	—	—	—	—
Forfeited or expired	—	—	—	—	—
Outstanding at March 31, 2004	17,780	2,284	4.6 years	2,108	2,596
Exercisable at March 31, 2004	6,400	2,596	3.3 years	2,108	2,596

The fair value of these stock options was estimated using the Black-Scholes option pricing model with the following assumptions for the year ended March 31, 2004.

	March 31, 2004
Grant-date fair value	¥228,500
Expected life	2 years
Risk-free interest rate	0.098 %
Expected volatility	40.11 %
Expected dividend yield	0.219 %

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Other Comprehensive Income (Loss)

The accumulated balances for each classification of other comprehensive income (loss) are as follows:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Foreign currency translation adjustments:				
Balance at beginning of year	¥ 1,244	¥ 6,890	¥ (485)	\$ (4,474)
Adjustments for the year	5,646	(7,375)	(977)	(9,013)
Balance at end of year	¥ 6,890	¥ (485)	¥ (1,462)	\$ (13,487)
Net unrealized gains on securities:				
Balance at beginning of year	¥11,821	¥ 8,736	¥ 5,137	\$ 47,389
Adjustments for the year	(3,085)	(3,599)	7,849	72,408
Balance at end of year	¥ 8,736	¥ 5,137	¥ 12,986	\$ 119,797
Net unrealized gains (losses) on derivative instruments:				
Balance at beginning of year	¥ —	¥ 148	¥ 164	\$ 1,513
Cumulative effect of a change in accounting principle related to derivative instruments, net of tax	107	—	—	—
Adjustments for the year	41	16	(181)	(1,670)
Balance at end of year	¥ 148	¥ 164	¥ (17)	\$ (157)
Minimum pension liability adjustments:				
Balance at beginning of year	¥ (4,843)	¥ (5,197)	¥(13,609)	\$(125,544)
Adjustments for the year	(354)	(8,412)	11,934	110,092
Balance at end of year	¥ (5,197)	¥(13,609)	¥ (1,675)	\$ (15,452)
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	¥ 8,222	¥ 10,577	¥ (8,793)	\$ (81,116)
Adjustments for the year	2,355	(19,370)	18,625	171,817
Balance at end of year	¥10,577	¥ (8,793)	¥ 9,832	\$ 90,701

The related tax effects allocated to each component of other comprehensive income (loss) are as follows:

	Millions of yen		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
March 31, 2002			
Foreign currency translation adjustments	¥ 5,646	¥ —	¥ 5,646
Net unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(5,319)	2,234	(3,085)
Net unrealized gains on derivative instruments:			
Cumulative effect of an accounting change	184	(77)	107
Unrealized gains arising during the period	71	(30)	41
Minimum pension liability adjustments	(610)	256	(354)
Other comprehensive income (loss)	¥ (28)	¥ 2,383	¥ 2,355
March 31, 2003			
Foreign currency translation adjustments	¥ (7,375)	¥ —	¥ (7,375)
Net unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(6,100)	2,501	(3,599)
Net unrealized gains on derivative instruments:			
Unrealized gains arising during the period	27	(11)	16
Minimum pension liability adjustments	(14,258)	5,846	(8,412)
Other comprehensive income (loss)	¥(27,706)	¥ 8,336	¥(19,370)
March 31, 2004			
Foreign currency translation adjustments	¥ (977)	¥ —	¥ (977)
Net unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	13,303	(5,454)	7,849
Net unrealized gains on derivative instruments:			
Unrealized gains arising during the period	(307)	126	(181)
Minimum pension liability adjustments	20,227	(8,293)	11,934
Other comprehensive income (loss)	¥ 32,246	¥(13,621)	¥ 18,625
	Thousands of U.S. dollars		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
March 31, 2004			
Foreign currency translation adjustments	\$ (9,013)	\$ —	\$ (9,013)
Net unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	122,721	(50,313)	72,408
Net unrealized gains on derivative instruments:			
Unrealized gains arising during the period	(2,832)	1,162	(1,670)
Minimum pension liability adjustments	186,596	(76,504)	110,092
Other comprehensive income (loss)	\$297,472	\$(125,655)	\$171,817

Pension and Other Postretirement Benefits

The Company and certain of its subsidiaries have contributory and noncontributory defined benefit plans covering substantially all employees after three years of service. Benefits payable under the plans are based on employee earnings and years of service. The contributory plan includes a portion of the governmental welfare pension benefits which would otherwise be provided by the Japanese government in accordance with the Welfare Pension Insurance Law in Japan. Management considers that a portion of the contributory plans, which are administered by a board of trustees composed of management and labor representatives, represents a welfare pension plan carried on behalf of the Japanese government. These contributory and noncontributory plans are funded in conformity with the funding requirements of applicable Japanese governmental regulations.

As of March 31, 2004, the Company and certain of its domestic subsidiaries established Corporate Pension Funds, combining Employees' Pension Funds and a part of Tax-qualified Pension Funds, and reduced the rate of employees' benefit accrual. This amendment decreased the prior service costs of the Company and certain of its domestic subsidiaries by ¥11,328 million (\$104,502 thousand).

In January 2003, the Emerging Issues Task Force reached a final consensus on Issue 03-2 ("EITF 03-2"), "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities." EITF 03-2 addresses accounting for the transfer to the Japanese government of the substitutional portion of employee retirement and severance defined benefit plans. EITF 03-2 requires employers to account for the entire separation process of a substitutional portion from an entire plan (including the corporate portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. In the year ended March 31, 2004, the government approved applications submitted by the Company and certain of its domestic subsidiaries for an exemption from the obligation to pay benefits for past and future employee service related to the substitutional portion. On January 30, 2003, management submitted another application for separation of the remaining substitutional portion (that is, the benefit obligation related to past services). After the Company and certain of its domestic subsidiaries' applications are approved by the government, the remaining benefit obligation of the substitutional portion (that amount earned by past services) as well as the related government-specified portion of the plan assets of the employee retirement and severance defined benefit plans will be transferred to the government. The Company expects to transfer the remaining benefit obligation and related plan assets in the year ending March 31, 2005. Accordingly, there has been no effect on Dentsu's consolidated financial statements for the year ended March 31, 2004. The aggregate effect of this separation will be determined based on the Company's total pension benefits obligation as of the date the transfer is completed and the amount of plan assets required to be transferred. Based on the Company's current estimates as to the total amount of such pension benefits obligation and the amount of plan assets required to be transferred, Dentsu's management presently expects that this separation may have a significant effect on Dentsu's financial condition or results of operations. However, the final amount of the impact could be significantly different depending on any change in the amounts of the pension benefit obligation or plan assets to be transferred.

In December 2003, the FASB issued SFAS No. 132 (revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS 132 (revised) prescribes employers' disclosures about pension plans and other postretirement benefit plans; it does not change the measurement or recognition of those plans. SFAS 132 (revised)

retains the disclosure requirements contained in the original SFAS 132. It also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. SFAS 132 (revised) is generally effective for fiscal years ending after December 15, 2003.

Net periodic benefit cost for Dentsu's employee retirement and severance defined benefit plans for the years ended March 31, 2002, 2003 and 2004 consisted of the following components:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Service cost	¥11,793	¥ 9,686	¥10,010	\$ 92,343
Interest cost	5,109	5,115	4,996	46,089
Expected return	(2,991)	(3,105)	(2,537)	(23,404)
Net amortization	2,842	2,639	3,351	30,913
Transfer to defined contribution pension plan	597	—	—	—
Benefit cost	¥17,350	¥14,335	¥15,820	\$145,941

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2003	March 31, 2004	March 31, 2004
Change in benefit obligations:			
Benefit obligations at beginning of year	¥ 209,686	¥210,424	\$1,941,181
Service cost	9,686	10,010	92,343
Interest cost	5,115	4,996	46,089
Amendments	717	(11,733)	(108,238)
Plan participants' contributions	795	806	7,435
Actuarial (gain) loss	(715)	890	8,210
Benefits paid	(14,860)	(14,853)	(137,020)
Business combination	—	648	5,978
Benefit obligations at end of year	210,424	201,188	1,855,978
Change in plan assets:			
Fair value of plan assets at beginning of year	98,967	85,476	788,524
Actual return on plan assets	(13,497)	13,610	125,554
Employer contributions	3,182	9,858	90,941
Plan participants' contributions	795	806	7,435
Benefits paid	(3,971)	(4,181)	(38,570)
Business combination	—	405	3,736
Fair value of plan assets at end of year	85,476	105,974	977,620
Funded status:	(124,948)	(95,214)	(878,358)
Unrecognized net transition	8,271	5,473	50,489
Unrecognized actuarial loss	29,105	18,144	167,380
Unrecognized service cost	(5,000)	(16,514)	(152,343)
Net amount recognized	¥ (92,572)	¥ (88,111)	\$ (812,832)
Amounts recognized in consolidated balance sheets consist of:			
Prepaid cost	¥ 935	¥ 498	\$ 4,594
Accrued pension cost	(118,665)	(93,283)	(860,544)
Intangible assets	1,183	1,025	9,456
Accumulated other comprehensive income	23,975	3,649	33,662
Net amount recognized	¥ (92,572)	¥ (88,111)	\$ (812,832)

The principal assumptions used in computing the information above are as follows:

	March 31, 2002	March 31, 2003	March 31, 2004
Weighted-average assumptions:			
Discount rate	2.5%	2.5%	2.0%–3.0%
Expected return on plan assets	3.0%	3.2%	1.0%–4.5%
Rate of compensation increase	1.5%–7.1%	1.5%–7.2%	1.5%–7.2%

As discussed in Note 3, the Company contributed certain marketable equity securities to an employee retirement benefit trust. The securities contributed to this trust qualified as plan assets under U.S. GAAP.

The Company and its domestic subsidiaries use a March 31, 2004 measurement date for their plans. Weighted-average assumptions used to determine the year-end benefit obligations are as follows:

	March 31, 2003	March 31, 2004
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	2.5%	2.0%–3.0%
Rate of compensation increase	1.5%–7.2%	1.5%–7.2%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31, 2002, 2003 and 2004 are as follows:

	March 31, 2002	March 31, 2003	March 31, 2004
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	2.5%	2.5%	2.5%
Rate of compensation increase	2.0%–5.8%	1.5%–7.1%	1.5%–7.2%
Expected return on plan assets	3.0%	3.2%	1.0%–4.5%

The Company and its domestic subsidiaries determine the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. The Company and its domestic subsidiaries consider the current expectations for future returns and the actual historical returns of each plan asset category.

The accumulated benefit obligation for all domestic defined benefit plans was ¥200,486 million and ¥187,683 million (\$1,731,393 thousand) at March 31, 2003 and 2004, respectively.

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2003	March 31, 2004	March 31, 2004
Plans with accumulated benefit obligations in excess plan assets:			
Accumulated benefit obligations	¥188,085	¥174,159	\$1,606,633
Plan assets	83,084	102,792	948,266
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations	210,424	201,188	1,855,978
Plan assets	85,476	105,974	977,620

Plan Assets

The following table sets forth the actual asset allocation for the Company's plan assets:

	2003	2004
Equity securities	45.9%	46.7%
Debt securities	26.6	36.4
Life insurance company general accounts	22.0	15.8
Other	5.5	1.1
Total	100.0%	100.0%

Investment objectives for the Company's plan assets are to:

- (1) ensure adequate plan assets which are available to provide future payments of pension benefits to eligible participants; and
- (2) optimize the long-term return on plan assets at an acceptable level of risk.

The Company and its domestic subsidiaries' investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company and its domestic subsidiaries formulate a "policy asset allocation" comprised of the optimal combination of equity securities and debt securities. Plan assets are invested in individual equity and debt securities using the guidelines of the "policy asset allocation" in order to produce a total return that will match the expected return on a mid-term to long-term basis. The Company and its domestic subsidiaries evaluate the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the "policy asset allocation." The Company and its domestic subsidiaries revise the "policy asset allocation" when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

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Contributions

Dentsu expects to contribute ¥3,671 million (\$33,865 thousand) to its domestic postretirement benefit plan in the year ending March 31, 2005.

Net Income (Loss) per Share

Basic and diluted net income (loss) per share as well as the number of shares in the following table have been adjusted for all periods to reflect the two-for-one stock split that became effective on May 20, 2004.

A reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computation for the years ended March 31, 2002, 2003 and 2004 is as follows:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Net income (loss) available to common stockholders	¥27,044	¥(4,618)	¥21,406	\$197,473
Stock options granted by affiliated company	—	(1)	(3)	(28)
Diluted income (loss) available to common stockholders	¥27,044	¥(4,619)	¥21,403	\$197,445
	Shares			
Average common shares outstanding	2,743,710	2,771,630	2,696,436	
Stock options	154	—	142	
Diluted common shares outstanding	2,743,864	2,771,630	2,696,578	
	Yen			U.S. dollars
Net income (loss) per share:				
Basic	¥9,857	¥(1,666)	¥8,367	\$77.19
Diluted	9,856	(1,667)	8,366	77.18

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The weighted-average diluted common shares outstanding for the years ended March 31, 2003 and 2004 excludes the dilutive effect of approximately 6,400 options since such options have an exercise price in excess of the average market value of the Company's common stock during the fiscal year.

Commitments and Contingencies

As of March 31, 2004, Dentsu was contingently liable for discounted and endorsed notes receivable of ¥4 million (\$37 thousand) and for guarantees of bank loans and indebtedness to certain suppliers aggregating ¥27,964 million (\$257,970 thousand). Management anticipates no significant losses from these transactions.

The Company provides guarantees to third parties on bank loans on behalf of its employees, affiliated and other companies. The guarantees related to the employees are principally made for their housing loans. The guarantees related to the affiliated and other companies are provided to enhance their credit standing and enable them to complete business transactions. For each guarantee provided, the Company would have to perform under the guarantee, if original borrowers default on a payment in accordance with the contract terms for a period of 1 year to 8 years for the employees' housing loans and of 1 year to 5 years for the affiliated and other companies. The maximum amount of undiscounted payments the Company would have to make in the event of default is ¥27,968 million (\$258,007 thousand) at March 31, 2004. The liabilities recognized related to the Company's obligations under its guaranty arrangements are ¥111 million (\$1,024 thousand) at March 31, 2004.

Nonmonetary Transaction

On September 24, 2002, Bcom3 Group, Inc., a 21.9%-owned affiliate of the Company, became a 100%-owned subsidiary of Publicis Groupe S.A., a major European communication group, through a merger of Bcom3 Group, Inc. and Publicis Groupe S.A. In conjunction with this transaction, the Company entered into a basic agreement to form a strategic alliance with Publicis Groupe S.A. The Company exchanged ordinary shares of Bcom3 Group, Inc. for a basket of securities including ordinary shares of Publicis Groupe S.A., and owned approximately 15% of the voting rights of Publicis Groupe S.A.

The book value of ordinary shares of Bcom3 Group, Inc. was ¥115,812 million and the acquisition cost of the basket of securities including ordinary shares of Publicis Groupe S.A. was ¥94,123 million which was fair value on the transaction date. The Company recognized ¥21,689 million of loss on this transaction in the accompanying consolidated statements of income for the year ended March 31, 2003.

As discussed in Note 3 and Note 16, in March 2004, the Company contributed certain marketable equity securities, not including those of its subsidiaries and affiliated companies, to an employee retirement benefit trust, with no cash proceeds thereon. The fair value of these securities at the time of contribution was ¥6,142 million (\$56,661 thousand). Upon contribution of these available-for-sale securities, a net unrealized gain of ¥386 million (\$3,561 thousand) was realized and was disclosed in "Other—net" on the consolidated statements of income. Since the unrealized gain, net of tax, had already been recorded as accumulated other comprehensive income, the contribution itself did not impact the amount of comprehensive income.

Business Segment Information

The operating segments below are presented under Japanese GAAP, which is consistent with the basis that the Company's chief operating decision maker assesses the performance of the Company's segments. Reconciling adjustments are presented to reconcile the Japanese GAAP financial statement amounts to those of U.S. GAAP.

The advertising segment provides clients with advertising strategy planning and related creative services, and with assistance in the placement of advertisements in various media, such as television, newspapers, magazines, radio, trains and buses, billboards and the Internet. The advertising segment also provides clients with sales promotion, event marketing, interactive communications, brand management, sports and entertainment marketing, public relations, direct marketing, market research and e-solution services.

The other business segment provides clients with non-advertising services, such as information technology management and related consulting services.

Substantially all of Dentsu's long-lived assets are located in Japan. Dentsu has no revenue transactions from individual customers representing 10% or more of its revenues.

Revenue:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Advertising:				
Sales to external customers	¥1,727,345	¥1,629,478	¥1,667,050	\$15,378,690
Intersegment transactions	233	505	575	5,304
Subtotal	1,727,578	1,629,983	1,667,625	15,383,994
Other business:				
Sales to external customers	62,088	63,469	82,060	757,011
Intersegment transactions	25,012	26,772	30,052	277,233
Subtotal	87,100	90,241	112,112	1,034,244
Total	1,814,678	1,720,224	1,779,737	16,418,238
Eliminations ⁽¹⁾	(25,245)	(36,495)	(41,046)	(378,653)
Consolidated sales	1,789,433	1,683,729	1,738,691	16,039,585
Cost of sales	1,495,513	1,401,053	1,448,211	13,359,880
Consolidated total revenue	¥ 293,920	¥ 282,676	¥ 290,480	\$ 2,679,705

Notes: (1) Eliminations represent elimination of intersegment transactions.

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Operating income:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Advertising	¥53,805	¥ 46,273	¥41,210	\$380,166
Other business	5,735	468	2,790	25,738
Total	59,540	46,741	44,000	405,904
Eliminations ⁽²⁾	1,629	259	2,688	24,797
Operating income	61,169	47,000	46,688	430,701
Reconciling adjustments	(5,050) ⁽³⁾	(16,800) ⁽⁴⁾	(7,232) ⁽⁵⁾	(66,716)
Consolidated total	¥56,119	¥ 30,200	¥39,456	\$363,985

Notes: (2) Eliminations represent elimination of intersegment transactions.

(3) For the year ended March 31, 2002, reconciling adjustments principally represent differences between Japanese GAAP and U.S. GAAP in accounting for impairment of long-lived assets and pension costs.

(4) For the year ended March 31, 2003, reconciling adjustments principally represent differences between Japanese GAAP and U.S. GAAP in accounting for moving expenses and pension costs.

(5) For the year ended March 31, 2004, reconciling adjustments principally represent differences between Japanese GAAP and U.S. GAAP in accounting for special retirement benefits, loss on sales of property, plant and equipment and pension costs.

Assets:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2003	March 31, 2004	March 31, 2004
Advertising	¥1,160,271	¥1,157,600	\$10,678,967
Other business	141,596	167,567	1,545,821
Total	1,301,867	1,325,167	12,224,788
Eliminations ⁽⁶⁾	(114,567)	(136,072)	(1,255,277)
Assets	1,187,300	1,189,095	10,969,511
Reconciling adjustments ⁽⁷⁾	(19,378)	(21,958)	(202,565)
Consolidated total	¥1,167,922	¥1,167,137	\$10,766,946

Notes: (6) Eliminations represent elimination of intersegment transactions.

(7) As of March 31, 2003 and 2004, reconciling adjustments principally represent revaluation of land, interest capitalization and investment securities. Land revaluation is allowed under Japanese GAAP if certain criteria are met and interest is not capitalized.

Other significant items:**Depreciation and amortization expense:**

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Advertising	¥ 7,765	¥11,322	¥15,016	\$138,524
Other business	923	830	1,459	13,459
Total	8,688	12,152	16,475	151,983
Eliminations ⁽⁸⁾	(932)	(1,056)	(957)	(8,828)
Depreciation and amortization expense	7,756	11,096	15,518	143,155
Reconciling adjustments	2,384 ⁽⁹⁾	5,141 ⁽⁹⁾	8,137 ⁽¹⁰⁾	75,065
Consolidated total	¥10,140	¥16,237	¥23,655	\$218,220

Notes: (8) Eliminations represent elimination of intersegment transactions.

(9) For the years ended March 31, 2002 and 2003, reconciling adjustments principally represent depreciation expense, which results from capitalized leases under U.S. GAAP. Under Japanese GAAP, such leases are not capitalized.

(10) For the year ended March 31, 2004, reconciling adjustments principally represent depreciation expense, which results from capitalized leases under U.S. GAAP. Under Japanese GAAP, such leases are not capitalized. Reconciling adjustments also represent amortization expense, which results from certain intangible assets under U.S. GAAP. Under Japanese GAAP, such intangible assets are classified as inventory.

Investment in equity method investees:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Advertising	¥61,224	¥12,071	¥13,678	\$126,181
Other business	—	3,702	4,074	37,583
Consolidated total	¥61,224	¥15,773	¥17,752	\$163,764

Capital expenditures for segment assets:

	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Advertising	¥44,665	¥39,422	¥14,363	\$132,500
Other business	3,231	3,370	1,966	18,137
Total	47,896	42,792	16,329	150,637
Eliminations ⁽¹¹⁾	(1,015)	(1,014)	(1,569)	(14,475)
Capital expenditures for segment assets	46,881	41,778	14,760	136,162
Reconciling adjustments ⁽¹²⁾	1,988	644	(94)	(867)
Consolidated total	¥48,869	¥42,422	¥14,666	\$135,295

Notes: (11) Eliminations represent elimination of intersegment transactions.

(12) Reconciling adjustments principally relate to capitalized leases, capitalized interest and scope of consolidation under U.S. GAAP. Under Japanese GAAP, such leases and interest are not capitalized. Some subsidiaries consolidated on a control basis under Japanese GAAP are not consolidated under U.S. GAAP.

Geographic information:

Revenue based on geographic location for the years ended March 31, 2002, 2003 and 2004, is as follows:

Revenue:	Millions of yen			Thousands of U.S. dollars
	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2004
Japan:				
Sales to external customers	¥1,680,255	¥1,591,199	¥1,634,025	\$15,074,031
Intersegment transactions	268	1,247	1,140	10,517
Subtotal	1,680,523	1,592,446	1,635,165	15,084,548
Other countries:				
Sales to external customers	109,178	101,748	115,086	1,061,679
Intersegment transactions	1,940	3,943	5,335	49,216
Subtotal	111,118	105,691	120,421	1,110,895
Total	1,791,641	1,698,137	1,755,586	16,195,443
Eliminations ⁽¹³⁾	(2,208)	(14,408)	(16,895)	(155,858)
Consolidated sales	1,789,433	1,683,729	1,738,691	16,039,585
Cost of sales	1,495,513	1,401,053	1,448,211	13,359,880
Consolidated total revenue	¥ 293,920	¥ 282,676	¥ 290,480	\$ 2,679,705

Notes: (13) Eliminations represent elimination of intersegment transactions.