

January 17, 2017

Internal Investigation Findings into Domestic Digital Advertising Service Practices Issue; Measures to Prevent Recurrence

Dentsu Inc. (Tokyo: 4324; ISIN: JP3551520004; President & CEO: Tadashi Ishii; Head Office: Tokyo) announced today that an in-house committee that it formed on August 15, 2016 has completed its evaluation of data of around 214,000 invoices issued for digital advertising services in Japan between November 1, 2012 and July 31, 2016 and has presented its findings. Additional time was required to complete the investigation as close investigations were conducted repeatedly.

As announced on September 23, 2016, Dentsu in Japan set up the committee after identifying instances of practices that were or potentially were unsuitable for digital advertising services provided by the company and some group companies in Japan. The committee, chaired by Shoichi Nakamoto, senior executive vice president and CFO, and external attorneys, drew on advice from third-party professionals to identify issues and their causes and to formulate measures to prevent recurrence.

The impact on business performance and financial status related to these issues are not material. All clients have been informed. Furthermore, this was confined to Japan and Dentsu is confident that these practices will not occur again due to the measures put in place.

This press release provides the outline and key findings of the investigation as well as suggests measures to prevent recurrence, internal disciplinary action, and provides guidance on the impact on Dentsu's operating results. Dentsu has already issued individual reports to affected advertisers individually.

Dentsu offers sincere apologies for the great concern and trouble that this matter has caused its advertisers, shareholders and other stakeholders.

1. Outline of the Investigation

- Committee composition: A four-person in-house committee chaired by Shoichi Nakamoto and including external attorneys
- Transactions covered: Digital advertising services that Dentsu and some domestic group companies provided in Japan to advertisers

- Companies Covered: Dentsu in Japan and 17 domestic group companies providing digital advertising services
- Investigation term: August 15, 2016 to January 16, 2017
- Period under investigation: Digital advertising services from November 1, 2012 to July 31, 2016 for which detailed accounting data exists
- Advertisers Covered: 2,263 companies
- Investigation methodology
 - (a) Conducted hearings with related Dentsu group company officers and employees in Japan, and reviewed reported details and results
 - (b) Analyzed and verified data for all 214,000 invoices that Dentsu and group companies in Japan lodged
 - (c) Assessed related evidence, including vouchers and digital data
 - (d) Conducted one-on-one hearings regarding the organization and the business flows with Dentsu, group company employees and officers in Japan

2. Four categories of issues

Our investigation identified four categories of unsuitable business practice.

Category 1: Reports presenting incorrect total posting volumes

Reports to advertisers stated that the total number of digital postings requested were fulfilled despite this not being the case.

Category 2: Reports with incorrect posting details

While total numbers of digital postings in reports to advertisers were as requested, daily details were not in line with advertiser instructions or expectations, with some placement result details being incorrect, albeit without any impact on total digital posting numbers.

Category 3: Non-presentation of daily reports

While total digital posting numbers were as advertisers requested, the operational reports posted that advertisers requested were on a weekly or monthly basis, and as reporting was not done on a daily basis, reports wrongly indicated advertisement postings for all of the days required.

Category 4: Omissions causing invoicing inaccuracies

Invoice amounts that were not fixed until the month subsequent to the posting month owing to the nature of digital advertising placement were recorded as estimates in months in which advertisements were posted and invoiced in following months, without making any adjustments. Here, total digital posting volumes and breakdowns were as advertisers requested, and operational reports were

accurately produced and submitted.

3. Investigation findings

The investigation revealed 997 cases (see notes) encompassing 96 advertisers. There were 40 cases of overcharging based on incorrect volumes (Category 1) to 10 advertisers, the amount totaling ¥3.38 million. The chart below presents details confirmed by category, encompassing transactions totaling ¥114.82 million encompassing 96 advertisers (see table).

Note: When it presented preliminary data result on September 23, 2016, Dentsu stated that there were 633 suspicious transactions covering 111 advertisers. The amounts totaled ¥230 million.¹

Amounts and case numbers by category

		Category 1	Category 2	Category 3	Category 4	Total
Total	Amount (million yen) ²	3.38	92.65	0	18.80	114.82
	Number of transactions	40	537	4	416	997

4. Causes of unsuitable practices

Digital advertising services entail undertaking PDCA cycles that modify the details of digital posting plans to help address emerging consumer needs in real time, and thus require expertise and ability to efficiently handle large volumes of cumbersome work.

The investigation identified issues within the domestic digital group structure that failed to sufficiently match such requirements.

(a) Business process issues

- Dentsu did not build and operate an adequate structure for standardizing work, separating duties, and conducting checks.
- At the same time, Dentsu did not provide advertisers with clear definitions of services scope or disclaimers.

(b) Risk management issues

¹ When it presented preliminary data result on September 23, 2016, Dentsu counted transactions based on "campaign units", but the investigation unified counts based on "billing statement transactions" to increase precision

² Rounded up to the nearest thousand.

- Dentsu did not fully recognize operational risks relating to business errors or other shortcomings.
- Dentsu did not sufficiently standardize flows for following up on errors.

(c) Human resources management issues

- Although the rapid growth of digital advertising has greatly changed the skillset and workload requirements at business sites, Dentsu did not adequately assign or train human resources in qualitative or quantitative terms.

(d) Inadequate coordination with the group's domestic digital companies

- With progress in digital advertising rapidly changing the business structure, Dentsu expanded its business with the cooperation of domestic digital companies within the group. Coordination was inadequate, however, as communication gaps arose in the course of business amid a rapidly increased diversity of human resources.

5. Measures to prevent recurrence

In early September 2016, Dentsu took the interim step of rolling out an internal framework in Japan to launch a unit that would check on digital advertising orders, placements, and invoicing independently from the operations handling such work. The goal is to reinforce measures to prevent recurrence.

In light of issues that the investigation identified, Dentsu has launched the following additional industry-leading measures in Japan to prevent such issues from recurring by eradicating the causes of unsuitable practices.

(a) Addressing business process issues

- Objectively confirm digital advertisement postings and check on operations to ensure no overbilling, by making the Operation Management Office independent while setting up the Digital Confirmation Section within it and start checking postings and voucher issues for work after August, 2016.
- Reform posting reporting flows and build a framework for automating posting reports. (Task will be completed in April 2017)
- Plan to introduce Internet Advertising Services Agreement that clarifies service scope and disclaimers, as well as Internet Advertising Placement Application Form that clarifies application details. (Task will be completed in April 2017)
- Plan to construct a system for online applications to prevent errors in posting information from Internet Advertising Placement Application Forms. (Task will be completed in April 2017)
- Roll out an internal drive at all business sites that focuses on reforming

programmatic advertising and improving operational collaboration, providing separate training in-house for around 1,000 people. Through this process Dentsu will reconfirm business processes and associated tasks and collaboration between relevant in-house departments. (Task completed by December 2016)

(b) Addressing risk management issues

- Deploy an internal drive and in-house training to reform programmatic advertising and improve operational collaboration to share operational errors and operational risks.
- Build a structure to increase the number of managers in programmatic advertising-related departments and make management units more focused and follow up on errors.

(c) Overcome human resources management issues

- Urgently increase the number of people handling programmatic advertising (by 30 for Dentsu headquarters and 90 in total among group companies), prioritizing those with experience. (Task completed by December 2016)
- Verify the optimal personnel makeup and required skillsets for Dentsu's domestic programmatic advertising services unit and group companies and further increase personnel numbers through in-house transfers and mid-career hiring. (Task will be completed in April 2017)
- Conduct in-house training on programmatic advertising reforms and improve operational collaboration.
- Plan to increase the number of managers in units related to programmatic advertising and reinforce operational management and quality oversight.

(d) Enhance collaboration with the group's domestic digital companies

- Promote understanding among executives of the domestic digital advertising business and situation.
- Convene regular digital group liaison meetings.
- Review the structure for providing services and reconsider key benchmarks.
- Introduce a mechanism across Dentsu and its domestic group companies in Japan that enables workers to share issues and solutions.
- Strengthen digital personnel training and information sharing.

6. Impact on results

Dentsu believes that this issue will not materially affect the company's financial results for previous fiscal years.

7. Internal disciplinary action

We will clarify responsibility for these issues by taking disciplinary actions against executive officers and have taken appropriate disciplinary actions against other employees in line with in-house rules.

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