

dentsu

Dentsu Group Inc.

Questions and Answers of ESG Briefing 2024

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[Hosts]	Hiroshi Igarashi	Director, Representative Executive Officer, President & Global CEO
	Arinobu Soga	Director, Representative Executive Officer, Executive Vice President, Global Chief Governance Officer & Global CFO
	Tim Andree	Non-Executive Director, Chairman of the Board
	Mihoko Sogabe	Independent Outside Director
	Yuka Matsuda	Independent Outside Director
	Miho Tanimoto	Global Chief HR Officer
	Yuko Kitakaze	Global Chief Sustainability Officer

Questioner 1: I have two questions. First, about engagement score which is declining in the integrated report. It is also described in the report that tendencies were different in and outside of Japan. But what was the change in the score? What were the tendencies in and outside of Japan? Could you offer commentaries?

The second question is that you are active in various regions, through acquisitions. How are you fostering corporate culture and disseminating corporate culture? How do you evaluate the current status and what are the future measures? As of now, if you see any issues managing the Group, could you comment on those, please?

Tanimoto: Regarding the first question which is on engagement score, well, unfortunately, last year, overall score declined slightly. But what is important is to look at the substance closely. For your information, as far as tendencies are concerned, we see similar trends in and outside of Japan, and scores are very high in personal integrity and focus areas such as compliance and respect.

Of course, we would like to aim to achieve 100 points in all of these areas, and there is still room for growth, room for improvement, but we are seeing very high scores in these areas.

On the other hand, last year, one of the challenges was that we were in transition phase to One dentsu. One dentsu strategy and Integrated Growth Solutions, the specifics of these, there is a need for closer communication. Clarity of strategy and communication are the challenges.

Therefore, this year, we are focusing on these areas and the management is directly communicating more to our people on a daily basis.

(For second question.) As One dentsu family has various brands, however after the introduction of One dentsu model, we have a global practice where all practices are now integrated into One team. Although we have different brands for Go-to-Market, we are One dentsu family.

To have a consistent corporate culture, there is still room for further improvement. But for example, since last year, we have Northstar Awards where we recognize contributions to corporate culture that we would like to foster. What corporate culture is the culture that we aim at is being clarified through our 8 ways. We will embody these cultures and dentsu Leadership Attributes will also be used to promote consistent application.

Igarashi: I would like to add. Two years ago, globally, Chief Culture Officer position was established. Under One dentsu, culture will be shared with the same values.

However, we also acknowledge the importance of diversity and Chief Culture Officer is implementing various initiatives. As mentioned earlier, there is Northstar Awards. In our actual business operations, how do we implement these? How do we lift these ourselves? That is very important in addition to being competitive.

Starting this year, in dentsu Japan, we also have established the post of Chief Branding / Culture Officer. We are collaborating in and outside of Japan. In each market and in each region, there are also specific measures. With all of these put together, we are implementing a consistent corporate culture.

Questioner 2: I have about two questions. First, as Tanimoto-san mentioned before in HR strategy, thank you very much for your very detailed presentation. I've been able to discover that you are implementing many wonderful initiatives. As you promote these initiatives, what is it that you think is particularly difficult? How have you overcome them?

Secondly, cybersecurity is a hot topic, important topic in various industries. I think dentsu is also taking various cyber-related initiatives. If there's a cyber-attack, who takes leadership? Is there an expert? For example, CISO,

do you have a Chief Information Security Officer? Do you have this kind of a position? If not, are you intending to establish this kind of position in the future?

Tanimoto: HR initiatives, talent initiatives, what are the difficulties? I don't know if it's necessarily a difficulty, but One Global dentsu is what we are striving for. Japan and international offices, all of our strategies need to be aligned. We have that in mind. This, I think, is a process that takes a certain amount of time.

Each region or each market further have their own challenges, which are slightly difficult. So, how we try to overcome them would be to deepen our understanding of each market. I mentioned about dialogue with employees, and market leaders, I need to get to know them more, and we need to share challenges with them.

We have to think about what we can do from a global perspective in order to empower the market. What should we do? I always try to have this kind of dialogue, and this is a process that takes time.

Furthermore, HR initiatives and talent initiatives, these are positive aspects. Everybody shares the idea of what's good. So, if everyone thinks that something is good, we are able to smoothly proceed with such initiatives.

So, the voice of People Discussion, then to dentsu Leadership Attributes, covered 3,000 employees. Frankly speaking, I didn't think I would be able to cover this much, but our team made a lot of effort, and I think we were able to create something together. We want to continue to cherish the voice of employees, and we want to know more about leaders and the market.

Igarashi: The second question about cybersecurity.

Cybersecurity measures, as you mentioned, in order for us to continue our business, that is indeed a very important perspective. In order to ensure business continuity, what are the risks? We constantly have to watch and take appropriate measures. First, an expert is responsible for risk.

There is an executive who's specializing in risk. In our Risk Committee, we extract a number of risk issues and are trying to take measures. One of them is, of course, cybersecurity.

The economic security, there's a person responsible for economic security as well. They collect information and these people collaborate with the people responsible for risk and we try to share information to take appropriate measures. In order to ensure business continuity, we also collaborate with the company Chief Intelligence Officer. We conduct simulations and so forth.

Measures going forward, that will be commented on by Soga-san. Is there going to be a specialized expert organization? Are we going to appoint an expert responsible for cybersecurity? That will be answered by Soga-san.

Soga: This is an extremely important agenda. Other companies as well are seeing more and more of this risk coming to the service, and we think we can learn from other companies.

What we are doing now is Group-wide information security policy, which we are formulating and we have various rules and regulations for handling information. These rules are now being operated. I think this is done by other companies as well. It's a general countermeasure, but putting infrastructure on the cloud and constraining access, we are trying to take these measures as much as possible. Information security management system, ISO-27001, we are already certified.

In the case of an emergency, what do we do? Risk-related response is part of corporate governance in the broad sense of the word, it's an important agenda.

In the case of an emergency, how do we respond? Giulio Malegori is responsible for the operation, and he's the direct reporting line when it comes to IT-related matters. In terms of risk management, I am responsible for risk management. The conclusion is, in the case of an emergency, reporting will go up to Giulio as well as myself and Alison, the Global General Counsel, and we set up a task force led by Igarashi-san to respond in the case of an emergency.

There are small issues, not as frequently as daily, in each region and country. First and foremost, the region CEO will take responsibility to respond immediately. But if there are serious cybersecurity issues, as I just mentioned, Igarashi-san will take leadership to form a task force to respond. That is what we have in mind. This concludes my response.

Questioner 3: My two questions. First of all, I'm wondering where you're getting the most pushback from clients, what are they most reluctant to engage with you in?

My second question is about whether any of the initiatives that you've got underway are running behind your original intention.

Igarashi: We are trying to solve the challenges of the clients together and we consider this to be very important. Regarding true client centricity, this is about what solutions we can offer and what capabilities we can enhance. We are considering this on a daily basis. Globally, as One team, we are implementing measures.

Whether there are any pushbacks from our clients, needs are different from client to another and the challenges faced are also different from one client to another.

But what we see as a major movement on the part of clients is to narrow down the number of agencies that clients use.

Clients are becoming more selective and whether a single solution is superior, integrated capabilities to commit to various market challenges of clients, I believe that is seen as more important by clients. That is what we often hear in our communication with the client C-suite and how to respond to those needs will be key to our growth going forward.

Concerning the second question of whether there are any measures that are falling behind the schedule, I do not consider there are any that are behind the schedule. We are enhancing our competitiveness and ESG measures, which are the topic today in regard to ESG measures, we are progressing in accordance with our road map. At the Board of Directors, the progress is being checked and inputs are given as we continue to make progress. In engaging in these endeavors, we would like to make sure that we are able to achieve outcomes.

Questioner 4: I also have two questions. First, ESG initiatives and your Group's enhancement of corporate value, the relationship between the two. You explained in more detail than last year's ESG briefing. If I take a look at the win rate, I think HR-related initiatives within Japan and overseas are contributing to your win rate increase. What is evidence of the fact that your measures are succeeding, particularly HR measures?

For E with partner companies, I think you're working on various initiatives. You introduced them in your presentation. With direction, and objectives aligned with them, I think you can engage more and you'll probably be able to differentiate. What kinds of initiatives will lead to the growth and improvement of your performance? Please comment about the E from that perspective. ESG and improvement enhancing corporate value, the link between the two, that's my first question.

My second question is to Sogabe-san and Matsuda-san. I think you've already evolved substantially. There have been issues that are unique to dentsu. Any challenges, and in the next Medium-Term Management Plan what particular areas of ESG do you want to reinforce further? Are there any thoughts on this point?

Igarashi: Now, relationship between ESG and enhancing corporate value, particularly with regard to HR talent initiatives, whether these initiatives lead to increasing our competitiveness or not, whether there is any evidence as such. In each region and market, we confirm with clients. There's a client satisfaction survey. For each market and region, we have data that the results of client satisfaction survey are increasing, particularly increasing competitiveness by promoting HR initiatives.

As Tanimoto-san mentioned in her explanation, we are focusing on such initiatives. Clients have started to highly evaluate such initiatives of ours. As a result, the satisfaction level is increasing, which means this is important in winning pitches.

Client satisfaction index is a clear KPI that will enable us to measure how much success we are making in our ESG initiatives and how much we are able to increase our corporate value, so we want to continue to monitor such numbers.

Initiatives with partner companies, particularly whether there are any initiatives that contribute to growth of our company, Kitakaze-san, can you respond?

Kitakaze: Initiatives with partner companies, would that lead to enhancing ESG and increasing performance? I think ESG was recently a theme amongst investors, but I think sustainability is a goal that the humanity as a whole should strive for. Partner companies, employees, stakeholders within and outside of the company, we all have to cooperate and maybe humanity is to grant the word, but in order for us to create a better society for the next generation, we think all of us must cooperate together. That I think is the first and foremost objective of ESG.

Under such circumstances, dentsu would like to do as best as we can. If there's something missing, we have to fulfill missing capabilities. We are working with partners who agreed to our approach or not. Automatically, we are able to strengthen our ties with partner companies that share the same thinking.

Employees are very proud of working for such a company, and that would ultimately lead to enhancing our corporate value and increasing competitiveness. I did talk about a grand concept, but this is what we are working on, and we want to continue such effort.

Igarashi: I would now like to call upon the two outside directors to respond.

Sogabe: Challenges unique to dentsu and this relates to the important points we are working on in the area of ESG. Creating culture, particularly integrity. Is still promoting, as Soga-san mentioned. Why do we have to promote these initiatives? The reason is not yet fully understood by everyone in dentsu, which means it takes time for this mindset to penetrate. This may be a unique challenge of dentsu and a very important core point of governance.

For E part of ESG, as was explained before, SUSTAINABILITY TO IMPACT. Our sustainability initiatives are progressing quite well, and we want to share that knowledge with clients, and we want to incorporate what we learned in client services. We are able to do so, and we want to evolve further in this endeavor.

Finally, about people talent, as Tanimoto-san explained, as One dentsu, we are trying to evolve as one. We're working on the various initiatives and we are making steady progress, but we are engaged in business in various countries and regions, and working as one in this environment is very difficult.

We want to make sure that our endeavors do not lag behind. We do not want to revert backwards. For that purpose, we would like to support as much as possible as the Board of Directors.

Matsuda: I may overlap with what Sogabe-san mentioned. I am a member of the Audit Committee. When it comes to G, we think there are still challenges within dentsu. We think the Board of Directors must try to enhance further the G portion of ESG.

Specifically, since last year, we've been working on One dentsu. Under such circumstances, from my perspective, I have the impression that can we really continue business as One from various perspectives in terms of talent, business, and in terms of control as well. How do we truly generate successful results as One dentsu? It is an endeavor that takes time, but we want to tackle with as much speed as possible. For that purpose, we think the Board of Directors would have to extend our maximum support.

Questioner 5: In the last one or two years, looking at the business performance issues, what were the problems? What questions should have been posed by the Board of Directors? What agenda issues should have been discussed by the Board of Directors? Looking back, did the Board of Directors miss? That was the question. About ESG, G part.

Igarashi: I would like to ask Tim-san, the Chairman of the Board of Directors to respond. I would like to ask Sogabe-san and Matsuda-san, the Audit Committee members to comment.

Andree: It's a very difficult question to answer. It requires real introspection. I think our Board of Directors has been focusing on continuously improving the dialogue and the governance through the process of our continual meetings and our continual evolution of the business.

If I had to say the areas of improvement that we've focused on based upon watching how the business has operated, I would say areas in risk and internal control have been a subject of discussion. I would also say the overall process of integration of our M&A has been a real topic of discussion that I think has led to some decision.

As you know, this year, there's been a pullback from M&A to focus on internal investment. I think those types of discussions and direction of management have come from those kind of critical reflections that have occurred at the Board of Directors and in discussion with the executive management have led to areas of focus and improvement to move forward.

I do think the Board of Directors discussions are robust. I think the ongoing performance challenges in the international business have been an area of focus and I think that the upcoming Mid-Term Management Plan the Board of Directors has been deeply involved in helping to give feedback to management that we expect will address the performance issues and allow us to move forward.

Sogabe: In addition to what Tim-san mentioned, looking back on the discussions at the Audit Committee over a few years, most part of the discussion, much weight was given on various challenges related to internal control.

The issues and challenges related to internal control may lead to further issues where management will have to address those issues. The efforts that should have been concentrated on the businesses also had to be spent on addressing internal issues to a large degree.

Therefore, internal control-related issues and there are also reorganization efforts and issues that were not as clear have become much more clear and to enhance efforts in these areas will lead to business being facilitated. The Board and the Audit Committee will continue to provide comments on these areas.

Matsuda: What did the Board of Directors miss, and what should have been done better? That is a very difficult question to answer. As one of the members of the Board of Directors, that is a very difficult question.

We believe that we have had thorough exhaustive discussions, but what more could have been done? I believe that there might have been more that could have been done. But looking back over the past may appear not to be forward-looking. But on occasions, I think it requires us to reflect seriously upon the past. Reflection on the past is not necessarily negative. There are learnings that will be positive for the future, and there may have been more learnings by looking back.

But as a member of the Board of Directors, including these reflections, what is useful for businesses, and in what way can we play a more useful role for the business? That is constantly on our minds.

Igarashi: I'm also a member of the Board of Directors. Therefore, I would also like to offer some additional comments. There are various challenges and issues in business performance, and there have been quite thorough discussions at the Board of Directors.

Also, we have established the Finance Committee. Although it is an advisory committee for stronger discipline in finance and for the checking of the performance, regarding the past year's performance, there has to be a review so that our businesses will be aligned with shareholder value. The Board of Directors agreed to that and the Finance Committee comprising solely of Outside Directors was established.

Of course, we are reflecting on the past, but at the same time, the strategy to be implemented going forward is also discussed by establishing such a committee and also by deliberating of the Board of Directors. We would like to deepen our discussion, which is aligned with shareholder values.

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