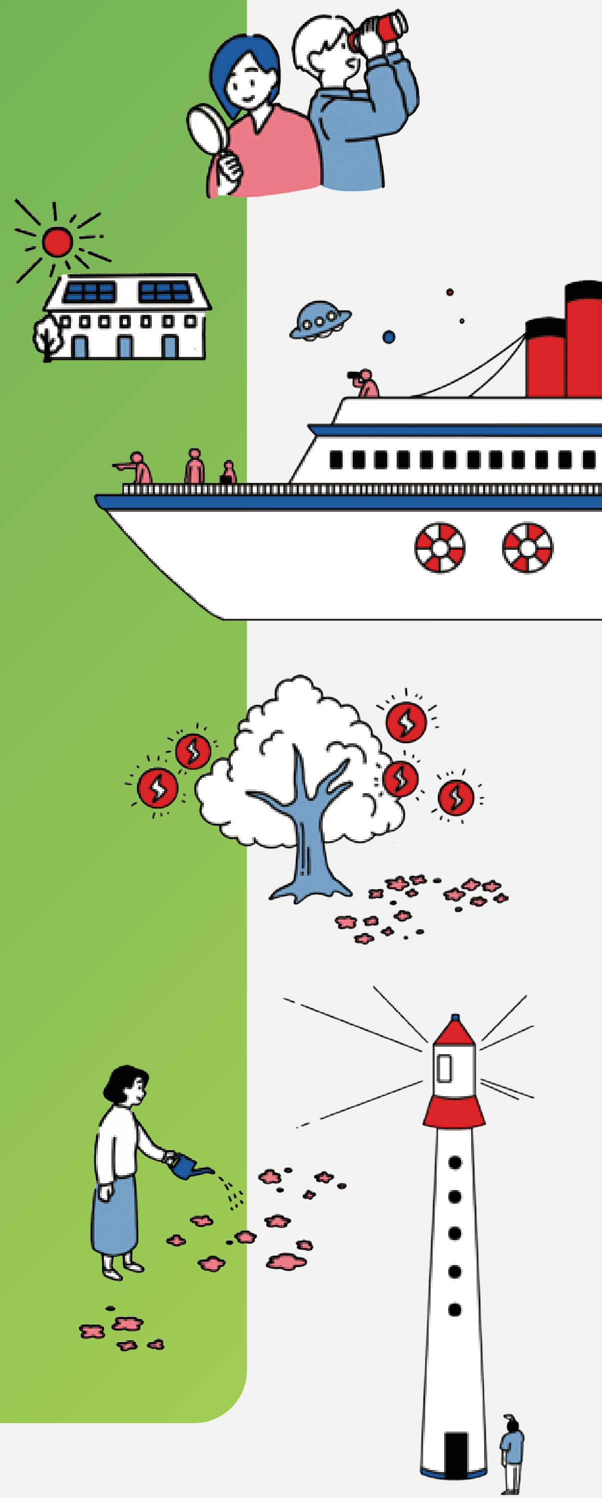
03

Reinforcing Our Management Foundation



Response to Climate Change

Disclosure of information in accordance with TCFD recommendations

Given that a sustainable and sound Earth and society are prerequisites for business operations, we recognize the high importance of addressing climate change and have identified it as materiality.

Against this backdrop, we endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in October 2023 and have implemented information disclosure based on the TCFD framework. We recognize the risks, measures, and opportunities brought about by climate change as follows at the present time.

▶ Click here for more details about the disclosure based on the TCFD recommendations.
https://www.septeni-holdings.co.jp/en/csr/activity/environment.html

Metrics and targets

At Septeni Group, we have set a goal to reduce the GHG emissions of Scope 1+2 by 70% by fiscal year 2030 compared to fiscal year 2023. The actual GHG emissions are as follows.

▶ Click here for more details of GHG emissions.
https://www.septeni-holdings.co.jp/en/csr/data.html

Other environmental activities

Participation in "One Day for Change"

We participated in the Dentsu Group's global community initiative "One Day for Change" by conducting a cleanup around our office. This activity fosters teamwork and raises awareness of environmental issues within the Group.

▶ Click here for more details of "One Day for Change"
https://note.com/septeni_group/n/n6ce1c7430296
(Only available in Japanese)

▶ For other environmental initiatives, please refer to the link below.
https://www.septeni-holdings.co.jp/en/csr/activity/environment.html

Results of Scenario Analysis

Classification of Risks and Opportunities based on TCFD Recommendations		Assumed Main Risks and Opportunities	Response	Impact Level	Occurrence Time
Transition Risks	Policy/Regulation	Costs arising from carbon taxes, etc.	Transition to renewable energy	Medium	Short to medium term
	Technology	Increased costs due to delays in adapting to low-carbon technologies	Rapid conversion to energy-efficient equipment	Small	Medium to long term
	Market	Increased costs due to rising electricity prices	Promotion of energy conservation through educational activities for employees	Small	Short to long term
	Reputation	Loss of trust from clients, investors, and employees and decrease in corporate value due to delays in climate change measures	Disclosure through TCFD, CDP, etc.	Medium	Medium to long term
Physical Risks	Acute	Operational stoppage of services and impact on internal infrastructure due to intensification of abnormal weather and frequent natural disasters	Maintenance and enhancement of BCP and crisis management systems	Large	Long term
		Self-restraint/reduction in advertising due to disasters	Promotion of proactive initiatives to realize a decarbonized society	Large	Long term
	Chronic	Increased costs for air conditioning, etc. due to changes in weather patterns	Implementation of ongoing energy conservation measures in offices	Small	Medium to long term
Opportunities	Products/Services	Acquisition of new business opportunities due to major changes in industry and society	Acquisition of new clients emerging from the promotion of decarbonization	Small	Medium to long term
	Market	Increase in advertising due to expanding demand for environmentally friendly products/services		Small	Medium to long term
	Resilience	Changes in work styles due to dispersion of residences accompanying changes in weather patterns	Promotion of diverse work styles through remote work	Medium	Short to long term

*Short-term: to 2025, Mid-term: 2025 to 2030, Long-term: 2030 to 2050

Change in GHG Emissions

	FY2023*3		FY2024	
	Emissions (t-CO_2)	Ratio (%)	Emissions (t-CO_2)	Ratio (%)
Scope 1	7.0	0.1	0.0	0.0
Scope 2*1	940.6	9.1	513.3	6.4
Scope 3*2	9,386.9	90.8	7,536.9	93.6
Total	10,334.5		8,050.3	

*1 Scope 2 emissions are calculated using the market-based method.
*2 Category 1 (Purchased goods & services), Category 2 (Capital goods), Category 3 (Fuel & energy-related activities), Category 6 (Business travel), Category 7 (Employee commuting), Category 8 (Leased assets (upstream))
*3 Due to the fiscal-year change, the figures in 2023 show the amount for 15 months.

Corporate Governance

We have identified the efforts in corporate governance as a materiality, recognizing the need for an advanced governance structure to fulfill our obligations as a listed company and to aim for the pursuit of discontinuous growth and the realization of a "nameraka" future.

Basic approach

The corporate governance of the Company is based on the development and operation of a system to ensure that actions are based on the company's corporate philosophy and decisions are made in a transparent, fair, and efficient manner, and compliance with laws and regulations and appropriate supervision (monitoring) of corporate performance are carried out under the mission "to inspire the world with entrepreneurship."

Progress of governance reforms

Since around 2015, we have been advancing governance reforms, positioning the first three years as a promotion phase, where we implemented various measures to improve governance and introduced new systems. Since 2018, we have been striving to establish an effective governance structure that goes beyond mere formality and focusing on improving the application and operation of the introduced systems.

▶ Click here for overview of the corporate governance system.
https://www.septeni-holdings.co.jp/en/company/governance.html

Role of the Board of Directors

The Board of Directors shall consist of a majority, at the minimum, of highly independent outside directors. The board consists of seven directors, four of whom are outside directors, as of March 2025. It determines matters prescribed by laws and regulations and the Articles of Incorporation and matters concerning the execution of important business and oversees the execution of business. Furthermore, as part of strengthening of its corporate governance system, the Company introduced an executive officer system in January 2017. Under this system, the authority for making decisions and executing business operation is delegated to executive officers to the extent permitted by relevant laws and regulations, in order for the Board of Directors to mainly focus on the oversight (monitoring) of the group executive officers who are responsible for the execution of business (monitoring model-oriented).

Independent outside directors actively participate in discussions and express opinions at meetings of the Board of Directors. In addition, the Board of Directors meeting's secretariat responds appropriately if communication and coordination are required between the independent outside directors and the senior management and company auditors (and the Board of Company Auditors). Moreover, cooperation with company auditors (and the Board of Company Auditors) is responded appropriately through joint training conducted by directors and company auditors, and the participation of outside company auditors in a periodic meeting (Executive Session), whose members are only independent outside directors.

Changes in Composition of Directors & Auditors/Evolution of Governance Enhancement Initiatives

(Note) At the end of the General Meetings of Shareholders in each year. Only years where there were changes in the composition of the Board of Directors are listed.

		12/2013	12/2014	12/2015	12/2017	12/2018	12/2020	12/2021	3/2024	3/2025
Number of directors	Directors	8 (Of which 1 female)	6 (Of which 1 female)	6 (Of which 1 female)	3	3	3	2	3	3
	Outside Directors	0	1	1 (Of which 1 female)	4 (Of which 1 female)	4 (Of which 1 female)	5 (Of which 2 female)	5 (Of which 2 female)	5 (Of which 2 female)	4 (Of which 1 female)
Number of auditors	Directors	0	1	1	1	2	1	1	1	1
	Outside Directors	3	3	3	2	2	3	3	3	3

FY2016

- Introduction of effectiveness evaluation to enhance the functioning of the Board of Directors
- Establishment of the Financial Results and Disclosures Committee and the CSR Committee
- Abolition of anti-takeover measures

FY2017

- Introduction of Performance-Linked Share Compensation Plan for Directors and Officers
- Introduction of an entrustment-type executive system
  ⇒ Separation of executive and supervisory function

FY2022

- Establishment of Sustainability Committee and enhancement of awareness of ESG
- Further strengthening independence and diversity of directors

FY2023

- Establishment of Nomination and Remuneration Advisory Committee

Role of the Board of Company Auditors

The Company has adopted a company auditor system. Under the system, there are currently four company auditors including three highly independent outside auditors. Each company auditor audits the execution of business by the Directors, in accordance with the auditing policy, audit plans and so forth determined by the Board of company auditors.

Committees

The Company has established a Group Risk Management Committee that supervises risk management of the Group, a Sustainability Committee that promotes sustainability activities to enhance the corporate value, and a Financial Results and Disclosures Committee that reviews and evaluates financial results information. In doing so, the Company has put in place a system that clarifies authority and responsibilities and enables prompt and appropriate decision-making. On the other hand, Nomination and Remuneration Advisory Committee, the majority of which consists of outside directors, has been established as an optional committee of the Board of Directors to handle personnel matters regarding the Group's management team (appointment, removal etc. of directors of the Company, group executive officers and others), in order to ensure the independence, objectivity and accountability of the deliberation process.

Composition of Committees (As of the end of March 2025)

● Chairperson ○ Member

	Sustainability Committee	Nomination and Remuneration Advisory Committee	Executive Session
Yuichi Kouno	●	○	
Yusuke Shimizu			
Yoshiki Ishikawa	○	●	○
Akie Iriyama		○	○
Mio Takaoka		○	○
Makoto Shiono		○	○
Tadashi Kitahara			

Major agenda items at the Board of Directors meetings in FY2024/12

(from October 2022 to December 2023)
(excluding regularly scheduled agenda items)

- Revision of officer compensation system
- Partial amendment of the regulations for Group Officers
- Business continuity criteria
- Board camping
- Transfer of shares of TowaStela, Inc.
- Partial amendment of the regulations of the Nomination and Remuneration Advisory Committee
- Establishment of a human rights policy
- Change in reportable segments and business domains
- Business portfolio after FY2025/12

Policy for the appointment of Directors and Executive Officers

The Company's Board of Directors established the "Policy Regarding the Appointment of Senior Management and the Nomination of Candidates for Director" from the viewpoint of guaranteeing transparency and fairness of nomination, appointment and dismissal standards for candidates for director and group executive officer of the Company (hereinafter referred to as "candidates for director, etc."), and the "Procedures Regarding the Appointment and Nomination of Officers of the Group" from the viewpoint of guaranteeing transparency and fairness of the appointment, dismissal and nomination process. Based on these, the candidates for director, etc. are nominated, appointed and dismissed.

Additionally, the Company aims to strengthen independence, objectivity and accountability regarding the appointment, dismissal and nomination of candidates for director, etc., and a Nomination and Remuneration Advisory Committee was established as an optional committee under the Company's Board of Directors with the group president and chief executive officer and all independent outside directors. The final decision regarding the nomination of candidates for director and the appointment and dismissal of group executive officers will be made by the Board of Directors after review and reporting from the Committee.

In addition, the Nomination and Remuneration Advisory Committee formulates succession plans with a view to the management structure not only for the next generation but also for future generations.

Officer compensation plan

In the fiscal year ended September 2017, the Group introduced a new compensation plan (a board incentive plan (BIP) trust) to more clearly define the relationship between the remuneration of the Company's directors (excluding outside directors and non-residents of Japan) and executive officers (excluding non-residents of Japan; collectively, "Directors, etc.") and the Group's business results in the medium-to-long term as well as the Company's shareholder value, while creating a sound incentive to enhance business results and corporate value in the medium-to-long term. As a result, remuneration for directors of the Company consists of monthly compensation and share compensation, and remuneration for outside directors who are independent from business execution consists of monthly compensation only.

BIP trust is a performance-linked share compensation plan that aims to establish a clearer relationship between remuneration for Directors, etc. and the value of the Group's share. The Company's shares are purchased from the market as officer compensation, kept in a trust account and delivered in accordance with the recipient's position and degree of achievement of the performance targets in the Midterm Business Policies.

▶ For supplementary information regarding the remuneration of directors and auditors, please see here.
https://www.septeni-holdings.co.jp/en/company/governance.html

Efforts for Discontinuous Growth

Fostering a healthy cycle of business creation and exit through the consistent application of business continuity standards

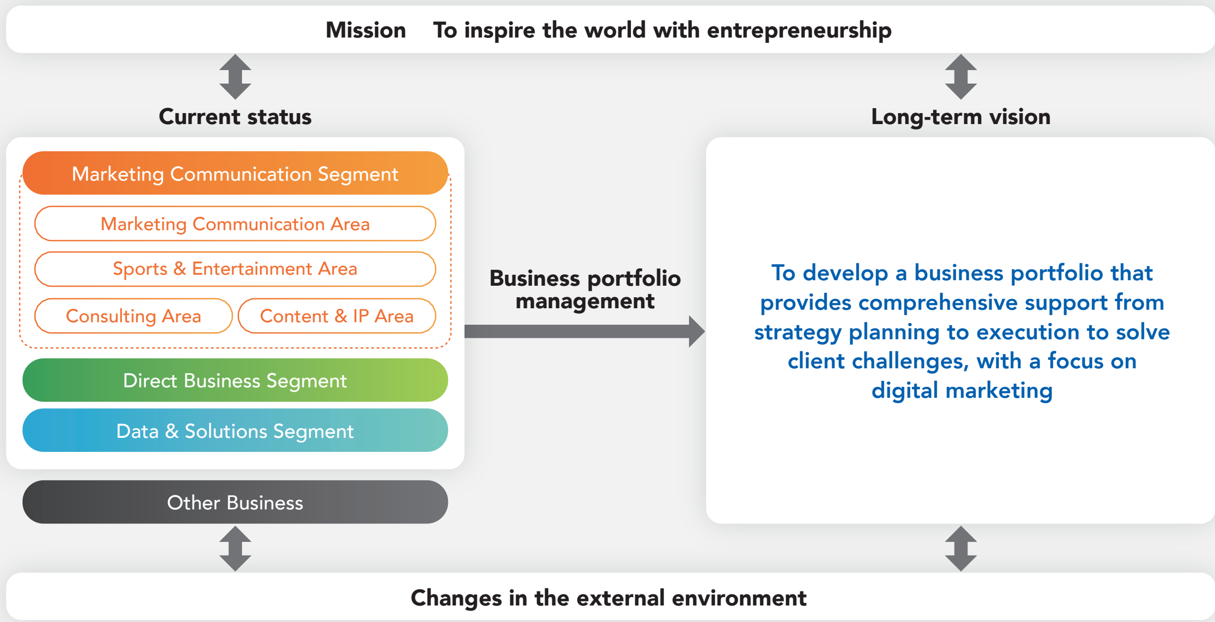
In order to continue growing while adapting to changes in the external environment, we have determined that it is necessary to transform our business portfolio, and as such, we are continuing operation of the business continuity criteria established in the fiscal year ended December 2024.

This will promote a healthy cycle of business creation, enhance accountability both within and outside the Group, and enable us to flexibly reallocate our business portfolio. In doing so, we aim to improve profits and ROE by allocating business resources to growth areas as appropriate. Ultimately, we will link this to the enhancement of corporate value and the realization of our mission.

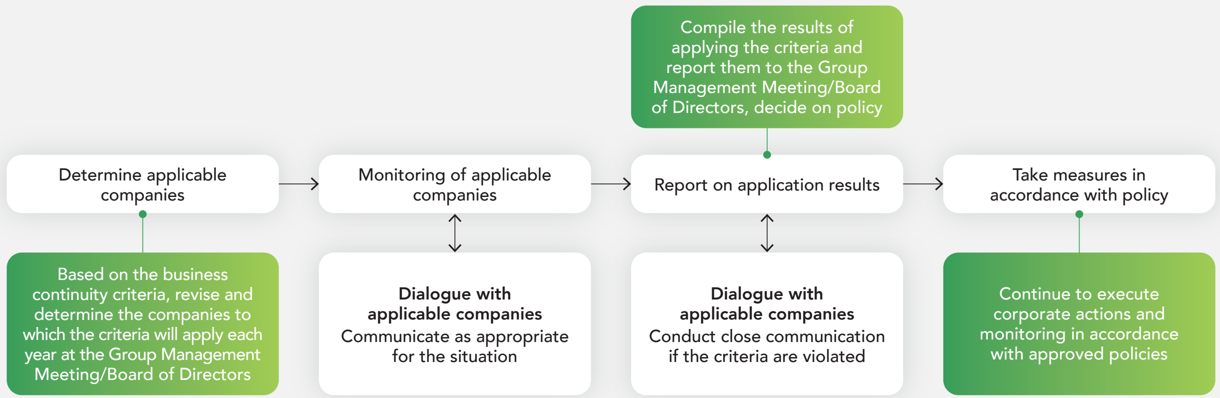
Operational process for the business continuity criteria

At the beginning of each fiscal year, we select and review the companies to which the criteria apply, and after approval by the Group Management Meeting, we divide them into three phases according to their number of years since establishment and monitor them based on quantitative criteria appropriate to each phase. If the criteria are not met, we will consider measures such as setting conditions for continuation, or alternatively sale, merger, or dissolution, and make a decision at the Group Management Meeting or the Board of Directors.

Business Portfolio Transformation for Sustainable Growth



Operational Process for the Business Continuity Criteria



Efforts for risk reduction

Evaluation of the effectiveness of the Board of Directors

With the aim of enhancing the function of the Board of Directors, the Company conducts analysis, evaluation and follow-up examinations of issues on the effectiveness of the Board of Directors once a year in principle. The Company also conducts large-scale and detailed surveys by external third-party institutions once every 3 years.

In the fiscal year ended December 2024, the Company renewed its management structure following a resolution at the March 2024 General Meeting of Shareholders. This followed the recommendations of the Nomination and Remuneration Advisory Committee, which had engaged in extensive discussions on succession planning to achieve sustainable growth, and the resolution of the Board of Directors. Under the new management structure, the Company held discussions at the Board of Directors meetings, executive training camps, and other forums on measures to promote value co-creation between supervision and execution, as well as on the Group's medium- to long-term strategies. Specifically, the Company continued discussions on its business portfolio and business continuity criteria, revised its dividend policy, and established and revised various internal rules and regulations.

The Company's Board of Directors engages in sophisticated and active discussions. Furthermore, on the operational side, the Company have already implemented necessary and sufficient practical measures, including refining the Board's agenda, providing materials in advance, creating opportunities for discussion through camps, and strengthening collaboration among outside directors through executive sessions, thereby ensuring effectiveness. Going forward, the Company will continue to strive to enhance corporate value and further improve the effectiveness of the Board of Directors.

Strengthening compliance

In pursuit of further growth and enhanced corporate value, we are aiming to transition from the Tokyo Stock Exchange Standard Market to the Prime Market. Recognizing that establishing a more sophisticated governance system is crucial for achieving this goal, we are actively promoting various initiatives. In particular, strengthening the compliance awareness of our executives is a cornerstone of our reinforced governance structure. To this end, we have implemented measures such as providing re-training of reinforce compliance and enhancing our internal audit system. In fiscal year 2024, we provided compliance training to all group executive officers and officers of Group companies.

Promoting integrity

To foster a culture of integrity within the Group, we raise awareness among officers and employees about its concept, importance, and relevant regulations through questions included in our compliance tests.

Risk management

In order to recognize significant events that may affect the Group's business management, to identify, analyze and assess risks that may harm the growth and development of the business and to make responses to the risks such as aversion, mitigation, transfer and others, the Group shall establish Group Risk Management Regulations. In addition, it set up the Group Risk Management Committee as a body to oversee and manage such risks in an integrated and effective manner under the common policy as the Group. It constructs the PDCA cycle of risk management operations and promotes risk management in the Group as a whole to achieve sustainable development.

In the fiscal year ended December 2024, considering broader societal trends, we identified and addressed the following priority risks from among those common to the entire Group.

Priority risks
Information leakage risk from outsourcing partners (optimization of outsourcing practices)
Risk of natural disasters and other incidents impacting employees and business operations

Group Management and Minority Shareholder Protection Initiatives

Dentsu Group Inc. is the Company's parent company and holds 52.49% of the voting rights. We recognize that ensuring a robust governance system is a top management priority to enhance corporate value and protect minority shareholders. All management decisions are made after careful consideration to avoid any harm to the interests of the Company or its minority shareholders.

■ The Company's position within the parent company's business portfolio strategy

Our parent company, Dentsu Group, defines its domestic business domains across four transformation areas: AX (sophisticated advertising communications), BX (overall business transformation), CX (customer experience transformation), and DX (marketing infrastructure transformation). The Company primarily operates within the AX domain, conducting the Marketing Communication Segment that provides integrated marketing services centered on digital advertising sales and operations; the Direct Business Segment that supports clients by integrating offline media and digital strategies; and the Data & Solutions Segment that develops and provides data and AI-driven solutions and supports client development.

■ Current status and future outlook for the Company's business domain within the parent company's group structure

While other companies within Dentsu Group also offer digital marketing support, the Company does not have a competitive relationship with them due to the differences in our functions and areas of expertise. Instead, we maintain a collaborative relationship that generates group synergies.

■ The nature and extent of the parent company's involvement in decision-making

One of the Company's directors concurrently serves as an executive officer of Dentsu Inc., a subsidiary of Dentsu Group Inc. However, this director serves as a nonexecutive director of the Company, responsible for overseeing business execution to enhance its corporate value. Therefore, the Company believes that sufficient independence from its parent company is ensured in its business operations. Moreover, as a listed company with a parent company, the Company has a contractual agreement with Dentsu Group Inc. to maintain its autonomy and independence. Specifically, while the Company is required to report proposed resolutions for the General Meeting of Shareholders to Dentsu Group in advance, its day-to-day business operations are conducted based on its own independent management decisions.

■ The role of the Nomination Committee in maintaining the independence of outside directors from the parent company

While independent outside directors constitute a majority of the Company's Board of Directors, candidates for director and other positions are determined after review and recommendation by the Nomination and Remuneration Advisory Committee, which comprises the group president and chief executive officer and all independent outside directors.

■ Guidelines for transactions with the parent company

With respect to transactions with the parent company, management support fees are determined by agreements between the parties taking into account the content of operations, and interest rates on fund transactions are determined in the same manner as in general transactions with reference to market interest rates.

■ Cooperation in maintaining the listing

Dentsu Group will act to ensure it does not violate delisting criteria, thereby supporting the Company's continued listing, and will cooperate with the Company to a reasonable extent.

■ Handling of shares

Dentsu Group will not acquire any additional shares of ours without obtaining our prior written approval.

Message from an Outside Director

The majority of our Board of Directors are outside directors, and we are working to strengthen corporate governance through dynamic discussions that draw on their respective areas of expertise. Here, Makoto Shiono, one of our independent outside directors, speaks about the governance and management of the Company in light of the current business environment.

Makoto Shiono
Outside Director

Message

We are currently experiencing a period of major transformation in the fields of digital marketing and corporate DX. In the world of digital technology, generative AI, particularly in the form of large-language models (LLMs), is evolving and spreading rapidly, ushering in social changes similar to those that occurred in the early days of the internet. This AI wave is also set to have a major impact on digital marketing.

Amid this business environment, the Group has been led by representative director, group president and chief executive officer Kouno, alongside director and group vice president Shimizu. Having taken the reins in 2024, they have been working to maximize our corporate value. The Board of Directors continued its efforts to improve its management oversight functions in the fiscal year ended December 2024. To this end, it has engaged outside directors with expertise in various fields and has held lively and frank discussions at board meetings, striving to make management decisions that create value within a framework of co-creation between oversight and execution. In addition, the Board of Directors strives for continuous improvement by regularly reviewing its effectiveness through evaluations conducted by external organizations.

The fiscal year ended December 2024 served as a preparatory period for 2025 and beyond, and during this time, reorganization of the Group has been ongoing.

Full-year results for the 2024 fiscal year show increases in both net sales and revenue, and I believe that, with respect to the medium-term theme of "Focus & Synergy," we have achieved certain level of success in our current business areas. Going forward, we need to consider investment in growth areas with an eye toward the future of ad technology and the creation of new value for clients. Meanwhile, in the medium to long term, I believe that we should improve the revenue generation of our existing businesses while developing and exploring ways to secure a stable revenue base, with the aim of achieving high growth and high returns and generating 10 billion yen in yearly profits by 2030.

The Group is notable for the active participation of young people and women managers, and I believe that this is an organization where the new generation can work to truly deliver both social and business value. With the world and technology undergoing major changes, I believe that, along with the leadership of Mr. Kouno and Mr. Shimizu, the Group's core value of "people filled with a strong sense of ownership and entrepreneurial spirit" will continue to create value for society.