

Executive Compensation Policy / Strategic Shareholdings

Executive compensation

(1) Compensation policy

In order to clarify the linkage between the Executive compensation and the Company's business performance and corporate value, and to promote the sharing of interests with shareholders and other stakeholders, the Company determines Executive compensation under the following policy. It also aims to raise the awareness of the Executive Officers to the need to contribute to the sustainable growth of the Group and the enhancement of corporate value over the medium to long term.

The compensation system shall:

- Have a globally competitive structure and level
- Be based on management results, with an appropriate balance of fixed and variable compensation (monetary: annual bonus; performance-based: stock compensation as medium- to long-term bonus)

(2) Types of compensation

Fixed compensation		Variable compensation	
Monetary compensation		Stock compensation	
a. Basic annual salary	b. Phantom stock (Medium- to long-term bonus)	c. Annual bonus	d. Performance-linked stock compensation (Medium- to long-term bonus)

Calculation Method

a. Basic annual salary

Basic annual compensation consists of a regular (monthly) fixed amount to monetary compensation, paid at a designated time each month. In the case of basic annual salary as Director's compensation, a fixed

amount is paid according to each Director's duties, as set forth in the Company's Officers Compensation Rules. In the case of basic annual salary as Executive Officer's compensation, the appropriate amount of compensation for each Executive Officers is set in accordance with his or her position, taking into account the Company's corporate value, company size, and compensation level, with reference to the compensation market survey data from an external specialist organization for each fiscal year.

b. Phantom stock (medium- to long-term bonus)

Phantom stock (medium- to long-term bonus) is granted as compensation for Executive Officers, concurrently serving as Executive Officers, who reside outside Japan and do not hold securities accounts for managing listed shares in Japan, in place of the basic annual salary, annual bonus and performance-linked stock compensation (medium- to long-term bonus) as compensation for Executive Officers.

Executive Officers who are also Directors eligible for the phantom stock (medium- to long-term bonus) shall receive, on a certain date during their term of office, a number of units of the base amount calculated in accordance with the duties they are in charge of dividend by the average share price of the Company's common stock on that date. On a certain date after the passage of three consecutive fiscal years with the fiscal year in question as the first fiscal year, the officer will be entitled to receive a cash payment from the Company in an amount equal to the average share price of the Company's common stock on that date multiplied by the number of units granted above.

c. Annual bonus

The annual bonus is a performance-based monetary compensation paid to each Executive Officer in accordance with the Officers Compensation Rules, based on the numerical values of the performance indicators shown below for each fiscal year during which he or she is in office. The standard amount of annual bonus to be paid to each Executive Officer in the event that the performance indicators shown below have achieved the target for each fiscal year is the amount of the basic annual compensation for that Executive Officers multiplied by 15%. The standard amount is then used to compute the payment in accordance with the calculation formula stipulated in the Officers Compensation Rules within the range described in "Range of variable compensation effective from FY2022" below, based on the numerical value of the indicators shown below. The computed amount is paid at a certain time after the Ordinary General Meeting of Shareholders for the relevant fiscal year.

From FY2021 onward, the Company has adopted, as the main performance indicators for calculating annual bonuses, the consolidated underlying operation profit of the Group or the consolidated underlying operating profit of the Company's Japan business (both of which are based on International Financial Reporting Standards (IFRS), the same applies hereinafter), depending on the responsibilities of the officers to whom the bonus is paid.

From FY2022 onward, in view of the Medium-term Management Plan and the challenges that surround companies at present, the Company has decided to establish three strategic targets concerning corporate value, which cannot be measured using financial

indicators, as non-financial indicators for each fiscal year, as additional performance indicators to supplement the indicators described above in the calculation of annual bonuses.

The three additional non-financial key performance indicators (KPIs) are the Company's employee engagement score, percentage of female managers, and CO₂ emissions (Scope 1, 2, and 3). In calculations of the annual bonus, results for these three non-financial KPIs account for up to 10% of the total amount (15% of the total compensation if the targets are achieved).

Non-financial key performance indicators

		2021 result	2022 target	weight
Employee engagement score (point)	Dentsu Japan Network	63	63 or higher	10%
	Dentsu International	70	70 or higher 72 or higher	10%
Percentage of female managers (%)	Dentsu Group	16.2	17.0 or higher 17.4 or higher	20%
	Dentsu Group	30,361	29,202 28,706	20%

d. Performance-based stock compensation (medium- to long-term bonus)

Performance-based stock compensation (medium- to long-term bonus) is paid to each Executive Officer in accordance with the Officers Compensation Rules and the Officers Stock Benefit Regulations, based on the numerical values of the performance indicators shown below for each of the three consecutive fiscal years from the fiscal year in which he or she is in office.

Officers eligible for performance-based stock compensation (medium- and long-term bonus) receive,

on a certain date during each fiscal year during which they are in office (the "Unit Grant Date"), a standard number of units (equivalent to 50% of basic annual compensation received as an Executive Officer in the relevant fiscal year, divided by the average closing value of the Company's shares during the month of January in the relevant fiscal year) as consideration for the execution of duties during the relevant fiscal year. In addition, by taking the prescribed procedures by a certain date (the "Vesting Date") after the passage of three consecutive fiscal years, the first of which is the fiscal year in which the Unit Grant Date falls (the "Performance Evaluation Period"), the grantee may acquire the right to receive delivery of the Company's shares, etc. from a trust established based on the performance-based stock compensation plan (the "Trust") on the Vesting Date. In doing so, the standard number of units granted to each Executive Officer in the said first fiscal year will be adjusted based on the values of the indicators described below, in accordance with the formula stipulated in the Officers Stock Benefit Regulations (hereinafter, the number of units after adjustment are referred to as the "Vested Units"). Thereafter, the relevant Executive Officer may receive delivery of the Company's shares, etc. from the Trust, in accordance with the number of Vested Units (in principle, the number of the Company's common shares calculated corresponding to half of the Vested Units and amount of cash equivalent to the market value of the number of the Company's common shares calculated corresponding to the remaining half of the Vested Units as of the Vesting Date).

Prior to FY2020, the simple average of the Group's consolidated organic revenue growth rate over three

fiscal years had been used as an indicator for calculating performance-based stock compensation (medium- to long-term bonus).

From FY2021 onward, the Company adopted a combination of total shareholder return (TSR) and the consolidated underlying operating profit of Dentsu Group as indicators for calculating performance-based stock compensation (medium- to long-term bonus).

Range of variable compensation effective from FY2022

Fixed compensation: ■ Basic annual salary
Variable compensation: ■ Annual bonus and ■ Performance-based stock compensation

If the indicators for variable compensation achieve the targets.¹



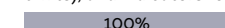
Fixed compensation: 60% Variable compensation: 40%

If the indicators for performance-based stock compensation fall short of the lower limits (or the targets in the case of TSR, which has no lower limits), and indicators for annual bonus fall short of the targets but exceed the lower limits.²



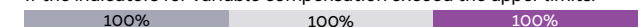
Fixed compensation: 87%–94% Variable compensation: 6%–13%

If the indicators for performance-based stock compensation fall short of the lower limits (or the targets in the case of TSR, which has no lower limits), and indicators for annual bonus also fall short of the lower limits.³



Fixed compensation: 100% Variable compensation: 0%

If the indicators for variable compensation exceed the upper limits.⁴



Fixed compensation: 33% Variable compensation: 67%

Notes:

- In this case, in FY2021 as well, the annual bonus would be equivalent to 15% of basic annual salary paid as compensation for Executive Officers, and performance (medium- to long-term bonus) would be equivalent to 50% of basic annual salary paid as compensation for Executive Officers.
- In this case, in FY2021, the annual bonus and performance-based stock compensation (medium- to long-term bonus) would not be paid.
- In this case, in FY2021 as well, the annual bonus and performance-based stock compensation (medium- to long-term bonus) would not be paid.
- In this case, in FY2021, the annual bonus would be equivalent to 50% of basic annual salary paid as compensation for Executive Officers, and performance-based stock compensation (medium- to long-term bonus) would be equivalent to 100% of basic annual salary paid as compensation for Executive Officers.

Officers eligible for each component of compensation

	Fixed compensation		Variable compensation	
	Monetary compensation			Stock compensation
	Basic annual salary	Phantom stock	Annual bonus	Performance-linked stock compensation
a. Internal Director who is not an Audit and Supervisory Committee Member ¹	✓ ³	×	✓ ⁴	✓ ⁴
b. Internal Director who is not an Audit and Supervisory Committee Member ²	✓ ⁵	✓	×	×
c. Outside Director who is not an Audit and Supervisory Committee Member	✓	×	×	×
d. Internal Director who is an Audit and Supervisory Committee Member	✓	×	×	×
e. Outside Director who is an Audit and Supervisory Committee Member	✓	×	×	×

Notes:

- Applies to executives besides those falling under category b.
- Limited to those who concurrently serve as Executive Officers who reside outside Japan and do not hold securities accounts for managing listed shares in Japan.
- Basic annual salary paid as compensation for Executive Officer is limited to those who concurrently serve as Executive Officers.
- Among internal Directors who are not Audit and Supervisory Committee Members, limited to those who concurrently serve as Executive Officers.
- Basic annual salary paid is limited to compensation as Director.

Indicator targets

The performance target indicators used for performance-based stock compensation (medium- to long-term) effective from FY2021, and actual figures for each performance indicator in FY2021 are shown below.

Performance indicator	Target	Composition ¹	Actual figure (FY2021)
Total shareholder return (TSR)	Tokyo Stock Price Index (TOPIX) including dividends Base target: 100% Upper limit: 110%	30%	109.1%
	Average total shareholder return (TSR) for peer group ² Base target: 100% Upper limit: 110%	20%	76.9%
Consolidated underlying operating profit of Dentsu Group	Compound annual growth rate (CAGR) Base target: 8.25% Upper limit: 14.5%	50%	44.4%

Notes:

- These are the proportions of the amounts that would compose performance-based stock compensation (medium- to long-term bonus) if the values of all indicators meet the base targets.
- A peer group of six companies has been selected, comprising WPP plc, Omnicom Group Inc., Publicis Groupe S.A., INTERPUBLIC GROUP OF COMPANIES, INC., Accenture PLC, and Hakuholdo DY Holdings Inc., which are competitors of Dentsu Group.

(3) Upper limit of total compensation

i. Monetary compensation (basic salary, annual bonus, and phantom stock)

The upper limit of the total amount of financial compensation for Directors who are not Audit and Supervisory Committee Members (including compensation received in the capacity of an Executive Officer, for Directors who concurrently serve as Executive Officers) was resolved to be 1.2 billion yen per year (including an annual amount of 18 million yen for outside directors) at the 167th Ordinary General Meeting of Shareholders (March 30, 2016). There are five Directors who are not Audit and Supervisory Committee Members who are subject to this resolution of the Ordinary General Meeting of Shareholders.

The upper limit of the total amount of financial compensation for Directors who are Audit and Supervisory Committee Members was resolved to be 150 million yen per year at the 167th Ordinary General Meeting of Shareholders (March 30, 2016). There are four Directors who are Audit and Supervisory Committee Members who are subject to this resolution of the Ordinary General Meeting of Shareholders.

ii. Performance-based stock compensation (medium- to long-term bonus)

With regard to stock compensation for internal Directors who are not Audit and Supervisory Committee Members (limited to those who concurrently serve as Executive Officers), it was resolved at the 170th Ordinary General Meeting of Shareholders (March 28, 2019) that the maximum amount of cash to be contributed by the Company each fiscal year to fund the acquisition of shares of the Company's common

stock to be acquired through the Trust shall be 900 million yen, and the maximum number of shares of common stock to be delivered to internal Directors who are not Audit and Supervisory Committee members each fiscal year shall be 360,000 shares. There are seven Directors who are not Audit and Supervisory Committee Members who are subject to this resolution of the Ordinary General Meeting of Shareholders.

Policy on the Disposal of Strategic Shareholdings and Actual Reductions

In order to enhance medium- to long-term corporate value by maintaining and strengthening business relationships with its business partners, the Company, apart from pure investment, sometimes holds shares in listed companies that are the Company's business partners.

The Company's basic policy is to aim to reduce individual shareholdings, through sale or other means, where they are not deemed meaningful from perspectives such as whether the dividends, related profits and other benefits are higher than the Company's anticipated cost of capital, and whether the stock ownership contributes to the maintenance enhancement of the business relationship with the investee company and the promotion of collaboration. Accordingly, each year the Board of Directors examines the purpose and economic rationale for each and every strategic shareholding from a medium- to long-term perspective, and assesses the appropriateness of continuing to hold each stock.

In FY2021, the Company sold 11 strategic shareholdings with a total value of approximately 21.0 billion yen in accordance with this basic policy.