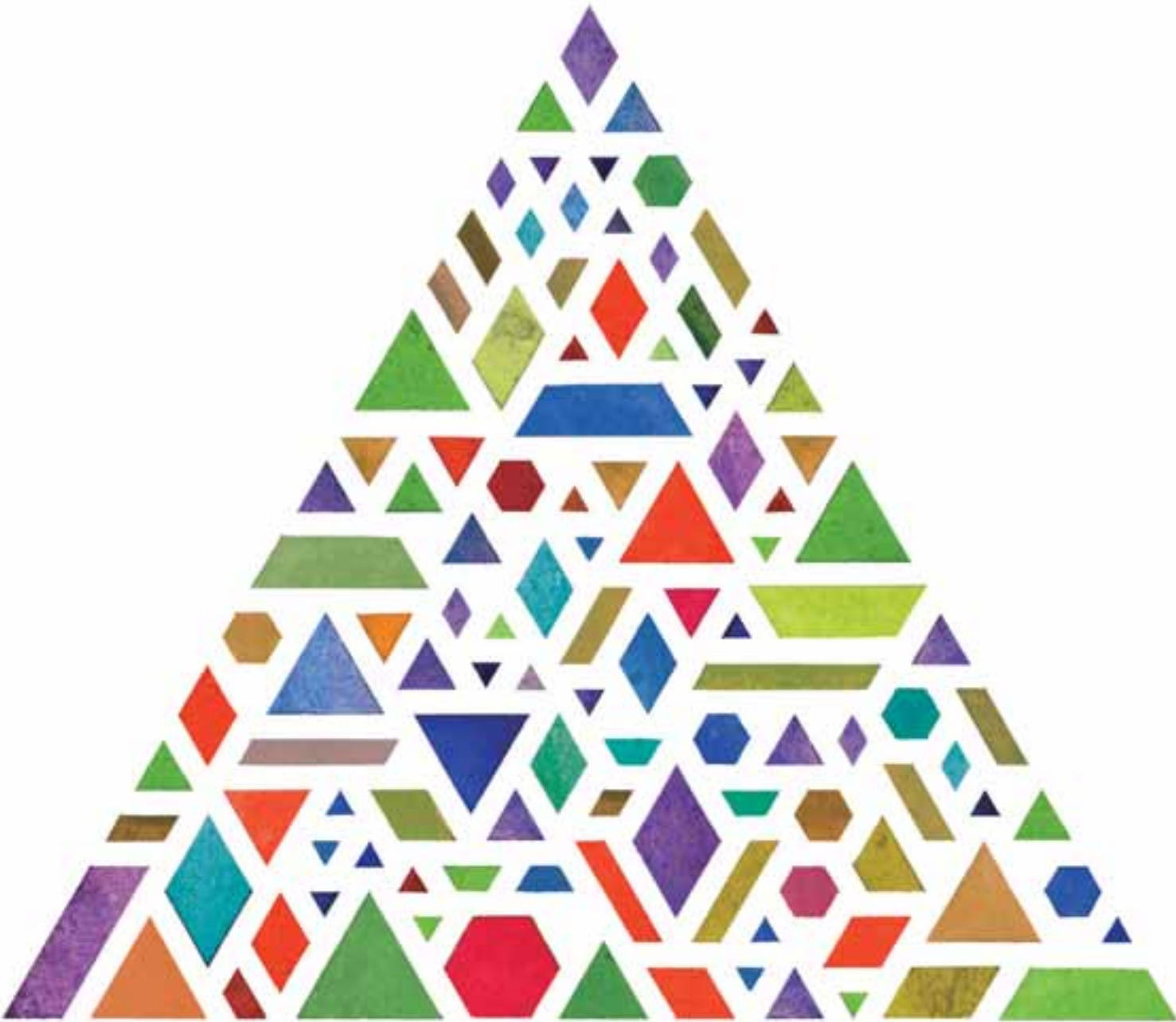


**To Our Shareholders**



On behalf of senior management and employees throughout the Dentsu Group, we would like to take this opportunity to extend heartfelt thanks to you, our shareholders, for your invaluable support of our efforts.

### **Operating Environment and Business Results**

Economic conditions in Japan during the first half of fiscal 2007, the year ended March 31, 2008, benefited from a moderate recovery driven by positive corporate performances and a resurgence in consumer spending. However, the second half brought uncertainty, prompted largely by a slowdown in the United States and the skyrocketing cost of raw materials that caused companies and households to tighten their budgets.

Despite the increasingly difficult economic climate, the domestic advertising market achieved a fourth consecutive year of growth. According to Dentsu's research, total advertising expenditures in Japan reached ¥7,019.1 billion in calendar 2007, up 1.1% from 2006.

We revised our method for calculating domestic advertising expenditures, effective from 2007, to include a wider breakdown in each media category. The year-on-year percentage change for 2007 therefore reflects a retroactive adjustment to data for 2005.

While advertising expenditures in the four mass media formats—newspapers, magazines, radio and television—decreased 2.6%, and marked the third consecutive year of decline, expenditures in other categories remained promising. Notably, Internet advertising expenditures continued to trace an upward path, rising 24.4%; promotional media advertising expenditures inched up 1.9%, for a fourth straight year of increase; and satellite media-related advertising expenditures climbed 10.8% year on year.

Against this market backdrop, one of the biggest challenges for the Dentsu Group was the persistently cautious stance of clients in allocating funds for advertising. Drawing on combined capabilities, the Group aggressively worked to develop business activities, seeking to capitalize on opportunities provided by such events as the 11th IAAF World Championships in Athletics, held in Osaka from late August until early September 2007, and the 40th Tokyo Motor Show, held from late October until early November 2007.

However, our concerted efforts did not deliver the anticipated results for fiscal 2007. On a consolidated basis, net sales fell 1.7% from a year earlier, to ¥2,057,554 million. Gross profit dipped 0.9%, to ¥345,222 million. Operating income dropped 10.7%, to ¥56,126 million. Net income, however, jumped 18.1%, to ¥36,246 million, primarily because the booking of deferred tax assets and partial inclusion of a valuation loss on investment securities recorded in the previous fiscal year under nontaxable expenses led to a lower tax burden.

### **Basic Management Direction**

The business environment that surrounds the Dentsu Group is in the midst of a major transformation. The domestic advertising market is expanding, albeit at a slower rate, with demand for online advertising and promotional media the

noticeable bright spots against lackluster demand for advertising in traditional mass media.

Meanwhile, the marketing needs of corporate clients are becoming more sophisticated, paralleling concerted efforts to persuade consumers to adopt a buying frame of mind. Clients are also accelerating the pace of overseas business development.

To sustain its own position, the Dentsu Group must apply to our operations a new business model that is better geared to evolving industry conditions. Our three catchwords for success are "solutions," "digital" and "global," in reference to advertising solutions, the digital media domain and global operations.

We feel that clients will place greater emphasis on how well the advertising industry can deliver optimum solutions to their increasingly sophisticated needs. The industry must grasp the issues clients regard as important, design responses overflowing with creativity and ensure reliable implementation of these plans.

Given the impact of digitization on media and consumers, solutions planning will have to be comprehensive and embrace a cross-media approach, which integrates the four mass media formats with interactive media as well as content and creative advertising expression. Concerted efforts to ensure that solutions for global application are equal in quality to those offered in Japan will be integral to our business success.

The Dentsu Group will treat changes in the business environment as opportunities and strategically augment the solutions structure, digital media services and global operations to encourage growth.

Our actions are always guided by thoughts of how we, as an advertising communications group, can contribute to society. With the trust and high regard of all stakeholders, from shareholders to consumers, we will strive to fulfill our responsibility as a member of society and as a group seeking to maximize corporate value.

### **Business Strategies**

The Group's strength is found in the wide spectrum of services it offers, the high quality of these services and the comprehensive advertising communication capabilities that encompass everything from planning to implementation. We aim to be the provider of optimum solutions—trusted by clients everywhere—and guided by the aforementioned management direction, we will achieve this goal by building a competitive solutions structure, reinforcing and expanding our presence in the digital domain, and extending our global reach. At the same time, we will cultivate new businesses with innovative ideas from within the Group and invest management resources in carefully selected fields.

#### **(1) Enhanced solutions structure**

To date, we have provided solutions based on integrated advertising and communication formats and processes that combine traditional mass media

with other formats, such as content, Internet advertising, creative advertising expression and promotional media. Now we will emphasize solutions, especially marketing campaigns hinging on cross media, demand for which is expected to rise. These campaigns will effectively fuse multiple media formats and techniques, particularly creative advertising expression, to match consumer activities.

We will consolidate units boasting specialized solutions expertise within the Group and reinforce our responses to the high-level needs of our clients. We will also enhance marketing capabilities that support well-designed production of advertising solutions synchronizing media and techniques to cover all issues of concern to our clients. By maximizing synergies, we will build a structure that delivers high-quality proposals.

#### (2) Wider presence in the digital domain

We aim to develop advertising activities in the realm of digital media to improve communication methods that not only benefit clients' businesses but also extend the range of media services.

The digital media market is expanding, vertically and horizontally, as demand grows in both volume and complexity. To capitalize on business opportunities and be able to address market needs with more sophisticated responses, Dentsu will be pursuing joint activities with OPT, Inc., an online advertising specialist in Japan.

In the digital domain, our efforts will not be limited to Japan, as we work to establish agencies abroad—particularly in China, where the Internet advertising market is growing at an impressive rate.

#### (3) Stronger global operations

In October 2007, Dentsu Holdings USA acquired creative boutiques ATTIK Inc. and ATTIK Ltd. in the United States and the United Kingdom, respectively.

The Group also welcomed the establishment of Dentsu Sports Europe, Ltd. in Europe to support a more fine-tuned approach to expanding the sports marketing field.

In markets demonstrating outstanding economic growth, notably Brazil, Russia, India and China—"the BRICs"—and certain other countries in Asia and South America, we have advanced the establishment of our own networks to broaden the range of our services.

With the right marketing structure and extensive service menu, the Dentsu Group will be the choice of companies not only in Japan but also overseas to deliver optimum advertising solutions.

#### (4) Cultivating new businesses

While examples from the early days of private broadcasting and the sports business abound, it is clear that the Dentsu Group has long functioned as a network of crossroads connecting consumers, clients and media. Our development into a leading advertising communications group has been fueled by the ongoing pursuit of new technologies and business models.

To ensure sustainable growth, we must identify new fields of pursuit, cultivate those with potential and then extend their borders.

We will forge a corporate framework with an incubation feature that elicits support from employees who are keen on new business prospects and underpins technical progression and business development in the digital media domain. We will also strive to create new businesses.

#### (5) Reallocating management resources to key areas

Emphasizing a Groupwide perspective on recruitment and training of employees and streamlined back-office sections, we will shift personnel into growth domains and priority business segments. We will also encourage members of the Group to look within the Group to fill vacant positions.

We will aggressively invest in growth domains and direct management resources into priority segments to lead to enhanced client services and new profit sources.

#### (6) Corporate social responsibility measures

As a responsible corporate citizen, the Dentsu Group seeks to contribute to the realization of a sustainable society on many levels, including those involving environmental and economic issues. In fulfilling this responsibility, the Group also ensures its survival as a functioning business.

On behalf of all management and staff under the Dentsu umbrella, we ask for the continued support and encouragement of our shareholders as we strive to achieve new successes.

Tateo Mataka  
Chairman & CEO



Tatsuyoshi Takashima  
President & COO





Tateo Mataka Chairman & CEO

Tatsuyoshi Takashima President & COO