

Corporate Governance

Basic Perspective

The pursuit of optimal corporate governance is critical for achieving Dentsu's goal of creating new social values and sustainable societies. We aim to achieve sustainable growth and enhance corporate value by ensuring transparent, fair, rapid, and decisive decision-making, as well as the effective allocation of management resources.

To this end, we will continue to improve corporate governance by:

1. To respect shareholders' rights and ensure their equal treatment
2. To consider the interests of stakeholders, including shareholders, and cooperate with them appropriately
3. To appropriately disclose company information and ensure transparency
4. To enhance the effectiveness of the supervisory function of the Board of Directors concerning business execution
5. To engage in constructive dialogue with shareholders who have an investment policy that conforms to the mid- to long-term interests of shareholders

Corporate Governance Policy ⇒ <http://www.dentsu.com/whoweare/cgp.html>

Promotion of Corporate Governance

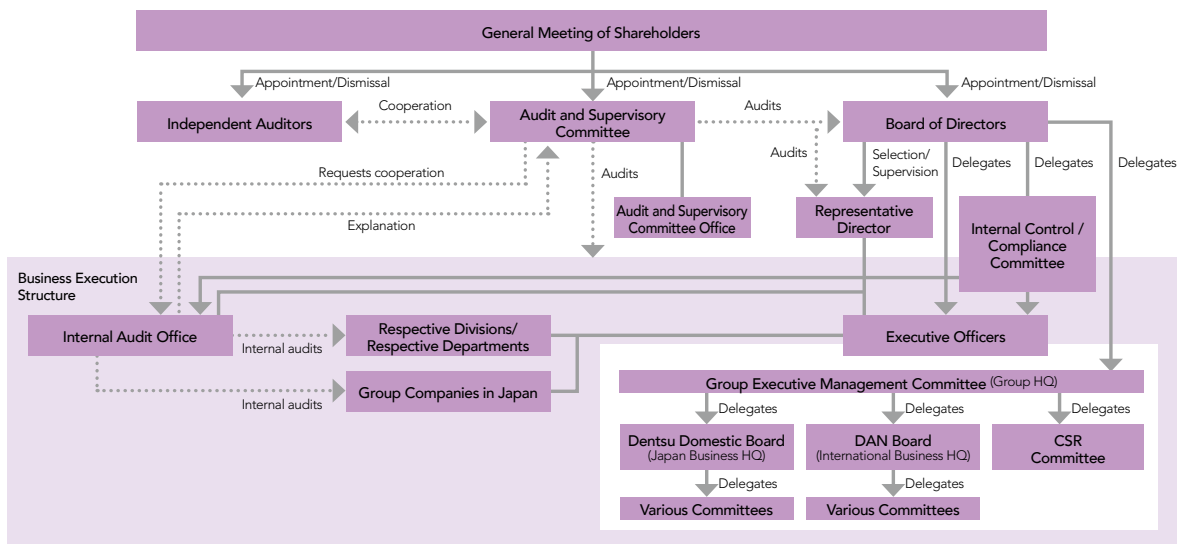
Dentsu has an Audit and Supervisory Committee comprising individuals in executive positions appointed by the Board of Directors to promote swift and effective decision-making in the conduct of business. At the same time, we have reinforced the supervisory function of the Board of Directors over executive officers.

As of January 1, 2018, the Board of Directors comprises 12 Directors (of whom four are independent outside directors). We have appointed four directors who are Audit and Supervisory Committee members (of whom three are outside directors). Under the Board of Directors is the Group Executive Management Committee, comprising executive officers, including the representative director and executive directors. This committee makes decisions on important matters relating to management and conducts preliminary deliberations on Board of Directors agenda items. Furthermore, we delegate authority on domestic group business to "Dentsu Domestic Board" and set up "DAN Board" for international business. In the business execution structure of Japan Business HQ and International Business HQ, we are delegating profit responsibilities and authority to each. In addition, the Internal Control and Compliance Committee, which has been delegated by the Board of Directors on internal control and risk management, has been established to improve the effectiveness of internal control and risk management.

Through these systems, we are ensuring soundness, transparency and efficiency of management, and are working to improve corporate value over the medium to long term.

Corporate Governance Policy ⇒ <http://www.dentsu.com/whoweare/cgp.html>

Corporate Governance Structure



Response to Implementation of the Corporate Governance Code

Appointment of Senior Management; Nomination of Director Candidates

When nominating directors who are not members of the Audit and Supervisory Committee, the representative director—the individual in a Japanese company who has the company seal and represents it in transactions—will submit the proposed names and, to ensure transparency, explain to the independent outside director members of the Audit and Supervisory Committee the reasons for having selected, and suitability of, nominees. Directors shall be nominated by the Board of Directors, which will take into consideration the opinions of outside directors. When nominating directors who are members of the Audit and Supervisory Committee, the representative director will submit a list of proposed names and, after they have been approved by the Audit and Supervisory Committee, the Board of Directors shall decide the new board members. For the policies and procedures involved in nominating director candidates, please refer to the Corporate Governance Report.

Corporate Governance Report → http://www.dentsu.com/csr/pdf/governance_201803_en.pdf

Effectiveness, Self-evaluation of Board of Directors

To ensure the maximum effectiveness of the Board of Directors, a questionnaire was submitted to all Board members pertaining to the efficacy and appropriateness of the Board's supervision of management. Based on results of analysis and evaluation by a third party, Overall efficacy were analyzed and evaluated. The analysis and evaluation for FY2017 indicated that the composition, operation, and items deliberated by the Board of Directors were generally appropriate. It was noted that sufficient deliberation had been conducted through the exchange of opinions, and confirming that the Board remained effective and appropriate in its supervision of operations. In the future, the Company will strive to make improvements on the issues* identified in these areas, in order to further improve the effectiveness and appropriateness of management oversight by the Board of Directors.

*1 Issues identified

- The allocation of an appropriate amount of time for the deliberation of items, depending on their importance.
- Regular progress reports on the status of important strategies.
- Enhanced monitoring of compliance and reporting systems.
- Opinions and other feedback from investors.

Training for Directors and Executive Officers

Directors and executive officers are provided with trainings and continuous opportunities to acquire essential knowledges for executing duties in order to properly fulfill given roles.

Specific Examples of Training

Position	When appointed	After appointment
Directors and Executive Officers	<ul style="list-style-type: none"> • Training on Dentsu management, business and financial strategies, related important matters and laws • Discussion related to identifying and formulating solutions to Dentsu Group issues 	<ul style="list-style-type: none"> • Monthly study seminars as opportunity to acquire the latest information regarding best practices and megatrend-related issues
Outside Directors	<ul style="list-style-type: none"> • Explanation of Dentsu's business, organizational structure, etc. 	<ul style="list-style-type: none"> • Regular provision of information related to business issues, etc.

Total Amount of Remuneration for Directors and Audit & Supervisory Board Members

	Directors (excluding Audit and Supervisory Committee Members) (Of which are Outside Directors)	Directors (Audit and Supervisory Committee Members) (Of which are Outside Directors)	All Directors (of which are Outside Directors)
Monthly Remuneration	261 million yen: 10 persons (11 million yen) (1 persons)	81 million yen: 4 persons (45 million yen) (3 persons)	342 million yen: 14 persons (56 million yen) (4 persons)
Bonuses	106 million yen: 8 persons (- yen) (- persons)	- yen: - persons (- yen) (- persons)	106 million yen: 8 persons (- yen) (- persons)
Total	367 million yen: 10 persons (11 million yen) (1 persons)	81 million yen: 4 persons (45 million yen) (3 persons)	448 million yen: 14 persons (56 million yen) (4 persons)

Notes:

1. The annual remuneration amounts for Directors who are not Audit and Supervisory Committee Members and Directors who are Audit and Supervisory Committee Members were approved by shareholders at the Ordinary General Meeting of Shareholders held on March 30, 2016. The resolution limits the amounts to 1,200 million yen per year and 150 million yen per year, respectively.
2. Bonuses in the table above shows the amount approved at the meeting of the Board of Directors held in February 2018 within the limit of remuneration for Directors stated in Note 1. above. The Company does not pay bonuses to Directors who are Audit and Supervisory Committee Members.
3. The Audit and Supervisory Committee considered the above, and did not find any particular points of note.

Message

Message from Outside Director

DENTSU GROUP CORPORATE GOVERNANCE

Kentaro Koga

Director
Audit and Supervisory Committee Member



In recent years, corporate governance has attracted a lot of media coverage and has come to mean a variety of things. Personally, I understand the term to denote management, conducted by managers, that reflects the kind of management demanded by shareholders. However, to distinguish between owners (shareholders) and management (managers), many modern corporations find that it is not so easy to completely align management demanded by shareholders with that conducted by managers.

The primary aim of corporate governance is to provide guidance, so that management might be seen by shareholders as being convincing in terms of balance between growth and stability, long-term investment and short-term returns, as well as scale and efficiency. The secondary objective is to appropriately explain these initiatives and degree of achievement to obtain shareholder support.

We have done much to improve our corporate governance system and its implementation. Currently, it is our goal to conduct Dentsu Group management in such a way as will garner shareholder approval with respect to our globalized, digitized, and value-added business efforts. Another important focus is on innovation management, whereby management and stakeholders—including customers, business partners, employees and society—coexist and work well together. An example of this kind of management involves the supervision of managers, to make sure that the Dentsu Group working environment reforms in Japan are promoted.

To maintain the system of rules, practices, and processes by which a firm is directed and controlled, in 2016 Dentsu transitioned to being an enterprise with an Audit and Supervisory Committee, and increased the number of independent outside directors. This has resulted in lively discussions at Board of Director and Audit and Supervisory Committee meetings. There is a constant awareness, among the directors and committee members, regarding the need for us to engage in the kind of management that our shareholders and other stakeholders expect. Before meetings, outside directors are provided with the information they require through briefings on agendas. In addition to prepared proposals, we also discuss new agenda items proposed by outside directors.

In order to summarize the Dentsu Group's management performance we prepare appropriate financial statements and create the Dentsu Integrated Report. This report is designed to increase understanding of, and support for, our management practices. Regardless of whether the Group's performance is good or bad, the Board of Directors and Audit and Supervisory Committee work with independent accounting auditors to ensure the financial statements are an accurate and timely representation of management.

Message from Executive Officer

INTERNAL CONTROLS TO MEET STAKEHOLDER EXPECTATIONS

Shun Sakurai

Executive Officer



In January 2018, I was appointed executive officer from outside Dentsu to be in charge of internal controls. To address a series of labor issues and proceed resolutely with working environment-related reforms, it was decided that a person with an outside perspective and no prior experience in this position should be placed in the executive structure to review Company management. Looking at Dentsu from the viewpoint of someone with experience outside the Company, it would appear that all employees are engaged in their work with a high degree of motivation. In addition, since Dentsu develops business in many areas, I sense diversity in human resources. That said, even with the high quality of these human resources, there are some areas in need of consideration with respect to the working environment.

As I understand it, my role in internal controls is to set up a mechanism ensuring thoroughgoing, solid Company management. This includes ensuring financial soundness, appropriate business processes, IT environment improvements, and legal compliance. I am then to verify the proper functioning of the mechanism, and to see that risks surrounding the Company are at a minimum. In light of labor issues, in April 2017 Dentsu took steps to enhance its internal control function by setting up the Internal Control and Compliance Committee under the Board of Directors. As the chairman of this committee since January 2018, I was selected as the executive in charge of identifying and analyzing critical risks surrounding Dentsu, and the one to engage in responding to each of these risks by preventing or mitigating them.

In addition to maintaining this system of controls, I liaise with the Internal Audit Office and the Audit and Supervisory Committee. This reflects the need to properly implementing the plan–do–check–act process and product improvement cycle. Further, we are creating an internal control system for the Dentsu Group to identify Group-wide risks in an attempt to thoroughly manage the Group from the standpoint of internal controls. I think about internal controls and compliance in the context of sports. In the sporting world, one is required to strictly follow the rules to win the competition. Even if you win, you will not be respected unless you have followed the rules. The same is true in business; we must compete while following basic rules. Internal controls—a prerequisite for successfully developing any business—are the product of rules that have been formulated and to which there must be strict adherence.

With rapid advances in the digital economy and other developments, the business environment is undergoing massive changes. In order to contribute to the resolution of issues at the societal and international levels, and to the achievement of the United Nations' Sustainable Development Goals while pursuing the Dentsu Group's own sustainable development, we must address corporate management issues head on and meet stakeholder expectations.

Governance

Dentsu Group Internal Control System

Internal Control System

The Dentsu Group Internal Control System encourages compliance among directors, executive officers, and employees, while at the same time supporting continuous corporate development as Dentsu meets its social responsibilities. The Dentsu Group Code of Conduct is positioned as a shared behavioral code to ensure that directors, executive officers, and employees of Dentsu and its subsidiaries carry out their duties in compliance with the law, regulations, and the Company's Articles of Incorporation. The code also ensures that business is conducted appropriately, while the Internal Control and Compliance Committee works to maintain and improve internal controls. In accordance with Internal Control and Compliance Committee policies, the CSR Committee and other committees formulate rules and develop manuals to inculcate a thorough awareness of proper business execution among all employees through training and other activities.

There are business-related check items for risk management and compliance, while a broad range of inspections are conducted. The items checked include the appropriateness of rules; whether business is conducted in accordance with the rules; and if reporting of, and responses to, problems are prompt, in order that issues might be identified and issues improved. We also establish internal control mechanisms at Group companies to maintain and enhance corporate value throughout the entire Dentsu Group.

Dentsu Group Code of Conduct → <http://www.dentsu.com/csr/overview/codeofconduct.html>

Risk Management

Under the Internal Control and Compliance Committee, which is chaired by the executive director in charge of internal controls as a system for comprehensively managing Group-wide risks, the Dentsu Group strives to achieve continuous improvement by understanding Group risk management conditions and formulating, executing, monitoring, and improving policies and risk management processes using the four-step PDCA management method. We establish risk management rules, as well as formulate and execute specific response plans, prioritized in order of risk severity. This we do to maintain and improve our system to prevent risks and to minimize their impact should they occur. Departments are assigned responsibility for each key risk. They formulate and implement response plans to reduce the likelihood of risk; submit mid-term progress reports; and prepare year-end self-assessments as well as guidelines for the next fiscal year after they have been discussed by the Internal Control and Compliance Committee. The committee then shares risk awareness and the proposed responses with the Board of Directors and Audit and Supervisory Committee, and monitors situations as appropriate. To prioritize key risks, the Dentsu Group conducts quantitative and qualitative analyses using a risk map. This data visualization tool takes into consideration the frequency and impact of each risk, and uses correlation analysis to identify those risks considered key.

Information Security

Development of an Information Management System

The Company set up the Dentsu Group Basic Policy for Information Security and a very strict information security management system to protect the Group's important data, as well as personal and other information received from clients. Based on this Basic Policy, information management rules and other related guideline details were formulated to clarify procedures that must be followed. We also conduct detailed awareness activities for officers and employees through training, briefings, and the distribution of pamphlets and other materials. Given the importance of managers in information management, the Company has started a new manager training course to educate managers about their roles and responsibilities. Further, Dentsu and 49 Dentsu Group companies in Japan have obtained ISO/IEC 27001:2005 and JISQ 27001:2006 certification, international standards for information security management systems. Dentsu is striving to implement more stringent information security management Group-wide, to flexibly respond to the ever-changing and increasingly sophisticated environment of information and communication technology.