

FOR IMMEDIATE RELEASE  
June 13, 2014

## **Notice Regarding Issuance of Stock Options (Performance-Linked Stock Options in Exchange for Consideration)**

Dentsu Inc. (Tokyo: 4324; ISIN: JP3551520004; President & CEO: Tadashi Ishii; Head Office: Tokyo; Capital: 74,609.81 million yen) (the "Company") hereby announces that it resolved at the meeting of its board of directors held on June 13, 2014 that the Company shall issue stock options to its directors and managers as follows in accordance with the provisions of Articles 236, 238 and 240 of the Companies Act. Since the stock options will be issued to subscribers in exchange for consideration equal to the fair value of the stock options and, therefore, such issuance is not considered particularly favorable to them, the issuance will be performed without obtaining the approval of the general meeting of shareholders.

### **I. Purpose of and reasons for the issuance of stock options**

Aiming to meet the goals of the medium-term management plan, "Dentsu 2017 and Beyond," and to further increase corporate value, Dentsu will issue stock options to its directors and managers in order to further boost their motivation and willingness to enhance their business performance. In the case where all the stock options are exercised and the Company newly issues its common shares, a maximum dilution of 0.687% will occur with respect to the 288,324,594 issued shares (excluding treasury shares) as of the date of the board meeting resolving the issuance. With regard to such dilution, the Company will consider various ways depending on the situation, including, among others, the possibility of acquiring its common shares from the market and transferring such common shares upon the exercise of the stock options. Since the purpose of the issuance of the stock options is to further boost their motivation and willingness to enhance the business performance of directors and managers and the rights to the stock options are exercisable only when the performance criteria specified by the Company in advance are satisfied as stipulated in section II "Terms of the issuance of stock options – 3. Details of Stock Options – (6) Conditions for exercising stock options," it is considered that, even if the scale of the dilution of shares due to the exercise of the stock options occurs as mentioned above, such dilution will remain within a reasonable range.

## II. Terms of the issuance of stock options

### 1. Number of stock options

19,810 units

The total number of stock options mentioned above is the estimated number as of the date of this announcement, and, in the case where the number of stock options to be allotted will be less than estimated, including the case where some subscribers do not apply for the stock options, the total number of stock options to be issued will be limited to the total number of stock options to be actually allotted.

### 2. Payment in exchange for acquiring stock options

The issue price of stock options will be 3,200 yen for each unit of the stock options. This price has been decided by the Company based on an analysis performed by Plutus Consulting Co., Ltd. (hereinafter referred to as "Plutus Consulting"), a third-party evaluating institution. Plutus Consulting analyzed the issue price by using a Monte Carlo Simulation (a common model for calculating stock option prices) to calculate a price for these stock options based on a range of factors, including the closing price for Dentsu shares on the TSE as of the date immediately preceding the date of the board resolution (i.e., June 13, 2014) resolving the issuance of the stock options (4,195 yen per share), share price volatility (approximately 34.38%), dividend yield (0.79%), and risk free rate (0.305%), as well as the criteria stipulated in the issuing guidelines, which include price per share for exercising options (4,195 yen per share), term to maturity (6.8 years), and the Company's business performance.

### 3. Details of stock options

#### (1) Class and number of shares subject to option

The class and the number of shares to be issued upon the exercise of each unit of the stock options (hereinafter referred to as "Number of Granted Shares") will be 100 common shares of the Company.

If the Company undertakes a share split (including allotment of common shares without contribution; this definition continues to apply hereinafter) or reverse share split of its common shares after the date on which these stock options are allotted, the Number of Shares Granted will be adjusted using the formula set forth below.

$$\text{Adjusted no. of shares granted} = \text{Pre-adjustment no. of shares granted} \times \frac{\text{Split (or reverse split) ratio}}{\text{ratio}}$$

If the Company carries out a merger, company split, share exchange (*kabushiki-koukan*) or share transfer (*kabushiki-iten*), or if any other similar circumstances arise necessitating an adjustment of the Number of Shares Granted after the date of allotment of the stock options, the Company may appropriately adjust the Number of Shares

Granted to the extent deemed reasonable.

Such adjustments above, however, will be made only for the number of shares underlying the unexercised stock options at the time of adjustment, and any fractional shares less than one share resulting from the adjustment will be rounded down to the nearest whole number.

(2) Amount of assets invested upon exercising stock options, or calculation thereof

The amount of assets invested upon exercising stock options will be determined by multiplying the amount to be paid for each share (hereinafter referred to as "Exercise Price") by the Number of Shares Granted.

The Exercise Price will be 4,195 yen.

If the Company undertakes a share split or reverse share split of its common shares after the date on which these stock options are allocated, the Exercise Price will be adjusted using the formula set forth below, and any fractions less than one yen that may arise as a result of such adjustment will be rounded up to the nearest whole yen.

$$\text{Adjusted exercise price} = \frac{\text{Pre-adjustment exercise price}}{\text{Split (or reverse split) ratio}}$$

If the Company issues new common shares or transfers treasury stock at a price lower than the current market price (excluding issuance of new shares and transfer of treasury stock by exercising stock options) after the date on which these stock options are allotted, the Exercise Price will be adjusted using the formula set forth below, and any fractions less than one yen that may arise as a result of such adjustment will be rounded up to the nearest whole yen.

$$\text{Adjusted exercise price} = \frac{\text{Pre-adjustment exercise price} \times \left( \frac{\text{Number of shares already issued} + \frac{\text{Number of newly issued shares} \times \text{Pay-in price per share}}{\text{Market value per share before issuance of new shares}}}{\text{Number of shares already issued} + \text{number of shares newly issued}} \right)}{1}$$

In the formula above, "number of shares already issued" is the total number of issued and outstanding common shares of the Company minus the number of common treasury shares; and in the case of a transfer of common treasury shares, "number of shares newly issued" will be read as "number of treasury shares to be transferred."

In addition to the foregoing, if the Company carries out a merger, company split, share

exchange (*kabushiki-koukan*) or share transfer (*kabushiki-iten*), or if any other similar circumstances arise necessitating an adjustment of the Exercise Price after the date of allotment of the stock options, the Company may appropriately adjust the Exercise Price to the extent deemed reasonable.

(3) Period in which stock options can be exercised

The period during which the stock options can be exercised (hereinafter referred to as the "Exercise Period") will be from June 1, 2018 to May 31, 2021.

(4) Matters relating to increases in capital and capital reserves

- I. The amount of the increase in capital caused by the issuance of shares upon exercise of the stock options will be one-half of the maximum capital increase amount calculated in accordance with Paragraph 1, Article 17 of the Company Accounting Rules. Any fractions less than one yen that may arise as a result of such calculation will be rounded up to the nearest whole yen.
- II. The amount of the increase in capital reserves caused by the issuance of shares upon exercise of the stock options will be the maximum capital increase amount stipulated in section I. above minus the increase in capital also stipulated therein.

(5) Restrictions on the acquisition of stock options by transfer

The approval of the board of directors of the Company will be required in order for any person to acquire stock options by transfer.

(6) Conditions for exercising stock options

- I. Stock option holders may exercise their stock options only within the period set forth in section 3.(3) above and only if the Company's business performance satisfies the criteria stipulated below, which was established based on the targets set forth in the medium-term management plan, *Dentsu 2017 and Beyond*. The decision about whether or not the Company has satisfied such business performance stipulated above will be made referring to the consolidated statement of income described in the summary of financial statements of the Company for the accounting year set forth in (i) below. In the event there is a significant change in the concepts of financial figures to be referred to, such as any change in the applicable accounting standards, the Company will determine at its board of directors an appropriate indicator to which to be referred to the extent deemed reasonable.

- (i) The Company's business performance year: FY2017
  - (ii) Consolidated gross profit: 720 billion yen or higher
  - (iii) Operating margin before amortization of goodwill\*1,2: 20% or higher
- \*1 Adjusted operating income: Operating profit before amortization of goodwill and M&A related intangible assets
- \*2 Operating margin before amortization of goodwill equals adjusted operating income divided by gross profit

II. No successor of any stock option holder may exercise these stock options.

III. If the exercise of stock options would cause the total number of outstanding shares of the Company to exceed the current total number of authorized shares, such stock options may not be exercised.

IV. Stock options must be exercised in groups of five units.

#### 4. Date of allotment of stock options

August 15, 2014

#### 5. Acquisition of stock options

(1) If a resolution to approve a merger agreement under which the Company will be extinguished, a company split agreement or plan under which the Company will be the splitting company, or a share exchange (*kabushiki-koukan*) agreement or share transfer (*kabushiki-iten*) plan under which the Company will become a wholly-owned subsidiary, is passed at a meeting of shareholders (or, in cases where a shareholders' meeting resolution is not required to approve such an agreement or plan, then if such a resolution is passed at a meeting of the board of directors), the Company may acquire all of the stock options for free on a date to be specified separately by the board of directors.

(2) If a stock option holder becomes unable to exercise his or her stock options under the provisions of section 3.(6) above prior to exercising the stock options, the Company may acquire all of such stock options for free on a date to be specified separately by the board of directors.

#### 6. Handling of stock options upon corporate restructuring

If the Company undergoes a merger (limited to cases in which the Company is extinguished), absorption-type or incorporation-type company split, share exchange (*kabushiki-koukan*), or share transfer (*kabushiki-iten*) (all of the foregoing hereinafter referred to collectively as "Acts of Company Restructuring"), the stock options of a company that falls under any of sub-items (a) through (e) in Item 8, Paragraph 1, Article 236 of the Companies Act (hereinafter referred

to as "Restructured Company") will be issued to each of those who hold remaining unexercised stock options (hereinafter referred to as "Remaining Stock Options") at the time when such Act of Company Restructuring comes into effect, in accordance with the conditions set forth below. In this case, the Remaining Stock Options will lapse and the Restructured Company will issue new Stock Options. The foregoing will, however, be limited to cases in which the absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange (*kabushiki-koukan*) agreement, or share transfer (*kabushiki-iten*) plan, as the case may be, provides that such stock options of the Restructured Company will be issued in accordance with the conditions set forth below.

(1) Number of stock options in the Restructured Company to be issued

The Restructured Company will issue stock options, the number of which will be equal to the number of stock options held by the holder of the Remaining Stock Options.

(2) Classes of shares of the Restructured Company to be issued upon the exercise of stock options

Common shares of the Restructured Company.

(3) Number of shares of the Restructured Company to be issued upon the exercise of stock options

This will be decided *mutatis mutandis* in accordance with section 3.(1) above, taking the terms and conditions of the Acts of Company Restructuring into consideration.

(4) Amount of assets invested upon exercise of stock options

The amount of assets invested upon exercise of the various stock options issued will be determined by multiplying the post-restructuring exercise price attained by adjusting the exercise price stipulated in section 3.(2) above, taking the terms and conditions, etc., of the Acts of Company Restructuring into consideration, by the number of shares in the Restructured Company subject to such stock options calculated in accordance with section 6.(3) above.

(5) Period during which stock options may be exercised

The period will commence either on the first day of the exercise period stipulated in section 3.(3) above or the date on which the Act of Company Restructuring comes into effect, whichever is later, and will end on the final day of the exercise period stipulated in

section 3.(3) above.

- (6) Matters pertaining to increases in capital and capital reserves in cases where shares are issued upon exercise of stock options

These matters will be determined *mutatis mutandis* in accordance with section 3.(4) above.

- (7) Restrictions on the acquisition of stock options by transfer

The approval of the board of directors of the Restructured Company will be required in order to acquire the stock options by transfer.

- (8) Other conditions for exercising stock options

These conditions will be determined *mutatis mutandis* in accordance with section 3.(6) above.

- (9) Reasons and conditions for acquiring stock options

These reasons and conditions will be determined *mutatis mutandis* in accordance with section 5. above.

- (10) Other terms and conditions will be determined *mutatis mutandis* in accordance with those of the Restructured Company.

#### 7. Matters pertaining to stock option certificates

The Company will not issue stock option certificates.

#### 8. Due date for payment in exchange for stock options

August 20, 2014

#### 9. Cut-off date for applications

July 18, 2014

#### 10. Persons eligible for allotment of stock options, their number and the number of stock options to be allotted

Directors and managers: 1,981 persons, 19,810 units

The number of persons eligible for allotment above is the estimated number as of the date of this announcement and may change. Also, the number of stock options mentioned above is the maximum number of stock options that may be issued and may decrease depending on the number of subscriptions, etc.

#####

Contact: Shusaku Kannan  
Senior Manager  
Corporate Communications Division  
Telephone: (813) 6216-8042  
E-mail: [s.kannan@dentsu.co.jp](mailto:s.kannan@dentsu.co.jp)