



January 14, 2022

To Whom It May Concern

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Chairman and CEO
(First Section of TSE: Securities Code 2427)
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Notice Regarding the Formulation of Measures to Prevent Recurrence and Related Matters

As announced in the “Notice Regarding Receipt of the Investigation Report from the Investigation Commission” on December 28, 2021, we have received an investigation report on the incident of inappropriate accounting regarding 17 companies of the OUTSOURCING Group (hereinafter, “the Incident”). We have taken seriously the causes of the Incident that were pointed out and the suggested measures for preventing its recurrence and have been working on the formulation of specific measures to prevent its recurrence.

We hereby notify that the following measures to prevent recurrence and related matters have been approved at our board of directors meeting held today.

We sincerely apologize to our shareholders, investors, business partners and all other stakeholders for the inconvenience and concern that this matter is causing. We will treat this Incident with utmost seriousness and will execute measures to prevent its recurrence as soon as possible so that we may restore the trust from our stakeholders.

Particulars

I. Measures to Prevent Recurrence

1. Reforming the top-down corporate culture

We have truly acknowledged the seriousness of the fact that the Incident had occurred across multiple companies of our group and deeply regret that there had been a problem with our corporate culture. Not only will the CEO himself lead the implementation of the below measures, but we will also work on a reform of our companies to foster a better corporate culture.

2. Raising compliance awareness and thorough implementation of measures to prevent recurrence

We acknowledge and regret that the Incident had been caused by compliance awareness that had become insufficient, underestimation of the importance of accounting rules and a lack of understanding for those rules among our management team members as well as our senior executives and employees. We will engage in internal re-education on compliance to foster compliance awareness within our group. Furthermore, the CEO will make sure that all employees understand how he views compliance as the highest priority, as well as regularly making internal announcements to raise awareness among employees and related parties and instill the importance of compliance among all employees. As a company, we will create awareness and improve our management system, placing the highest priority on preventing such an incident from occurring again.

3. Clarifying the responsibilities of the persons involved and strengthening our management system

As described later in “II. Disciplinary Action against the Persons Involved,” we will clarify the responsibilities of the persons involved and will restructure our management system so that the management team members and responsible persons who were involved in the Incident do not take positions capable of exerting influence after being subjected to disciplinary action, including changes in authority as described in the next section (Section 4). We will also aim to strengthen our management system by recruiting qualified personnel from various sources, both inside and outside of our group.

4. Restructuring the corporate governance system and organizational structure

(1) Appropriate allocation of authority through strengthened management system

We will review the authority of the sales division and the independently managed subsidiary’s group

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(whose IPO had been planned) in which the Incident had occurred and will allocate authority so that the appropriate checks can be conducted in the management division. In addition, after cancelling the IPO for the time being and integrating the management division with OUTSOURCING Inc.'s management, we will restructure and strengthen internal control and improve the quality of business management.

(2) Strengthening the supervisory function of the Board of Directors

In the proceedings of the Board of Directors, we will not only discuss the progress with the budget but also more frequently discuss matters on governance such as accounting to ensure that the supervisory function is highly effective.

In addition, we will receive advice from experts such as certified public accountants and lawyers to strengthen the supervisory function of the Board of Directors.

(3) Increasing staff and securing highly qualified personnel in the general accounting division

To improve our functions in accounting processes such as those of the Incident, as described in (1), we will first also integrate the operation of the general accounting division of the subsidiary's group (whose IPO has been cancelled) with OUTSOURCING Inc. Through this integration, we will make effective use of our human resources. We will also strengthen the general accounting division by recruiting highly qualified personnel as well as providing education on matters including compliance to improve our human resources quality.

5. Strengthening the internal control division

(1) Increasing staff and securing highly qualified personnel in the management division

To strengthen group governance, in addition to the general accounting division described in the previous section's (3), we will enhance the functions of our business management division as a whole and increase its number of staff. We will also work on raising our human resources quality by providing education on matters including compliance.

(2) Enhancing the internal audit system

We will work on enhancing our internal audit system. Similar to the previous section's (3), the internal audit system of the subsidiary's group (whose IPO has been canceled) will also be integrated with OUTSOURCING Inc. to make effective utilization of the human resources. We will also work on improving the internal audit division's awareness of compliance and understanding of finance and accounting. Additionally, we will aim to secure personnel with such awareness and knowledge and thereby strengthen our internal control system.

(3) Strengthening the auditing function of the Audit and Supervisory Committee

To strengthen the auditing function of the Audit and Supervisory Committee toward our group, we will enhance our group auditing system and will oversee and strengthen the internal control functions in cooperation with the internal audit and the Accounting Auditor.

6. Revising the internal reporting system

We will revise our internal reporting system and ensure that whistleblowing is not limited to the current point of contact and the whistleblower can choose different options according to the content of the report, for instance, by providing other routes for whistleblowing such as external lawyers, Audit and Supervisory Committee Members (auditors) and occupational health physicians. Through this measure, we will strive to dispel concerns that "whistleblowing will be ignored and covered up anyway" or "the whistleblower will be treated disadvantageously."

7. Revising the internal accounting rules and the accounting system

We acknowledge and regret the fact that our accounting rules had been unclear and had allowed for arbitrary interpretations. We will immediately revise the rules and work on creating a system in which arbitrary human intervention can be prevented as much as possible.

8. Establishing feasible business plans and budget

We have been creating our group-wide budget with some margin. As a result, unless there were events such as macroeconomic recessions and the COVID-19 outbreak that were difficult to predict as of the time of creating the budget, our financial results had exceeded our announced forecasts. However, we acknowledge and regret the fact that, as the investigation report points out, the Incident had been induced by budget goals for certain companies of our group, as well as for some of the divisions and sales offices, that had not been within realistically achievable ranges and had led to the inappropriate accounting. Going forward, we will aim to create a realistically achievable budget by more closely examining the budget at each division and each sales

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office during the budgeting process.

II. Disciplinary Action against the Persons Involved

1. Disciplinary action against OUTSOURCING Inc.'s directors

Chairman and CEO: 50% reduction in basic remuneration (three months)

Executive Vice President: demoted to Senior Executive Director and basic remuneration reduced by 30% (three months)

(Removed from position as Head of Business Management Division and appointed to Head of Manufacturing & Service Business Division, Head of Technology Business Division and President and CEO of OUTSOURCING TECHNOLOGY Inc.)

(Current Deputy Head of the Business Management Division will be promoted to Head of this division)

Senior Executive Director: Resignation

2. Disciplinary action against directors of the subsidiary OUTSOURCING TECHNOLOGY Inc.

President and CEO: Resignation

Director and General Manager of the Business Management Division: Resignation

3. The above changes in personnel will become effective as of January 17, 2022. Regarding other persons involved, we will subsequently decide on disciplinary actions to be taken against them under our new management system.

III. Effective Date and Other Notices

Under our new management system, we will implement the measures to prevent recurrence starting on January 17, 2022. We will report on their progress every three months until otherwise decided.