

June 9, 2023

Notice concerning the receipt of the Investigation Report by the Investigation and Review Committee and recurrence prevention efforts

Today, the Board of Directors of Dentsu Group Inc. (hereinafter referred to as “the Company”) received the “Report on Inappropriate Coordination, etc., on Tokyo 2020 Olympic and Paralympic Games (Investigation Report)” by the Investigation and Review Committee (Chairperson: Mr. Masayuki Ikegami, former Supreme Court Justice) via the Special Committee, and hereby announces the background, content and summary of recommendations of the report, and initiatives to prevent recurrence.

1. Background

On February 28, 2023, an employee of the Company’s domestic subsidiary had a criminal complaint filed against him by the Japan Fair Trade Commission and was indicted by the Tokyo District Public Prosecutors Office for an alleged violation of the Antimonopoly Act in connection to the bidding for the test events of the Tokyo 2020 Olympic and Paralympic Games. The Company, which was called Dentsu Inc. at the time in 2018, was indicted as a legal entity under the Dual Criminal Liability Provision.

In response, on February 14, 2023, the Company's Board of Directors established a Special Committee staffed by three independent outside directors. On February 28, an Investigation and Review Committee (official name: Investigation and Review Committee of Outside Experts on the Current Case Related to the Tokyo 2020 Olympic and Paralympic Games) consisting of three outside experts was established under the Special Committee. The Investigation and Review Committee has conducted an investigation into the current case in order to determine the causes and make recommendations for the future. In parallel, the Company has been formulating a recurrence prevention policy and promoting various initiatives.

And today, June 9, the Company announced that its Board of Directors has received the investigation report by the Investigation and Review Committee via the Special Committee. In addition, the Company reported on its past and current recurrence prevention efforts, including the establishment of the dentsu Japan Reform Committee. Going forward, the Company will further enhance the effectiveness of recurrence prevention by supplementing specific measures in line with the investigation report received today. These efforts will be led by the Group Management Team members responsible for executive functions and will be promoted primarily in the Japan region.

2. Content and summary of recommendations of the investigation report by the Investigation and Review Committee

Content of the report

Three Problematic factors related to this case

(1) Organizational culture with an excessive “client first” emphasis

Dentsu has built its current position in the advertising industry by becoming close with its clients, identifying their true intentions that the clients themselves are not aware of, continuing to deliver results that exceed their expectations, and building strong relationships of trust with clients. While this proactive attitude toward work has become a source of dentsu's competitiveness, it also tends to cause dentsu into thinking that the results justify everything, and it may also cause employees to have tunnel vision or become short-sighted at work. At the root of the problem in the Issues, the Committee considers that there have been an organizational stance or organizational culture in which accomplishing results and objectives was so emphasized that there was a lack of consideration for such risks, which may have led to dentsu having an excessive “client-first” bias.

(2) Inadequate awareness of compliance risks

It can be pointed out that, in conjunction with the problems mentioned in (1) above, those involved in the Issues and management personnel lacked adequate awareness of compliance risks. This is reflected by the fact that issues that occurred in other companies and organizations during the same period or in close proximity to the Issues were not considered as potential issues for dentsu itself. In addition, even the issues that occurred at dentsu were regarded as a local issue and were not linked to an improvement in awareness of compliance in general.

(3) Significant lack of consideration for fairness and transparency of procedures

Likewise, it can be pointed out that, in conjunction with the organizational stance of having an excessive “client-first” bias, dentsu significantly lacked consideration for the fairness and transparency of procedures. This is evident in the fact that (i) measures to appropriately manage risks from the perspective of conflicts of interest associated with the secondment of dentsu personnel to the Organising Committee (such as establishment of information barriers) were not implemented, (ii) the Organising Committee did not reexamine the changes in risks associated with its becoming more

like a public institution over time, and (iii) the changes in risks associated with the change in the selection method of vendors were not reexamined even after the selection of vendors for test event planning services was decided to be conducted through competitive bidding method using the comprehensive evaluation method, instead of the single tendering method originally envisaged.

Summary of recommendations

1 Reform compliance awareness based on strong management commitment

- Update of Corporate Philosophy and Code of Conduct
- Redefining concepts such as "client first" and "success"
- Management's continuous commitment: Ensuring consistency of communications and actions
- Ensuring the effectiveness of functions for the supervision of management
- Ensuring the effectiveness and transparency of measures to prevent recurrence (such as monitoring and forums for dialogue with stakeholders and external experts)

2 Strengthening risk management system

- Assessment and strengthening of risk management system based on the holding company structure
- Introduction of a project-based risk management system
- Strengthening the monitoring function
- Reform of secondment system and information barriers
- Learning lessons from past failures at an organizational level

3 Strengthening Legal and Compliance Functions Based on the Needs of the Times

- Strengthening the resources and authority of the Legal and Compliance Division
- Development of internal rules and operational procedures
- Strengthening education and training systems

4 Revision of the personnel system with an awareness of incentives

- Review and revision of the overall personnel system with an awareness of incentives
- Consideration of disciplinary action for persons involved in the Issues
- Ensuring diversity and flexibility in respect of human resource diversity and flexibility

The content of the investigation report and summary of its recommendations are as follows. For more details, please refer to the following link:

https://www.group.dentsu.com/en/about-us/governance/investigation_report.html

3. Establishment of the dentsu Japan Reform Committee

Prior to receiving the Investigation Report, the Group established the dentsu Japan Reform Committee with the aim of fulfilling its responsibility to all stakeholders by reforming its approach to work. Dentsu Group Inc. Representative Executive Officer, President & CEO Hiroshi Igarashi has been appointed chairperson of this committee. He offered the following message.

“Dentsu is promoting ‘Mindset and Behavior Reform’ in the Japan region that will renew the way we approach our work. The purpose of these efforts is to enable us to evolve into a company that is valuable not only to our clients, but also to our employees, society, shareholders, and all other stakeholders in accordance with an ever-changing society that is significantly influencing the rules of competition in business.

I must admit that our approach to work had led to an insufficient awareness of the appropriateness of the methods used due to an excessive focus on achieving our goals. This has resulted in a lack of knowledge and awareness of compliance with laws and regulations, which must take precedence over the achievement of objectives, in addition to insufficient business processes to ensure fair transactions. I also believe that internal checks and monitoring functions to prevent non-compliance were inadequate.

In order for dentsu to continue to ensure its contributions to society, I believe it is essential to construct a new approach to our work by raising our awareness of our social responsibilities and improving transparency, as well as clarifying the rules and processes that we must follow. The Mindset and Behavior Reform is intended to define and implement a new approach to work that addresses these challenges. With resolute commitment, I will work together with management and employees to implement this reform.”

Hiroshi Igarashi
Chairperson, dentsu Japan Reform Committee
President & CEO, Dentsu Group Inc.

4. Policy on Recurrence Prevention

The policies on recurrence prevention based on the mindset and behavior reform are as follows. Going forward, the Company will incorporate the recommendations of the Special Committee, building on the steps that had already been taken or had been planned. Additionally, the Company will enhance their effectiveness with specific measures.

(i) Establish a system to reflect the knowledge gained from analyzing past cases in our business operations by reviewing business processes to ensure fair transactions, formulating and revising guidelines for the sports domain and public sector (sports business guidelines and public sector guidelines), where the aforementioned case originated, introducing information management measures to prevent conflicts of interest with the organizations to which employees are seconded, etc.

(ii) Reexamine established policies and internal reporting systems and improve the effectiveness of internal controls. In particular, strengthen the checking and monitoring functions by establishing an executive meeting body and a person in charge of governance to promote compliance for each project per organizational unit.

(iii) Once again conduct company-wide compliance education, involving everyone from management to those in charge of practical operations, in order to raise compliance awareness. Additionally, ensure the enrichment of the content and continuity of efforts by implementing Antimonopoly Act compliance training, establishing a consultation service, and clarifying the organization in charge of compliance within dentsu Japan.

(iv) Ensure that all employees are familiar with the Dentsu Group Code of Conduct in order to define and realize an appropriate corporate culture and strengthen company-wide activities to foster such a corporate culture. Additionally, review the personnel system to ensure governance is functioning appropriately.

The details of the recurrence prevention measures can be viewed by accessing the link below.
https://www.group.dentsu.com/en/about-us/governance/preventive_measures.html

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