December 28, 2021

To Whom It May Concern

Company Name:	OUTSOURCING Inc.
Representative:	Haruhiko Doi Chairman and CEO
(First Section of TSE:	Securities Code 2427)
Contact:	Kazuhiko Suzuki Executive Vice President and Executive General Manager in charge of Business Management Division
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Notice Regarding Receipt of the Investigation Report from the Investigation Commission

As announced in the "Notice Regarding Suspicions of Inappropriate Accounting at Our Consolidated Subsidiaries and Postponement of Announcement of Financial Results for the Third Quarter of the Fiscal Year Ending December 2021" dated November 5, 2021, an Investigation Committee was set up to investigate the details and the amount of impact by the inappropriate accounting in the Group. The Company hereby announces that it has received the investigation report from the Investigation Committee today as follows.

The Company takes this incident extremely seriously, and would like to take this opportunity to express its sincere apologies again. The investigation results and recommendations of the Investigation Committee will be fully analyzed and examined, reflected in the management going forward, and measures to prevent a recurrence of such incidents will be considered. In addition, if there are any matters that should be disclosed as a result of analysis and examination, they will be disclosed in a timely and appropriate manner.

The Company will do its utmost to restore the trust of its shareholders, investors, and other stakeholders, and ask for your continued support.

Note

1. Investigation Results

Regarding the investigation results of the Investigation Committee, please refer to the attached "Investigation Report (Summary)." From the viewpoint of privacy and protection of confidential information, partial non-disclosure measures are taken for personal names and company names.

2. Amendment of the Financial Results for the Past Fiscal Years based on the Investigation Report from the Investigation Committee

The required amendment amounts pointed out in the investigation report of the Investigation Committee are as follows for each fiscal year in total of the 17 group companies (of which 4 are absorbed).

Required Amendment Amounts (Unit: Millions of yen, J-GAAP)

	2016	2017	2018	2019	2020	2021	Cumulative total
Net sales	(167)	(209)	70	(291)	(465)	111	(951)
Operating Profit	(243)	153	(410)	(265)	107	381	(277)

*Negative amounts depress results before the amendment, and positive amounts improve results before the amendment.

*Since the indicated amounts are based on J-GAAP (excluding the part that has adopted IFRS), the amounts may differ depending on consolidated financial results of the Company which adopts the IFRS accounting.

*Beside the above, additional accumulated impairment are also noted approximately (166) million yen for the fiscal year ended December 2019 and (854) million yen for the fiscal year ended December 2020 attributable to the inappropriate accounting and have an impact on operating profit in IFRS.

*Because this is before the audit, amounts may differ from the actual amendment amounts.

*Amendments to past years are scheduled to be made from the fiscal year ended December 2019. The cumulative impact of inappropriate accounting recognized before the fiscal year ended December 2018 will be reflected collectively in the fiscal year ended December 31, 2019.

3. Responses Going Forward

As announced on December 28, 2021, "Notice Regarding Approval for Re-extension of the Deadline for Filing the Quarterly Securities Report for the Three Months Ended September 30, 2021," the Company received approval for the deadline for filing the Quarterly Securities Report as Friday, January 14, 2022.

(1) Amendment of Securities Reports and Financial Results for Past Fiscal Years

In response to the results of the investigation, the Company plans to submit an amendment to the annual and quarterly securities report for the past fiscal years and to amend the annual and quarterly financial results by Friday, January 14, 2022.

(2) Announcement Date for the Financial Results of the Third Quarter of the Fiscal Year Ending December 31, 2021

The Company will receive the quarterly securities report by the independent auditing firm by Friday, January 14, 2022, which is the deadline for submission after the re-extension, and will submit the financial results for the third quarter of the fiscal year ending December 31, 2021, and the quarterly securities report for the three months ended September 30, 2021.

(3) Measures to Prevent Recurrence

The results of the investigation by the Investigation Committee will be taken seriously, and the Company will formulate concrete preventive measures in accordance with the recommendations, and work to strengthen its governance system and management system. The contents will be disclosed as soon as they are finalized.

4. Impact on Business Results

In the future, the results of the investigation will be fully analyzed and reviewed. As described in "2. Amendment of the financial results for the past fiscal years based on the investigation report from the Investigation Committee," the impact on the cumulative financial results for the six months through the second quarter of the current fiscal year on operating profit has been pointed out will be a positive 381 million yen (J-GAAP), and even in the process of the audit, it is expected that an amount close to that will be the amount affected.

At present, there are no changes to the consolidated earnings forecast for the fiscal year ended December 31, 2021, which was disclosed on February 15, 2021.

(Disclaimer with respect to earnings and other forecasts)

The forward-looking statements including earnings forecast contained in this document are based on information currently available to the Company, and certain assumptions that the Company believes are reasonable. Accordingly, the Company can give no assurance that such statements will prove to be correct. Actual results may differ from the results anticipated in these forward-looking statements due to a variety of factors.

FOR REFERENCE PURPOSES ONLY

To OUTSOURCING Inc.

Investigation Report
(Summary)

December 28, 2021

The Outside Investigation Committee for OUTSOURCING Inc.

Chairman: Norihiro Sekiguchi
Member: Ayumi Uzawa
Member: Kayo Henmi

THIS IS AN ENGLISH TRANSLATION OF THE JAPANESE ORIGINAL VERSION, PREPARED ONLY FOR THE CONVENIENCE OF SHAREHOLDERS RESIDING OUTSIDE JAPAN. THE ORIGINAL JAPANESE VERSION WILL PREVAIL SHOULD THERE BE ANY DIFFERENCE IN THE MEANING BETWEEN THE ENGLISH VERSION AND THE JAPANESE VERSION.

I. Outline of the Investigation

1. Background on the Establishment of the Outside Investigation Committee

On September 9, 2021, the Audit and Supervisory Committee of OUTSOURCING TECHNOLOGY Inc. ("OST"), a subsidiary of OUTSOURCING Inc. ("OS"), was notified by Deloitte Touche Tohmatsu LLC (the "Accounting Auditor") to the effect that, on September 8, 2021, it had received a written internal accusation (the "Whistleblowing Document") indicating that a subsidiary of OST, enable Inc. ("EN"), engaged in inappropriate accounting with respect to allocation of the work-in-progress (the "EN Suspicious Conduct"), and there is a suspicion that OST's internal audit office has been concealing the alleged fact above. The Audit and Supervisory Committee of OST was requested to clarify the basic facts and consider measures to address the issue as necessary.

In response to the Whistleblowing Document, on September 10, 2021, the Audit and Supervisory Committee of OST decided to request OS's internal audit office to investigate the EN Suspicious Conduct, and OS's internal audit office accepted the request (the "Internal Investigation").

While OS's internal audit office conducted interviews with relevant personnel, and preserved and examined accounting data together with other relevant materials, in the course of the investigation, they found that there were specific doubts relating to the EN Suspicious Conduct.

Based on the foregoing, OS resolved at the meeting of its board of directors held on September 29, 2021 to establish an outside investigation committee (the "Committee"), the members of which solely consist of neutral and fair external specialists independent of OS, in accordance with the "Guidelines for Third-Party Committees Relating to Corporate Scandals" (published on July 15, 2010; revised on December 17, 2010) of the Japan Federation of Bar Associations.

2. Purposes for Establishing the Committee

The purposes for establishing the Committee are as follows:

(i) To investigate the EN Suspicious Conduct detected through the Internal Investigation;
(ii) To examine cases analogous to the EN Suspicious Conduct and other suspicious cases;
(iii) To calculate the impact of any inappropriate accounting that may be found;
(iv) To investigate the causes and recommend measures to prevent a recurrence of any inappropriate accounting that may be found; and
(v) Any other matters deemed necessary by the Committee.

A determination regarding the legal responsibility of the persons involved in the inappropriate accounting, in cases where it is determined to have occurred, is not covered within the scope of the purpose for establishing the Committee.

3. Structure of the Investigation

The Committee consists of the following three members:

Chairman: Norihiro Sekiguchi (Attorney-at-law, Oh-Ebashi LPC & Partners (Tokyo Office))
Member: Ayumi Uzawa (Certified Public Accountant and Certified Fraud Examiner, Uzawa Certified Public Accountant Office)
Member: Kayo Henmi (Attorney-at-law, Oh-Ebashi LPC & Partners (Tokyo Office))

4. Background of the Expansion of the Scope of the Investigation (Detection of Suspicion of Inappropriate Accounting at OS and OST)

Since the beginning of the investigation, the Committee has, in keeping with the background set forth in Section 1 above, focused the investigation on the alleged inappropriate accounting with respect to the allocation of the work-in-progress by EN and the analysis of the causes thereof.

Nonetheless, in the course of the aforementioned investigation, upon having recognized a suspicion that inappropriate accounting was also being conducted by OST, the parent company of EN, and subsidiaries of OST other than EN, it was decided that the scope of the investigation should be expanded to include the alleged inappropriate accounting by OST and OST's subsidiaries other than EN.

Furthermore, in the course of the investigation, it was recognized that there was also a suspicion of inappropriate accounting being conducted by OS, the parent company of OST. Therefore, the Committee decided to perform a thorough investigation by including OS within the scope of the investigation.

5. Assumptions

The investigation conducted by the Committee and its results are subject to the following general restrictions and limitations:

- The investigation by the Committee was conducted in cooperation with OS and its subsidiaries and equity-method affiliates (collectively, the "OS Group") in good faith, but the Committee does not have the power of compulsory investigation. Accordingly, there were limitations on the Committee's investigation of the facts. The fact-finding exercise conducted by the Committee is not exhaustive of all past facts since the Committee had to rely on the voluntary statements of the OS Group's officials and staffs, together with materials voluntarily submitted by the OS Group, and additionally, the investigation period is not unlimited.
- The purpose for establishing the Committee is as set forth in the above Section 2, and this summary report is not intended to be used for any other purpose.

II. Summary of Investigation Results

1. OS

	Questioned Items	Outlines
1	Barter transactions with recruiting companies	OS charged fees to companies such as recruitment agents for listing banner advertisements and/or advertisement posts on OS's recruitment website ("Y") and/or for visiting schools onbehalf of those companies to carry out recruitment activities. OS recognized sales for these services in one period and recognized recruitment costs in return for the sales to the aforementioned companies in the subsequent period. OS called such transactions, "barter transactions."
	Barter transactions with Company X	As a return for the expenses incurred by OST pertaining to software purchases from Company X, OS recognized fictitious sales to Company X in the form of a posting fee for banner advertisements on "Y". OS called such transactions, "barter transactions."
2	Deferral of expenses	Expenses pertaining to (1) unit price adjustments, (2) signing bonuses, (3) transportation expenses, (4) media expenses, and (5) other various expenses were recorded in the subsequent fiscal year despite being incurred in the preceding fiscal year.

The result of inappropriate accounting of each fiscal year (thousand JPY):

Element／FY	2016	2017	2018	2019	2020	2021 (2Q)
Revenue	-89,497	6,237	-50,000	-235,000	-237,678	-137,321
Cost of sales	14,517	-14,517	81,739	-7,485	-74,253	0
Gross profit	-104,015	20,755	-131,739	-227,514	-163,425	-137,321
SG&A expenses	35,660	-118,920	87,442	-57,442	-245,000	-52,885
Operating profit	-139,676	139,676	-219,181	-170,072	81,574	-84,435
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	-139,676	139,676	-219,181	-170,072	81,574	-84,435

2. OST

	Questioned Items	Outlines
1	Recognition of fictitious sales	Fictitious sales were recognized at the end of the fiscal year (December) for certain customers. In the following fiscal year, the fictitious accounts receivables on outsourcing and/or training expenses to the same customers, with some marked-up prices, were recognized. This was the method used to return the fictitious sales amount collected by OST.
2	Deferral of recruitment expenses	Recruitment expenses (predominantly for new graduate recruitment) were incorrectly recognized in the subsequent fiscal year despite being incurred in the preceding fiscal year.

	Questioned Items	Outlines
3	Inappropriate adjustment to the work-in-progress inventory balance	OST's operating profit was overstated due to incorrect allocation of the work-in-progress inventory across different projects within the R&D division of OST. While the work-in-progress inventory should have been expensed as cost of sales at the time of revenue recognition for the particular project, part of the work-in-progress inventory was reallocated to another project to increase operating profit.
4	Deferral of outsourcing expenses	With the cooperation of OST's subcontractors, the Solution Services Division of OST deferred outsourcing expenses incurred at the end of the fiscal year (December) by having the subcontractors invoice for the outsourcing expenses in the following fiscal year.

The result of inappropriate accounting of each fiscal year (thousand JPY):

Element／FY	2016	2017	2018	2019	2020	2021 (2Q)
Revenue	0	0	0	-18,000	-145,171	127,379
Cost of sales	10,937	-30,095	-4,486	60,906	28,389	-81,395
Gross profit	-10,937	30,095	4,486	-78,906	-173,561	208,774
SG&A expenses	0	9,550	46,842	67,480	-186,843	-105,673
Operating profit	-10,937	20,545	-42,355	-146,386	13,282	314,447
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	4,268	36,084	0
Profit before tax	-10,937	20,545	-42,355	-150,655	-22,801	314,447

3. EN

	Questioned Items	Outlines
1	Recognition of fictitious sales	At EN, recognitions of fictitious sales were identified for the fiscal years ended December 31, 2016, 2017, and 2020.
2	Early recognition of sales	At EN, early recognitions of sales were identified in amounts of JPY 19,031,000 and JPY 15,000,000 in the first quarter of the fiscal year ending December 2019 and in the fiscal year ending December 2020, respectively.
3	Inappropriate adjustments to the work-in-progress inventory balance	EN recognized inappropriate adjustments to the work-in-progress inventory by: (1) recognizing fictitious inventory; (2) recognizing incorrect adjustments to the work-in-progress inventory for the Testing Department of EN for each fiscal year; and (3) manipulating the timing of the work-in-progress inventory to be expensed as cost of sales for the Hekinan office.
4	Inappropriate accounting practice relating to advance payments	EN did not reclassify advance payments despite incurring corresponding expenses, such as purchasing inventory or rendering services.

	Questioned Items	Outlines
5	Avoidance of recognizing provision for loss on orders received	EN adjusted the work-in-progress inventory for specific projects to avoid recognition of provision for loss on orders received.
6	Avoidance of recognizing impairment loss	To avoid recognition of impairment losses, EN reclassified sales from the other departments to Kobe Technical Center and Seisho Technical Center so that indications of impairment would not arise.
7	Deferral of expenses	EN deferred the recognition of expenses. EN specifically deferred the recognition by: (1) not recognizing expenses in the respective months the services were rendered or arbitrarily reducing the amount recognized and recognizing the expenses at the time of payment in the following fiscal year (or in the following quarter); and (2) arbitrarily not recognizing the estimated amount of labor insurance premiums and social insurance premiums or purposely underestimating such costs.
8	Inappropriate recognition of fixed assets	EN inappropriately recorded some of the inventory as fixed assets. Particularly, EN recorded the following inventory as fixed assets: (1) modifying machine for optical single-cylinder engines procured for the purpose of sale (for the second quarter of the fiscal year ending December 31, 2020); and (2) damper testers procured and subsequently sold to customers (for the fiscal year ending December 31, 2020).
9	Inappropriate accounting pertaining to advance payments received	EN inappropriately reduced recorded expenses, such as repairs and maintenance and consumable expenses, by offsetting these expenses against unrelated balances of advance payments received.

The result of inappropriate accounting of each fiscal year (thousand JPY):

Element／FY	2016	2017	2018	2019	2020	2021 (2Q)
Revenue	-3,360	-16,440	-8,500	0	-71,991	65,591
Cost of sales	2,374	-2,405	29,841	5,510	-8,172	-24,547
Gross profit	-5,734	-14,034	-38,341	-5,510	-63,819	90,139
SG&A expenses	-100	80	4,648	-3,527	68	-1,119
Operating profit	-5,633	-14,114	-42,989	-1,983	-63,887	91,258
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	57	166,110	855,584	0
Profit before tax	-5,633	-14,113	-43,047	-168,093	-919,472	91,258

4. RPM

	Questioned Items	Outlines
1	Inappropriate adjustments to the work-in-progress inventory balance	The work-in-progress inventory balance pertaining to issues such as lost orders increased by approximately JPY165,000,000 by the fiscal year ended December 31, 2014. Furthermore, RPM Co.,Ltd. ("RPM") continued to make inappropriate adjustments to the work-in-progress inventory in the subsequent years to minimize the shortfall in the budget by inflating operating profits and avoiding the recognition of provision for loss on orders received.
2	Avoidance of recognizing provision for loss on orders received	RPM falsified figures such as the work-in-progress inventory balances in the "loss on orders received determination table" to avoid the recognition of the provision for loss on orders received. As the employee in charge of the Management Division was not able to determine for which project and to what extent the work-in-progress inventory balance was to be falsified, the person in charge of the Clinical Development Division determined the required inappropriate adjustments to work-in-progress inventory balances to avoid recognition of the provision for loss on orders received.
3	Early recognition of sales	RPM inappropriately recognized sales by recognizing the sales at the time of invoice issuance, which was before the provision of services defined in the contracts.
4	Deferral of recruitment expenses	RPM incorrectly recognized recruitment fees as expenses when paid instead of when the services were rendered. In addition, RPM incorrectly accounted for the prepaid ticket-based recruitment fees by not recognizing an expense when the tickets were used. Whereas the correct treatment would be to expense the portion pertaining to the tickets that have been used, RPM did not immediately expense the tickets on use, and instead delayed the recognition of costs to later periods.
5	Inappropriate accounting relating to software	The following inappropriate accounting practices were performed in relation to software: (1) inappropriate allocation of work-in-progress to software; (2) arbitrary extension of the amortization period of software to understate the amortization cost; and (3) capitalization of software costs that should not be treated as assets.

The result of inappropriate accounting of each fiscal year (thousand JPY):

Element／FY	2016	2017	2018	2019	2020	2021 (2Q)
Revenue	-35,770	-108,191	61,610	25,121	-6,845	56,521
Cost of sales	-25,934	-104,502	101,352	-72,137	5,396	16,909
Gross profit	-9,836	-3,689	-39,742	97,258	-12,242	39,612
SG&A expenses	-5,110	3,167	6,987	927	-5,048	-9,191
Operating profit	-4,725	-6,856	-46,730	96,331	-7,193	48,803
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	-4,725	-6,856	-46,730	96,331	-7,193	48,803

3. Other Affiliated Companies

For inappropriate accounting in other affiliated companies which the Committee recognized, please refer to the original version of this Report.

III. Analysis of the Causes of the Inappropriate Accounting

1. OS

(1) Background circumstances and motives for the inappropriate accounting

The Committee recognized that, from the fiscal year ended December 2013 at the latest, inappropriate accounting, including overstated recognition of sales through so-called "barter transactions" and deferral of expenses, was conducted at OS.

The background circumstances and motives for the above inappropriate accounting include an excessive focus on growth of OS, a desire to avoid an adverse effect on employee bonuses, and a request to overstate operating profits in preparation for listing of the OST stock, which had been under consideration since June 2018 at OS.

(2) Existence of the opportunity

a. Active involvement in inappropriate accounting by a Senior Executive Director of OS ("Mr. A") in whom power was concentrated, normalized the inappropriate accounting at OS, and nobody raised objections to such accounting.

b. Supervision by the board of directors did not appropriately function, although there were outside directors, the Audit and Supervisory Committee completely left auditing to the Accounting Auditor, and the internal audit system of the internal audit division was insufficient at OS, so it is difficult to say that OS had a sufficient internal control system for early detection of any inappropriate accounting.

c. The system and operation of whistleblowing at OS cannot be said to have been sufficiently functioning as a measure for early detection and prevention of inappropriate accounting. For this reason, in this case, an investigation was triggered by a report made to the Accounting Auditor with respect to EN's inappropriate accounting. Considering the background of such detection, not only at EN but also at OS itself, the whistleblowing system did not function as a method of detecting inappropriate accounting.

d. At OS, the internal rules concerning accounting were unclear and allowed arbitrary interpretations. This led to the inappropriate accounting including deferral of expenses.

e. For some deferral expenses, with respect to the prepaid ticket-based recruitment fees, although the invoice was received at the time of prepayment, no invoice was received when the ticket was used and the expense should be recorded for accounting purposes; as a result, the accounting department did not have an opportunity to review the expenses. It is considered that this allowed the business department to easily arbitrarily control the timing of expense recording.

f. Many of the business partners of OS are small and medium-sized unlisted companies, and it was easy to gain the cooperation necessary for the inappropriate accounting from them.

g. Since the credit management at OS was a mere shell, a new customer could be used as a part of the "barter transactions" scheme for the inappropriate accounting.

(3) Justification of the inappropriate accounting

From the time when the inappropriate accounting started, the use of the word "legacy" spread in the OS Group, including business departments and, once Mr. A started engaging in the inappropriate accounting, a file for recovery measures at each department where he/she was in charge called a "Legacy Chart" was prepared which, for almost every fiscal year, showed the amount relating to recovery measures, including inappropriate accounting, and the impact on the following fiscal year. The "Legacy Chart" was shared and managed among the executive officers and employees in the business management department in charge of budget control, and it is considered that, because of this practice, engaging in inappropriate accounting was normalized and justified in the business departments.

It is considered that, since the relevant personnel focused too much on meeting the budget or reducing the shortfalls, they kept up appearances as if there was no accounting problem, and, without using the consideration or determination necessary for accounting, they justified the inappropriate accounting by covering up their awareness as if their accounting had no problem.

Furthermore, the relevant personnel seem to have had a misunderstanding that there was no accounting problem if they could provide some explanation to the Accounting Auditor, even if such explanation was not accurate. Such misunderstanding at OS toward auditing and the inappropriate response to the Accounting Auditor arising out of such understanding spread internally, resulting in the justification of the inappropriate accounting and failure to detect and prevent the same.

2. OST

(1) Background circumstances and motives for the inappropriate accounting

The Committee recognized that, at OST, inappropriate adjustment of the balance of the work-in-progress inventory balance was conducted from the fiscal year ended December 2016 at the latest, deferral of recruitment expenses was conducted from the fiscal year ended December 2017 at the latest, deferral of outsourcing expenses was conducted from the fiscal year ended December 2019 at the latest, and in addition to the above, fictitious recognition of sales through the "barter transactions" was conducted in the fiscal years ended December 2019 and December 2020.

The background circumstances and motives for the above inappropriate accounting include, in the same manner as OS, an excessive focus on rapid growth of OST, a strong desire to improve operating profits even a little bit during the preparation for the listing of the OST stock, the existence of further pressure to meet the budget caused thereby, and a desire to avoid an adverse effect on employee bonuses at OST.

(2) Existence of the opportunity

a. At OST, based on the management policies of the President and CEO of OST ("Mr. B"), the supervisors of each segment had very strong power in each segment and engaged in the inappropriate accounting alone or by instructing other employees. Additionally, the Business Management Division, which is in charge of management, was compliant with the supervisors of the business departments, and with respect to the fictitious recognition of sales in December 2020, they were not only aware of the misconduct and failed to stop it, but rather assisted in such misconduct.

b. While it is not recognized that Mr. B expressly instructed the inappropriate accounting overall and was aware of the fictitious recording of sales in the fiscal year ended December 2020, it is considered that, because Mr. B tolerated almost all of the inappropriate accounting, so to speak, it started to be carried out constantly.

c. Auditing of OST was not sufficiently functioning at either the Audit and Supervisory Committee of OS or the Audit and Supervisory Committee of OST.

d. Before OST established its internal audit office, OS's internal audit office had been conducting internal auditing of OST. However, its system was insufficient, so it is difficult to say that such internal auditing had a sufficient internal control system for early detection of any inappropriate accounting at OST.

   From the fiscal year ended December 2019, the internal audit office established at OST started to conduct internal auditing, however, based on a determination that no trouble should be caused for the listing of OST, which was developed unilaterally by the head of the internal audit office ("Mr. C"), inappropriate internal auditing was conducted, such as not including all the matters discovered in the internal auditing that should be pointed out in the internal audit report or request for improvement report for submission to the Tokyo Stock Exchange and its securities company. Furthermore, Mr. C used behaviors or statements to conceal the inappropriate accounting from the Accounting Auditor and others, so it is difficult to say that OST's internal audit office had a sufficient internal control function.

e. The system and operation of whistleblowing at OST cannot be said to have been sufficiently functioning as a measure for early detection and prevention of inappropriate accounting and as a method of detecting inappropriate accounting.

f. At OST, as well as at OS, the internal rules concerning accounting were unclear and allowed arbitrary interpretations. This led to the inappropriate accounting including deferral of expenses.

g. At OST, as well as at OS, for some deferral expenses, with respect to the prepaid ticket-based recruitment fees, although the invoice was received at the time of prepayment of some fees, no invoice was received when the ticket was used and the expense should be recorded for accounting purposes; as a result, the accounting department did not have an opportunity to review the expenses.. It is considered that this allowed the business department to easily arbitrarily control the timing of expense recording.

h. Many of the business partners of OST are small and medium-sized unlisted companies, and it was easy to gain the cooperation from them necessary for the inappropriate accounting.

(3) Justification of the inappropriate accounting

In the same manner as OS, the use of the word “legacy” spread at OST and by using the word “legacy” with the same sense as other words used in the ordinary course of business, the inappropriate accounting was normalized and justified. In addition, the existence of pressure to meet the budget prevented the managers of the divisions which did not meet the budget from raising objections to the proposal to engage in inappropriate accounting. Instead, it seems there was an atmosphere where such inappropriate accounting should be conducted. Such atmosphere attributed to a circumstance where the inappropriate accounting was justified.

The relevant personnel obtained an unqualified opinion from the Accounting Auditor by, without providing notice of their recognition and the actual situation at the time of transactions, concealing such information and providing explanations retroactively, leading to a misunderstanding toward accounting and the inappropriate response to the Accounting Auditor spread internally, resulting in the justification of the inappropriate accounting and failure to detect and prevent the same.

3. EN

(1) Background circumstances and motives for the inappropriate accounting

The Committee recognized that, from the fiscal year ended December 2016 at the latest, fictitious recognition of sales was conducted, and that inappropriate accounting, including early recognition of sales, inappropriate adjustment to the work-in-progress inventory balance, and avoidance of recognizing impairment loss, was continuously engaged in at EN.

The background circumstances and motives for the above inappropriate accounting include the existence of pressure by the former representative director of EN (“Mr. D”) to meet the budget, a desire to avoid an adverse effect on employee bonuses, and a desire to avoid the judgment that there were indications of impairment at EN before the listing of the OST stock.

(2) Existence of the opportunity

a. Mr. D held full control over EN for about 20 years until he resigned in March 2021, and there existed a corporate culture in which no objection could be raised against Mr. D’s intentions It is recognized that inappropriate accounting was conducted by the then accounting manager and others in accordance with the intentions of Mr. D.
b. It is difficult to say that the internal control and supervision by EN’s corporate auditors and OST’s Audit and Supervisory Committee and internal audit office, and the management of subsidiaries by OST’s Business Management Division had sufficient auditing and supervising functions for early detection of EN’s inappropriate accounting (the issues in the internal auditing by Mr. C, the head of OST’s internal audit office, are as described in Section 2 above.).
c. None of the systems and operations of whistleblowing available at EN, which were established by OS and OST respectively, can be considered to have been sufficiently functioning as a measure for early detection and prevention of inappropriate accounting.

For this reason, in this case, an investigation was triggered by a report made to the Accounting

Auditor with respect to EN's inappropriate accounting without using the said whistleblowing systems. Considering the background of such detection, not only at OS, but also at OST, the whistleblowing system did not function as a method of detecting inappropriate accounting.

d. At EN, accounting and operational issues were found which may have led to the inappropriate accounting, such as unclear and inappropriate operation of internal rules concerning accounting.

(3) Justification of the inappropriate accounting,

It is found that the employees who received instructions from Mr. D were not able to object to Mr. D. They managed to organize their feelings and justify the inappropriate accounting. Furthermore, the inappropriate accounting conducted at OST, the parent company of EN, is considered to have attributed to the development of an awareness that justified the inappropriate accounting at EN.

It is considered that since an executive officer of OST who is also an executive officer of EN, and another executive officer of EN, responded inappropriately to the Accounting Auditor based on the misunderstanding that there was no problem if they could obtain an unqualified opinion from the Accounting Auditor or avoid Accounting Auditor's judgement of indications of impairment, even if they did not provide explanations in line with the actual situation, and since such response was normalized, the inappropriate accounting was justified.

4. RPM

(1) Background circumstances and motives for the inappropriate accounting

The Committee recognized that, at RPM, as of the end of the fiscal year ended December 2014 at the latest, of the work-in-progress inventory balance of approximately 165,000 thousand yen at that time, inappropriate adjustments were made. Although such inappropriate adjustments were discovered around January 2015, RPM did not completely correct it in a timely manner, and instead, the work-in-progress inventory balance was maintained by reallocating it to the provision for loss on orders received, etc.

The background circumstances and motives for the above inappropriate accounting include a desire to avoid significant budget shortfalls or to reduce the amount of budget shortfalls, and a desire to avoid an adverse effect on employee bonuses.

(2) Existence of the opportunity

a. It is difficult to say that RPM's corporate auditors, OS and OST's Audit and Supervisory Committees and internal audit offices had sufficient auditing and supervising functions for the early detection of RPM's inappropriate accounting.

b. None of the systems and operations of whistleblowing available at RPM, which were established by OS and OST respectively, can be considered to have been sufficiently functioning as a measure for early detection and prevention of inappropriate accounting.

c. At RPM, accounting and operational issues were found which may have led to the inappropriate accounting, such as unclear and inappropriate operation of internal rules concerning accounting.

(3) Justification of the inappropriate accounting

A relevant personnel recognized the accounting problems of the inappropriate accounting and desired to correct all the inappropriate adjustments at once in 2015, however, OS, the parent company at that time, did not clearly respond to the request. As RPM continued to make inappropriate adjustments thereafter, such accounting became a normalized practice. Thus, the fact that RPM was forced to comply with the intentions of the parent company dulled the employees' consciousness and awareness, and became a factor that justified the inappropriate accounting.

IV. Recommendations for Preventive Measures

1. Establishing feasible business plans and budgets

The cause for the inappropriate accounting in this case was the existence of aggressive numerical targets set forth under the management policy which strongly demanded continuous growth.

It is necessary to formulate a practically reasonable and feasible business plan and budget in line with the company's capability so that insistence on growth does not motivate future inappropriate accounting.

2. Clarification of Responsibilities

When EN discovered different inappropriate accounting in February 2021, Mr. D resigned from the president's office, and EN had not determined whether or not the president was involved. As a result, EN executives and employees, who had suspected his involvement, became involved in the inappropriate accounting thereafter based on the misunderstanding that the inappropriate accounting would be acceptable.

In order to prevent the recurrence of the inappropriate accounting, it is necessary to deter the same kind of inappropriate accounting by conducting strict dispositions in accordance with the responsibilities of each person involved in the inappropriate accounting of this matter and demonstrating both inside and outside the company an attitude of the company reflecting a zero-tolerance policy toward inappropriate accounting and the strong intention not to make the same mistake again based on the seriousness of inappropriate accounting.

3. Restructuring of Corporate Governance and Structure

(1) Allocate authority appropriately by strengthening the management system

In the case of OS and OST, each specific person of the business department had invalidated internal control with very strong authority in each segment. Therefore, it seems that the management division was inclined to accept the decisions of the business department, and there were no objectors to such inappropriate accounting.

Therefore, it is necessary to allocate strong authority to the management department of OS and OST, and take measures to make the internal control required as a second line function by sufficiently replenishing highly-qualified human resources.

(2) Strengthening the oversight functions of the board of directors

Some of the outside directors of OS were regarded as having little or no independence due to their close relationship with the executives, such as the fact that a few directors had been in office for a long period of time. It seems that there had been little discussions about accounting at the boards of OS.

In OS, it is necessary to appoint highly independent outside officers and to separate the execution and oversight of operations, and to strengthen the supervisory function of the board of directors in order to ensure the effective, independent and objective management oversight by the board of directors.

(3) Strengthening and securing highly-qualified human resources in the accounting department

Despite the fact that i) OS and OST have fully implemented an M&A strategy since the fiscal year ended December 2010, ii) the number of their affiliates has largely increased, and iii) the necessity for consolidated accounting, including those of acquired subsidiaries, has increased; the recruitment, development and reinforcement of OS and OST accounting department's human resources in response to this need have not been sufficient.

Therefore, in addition to recruiting and training new accounting staff, it is necessary for OS, OST and those subsidiaries to hire mid-career accounting staffs who have immediate skills in institutional accounting and management accounting. It is also worth considering having accounting staffs seconded from the parent company to the accounting departments of each group company as necessary.

4. Strengthening the Internal Control Division (Subsidiary Management)

(1) Strengthening human resources in the management department and securing highly-qualified human resources

As described, OS and OST have not recruited and trained their administrative employees and recruited additional staffs to accommodate their necessity to manage acquired subsidiaries.

In the management departments of OS and OST, it is necessary to secure highly-qualified human resources with sufficient management experience, recruit and train human resources, and allocate appropriate workload based on their capabilities.

(2) Reconsideration of the internal audit system

The number of members of the Internal Audit Office of OS and OST are all single digits, which is not sufficient as an internal audit system for companies with 206 and 16 consolidated subsidiaries, respectively. Accordingly, as personnel in charge of the internal audit office, it would be necessary for OS and OST to recruit a sufficient number of personnel with sufficient expertise in accounting and finance with high awareness of compliance.

In addition, accounting was not within the scope of internal audits of OS. OS's internal audits will need to cover accounting.

For OST, the head of OST's internal audit office actively sought to conceal inappropriate conduct with the Accounting Auditor and others for the purpose of the listing of the OST stock. In addition to serious problems with compliance awareness, it is doubtful that the internal audit office was substantial independence from management, executives, and business divisions. It would be necessary for OST to secure substantial independence of personnel in charge of the internal audit office from management, executives, and business divisions.

(3) Strengthening internal control system by the Audit and Supervisory Committee

The Audit and Supervisory Committee of OS and OST needs to strengthen collaboration with the Accounting Auditor regarding accounting audits and share awareness of issues regarding accounting audits, without leaving accounting audits to the Accounting Auditor as they mistakenly did, and utilize the information provided by the Accounting Auditor to conduct more in-depth audits than in the past.

5. Ensuring the Effectiveness of the Whistleblowing System

Each of OS and OST has a whistleblowing desk, but during the past four years there have been no reports on matters related to accounting. In fact, the beginning of the discovery of the EN Suspicious Conduct was an internal accusation against the Accounting Auditor, and the whistleblowing system of OS and OST did not function sufficiently as a preventive measure against illegal/inappropriate conducts and inappropriate accounting. Therefore, it is necessary to review the existing whistleblowing system.

Specifically, the following measures should be considered: i) sharing the information of whistleblowing with outside directors and the Audit and Supervisory Committee; ii) prohibiting disadvantageous treatment to whistleblowers, prohibiting the sharing of information that leads to identifying whistleblowers unnecessarily beyond a minimum range, and prohibiting the search for whistleblowers; iii) informing and ensuring that disciplinary actions are taken in the OS Group, and forming confidence in the whistleblowing system among officers and employees within the OS Group, after establishing the internal disciplinary code which describes the violation of the code is subject to discipline; iv) introducing an internal leniency system that allows whistleblowers and relevant persons who were involved in illegal or inappropriate activities to reduce or exempt from dispositions; and v) taking measures that reward whistleblowers and provide certain advantage to whistleblowers in personnel assessment.

6. Review of internal rules concerning accounting and accounting systems

In OS, EN and RPM, their internal rules concerning accounting were unclear and allowed arbitrary interpretations. Since this led to the inappropriate accounting, it is necessary to review the internal rules concerning accounting, including the timing for accounting expense treatment and the establishment of project codes, and the timing for recording sales and cost of sales, as well as to disseminate and ensure that operations are conducted in accordance with these internal rules.

In addition, the introduction of an accounting system in the OS Group in which human intervention and arbitrary treatments are eliminated as much as possible should be considered.

7. Reforming compliance awareness and thoroughly implementing measures to prevent recurrence

In the OS Group, the idea of strongly demanding continuous growth had sped the executives and employees of business divisions, and this idea was one of the causes for a series of the inappropriate accounting. Therefore, it is important for all executives and employees of the OS Group to be fully aware that “legacy” should be eliminated, that the inappropriate accounting should never occur again, that compliance should not be overlooked, and that compliance must be prioritized in the event of a conflict between continuous growth and compliance.

Specifically, it is necessary to: i) have the CEO of the OS Group, strongly and regularly send a message of an emphasis on compliance to all executives and employees of the OS Group; ii) regularly conduct compliance training on prevention of inappropriate accounting on a company-wide basis, and to conduct continuous risk management training regarding specialized knowledge of legal compliance and financial accounting operations, particularly for the management and accounting departments; and iii) escape from business practices within gray zone called “barter transactions” which could be suspected as inappropriate accounting.

End