



## Basic Perspective on Corporate Governance

Based on the Dentsu Group's corporate philosophy of Good Innovation, we are working to resolve issues stakeholders face by leveraging our core competencies in the marketing and communications domains. We thus aim to both create new value for society and contribute to the realization of a sustainable society.

Corporate Governance Policy ⇒ <http://www.dentsu.co.jp/vision/cgp.html>

## Dentsu's Structure for Promoting Corporate Governance

In 2016, Dentsu transitioned to a company with an Audit and Supervisory Committee. We have transferred the authority to conduct some important business from the Board of Directors to the directors, in the interest of having a swift and effective business execution system.

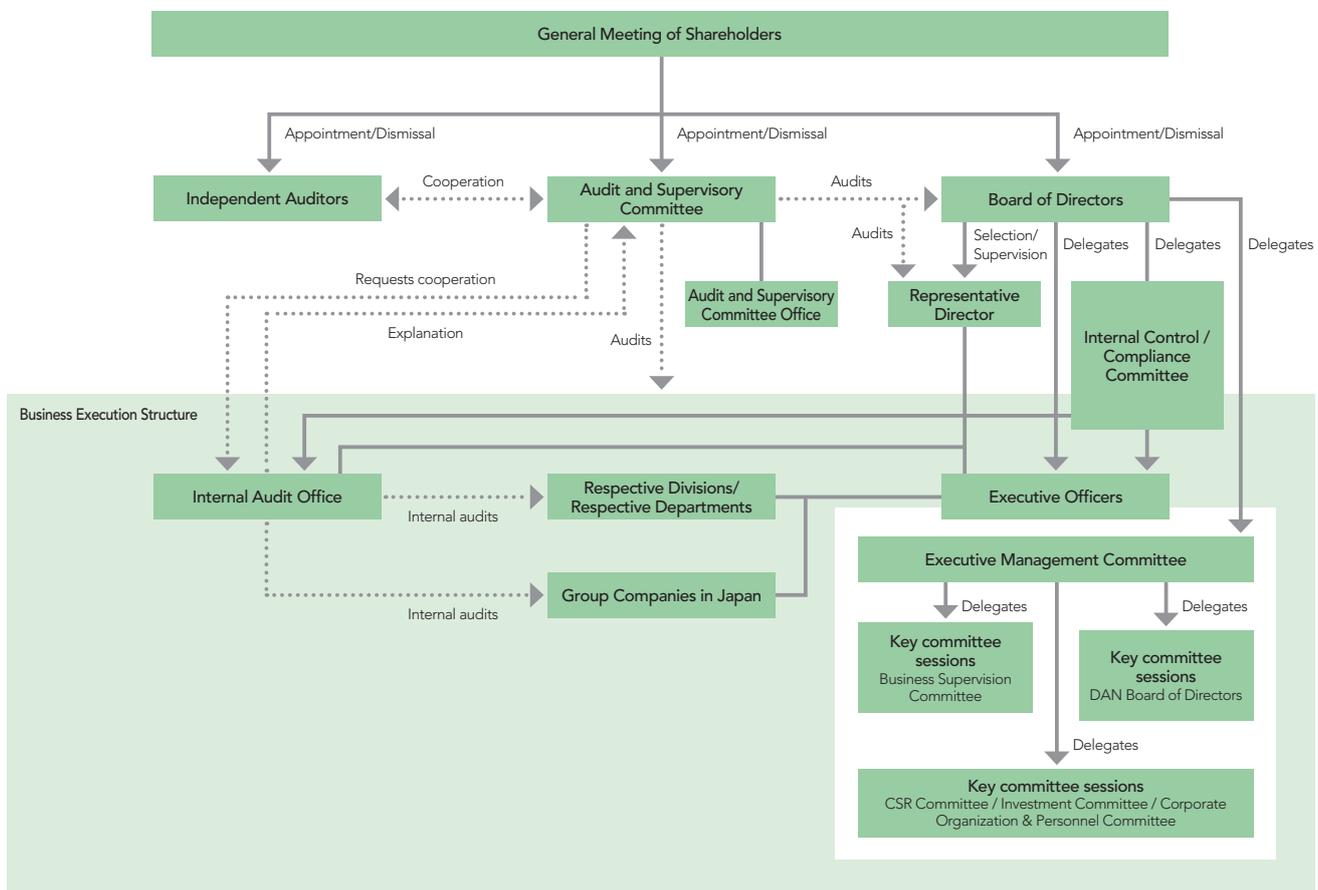
At the same time, we have reinforced the supervisory function of the Board of Directors over directors.

As of April 1, 2017, 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).

Among the factors considered in nominating members of the Board of Directors are diversity in experience, insight and gender.

Under the Board of Directors is the 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. The Executive Management Committee delegates decisions on important matters related to Japan business departments to the Business Supervision Committee, while decisions on important matters related to international business departments are delegated to the Dentsu Aegis Network Board of Directors. The Group uses this business execution structure for delegating revenue-related responsibility and authority for the Japan and international business departments.

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 already 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.co.jp/csr/pdf/governance\\_201703.pdf](http://www.dentsu.co.jp/csr/pdf/governance_201703.pdf)

### Formulation of the Independence Standards for Outside Directors

In order to ensure transparency of the Group's corporate governance structure, in November 2015, the Company formulated its Standards for the Independence of Outside Directors, as stated in part below.

The Company deems that any directors who fall into any of the following categories do not meet the standards required of independent outside directors.

#### 1. Persons who have certain relationships with the Company or its subsidiaries

- a. Persons who perform executive roles (which means executive directors, statutory officers, executive officers, managers, employees, including advisors (the same applies hereafter), or such other persons as stipulated in Item 6 of Article 2, Section 3 of the Ministerial Order of Enforcement of the Companies Act; the same applies hereafter) in the Company or its subsidiaries
- b. Persons who were directors, executive officers, managers or employees of the Company or its subsidiaries during any period in the past 10 years

#### 2. Persons who hold the position of director or other executive of a corporation and who also perform an executive role in the Company

Persons who perform an executive role such as that of director, officer, or corporate auditor in a corporation and who also perform an executive role in the Company

#### 3. Principal business partners

Entities whose principal client is the Company<sup>1</sup> or persons who perform executive roles therein, or principal clients of the Company<sup>2</sup> or persons who perform executive roles therein

#### 4. Employees of an accounting firm of the Company

Those who belong to an accounting firm that conducts audits of the Company under the Companies Act or the Financial Instruments and Exchange Act

#### 5. Outside experts of the Company

Experts (including attorneys-at-law, accountants, tax accountants, patent attorneys, judicial scriveners and consultants) who receive a large amount<sup>3</sup> of money or other property (except for remuneration as a director, officer, corporate auditor and the like) from the Company (or if the entity receiving such property is an organization, such as a corporation and association, persons belonging to such entity)

#### 6. Persons who received donations from the Company

Persons who received a large amount<sup>4</sup> of donations from the Company (or if the entity receiving such donations is an organization, such as a corporation and association, persons who perform an executive role in such entity)

#### 7. Major shareholders

Entities that own 5% or more of the voting rights of the Company, or persons who perform an executive role therein

#### 8. Persons who have fallen under items 2 through 6 in the past

Those who have fallen under any of items 2 through 6 during any period in the past five years

#### 9. Close relatives

Close relatives of those who fall under any of items 1 through 8, except for persons who are deemed to be unimportant for the purpose hereof

<sup>1</sup> "Entities whose principal client is the Company" are those who received payments from the Company equivalent to more than 2% of their annual sales in the latest business year.

- 2 "Principal clients of the Company" are those who made payments to the Company equivalent to more than 2% of the Company's annual sales in the latest business year or those who provided loans to the Company the outstanding amount of which was more than 2% of the total assets of the Company in the latest business year.
- 3 "Large amount" means, with respect to the amount of the property acquired by the relevant party in the latest business year, more than ¥10 million (in the case of a natural person) or more than 2% of its annual consolidated sales or gross revenue (in the case of an organization, such as a corporation or association).
- 4 "Large amount" means, with respect to the amount of the donations received by the relevant party in the latest business year, more than ¥10 million or more than 2% of its annual gross revenue.

The Independence Standards for Outside Directors → <http://www.dentsu.co.jp/vision/isod.html>

### Self-evaluation of Board of Directors, Effectiveness

To consistently increase the effectiveness of the Board of Directors, Dentsu conducts a questionnaire survey of all directors. The questionnaire covers the Board of Directors' effectiveness and appropriateness in supervising management and self-evaluations of the directors regarding the status of their operations. The Company also interviews outside directors. The Board of Directors secretariat reports the results of these evaluations to the Board of Directors, thereby analyzing and evaluating the overall efficacy of the Board of Directors. In fiscal 2016, this analysis and evaluation indicated that the composition, operation and content of deliberations of the Board of Directors was generally appropriate. It noted that deliberations were conducted sufficiently through the spirited exchange of opinions and confirmed that the Board of Directors remained effective and appropriate in its supervision of operations. At the same time, this analysis and evaluation elicited certain issues with regard to putting in place measures to promote understanding of agenda items, regular reporting concerning the state of progress on important strategies, the enhancement of measures and monitoring to ensure thorough compliance with corporate ethics, and the feedback of questions and opinions from investors. The Company will strive to make improvements in these areas, further enhancing the effectiveness and appropriateness of management oversight by the Board of Directors.

#### Questionnaire items

1. Board of Directors composition and operation
2. Management strategy and business strategy
3. Corporate ethics and risk management
4. Operating performance monitoring and evaluation; remuneration of the management team
5. Organizational and business restructuring
6. Dialogue with shareholders and other stakeholders
7. Self-evaluation of individual directors

### Training Directors and Executive Officers

Through ongoing training, opportunities will be made available for directors and executive officers to gain the knowledge necessary to properly carry out their work and responsibilities.

Currently, when directors (excluding outside directors) and executive officers assume their roles, the Company provides them with lectures, given by in-house and outside experts, with respect to the Company's strategies in areas including management, business, finance, laws, and regulations. This enables them to acquire and update the knowledge they require to fulfill their responsibilities. They also have opportunities to find, through discussions, issues to be addressed by the Company and their solutions. Moreover, after becoming directors or auditors, they have opportunities to hold monthly study seminars to obtain the latest information regarding best practices for megatrend issues, with emphasis on the positioning of the environmental, social, and governmental criteria in the Corporate Governance Code.

When new outside directors assume their offices, they are provided with an explanation of the business, organizational structure, and other related Company matters. Then, periodically, they are updated regarding issues currently being addressed by the Company.

## Remuneration

### Policies, Procedures for Senior Management; Directors' Remuneration

Internal directors who are not members of the Audit and Supervisory Committee have a performance-linked framework for remuneration.

It is designed to ensure that the medium-term management plan goals are achieved, the focus is on the mid- to long-term profit of shareholders, and the motivation to maximize the corporate value of the Company remains high.

The index used to evaluate business performance is the Company's consolidated operating profit, while the total amount of bonuses varies according to the degree to which budgetary goals have been achieved. Performance-linked bonuses, meanwhile, account for 40% of the Company's total remuneration.

Remuneration of outside directors who are not Audit and Supervisory Committee members consists solely of a fixed monthly amount that takes into account their duties.

The total amount of fixed monthly compensation and performance-linked bonuses for directors who are not Audit and Supervisory Committee members is within the scope of remuneration approved at the 167th Ordinary General Meeting of Shareholders (within ¥1.2 billion per year).

The amount of remuneration of each director who is not a member of the Audit and Supervisory Committee (as well as of each executive officer) is determined by a resolution of the Board of Directors within the above limit of remuneration, and must be approved at the same General Meeting of Shareholders. In order to ensure transparency, the suggested remuneration is explained to committee members, and the final decision is made by shareholders after they have taken into consideration the opinions of the Audit and Supervisory Committee members.

Remuneration for directors who are members of the Audit and Supervisory Committee consists solely of a fixed monthly salary. The gross amount is within the remuneration limit approved at the 167th Ordinary General Meeting of Shareholders (within ¥150 million per year).

The amount of remuneration for each director who is a member of the Audit and Supervisory Committee is determined through consultations conducted by the committee directors. The amount is within the above remuneration limit, as approved at the same Ordinary General Meeting of Shareholders.

### 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)	Audit & Supervisory Board Members (Of which are Outside Audit & Supervisory Board Members)	All Officers (of which are Outside Officers)
Monthly Remuneration	246 million yen: 11 persons (3 million yen) (2 persons)	60 million yen: 4 persons (33 million yen) (3 persons)	25 million yen: 5 persons (7 million yen) (3 persons)	332 million yen: 16 persons (44 million yen) (5 persons)
Bonuses	111 million yen: 8 persons (- yen) (- persons)	- yen: - persons (- yen) (- persons)	- yen: - persons (- yen) (- persons)	111 million yen: 8 persons (- yen) (- persons)
Total	357 million yen: 11 persons (3 million yen) (2 persons)	60 million yen: 4 persons (33 million yen) (3 persons)	25 million yen: 5 persons (7 million yen) (3 persons)	443 million yen: 16 persons (44 million yen) (5 persons)

#### Notes:

- On March 30, 2016, Dentsu transitioned from a company with a Board of Auditors to a company with an Audit and Supervisory Committee.
- Prior to the transition to a company with an Audit and Supervisory Committee, the limit on total remuneration for directors was resolved at the Ordinary General Meeting of Shareholders held on June 27, 2013, at ¥1.2 billion per year (including an amount within ¥18 million per year for outside directors). At that same Ordinary General Meeting of Shareholders, a resolution was passed limiting the annual amount of fixed remuneration for Audit and Supervisory Committee members to ¥132 million.
- Following the transition to a company with an Audit and Supervisory Committee, resolutions were passed at the Ordinary General Meeting of Shareholders held on March 30, 2016, limiting annual remuneration for directors who are not Audit and Supervisory Committee members to ¥1.2 billion per year and annual remuneration for directors who are Audit and Supervisory Committee members to ¥150 million per year.
- The above table on "directors who are not Audit and Supervisory Committee members" includes directors prior to the transition to a company with an Audit and Supervisory Committee. Monthly remuneration amounts include the portion for six directors and five Audit and Supervisory Committee members who stepped down at the close of the Ordinary General Meeting of Shareholders held on March 30, 2016.
- "Bonuses" in the above table are within the director remuneration limits outlined in note 3 above, and were resolved at a Board of Directors meeting held in February 2017. Bonuses are not paid to Audit and Supervisory Committee members and directors who are Audit and Supervisory Committee member.
- The above items have been considered by the Audit and Supervisory Committee. There were no items of special note.

## Message from an Outside Director



### Corporate Governance at the Dentsu Group

#### Atsuko Toyama

Outside Director  
(Audit and Supervisory Committee Member)

In line with the transition of Dentsu's corporate governance structure to one of a company with an Audit and Supervisory Committee, my position changed just over a year ago. No longer an outside Audit & Supervisory Board member, I became an outside director.

As during my time on the Audit & Supervisory Board, I believe the Company clarifies issues related to each meeting's agenda items and gathers materials from a fair perspective. Overall, the president and other executive officers take seriously my opinions and questions, and I sense the sincerity in their explanations and operating methods. This environment makes it easy for me to discharge my duties as an outside auditor.

The Dentsu Group's marketing communications business platform plays an important role as a bridge between companies and consumers, delivering to consumers information about products and services. By leveraging the DAN network in the rapidly growing field of digital, the Company is developing its services globally, thereby helping to invigorate both the Japanese and global economies. This role, however, comes with certain responsibilities.

Over the past few years, Dentsu has been working to construct a platform that will allow it to foresee the trends of the times and respond to the issues of digitalization and globalization. The moment of truth is coming.

To achieve further growth, it will be essential for the Dentsu Group to enhance its human resources management capabilities. I feel there is still substantial room for improvement, particularly with regard to the participation of women. This is the case not just for Dentsu, but for Japanese companies in general. I believe corporate management and middle management need to dramatically reform their ways of thinking and broaden their perspectives. Female employees also accumulate experience and deliver results. Provide them with the opportunity, and they will put all their energy into their work and gain greater confidence. As they do so, their capabilities will increase, creating a virtuous cycle.

The Dentsu Group is now facing hardships the likes of which it has never experienced before. But the path the Group has followed to date has been one of honing ideas and sparing no effort to continue learning; its history is an example of devotion to study. From the president on down, I believe each and every employee needs to reexamine their work styles and strike out on the road to reform. I am convinced that doing so will lead to the generation of new corporate value.

## Communication with Shareholders and Investors

The Company is working to enhance its mid- to long-term corporate value by disclosing to shareholders and investors such information as management strategies, financial figures, and nonfinancial information on a timely manner. The Company engages in an ongoing, constructive dialogue with shareholders and investors through its IR activities. In addition to holding earnings-related presentations twice a year, we aim to achieve wide-ranging, two-way communication with shareholders and investors through individual briefings for institutional investors and analysts held in Japan and other countries.

Policy on Constructive Dialogue with Shareholders → <http://www.dentsu.com/ir/stockandratings/constructivedialogue.html>

### Capital Policy and Shareholder Return

The Company employs a capital policy aimed at improving its intrinsic corporate value. As a top priority for capital allocation, it pursues sustainable profit growth with aggressive M&As in growth areas across all markets. Further, through a combination of continued dividend stability and agile share repurchase, the Company aims to consistently improve shareholder returns, raise capital efficiency, and improve return on equity over the medium term.



The General Meeting of Shareholders

### Ordinary General Meeting of Shareholders

At the Company's Ordinary General Meeting of Shareholders, we make every effort to ensure the smooth exercise of shareholders' voting rights. This is done by such measures as the prompt delivery of notices of the Meetings and the introduction of Internet voting. The 168th Meeting, held on March 30, 2017, was attended by 531 shareholders. This information is disclosed on the Dentsu website, including results of the exercise of voting rights by shareholders who attended the meeting.

### Earnings Presentations

The Company places importance on its relationships with analysts and investors. We hold earnings presentations twice a year to explain our financial situation, provide a general overview, and explain management policies. The documents used at earnings presentations are posted on the Company's website and made available to general investors.

Earnings presentation materials → <http://www.dentsu.com/ir/library/conferencematerials/>

### Shareholder Composition

As of the end of December 2016, there were 33,228 Dentsu shareholders.

Note: Including holders of shares of less than one trading unit, treasury stock, and in the name of the Japan Securities Depository Center, Inc.

#### Ownership and Distribution of Shares



## Dentsu Group Internal Controls

We believe that 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 Company has established the Dentsu Group Code of Conduct to ensure that the execution of duties by directors, executive officers, and employees of the Company and its subsidiaries conform to laws and regulations, and that business is conducted appropriately. The code is the foundation on which the internal control system rests. Based on the code, the Company familiarizes all employees with the relevant business procedures through regulations, manuals and training. Check items relating to risk management and compliance have been created, and inspections are carried out from various perspectives, allowing problems to be discovered and improvements to be developed.

A similar internal control structure is being applied in Group companies, to maintain and improve the corporate value of the entire Group.

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

## Risk Management

To ensure the comprehensive management of the entire Group's risks, the members of the CSR Committee (chaired by the director and an executive officer) are drawn from the Group. The CSR Committee monitors the Group's risk management efforts and manages the plan-do-check-act (PDCA) cycle. This ensures that policies and the risk management process are developed, implemented, monitored, and improved in the interests of enabling enhancement to be continuous.

Dentsu sets up rules for the management of risk, in order to maintain and improve a structure that prevents the occurrence of risks and precludes the spread of damage or loss, while minimizing the impact of risk progression should risks materialize.

The Company prioritizes key risks and formulates concrete measures that can be employed should a response be required.

A department is assigned to be responsible for each key risk. These departments develop and implement the requisite measures to reduce risks; compile mid-term progress reports, year-end self-assessments, and guidelines for the succeeding year; and report to the CSR Committee.

Key risks and potential risks, thought likely to eventuate over the medium to long term, are reported by the CSR Committee to the Executive Management Committee. After confirming the status of any risk—whether it can be avoided, reduced, transferred, or retained—the CSR Committee develops and reviews response measures.

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 key risks.

## Information Security

### Development of a 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.

The Company has compiled information management and other rules. Company officers and employees are made aware of these and are expected to comply with them. The Company also provides training for new graduate employees and briefings for employees, distributing videos and pamphlets to raise awareness. Given the importance of managers in information management, the Company has also started a new manager training course to educate managers about their roles and responsibilities.

To enhance information security, a total of 49 Dentsu Group companies, including Dentsu, have obtained certification under ISO/IEC 27001:2005 and JISQ 27001:2006, international standards for information security management systems (ISMSs).

Dentsu strives to implement stringent information security management for the entire Dentsu Group, to flexibly respond to the ever-changing and increasingly sophisticated environment of information and communication technology.

### Information Security Management System

#### Dentsu Group Information Security Basic Policy

Group member companies address information security in all business areas, by putting in place policies and procedures to systematically manage sensitive data. They recognize the role of information security management in protecting important information.

##### 1. Compliance with Laws

Based on requests from our stakeholders, including clients and business partners, we properly address information security management to ensure compliance with relevant laws and regulations. In particular, personal information is strictly managed.

##### 2. Strict Information Management

We will strictly manage information to prevent any leakage, loss, damage or misuse of information, such as confidential client information and personal information. We share such business information only among employees and Group companies with appropriate clearances. In selecting our subcontractors, we take into consideration how they are addressing information security.

##### 3. Maintaining and Improving Achievement Levels

We intend to maintain our current security level and improve it through our PDCA cycle activities. We educate all of our employees, from executives down, regarding information security, so that they can acquire the appropriate knowledge and develop the necessary judgment.

##### 4. Adaptation to Environmental Change

We will continue to update our information security management system and concomitant rules even as we take a flexible approach to environmental changes in our Group's business areas, the information assets handled by our Group, and developments in the area of information and communication technology (ICT).

## Compliance Promotion

### System Management

To ensure that internationally accepted standards are adopted our global business, the Company formulated the Dentsu Group Code of Conduct, based on the *OECD Guidelines for Multinational Enterprises*, published by the Organization for Economic Cooperation and Development.

According to Dentsu's compliance system, directors and executive officers who discover violations of prevailing laws or who encounter other serious compliance-related issues are required immediately to report their findings to the Board of Directors or the Executive Management Committee. The Audit and Supervisory Committee also must be advised of the circumstances without delay.

If the Audit and Supervisory Committee gives an opinion on the Company's compliance system, or requires that steps be taken to improve the system, directors and executive officers must respond at once and make the recommended changes.

The compliance department develops rules and manuals to maintain and improve the compliance system as it applies to employees. It conducts training programs, led by the CSR Committee, designed to ensure compliance awareness among employees.

A Compliance Line was set up as the designated contact point for the receipt of reports on inhouse legal violations. The line has an in-house and an external contact point, calls to the latter being handled by a law office. Operational and information management structures are in place to ensure that those seeking consultation or reporting violations are not penalized in any way. In FY2016, Dentsu Inc. and Dentsu Group employees submitted seven reports and proposals (FY2015: 15, FY2014: 10; FY2013: 13). All were dealt with by the Company.

Among the activities held by the Dentsu Head Office in its attempt to prevent illicit behavior and raise the level of employee awareness was the showing of an educational video. In addition, to promote understanding of the importance of compliance issues, a compliance website was set up on the Company intranet, and the *Compliance Digest* booklet was distributed to all Group companies. Each year, compliance training sessions for new and mid-career hires are held at the Company and Group companies.

### Rejection of Antisocial Forces

The Company and all Group enterprises set up a Basic Policy on the Rejection of Organized Crime Groups and Other Antisocial Forces, thereby articulating their determination to take a firm stand against antisocial forces, as groups and individuals seeking economic profit through violence are known in Japan. Business partners have been asked to take the same action.

Basic Policy on the Rejection of Boryokudan (organized crime groups) and Other Antisocial Forces → <http://www.dentsu.co.jp/csr/compliance/compliance.html>

### Bid to End Bribery by Group Companies Abroad

DAN provides compliance training on the intranet for Group companies outside of Japan, the participation rate of which is up to 90%. As a follow-up, each company also holds its own training sessions and strives to raise employee awareness regarding bribery.

### Speak Up! Policy

The risk of fraud and other wrongdoing is a threat to the Group's profitability and reputation. DAN thus established an internal reporting program, called Speak Up!, for reporting any incident of concern or that raises suspicions of wrongdoing in the workplace. Employees can make a report to line managers, HR staff or senior managers, or they can follow internal grievance procedures. Appropriate legal and/or disciplinary action will be taken against perpetrators of fraud and other wrongdoing.

DAN also employs Safecall Limited, an independent specialist that employees can contact anonymously on the phone, by email and through a website, 24 hours a day, 365 days a year, and in a number of languages.



ITALICS booklet

Incident of concern or suspicion of wrongdoing within the workplace

- Bullying or harassment
- Theft or fraud
- Bribery and corruption
- Information security breaches (e.g., loss or theft of personal/ sensitive data)
- Abuse or inflation of expenses
- Non-compliance with contractual obligations
- Accounting and tax malpractice