January 24, 2022

To Whom It May Concern

Company Name:	OUTSOURCING Inc.
Representative:	Haruhiko Doi Chairman and CEO
(First Section of TSE:	Securities Code 2427)
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Notice of Receipt of the Full English Translation of the Investigation Report from the Investigation Committee

The Company has disclosed the full Japanese investigation report and the summary version of the investigation report prepared in English, as described in the "Notice Regarding Receipt of the Investigation Report from the Investigation Committee" announced on December 28, 2021. The Company is pleased to inform you that it has received the full English translation of the investigation report.

Same as the Japanese investigation report, from the viewpoint of privacy and protection of confidential information, partial non-disclosure measures are taken for personal names and company names.

We sincerely apologize for the great concern and inconvenience caused to our shareholders, investors, and other stakeholders. The Company will do its utmost to restore everyone’s trust, and ask for your continued support.

(Translation)

FOR REFERENCE PURPOSES ONLY

To OUTSOURCING Inc.

Investigation Report

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.

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Main Terms and Definitions

Defined Terms	Official Names, Meanings, etc.	First Appearance
AEC	AMERICAN ENGINEERING CORPORATION	Section 1(2) of III.
EN	enable Inc.	Section 1 of I.
ORJ	ORJ INC.	Section 1(2) of III.
OS	OUTSOURCING Inc.	Section 1 of I.
OS VIETNAM	OS VIETNAM CO.,LTD.	Section 1(2) of III.
OS Group	OS and its subsidiaries and equity-method affiliates	Section 3 of I.
OST	OUTSOURCING TECHNOLOGY Inc.	Section 1 of I.
OST's Subsidiaries	All of the subsidiaries of OST	Section 2(4) of II.
OST Group	OST and OST's Subsidiaries	Section 2(5) of II.
OTS	OTS Inc.	Section 1(2) of III.
OS SELNAJAYA	PT. OS SELNAJAYA INDONESIA	Section 1(2) of III.
PEO	PEO Co., Ltd.	Section 1(2) of III.
RPM	RPM Co., Ltd.	Section 1(3) of III.
TDB	TEIKOKU DATABANK, Ltd.	Section 3(2)c. of V
Advantec	Advantec Co., Ltd.	Section 1(3) of III.
AVANCE	AVANCE CORPORATION	Section 1(2) of III.
AVANCE HOLDINGS	AVANCE HOLDINGS Co., Ltd.	Section 1(2) of III.
ELEMENT	ELEMENT CO., LTD.	Section 1(3) of III.
Kyodo Engineering	Kyodo Engineering Corporation	Section 1(3) of III.
GLocal	GLocal Co., Ltd.	Section 2(4) of III.
ThinkethBank	ThinkethBank Co., Ltd.	Section 2(3) of III.
Three S Japan	Three S Japan Co., Ltd.	Section 1 of IX.
TryAngle	TryAngle Corporation Co., Ltd.	Section 1(3) of III.
The Committee	The outside investigation 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"	Section 1 of I.
The Questionnaire Investigations	The investigations through questionnaires to officers and office employees (excluding dispatched employees, interns, seconded employees or the like) of OS and OST as well as persons in charge of accounting at the OST's Subsidiaries inquiring whether or not certain persons questioned were involved in the Suspicious Misconduct, the outline	Section 2(4) of II.

Defined Terms	Official Names, Meanings, etc.	First Appearance
	and cause thereof, as well as, in addition to the Suspicious Misconduct, whether any inappropriate transactions existed or not, the details thereof, the environment of internal control, and the like.	
EN Suspicious Misconduct	The suspicion that inappropriate accounting is being conducted with respect to the allocation of the work-in-progress of EN	Section 1 of I.
The Accounting Auditor	Deloitte Touche Tohmatsu LLC	Section 1 of I.
The Internal Investigation	The internal investigation on the EN Suspicious Misconduct conducted by OS's internal audit office	Section 1 of I.
The Investigation of the Committee	The investigation conducted by the Committee from September 29, 2021 to December 28, 2021	Section 2 of II.
The Whistleblowing Document	The written internal accusation indicating the EN Suspicious Misconduct and a suspicion that OST's internal audit office has been concealing the EN Suspicious Misconduct	Section 1 of I.
The Suspicious Misconduct	A collective term for the EN Suspicious Misconduct and the suspicion of inappropriate accounting at OS, OST and OST's Subsidiaries other than EN	Section 4 of I.
Mobile Communications	Mobile Communications Co., Ltd.	Section 2(3) of III.

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 Misconduct"), 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 Misconduct, 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 Misconduct.

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 Misconduct detected through the Internal Investigation;
(ii) To examine cases analogous to the EN Suspicious Misconduct 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))

OS appointed, at the meeting of its Board of Directors held on September 29, 2021, in accordance with the background described in Section 1 above, Norihiro Sekiguchi (Attorney-at-law), Ayumi Uzawa (Certified Public Accountant and Certified Fraud Examiner), and Kayo Henmi (Attorney-at-law), none of whom have any relationship as an interested party with OS and its subsidiaries and equity-method affiliates (collectively, the “OS Group”), as members of the Committee, and elected Norihiro Sekiguchi (Attorney-at-law) as its chairman.

Also, the Committee has designated as its assistants, attorneys-at-law belonging to Oh-Ebashi LPC & Partners (Tokyo Office), Yuki Tsuchiya, Mami Kadono, Yuya Oyagi and Yusuke Koketsu, and certified public accountants belonging to KPMG FAS Co., Ltd., Toshifumi Takaoka, Eiji Suga, Takayuki Yamaguchi, Hiroyuki Tokoi, and sixteen (16) other persons, as well as six (6) additional persons, including certified public accountants, belonging to KPMG AZUSA LLC.

While a part of the assistants belonging to KPMG FAS Co., Ltd also took part as assistants in the Internal Investigation, it was decided that they should continuously participate as assistants to the Committee considering that it is preferable to smoothly share the result of the Internal Investigation in order to complete the Investigation under the time constraints.

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 EN Suspicious Misconduct 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 (collectively, the EN Suspicious Misconduct, the suspicion of inappropriate accounting at OS and OST’s subsidiaries other than EN are referred to as the “Suspicious Misconduct”). Therefore, the Committee decided to perform a thorough investigation by including OS within the scope of the investigation.

The Committee conducted the investigation in accordance with the aforesaid “Guidelines for Third-Party Committees Relating to Corporate Scandals.”

II. Outline of Investigation Procedures

1. Investigation Period

From September 29, 2021 to December 28, 2021

The Committee held nineteen (19) meetings in total during the said investigation period.

2. Summary of Investigation Procedures

The investigation procedures implemented by the Committee (the "Investigation of the Committee") are outlined as follows:

(1) Verification and Scrutiny of the Relevant Materials

The Committee reviewed, to the extent deemed necessary, relevant materials concerning the Suspicious Misconduct disclosed by OS such as internal regulations and written reports, minutes and meeting materials of the respective meeting bodies, accounting data, as well as various vouchers and documentary evidence of the respective companies of the OS Group.

(2) Interview with Relevant Personnel

The Committee conducted interviews with officers, current and former employees and other relevant personnel comprising forty-seven (47) persons in total. Specific interviewees are as set forth in Appendix 1.

In addition to the above, in order to determine the accounting impact of the Suspicious Misconduct, the Committee conducted interviews with employees, and made inquiries to the Accounting Auditor as appropriate.

While the Committee requested interviews with former officers and former employees of the OS Group in addition to those specified in Appendix 1, since the Committee received a reply from OS that OS could not obtain cooperation from the persons in question, the Committee could not conduct the said additional interviews.

(3) Investigation through Digital Forensics

The Committee preserved e-mails and chat data sent and received on and after January 1, 2016 by thirty-two (32) officers and employees of the OS Group from the archive system which had exhaustively stored them. The Committee imported any and all electronic data preserved as aforementioned into a dedicated environment for the review, and analyzed those deemed necessary by the Committee. Details of the persons subject to the preservation of data are as stated in Appendix 2.

(4) Questionnaire Investigations

The Committee implemented investigations through questionnaires (the "Questionnaire Investigations") to officers and office employees (excluding dispatched employees, interns,

seconded employees or the like) as well as persons in charge of accounting at all of the subsidiaries of OST (the "OST Subsidiaries") inquiring whether or not certain persons questioned were involved in the Suspicious Misconduct, the outline and cause thereof, as well as, in addition to the Suspicious Misconduct, whether any inappropriate transactions existed or not, and the details thereof, the environment of internal control, and the like. The Committee obtained responses as follows:

	Subject of the Questionnaire	Number of People Questioned (unit: persons)
1	OS	836
2	Accounting divisions of OST and its subsidiaries	990
	Number of the people who responded (Collection rate for either of items 1 or 2 above was 100%; although the number of people who have been absent from work for a long period of time or the like was excluded from the number of people questioned.)	1826

With regard to responses obtained through the Questionnaire Investigations, the Committee implemented interviews with the responding parties who provided information for which verification was deemed necessary.

(5) Information Gathering through Establishment of an Information Supplement Desk

The Committee established a desk for the supply of information in relation to whether inappropriate accounting existed or not, the details thereof, and other issues on internal control, and caused OST and the OST Subsidiaries (collectively, the "OST Group") to extensively supplement the information. Since the Committee obtained four (4) instances of information as a result thereof, it implemented interviews with the informants, who provided information for which verification was deemed necessary.

3. Assumptions

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

- Although the investigation by the Committee was conducted in cooperation with the OS Group in good faith, 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 Section 2 above, and this report is not intended to be used for any other purpose.

III. Summary of the Company

1. Summary of the OS Group

(1) Summary of OS

Incorporation:	January 6, 1997
Market listed:	First Section of the Tokyo Stock Exchange, Inc.
Fiscal year-end:	December
Shareholding structure:	Mr. A (12.52%); The Master Trust Bank of Japan, Ltd. (Trust Account) (6.63%); JP MORGAN CHASE BANK 385632 (standing proxy: Settlement and Clearing Services Department, Mizuho Bank, Ltd.) (6.55%); Custody Bank of Japan, Ltd. (Trust Account) (6.24%); THE BANK OF NEW YORK MELLON 140051 (standing proxy: Settlement and Clearing Services Department, Mizuho Bank, Ltd.) (4.71%) (as of December 31, 2020)
Representative:	Mr. A
Issued capital:	JPY 25,229,567,643 (as of May 14, 2021)
Head office:	1-8-3 Marunouchi, Chiyoda-*ku*, Tokyo
Number of employees:	93,028 persons (consolidated as of December 31, 2020)
Description of business:	Domestic Engineering Outsourcing Business; Domestic Manufacturing Outsourcing Business; Domestic Service Operations Outsourcing Business; Overseas Engineering Outsourcing Business; and Overseas Manufacturing and Service Operations Outsourcing Business.
Accounting auditor:	Deloitte Touche Tohmatsu LLC
Organization:	The organization structure of OS is set forth in Appendix 3.

(2) Composition of the OS Group

The OS Group consists of OS, two hundred and six (206) consolidated subsidiaries and three (3) equity-method affiliates as of the end of December 2020. The status of the major related companies (excluding entities comprising the OST Group) is as follows (based on the Annual Securities Report of OS for its fiscal year ended December 2020):

Name	Location	Issued capital	Description of main business	Ratio of voting rights holding (held) (%)
(Consolidated subsidiaries) PEO Co., Ltd. ("PEO")	Nakamura-*ku*, Nagoya-*shi*	JPY 50 million	Domestic Manufacturing Outsourcing Business	100.0
AVANCE HOLDINGS Co., Ltd. ("AVANCE HOLDINGS")	Ichinomiya-*shi*, Aichi	JPY 50 million	Domestic Manufacturing Outsourcing Business	53.9
AVANCE CORPORATION	Ichinomiya-*shi*, Aichi	JPY 50 million	Domestic Manufacturing Outsourcing Business	100.0

Name	Location	Issued capital	Description of main business	Ratio of voting rights holding (held) (%)
AMERICAN ENGINEERING CORPORATION (OKINAWA) (“AEC”)	Delaware, U.S.A.	USD 200,000	Domestic Service Operations Outsourcing Business	100.0
OTS Inc. (“OTS”)	Chiyoda-*ku*, Tokyo	JPY 275 million	Domestic Service Operations Outsourcing Business	100.0
ORJ Inc. (“ORJ”)	Kita-*ku*, Osaka	JPY 50 million	Domestic Manufacturing Outsourcing Business	100.0
OS (THAILAND) CO., LTD.	Bangkok, Thailand	THB 5 million	Overseas Manufacturing and Service Operations Outsourcing Business	49.0
PT. OS SELNAJAYA INDONESIA (“OS SELNAJAYA”)	Jakarta, Indonesia	IDR 6,599 million	Overseas Manufacturing and Service Operations Outsourcing Business	49.0
OS VIETNAM CO., LTD. (“OS VIETNAM”)	Hanoi, Vietnam	USD 400,000	Overseas Manufacturing and Service Operations Outsourcing Business	100.0
(Equity-method affiliate) PEO Construction Machinery Operators Training Center Co., Ltd.	Chiyoda-*ku*, Tokyo	JPY 20 million	Business of providing various trainings, including technical courses on operation of construction machinery	51.0

(3) Corporate History of the OS Group

OS was incorporated in Suruga-*ku*, Shizuoka-*shi*, Shizuoka, with the objective of operating contract services on production lines through a succession of the businesses of Chubu Sougou Inc. (the company name was changed to Work System Inc. in April 1988) founded by Mr. A, the current Representative Director, and its five (5) spin-off companies, with the intent to solidify the management policy, converge their management resources and promote administrative efficiency.

The corporate history of the OS Group after the incorporation of OS is as follows (based on the Annual Securities Report of OS for its fiscal year ended December 2020; *see* Sections 2 and 3 below for the OST Group and EN respectively):

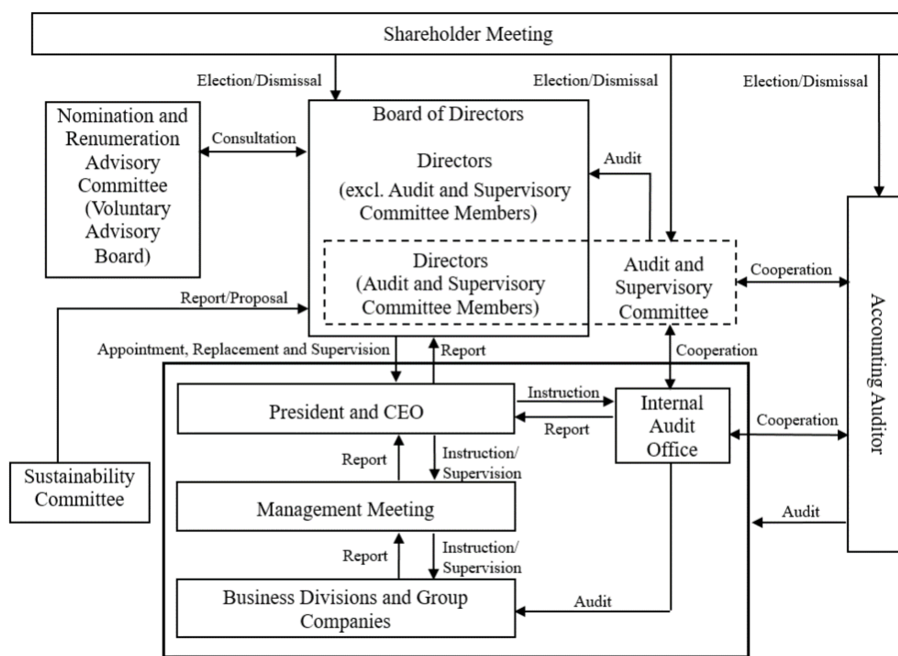
January 1997	Founded OS in Inagawa, Suruga-*ku*, Shizuoka-*shi* with the objective of operating contract services on production lines, which succeeded the buiness of Work System Inc. and five (5) other companies.
May 2001	Relocated the head office to Minami-*cho*, Suruga-*ku*, Shizuoka-*shi*.
February 2004	Obtained the license to operate as a service provider of general worker dispatching undertakings.
December 2004	Listed on the Jasdaq Securities Exchange, Inc. (currently the Tokyo Stock Exchange JASDAQ (Standard)).
January 2005	Obtained the license to operate as a provider of fee-charging employment placements.
March 2009	Absorbed FREE WORK CO., LTD. and relocated the head office to Chayamachi, Kita-*ku*, Osaka-*shi*. In association with the merger, acquired DAISEI ENGINEERING CO., Ltd. (currently ORJ), converting the same into a subsidiary.
June 2009	Acquired FULLCAST CENTRAL CO., LTD (currently EN) as a subsidiary.
August 2009	Acuired all shares of RPM Co., Ltd. (“RPM”) and TryAngle Co., Ltd. (“TryAngle”), companies specializing in pharmaceuticals, medical equipment and chemical products, converting them into wholly owned subsidiaries.
November 2009	Converted Seishow Co., Ltd. (currently OST), specializing in R&D outsourcing and engineer dispatching services, into a subsidiary.
March 2010	Relocated the head office to Minami-*cho*, Suruga-*ku*, Shizuoka-*shi*.
April 2010	Listed on the Osaka Securities Exchange JASDAQ (currently the Tokyo Stock Exchange JASDAQ (Standard)) in line with the merger of Jasdaq Securities Exchange, Inc. and Osaka Securities Exchange, Co.
July 2010	EN, a subsidiary, absorbed subsidiaries Out Sourcing Central Inc. and Yasutomo Ltd., and changed its trade name to Out Sourcing Central Inc.
July 2010	Relocated the head office to Koya-*machi*, Aoi-*ku*, Shizuoka-*shi*.
July 2011	Established PT. OS ENGINEERING & CONSULTANT INDONESIA, a subsidiary, and started operations in Indonesia.
March 2012	Listed on the Second Section of the Tokyo Stock Exchange.

May 2012	Out Sourcing Central Inc., a subsidiary, made an absorbtion-type company split whereby the business pertaining to the manufacturing division was succeeded by OS and the business pertaining to the technical division was succeeded by OST respectively, and changed its trade name to "Enable Inc."
June 2012	Delisted from the Osaka Securities Exchange JASDAQ (currently the Tokyo Stock Exchange JASDAQ (Standard)).
July 2012	Relocated the head office to Chiyoda-*ku*, Tokyo.
March 2013	Listed on the First Section of the Tokyo Stock Exchange.
January 2015	Acquired all shares of KDE Holding Corporation (absorbed by Kyodo Engineering Corporation ("Kyodo Engineering") in January 2019), converting it into a wholly owned subsidiary, thereby Kyodo Engineering, a subsidiary of KDE Holding, became a subsidiary.
April 2017	Acquired all shares of AEC, converting it into a subsidiary.
August 2018	Acquired all shares of Advantec Co., Ltd. ("ADVANTEC"), converting it into a subsidiary. As a result of this, Advantec Kensyu Center Co., Ltd, the aquiree's subsidary, also became a subsidiary.
January 2019	Conducted a share for share exchange, converting OST into the wholly owning parent company, and converting Kyodo Engineerng, ADVANTEC and TryAngle into wholly owned subsidiaries.
April 2019	AEC acquired all shares of ORION CONSTRUCTION CORPORATION (GUAM), converting it to a subsidiary, and started operations in Guam.
August 2019	PEO acquired the shares of Hitachi Construction Machinery Operators Training Center Co., Ltd., converting it into an equity-method affiliate, and changed the trade name of the said affiliate to PEO Construction Machinery Operators Training Center Co., Ltd.
November 2020	Acquired all shares of AVANCE HOLDINGS Co., Ltd., converting it into a wholly owned subsidiary. As a result of this, AVANCE CORPORATION, ELEMENT CO., LTD. ("ELEMENT") and JUSTEC Co., Ltd., subsidiaries of AVANCE HOLDINGS Co., Ltd., became subsidiaries, and Avance Lifesupport, a releted company of AVANCE HOLDINGS Co., Ltd. became an equity-method affiliate.
August 2021	AVANCE CORPORATION absorbed ELEMENT.

(4) Summary of the Corporate Governance System at the OS Group

a. Corporate Governance System at OS

The summary of the corporate governance system at OS is as described below:



At OS, the Board of Directors, which holds its meetings once a month, determines material managerial matters and monitors the execution of business, and, as a company with an audit and supervisory committee, the Audit and Supervisory Committee audits the status of the execution of business and other related matters.

As of the date of the preparation of this report, seven (7) of eleven (11) Directors are External Directors (including six (6) independent External Directors), four (4) of which are Audit and Supervisory Committee Members (including a Full-time Audit and Supervisory Committee Member).

The Audit and Supervisory Committee, which convenes its meetings once a month, audits the execution of duties by Directors, prepares audit reports, and determines its audit policy, annual audit plan and other related matters. In addition, it carries out hearings with Directors through questionnaires or face-to-face interviews from time to time whereby exchanging opinions can take place.

Furthermore, the Audit and Supervisory Committee holds meetings with the Accounting Auditor once a month (until 2019: quarterly) whereby exchanging opinions concerning financial audits can take place.

The Accounting Auditor has been appointed to the position of accounting auditor since 2000 to the date of the preparation of this report.

b. Structure of Officers of OS (as of August 1, 2021)

Directors:	Mr. A	(Representative Director, Chairman and CEO; Head of the CEO Office and the Internal Audit Office)
	Mr. B	(Executive Vice President; Head of the Business Management Division)
	Mr. C	(Senior Executive Director; Head of the Manufacturing & Service Business Division; and Head of the Technology Business Division)
	Ms. D	
	Mr. E	(External Director)
	Ms. F	(External Director)
	Ms. G	(External Director)
	Mr. H	(External Director; Full-time Audit and Supervisory Committee Member)
	Mr. I	(External Director; Audit and Supervisory Committee Member)
	Mr. J	(External Director; Audit and Supervisory Committee Member)
	Mr. K	(External Director; Audit and Supervisory Committee Member)

c. Internal Audit Office

The Internal Audit Office was created as an audit division directly controlled by the President and independent from the divisions responsible for the execution of business, to which eight (8) members, including its Head, are allocated. It is prescribed that the subject organs of the audit are relevant internal divisions and related companies of the OS Group, and that it shall conduct financial audits concerning the handling of accounting records, administration and preservation of various assets, as well as operational audits concerning the status of compliance with laws and regulations, efficacy and efficiency as to the business activities (Article 4 of the Internal Audit Rules). The internal audits are classified into regular audits pursuant to the audit schedule and temporary audits to be performed under the instructions of the President (Article 5 of the Internal Audit Rules).

In cases where any matter to be improved is found in the audit, a written instruction for improvement shall be sent to the responsible person(s) of the subject divisions and Audit and Supervisory Committee Members. In response thereto, the responsible person(s) of the subject divisions shall improve the matters pointed out therein and submit a written report by the due date designated for improvement, containing measures taken to improve and other relevant matters (Articles 18 and 20 of the Internal Audit Rules).

As for the results of the audits, it was found that written reports on internal audits are prepared and reported to Mr. A approximately four (4) times a year.

As to the status of carrying out the audits, the on-site audits of the respective domestic business premises and divisions have been performed. In addition thereto, the on-site audits of the related companies in Japan once every few years have been performed. The on-site audits have covered approximately three (3) overseas related companies every year (as for the period before the spread of COVID-19, covering five (5) to six (6) companies every year) have been performed. While, in or before the period fiscal year ended December 2018, audits by OS's Internal Audit Office were also performed on OST and the OST's Subsidiaries, it was found that, after OST started the preparation for listing, audits of OST and the OST's Subsidiaries have not been performed from the viewpoint of ensuring the independency of OST.

As to the coordination with other organs, summaries of the results of the internal audits which contain the annual progress in line with the audit plan and material issues found have been prepared quarterly and reported to the Audit and Supervisory Committee. Furthermore, information has been exchanged with the Accounting Auditor, and findings have been addressed as necessary.

d. The Whistleblowing System

A whistleblowing system has been established, under which *Roudou* Newspaper Company has been designated as the outside contact desk in relation to OS and its group companies in Japan, and, in relation to overseas group companies, foreign local attorneys in their respective regions have been designated as the same (Internal Whistleblowing Rules have not been stipulated).

As to the notification of the outside contact desk for whistleblowing, a card for the purpose of the notification thereof has been distributed to each employee upon joining the company, containing information stating that whistleblowing shall be accepted by way of telephone, facsimile, postal mail or through a web form.

(5) System of Budget Planning and Control for Subsidiaries

Pursuant to the Rules on Administration of Related Companies of OS, the formulation of business plans for subsidiaries are matters to be approved by the Board of Directors of OS, and variations from the budget are matters to be reported to the Board of Directors of OS, the Management Conference, Head of Business Management Division and officers in charge thereof (Article 4 of the Administration Rules of Related Companies, List of Official Duties and Authorities at Related Companies, as well as List of Official Duties and Authorities at Companies with a Special Relationship).

At the Board of Directors of OS, in relation to the financial results of the entire OS Group, operating performance and the status of variations from the budget have been explained by Mr. C, Senior Executive Director and Head of the Manufacturing & Service Business Division, and Mr. L, Representative Director and CEO of OST governing the Domestic Engineering Outsourcing Business.

As to budget planning and control regarding the achievement of the budget at the OS Group, trilateral meetings are held approximately quarterly among Mr. B, Executive Vice President and Head of Business Management Division of OS, Mr. C and Mr. L. It is said that planning of a consolidated budget for the entire OS Group and creation of KPI reports on respective manufacturing and engineering divisions took place thereat.

As to ordinary control with respect to achievement of the budget, the budget control team established directly under the Business Management Division of OS is responsible therefor. In addition, the respective subsidiaries of OS report the status of the achievement of the budget by way of a weekly report and through other means. In the event that they experience a decline in performance, relevant information has been shared through inquiries by OS with respect to the

reason therefor or on other matters.

Representatives for administration of respective subsidiaries are allocated to a part of the divisions of OS. It is prescribed that reports or requests for any approval from the Board of Directors of OS or other relevant bodies shall be made through such administrative divisions of OS (Articles 8 and 9 of the Administration Rules of Related Companies). Under the current specific allocation, supervision through respective divisions of OS has been performed. For instance, overseas engineering subsidiaries have been controlled by the Overseas Technology Business Division, which is directly supervised by Mr. C (however, OST administers related companies handling the Domestic Engineering Outsourcing Business, since they are consolidated as OST's Subsidiaries).

2. Summary of the OST Group

(1) Summary of OST

Incorporation:	December 7, 2004
Fiscal year-end:	December
Representative:	Mr. L
Issued capital:	JPY 483,654,000 (as of December 31, 2020)
Head office:	1-8-3 Marunouchi, Chiyoda-*ku*, Tokyo
Number of employees:	21,874 persons (consolidated as of April 30, 2021)
Description of business:	Engineers staffing as well as contracting development in the field of IT, mechanical, electronic, electrical and software fields, job placement services (job placement for professionals), corporate networking, import/export, sale, design/formulation, maintenance, and other technical services for hardware/software services related to computers, as well as information and telecommunications systems for enterprises.
Organization:	The organization structure of OST is as set forth in Appendix 4.

(2) Management Organization of OST (such as shareholders and directors) (as of August 1, 2021)

Shareholder:	OS (100%)	
Directors:	Mr. L	(President and Representative Director in charge of the Office of the President, the Internal Audit Office, and the PR & Branding Office)
	Mr. M	(Director and Division Director of Business Management)
	Mr. N	(External Director)
	Mr. O	(External Director)
	Mr. P	(External Director; Full-time Audit and Supervisory Committee Member)
	Mr. Q	(External Director; Audit and Supervisory Committee Member)
	Mr. H	(Audit and Supervisory Committee Member)
Corporate Officers:	Mr. R	(Head of representative office; Division Director of R&D

Department)

Mr. S (Head of representative office; Division Director of Solution Service Department)

Mr. T (Head of representative office; Division Director of Human Resources Strategy Department)

Mr. U (Representative of Kyodo Engineering Corporation)

Mr. V (In charge of group company management)

(3) Composition of the OST Group

The status of the OST Subsidiaries and an equity-method affiliate of OST is as follows:

Company Name	Description of business	Ratio of capital contribution (%)
(Consolidated subsidiaries) EN	Domestic Engineering Outsourcing Business and other business (electricity, electronics, transportation equipment)	99.5
RPM	Domestic Engineering Outsourcing Business (pharmaceutical and medical-related)	100
ADVANTEC	Domestic Engineering Outsourcing Business (pharmaceutical and medical-related)	100
Thinketh Bank Co., Ltd. (“Thinketh Bank”)	Computer engineer training school business, IT system & program development business (operation contracting), and corporate education and training services	100
KEN Technology Co., Ltd.	Domestic Engineering Outsourcing Business (IT and robotics)	100[1]
Kyodo Engineering	Domestic Engineering Outsourcing Business (Construction and plant-related)	100
Mobile Communications Co., Ltd. (“Mobile Communications”)	Domestic Engineering Outsourcing Business (IT and robotics)	100
Advantec Kensyu Center Co., Ltd.	Domestic Engineering Outsourcing Business (pharmaceutical and medical-related)	100[2]
Gray (Dalian) Information Technology Co., Ltd.	Domestic Engineering Outsourcing Business (Other business)	100
OUTSOURCING Communications Co., Ltd.	Domestic Engineering Outsourcing Business (IT and robotics)	100
SANGATECH Co., Ltd.	Domestic Engineering Outsourcing Business (Electricity, electronics, transportation equipment)	100
Smart Robotics Co., Ltd.	Domestic Engineering Outsourcing Business (IT and robotics)	93.6

[1] It is said that all shares represented by this holding ratio of voting rights in the company are owned indirectly.
[2] It is said that all shares represented by this holding ratio of voting rights in the company are owned indirectly.

Company Name	Description of business	Ratio of capital contribution (%)
Multi Tec Co., Ltd.	Domestic Engineering Outsourcing Business (Construction and plant-related)	100
Itec Co., Ltd.	Domestic Engineering Outsourcing Business (IT and robotics)	100
OS Investment Fund	Equity investment in corporations and other entities	91.7
(Equity-method affiliate) FUJITSU GENERAL OS TECHNOLOGY LIMITED	Domestic Engineering Outsourcing Business	40.0

(4) Corporate history of the OST Group

Corporate history of the OST Group is as follows:

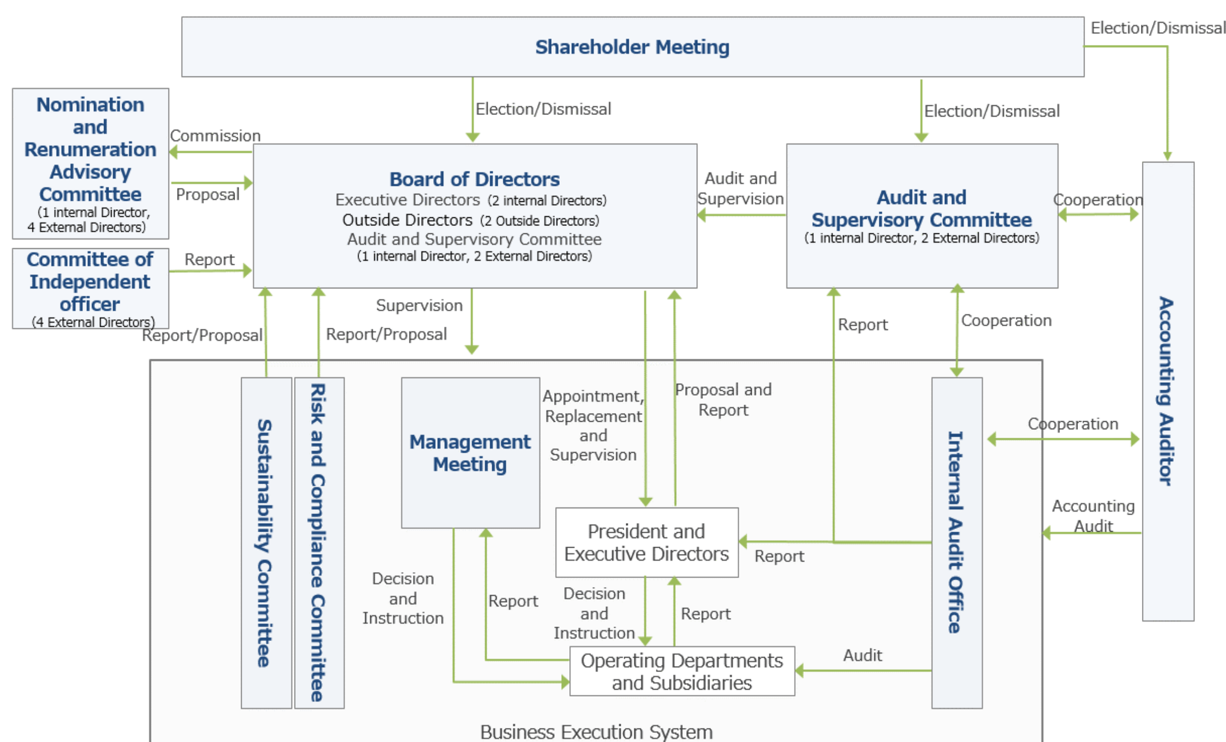
October 2004	(Former) SEISHOW CO., Ltd. was incorporated through a company split of Sinyo Sanwatechnos Co., Ltd. (currently Sinyo [Co., Ltd.]).
December 2004	Sinyo Sanwatechnos Co., Ltd. (currently Sinyo [Co., Ltd.]) established SEISHOW Management Co., Ltd.
February 2005	SEISHOW Management Co., Ltd. acquired (former) SEISHOW Co., Ltd. converting it into a subsidiary.
April 2005	SEISHOW Management Co., Ltd. absorbed (former) SEISHOW Co., Ltd. through an absorption-type merger and changed its trade name to "SEISHOW Co., Ltd."
November 2009	OS acquired 81.04% of the shares of SEISHOW Co., Ltd., converting it into a subsidiary.
October 2010	OS acquired 18.96% of the shares of SEISHOW Co., Ltd., converting it into a wholly owned subsidiary.
April 2011	SEISHOW Co., Ltd., changed its trade name to "OUTSOURCING TECHNOLOGY Inc." (currently OST).
April 2014	OST acquired Out-Sourcing! System Consulting Inc. through an absorption-type merger, and in association therewith, OST acquired INS Solution Co., Ltd., Thinketh Bank and Gray (Dalian) Information Technology Co., Ltd. converting them into subsidiaries.
April 2016	OST acquired all shares of Mobile Communications, converting it into a subsidiary.
January 2017	As a part of an organizational restructuring of OS, OST acquired shares in EN from OS, thereby converting it into a subsidiary.
January 2018	Thinketh Bank established KEN Technology Co., Ltd. through a company split.
January 2018	OST acquired shares in GLocal Co., Ltd. ("GLocal"), thereby converting it into a subsidiary. As a result, Innocence Co., Ltd., a subsidiary of GLocal (absorbed by GLocal, an OST's subsidiary, in May 2018) also became a subsidiary.

January 2019	Conducted a share for share exchange whereby OST became a wholly owning parent company resulting therefrom, and converting RPM, Kyodo Engineerng, ADVANTEC and TryAngle into wholly owned subsidiaries.
December 2019	OST acquired all shares of SANGATECH Co., Ltd., converting it into a subsidiary.
January 2020	OST absorbed GLocal.

(5) Summary of the Corporate Governance System at the OST Group

a. The Corporate Governance System at OST

The summary of the corporate governance system at OST is as follows:



At OST, material managerial decision making and supervision of the execution of business have been carried out at the regular meetings of the Board of Directors held once a month. Concurrently therewith, as a company with an audit and supervisory committee, the Audit and Supervisory Committee (consisting of one (1) internal Director and two (2) External Directors) audits the status of the execution of business and other related matters. The meetings of the Audit and Supervisory Committee are convened regularly once a month in principle, and shall be temporally held from time to time as necessary.

The Accounting Auditor has been appointed as an accounting auditor since the fiscal year ended December 2019 to the date of the preparation of this report.

Also, in order to make prompt decisions concerning the execution of business, OST has adopted a system of corporate officers, and concurrently therewith, established bodies concerning the

execution of material business at OST (including the Management Meeting), which convene their meetings twice a month in principle. Matters concerning the execution of business on which no resolution shall be made at the meetings of the Board of Directors are entrusted to corporate officers, each of whom executes his/her duties in the field he/she is responsible for under the supervision of the Representative Director and other executive Directors.

Furthermore, in order to ensure transparency of the management, voluntary committees (including independent committees), which were established through a resolution of the Board of Directors, deliberate and make decisions on matters entrusted thereto by the Board of Directors.

b. Internal Audit Office

The Internal Audit Office has been created as a division in charge of the internal audit, to which three (3) persons, including its Head, have been allocated as of June 2021.

It is said that, since the fiscal year ended December 2019, internal audits focusing on the operational audits have been conducted to determine whether the organizational activities at the OST Group are performed fairly and efficiently in compliance with laws, regulations, and internal rules, as well as its management policy. As to the status of the implementation of audits, they have been conducted once a year in principle on all business entities and locations comprising the OST and its fifteen (15) consolidated subsidiaries.

Also, it is said that the results of audits have been directly reported to the Representative Director & CEO, while matters of concern have been pointed out to the relevant divisions and improvements have been requested, the status of which has been followed up by the Internal Audit Office.

c. Whistleblowing System

It is said that the whistleblowing system has been operated pursuant to the Internal Whistleblowing Rules created on April 1, 2007 (amended on August 1, 2019).

It is said that both internal and external contact desks addressing any whistleblowing by officers, employees or the like have been established. It is said that this system has been effectuated in a manner whereby handling of and addressing whistleblowing have been performed by the secretariat for the Risk and Compliance Committee as the internal contact desk, and by company A as the external contact desk. It is said that the whistleblowing in the OST Subsidiaries are collectively administered by OST.

(6) Circumstances in Preparation for the Listing of the OST Stock

a. Background to OST's Pursuit of Listing

OST is engaged in the domestic engineering outsourcing business, and, in view of the excellent business environment at that time for temporary staffing of IT engineers and other relevant elements, and in order to accelerate the development of the domestic and overseas engineering outsourcing business through making the most of the publicity and credibility that are conferred to a listed

company, OST started initial consideration of the listing of its stock from July 2018, improved and strengthened its system of internal control, and then proceeded to prepare for the listing of the OST stock at the Tokyo Stock Exchange.

b. Transfer of Officers and Organizational Changes and Other Measures to Ensure Independency from the Parent Company in Preparation for the Listing

In preparation for the listing of the OST stock, Mr. L, then current Senior Executive Director of OS, resigned from the office of Director of OS in August 2019 to ensure independency from OS, the parent company, and Mr. M, then current Executive Director of OST who had been concurrently serving at OS, was transferred to OST in April 2019, and Messrs. S and R, who were Corporate Officers of OST, resigned from their offices as full-time Corporate Officers in March 2019.

Furthermore, in order to build a highly independent governance system, Messrs. P and Q took their offices of External Director of OST in April 2019, as did Mr. O in February 2020. Mr. H, External Director and a Full-time Audit and Supervisory Committee Member of OS, took his office of Director and Audit and Supervisory Committee Member at OST in April 2019, and Messrs. S and R, then current Directors of OST, resigned from their offices in December 2019 and took their offices as Corporate Officers at OST in January 2020.

Furthermore, Mr. B, then current Director of OST, resigned from the office in July 2019, and Mr. V, then current Director of OST, resigned from the office in January 2020, respectively.

OST, in the course of the preparation for the listing, entered into a written agreement as of September 16, 2020 with OS concerning the manner of the group governance, whereby OS consented that it shall not be involved in the managerial decision making and business operations at OST, and that officers and employees of OS shall not be involved in any conference body at OST, concurrently hold the position of an officer or an employee, or be temporarily assigned to OST, and be involved in any appointment or remuneration of any officer of OST.

c. Status of Discussions between OS and OST concerning Core Subsidiaries

With respect to the listing of the stock of subsidiaries that play a significant material role in their group's business model, subsidiaries accounting for approximately half of the revenue and managerial resources of their group, and other core subsidiaries, the Tokyo Stock Exchange and other institutions expressed their view thereon, stating, "we will comprehensively consider the characteristics of its business, scale of operation, status of performance, potential for earning and other aspects carefully when we examine the listing application" (the "View of the Securities Exchange on the Listing of Core Subsidiaries" dated October 29, 2007).

In this regard, while the operating profit of the OS Group in the fiscal year ended December 2018 was JPY 15,073 million, the operating profit of the domestic engineering outsourcing business controlled by the OST Group was JPY 8,529 million, thus OST was deemed as an entity constituting a core subsidiary. Based on the foregoing, in or around 2019, the concern in preparation for the

listing shifted to increasing the operating profits of the Domestic Manufacturing Outsourcing Business at OS from the view point of OST being found to be a core subsidiary of OS.

d. Application for the Listing to the Tokyo Stock Exchange and Withdrawal Thereof

OST judged that the internal corporate structure had been sufficiently improved in preparation for the listing pursuant to the aforementioned preparation therefor, and applied for the listing to the Tokyo Stock Exchange in June 2021.

However, it was found that OST decided, taking into account the fact that, not only the EN Suspicious Misconduct, but also the Suspicious Misconduct, were found after the establishment of the Committee, to withdraw the application for the listing to the Tokyo Stock Exchange.

3. Summary of EN

(1) Summary of EN

Incorporation:	March 15, 2005
Fiscal year-end:	December
Representative:	Mr. W
Shareholder:	OST (99.5%)* * Since January 2017; before which OS was the parent company.
Issued capital:	JPY 100 million (as of December 31, 2020)
Head office:	1-36 Otsuzaki, Ogakie-*cho*, Kariya-*shi*, Aichi
Number of employees:	330 persons (as of December 31, 2020)
Description of business:	Engine testing services on consignment, design/development/ experiment for transport equipment and parts of transport equipment, import/sale of racing parts, development/manufacturing for CNG vehicles, and engineer staffing business.
Organization:	A company with the board of directors and a company with corporate auditors.

(2) Organizational Structure at EN

At EN, although the organizational structure has been changed, the Technology Business Division, the Sales Division, and the Management Division were established under President and Representative Director on December 1, 2018. As of September 1, 2021, the Testing Department, the Development Department, the Human Resources Department were established in the Technology Business Division, and the East Japan Sales Department, the West Japan Sales Department and AP Department were established in the Sales Division, and the Accounting Department and the General Affairs & Human Resources Department were established in the Management Division.

In addition to the Head Office, EN has main sales branches which are, as of December 31, 2020, the Gyoda Branch (Gyoda-shi, Saitama), Toyota Office (Toyota-shi, Aichi), Hekinan Design Center (Hekinan-shi, Aichi), Seisho Technical Center (Odawara-shi, Kanagawa), Mortar Labo (Chita-shi, Aichi), Kobe Technical Center (Kobe-shi, Hyogo), and Yokohama Office (Yokohama-shi, Kanagawa).

(3) Corporate History of EN

Corporate history of the EN is as follows:

April 2002	Yamako Enterprise Co., Ltd. was founded in Hekinan-*shi*, Aichi for the purpose of developing automobile engines and planning, importing, and developing high-performance parts.
March 2005	OS incorporated EN in Shizuoka-*shi* for the purpose of production outsourcing and contracting business specialized in the automotive industry.
January 2006	EN acquired Yamako Enterprise Co., Ltd through the absorption-type merger.

December 2007	The issued capital was increased to JPY150 million.
July 2010	EN acquired Outsourcing Central Co., Ltd. and Yasutomo Co., Ltd. through the absorption-type merger in which EN is a surviving company, and changed its trade name to “Outsourcing Central Co., Ltd.”
May 2012	The trade name was changed to “enable Inc.”
December 2013	The issued capital was reduced to JPY 100 million.
January 2017	As part of the reorganization of OS, OST acquired all shares in EN from OS, thereby converting it to a wholly owned subsidiary.
February 2021	The inappropriate accounting related to the advance payment (as described VII 2 (4) below) was detected.
March 2021	Mr. X, the founder and President and Representative Director, resigned from his office, and Mr. W took the office of the President and Representative Director.

4. Summary of RPM

Incorporation:	May 12, 2008
Fiscal year-end:	December
Representative:	Mr. Y
Shareholders:	OST (100%)* *Since January 2019; before which OS had been the parent company since in August 2009.
Issued capital:	JPY 90 million (as of December 31, 2020)
Head office:	3-2-4 Nishi-Shinjuku, Shinjuku-*ku*, Tokyo
Number of employees:	242 persons (as of December 31, 2020）
Organization:	A company with the board of directors and a company with corporate auditors.
Description of business:	Services of clinical research for pharmaceuticals and medical devices; services of post-manufacturing-and-sales investigations and clinical research work on consignment; and services of clinical research work on consignment for food products and the like.

IV. Transition of Financial Results of the OS Group

1. Profit and Loss of the OS Group

According to the Annual Securities Report submitted by OS for the fiscal year ended December 2020, the consolidated financial results of OS from the fiscal year ended December 2015 to the fiscal year ended December 2020 are as follows:

(Millions of yen)

Fiscal Year	December 2015	December 2016	December 2017	December 2018	December 2019	December 2020
Revenue	80,871	134,283	230,172	311,311	361,249	366,711
Operating profit	3,111	5,672	11,360	15,073	15,342	14,337
Profit before tax	2,890	4,988	10,395	13,037	13,319	9,143
Profit for the year	1,808	3,472	6,929	8,664	8,975	4,088
Total equity	11,827	15,019	26,757	58,277	65,040	68,200
Dividends (yen)	35	42	19	21	24	10

* From the fiscal year ended December 2016, figures (excluding dividends) are based on the International Financial Reporting Standards (IFRS).

As described above, since the fiscal year ended December 2015, revenue of the OS Group has been increasing every fiscal year, and its profits have been on an increasing trend except for the fiscal year ended December 2020.

2. Profit and Loss by Segment

According to the Annual Securities Report submitted by OS for the fiscal year ended December 2020, the financial results of OS by segment from the fiscal year ended December 2015 to the fiscal year ended December 2020 are as follows:

(1) Fiscal year ended December 2015

(Millions of yen)

Segment	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Domestic Administrative Outsourcing Business	Domestic Job Placement Business	Overseas Engineering Business	Overseas Manufacturing and Service Operations Business	Other Businesses
Revenue	31,979	30,236	1,144	536	895	3,896	13,683	172
Segment profit	1,889	1,041	▲100	55	414	132	27	14
Segment assets	15,251	27,669	1,108	1,136	162	3,459	9,416	144

(2) Fiscal year ended December 2016

(Millions of yen)

Segment	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Domestic Administrative Outsourcing Business	Domestic Job Placement Business	Overseas Engineering Business	Overseas Manufacturing and Service Operations Business	Other Businesses
Revenue	40,761	36,371	3,614	885	1,388	21,189	32,893	672
Segment profit	2,936	1,366	▲258	278	647	688	1,448	38
Segment assets	19,171	59,810	1,657	1,552	246	9,956	29,037	229

(3) Fiscal year ended December 2017

(Millions of yen)

Segment	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Domestic Administrative Outsourcing Business	Domestic Job Placement Business	Overseas Engineering Business	Overseas Manufacturing and Service Operations Business	Other Businesses
Revenue	52,080	49,037	13,463	1,201	1,848	29,150	88,053	748
Segment profit	3,290	1,803	776	260	594	1,232	3,727	35
Segment assets	24,869	77,749	12,067	2,167	355	11,313	49,380	441

(4) Fiscal year ended December 2018

(Millions of yen)

Segment	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Domestic Administrative Outsourcing Business	Domestic Job Placement Business	Overseas Engineering Business
Revenue	73,638	63,811	18,232	36,732	122,658	917
Segment profit	7,267	7,294	1,371	1,720	2,649	53
Segment assets	34,642	121,270	11,879	22,014	70,907	619

(5) Fiscal year ended December 2019

(Millions of yen)

Segment	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Domestic Administrative Outsourcing Business	Domestic Job Placement Business	Overseas Engineering Business
Revenue	93,190	71,826	20,658	44,013	135,827	1,601
Segment profit	6,993	7,354	2,156	2,464	2,553	88
Segment assets	61,356	143,755	14,053	31,358	82,897	842

(6) Fiscal year ended December 2020

(Millions of yen)

Segment	Domestic Engineering Outsourcing Business	Domestic Manufacturing Outsourcing Business	Domestic Service Operations Outsourcing Business	Domestic Administrative Outsourcing Business	Domestic Job Placement Business	Overseas Engineering Business
Revenue	106,416	65,934	25,071	39,615	135,372	1,461
Segment profit	8,529	5,963	2,857	989	2,834	190
Segment assets	67,372	201,532	18,338	86,874	105,013	785

3. Profit and Loss of EN

According to the financial statements of EN for the fiscal year ended December 2020, the financial results of EN from the fiscal year ended December 2016 to the fiscal year ended December 2020 are as follows:

(Thousands of yen)

Fiscal Year	December 2016	December 2017	December 2018	December 2019	December 2020
Revenue	1,746,577	1,823,129	2,348,110	3,044,140	3,621,569
Operating profit	180,401	180,679	278,414	319,731	247,343
Ordinary profit	179,438	181,733	277,408	343,899	299,133
Profit for the year	119,802	123,581	576,186	204,391	171,537
Net Assets	1,433,956	1,557,537	2,133,724	2,338,116	2,509,653

V. Investigation Results concerning Suspicious Misconducts at OS

1. Overview of the Inappropriate Accounting at OS.

(1) Overview of Inappropriate Accounting

As a result of the investigation by the Committee, it was revealed that, at OS, the inappropriate accounting started around the fiscal year ended December 2013 at the latest.

The inappropriate accounting at OS mainly consisted of the method (i) inflated recognition of sales through sales transactions and expense transactions with the same business partners which is called "barter transactions," ("Inflated Recognition of Sales"), and (ii) recognition of expenses not in the fiscal year in which they should otherwise be recognized but in the subsequent fiscal year ("Deferral of Expenses").

With respect to the above (i) Inflated Recognition of Sales, expense transactions, which are reverse transactions of sales transactions, were conducted in the periods following the sales transactions. As a result, in the accounting periods in which the sales were recognized, the amount of sales recognized fell under the inflated amount of operating profits, and in the following periods, the amount of expense recognized (recruitment costs), as reverse transactions, decreased the amount of operating profits.

At OS, when the finalized results for the second or the third quarter of a fiscal year indicated they were highly unlikely to meet the initial budget target, in particular, the current operating profit, in order to meet the budget for sales and operating profit or to reduce the shortfalls as much as possible, they (i) sought the improvement of business performance through considering ordinary business policies and taking measures including cost and expense reduction, and also (ii) engaged in inflating operating profits through inappropriate accounting such as Inflated Recognition of Sales and Deferral of Expenses.

At OS, while ordinary business policies referred to in (i) above were called "organic recovery measures" or "catch-up," inappropriate accounting referred to in (ii) above was called "Legacy" by those engaged in such inappropriate accounting. Thus, in this report, the Inflated Recognition of Sales, Deferral of Expenses and other inappropriate accounting practices are hereinafter collectively referred to as the "Legacy."

(2) Beginning of the Legacy

As described above, the investigation found that the Legacy as an inappropriate way to inflate profits was conducted at OS from the fiscal year ended December 2013 at the latest.

The Committee obtained several statements to the effect that the Legacy had started when Mr. Z, who was the Senior Executive Director, Head of Manufacturing Business Division and Head of Strategic Business Division of OS at that time, engaged in inappropriate accounting using the term "Legacy." Although the Committee had requested an interview with Mr. Z, the interview was not carried out, and thus it cannot be determined exactly when the Legacy began and specifically why and how it was conducted.

In this regard, Mr. C stated that he started engaging in inappropriate accounting upon request of Mr. Z while in office. Regarding the cause and circumstances leading to, the commencement and continuance of such accounting, he stated that under the circumstances where OS was underperforming, Mr. Z's request caused him to start inappropriate accounting in an effort to improve the company's poor results even if the improvement was slight. After Mr. Z resigned from the director office of OS on November 29, 2016, his belief that such inappropriate accounting should not be conducted and the good corporate performance in the fiscal year ended December 2017 prevented him from engaging in inappropriate accounting in that fiscal year. However, because of the poor corporate performance in the fiscal years ended December 2018 and December 2019, the circumstances described below regarding employee bonuses and the listing of the OST stock, and lower profit caused by Deferral of Expenses incurred in the preceding fiscal year to the fiscal year ended December 2020, he again engaged in inappropriate accounting in these fiscal years. As stated above, it was discovered that the Legacy was carried out in the fiscal years ended December 2018, December 2019 and December 2020.

(3) Motives for the Legacy

As detailed in XI. 1 (1) below, background circumstances and motives for the aforementioned inappropriate accounting include an excessive focus on growth of OS, a desire to avoid an adverse effect on employee bonuses, and a request to inflate operating profits in preparation for the listing of the OST stock, which had been under consideration since June 2018 at OS.

(4) Planning and Conduct of the Legacy

The planning and conduct of the Legacy was initially arranged by Mr. C based on instructions from Mr. Z. After Mr. Z's resignation from the director office of OS on November 29, 2016, Mr. C instructed the managers of the departments in the Manufacturing & Service Business Division of which he was in charge, through a person in charge at the Business Administration Department (which was called the Business Management Department (jigyo-kanri-tokatsubu) before October 1, 2020; the same applies hereinafter), to plan and conduct the Legacy.

Specifically, for example, in the fiscal year ended December 2018, a person in charge at the Business Administration Department sent the following email (as in the original text) on July 19, 2018 to Mr. AA, the Managing Executive Officer, Deputy Head of Manufacturing & Service Business Division, Mr. AB, Mr. AC and managers of other division, instructing them to develop a Legacy plan.

> At today's Divisions Meeting, we need recovery measures for 800 million yen for the fiscal year ending December 2018.
> Will each of you please submit a plan for the recovery measures:
> (i) organic recovery measures for 60 million yen or more (of operating profit) each; and

> (ii) Legacy measures should be stated separately.
>
> Those who receive this email should state the recovery measures in an attached sheet and return it:
>
> By: noon of Tuesday 24th July
> To: ●●, Business Management Department (the Committee's note: person's name is confidential)

As described above, it was found that the managers of the departments in the Manufacturing & Service Business Division devised and carried out the Legacy plan.

In addition, the Legacy was carried out mainly in the 4th quarter of OS's fiscal year, i.e., October, November and December of each year.

The Legacy was conducted at the Domestic Manufacturing/Domestic Service Operations Outsourcing Businesses of the OS Group. Other than at OS, the Deferral of Expenses was conducted as part of the Legacy at PEO and ORJ which are subsidiaries of OS's Domestic Manufacturing/Domestic Service Operations Outsourcing Businesses. In this case, based on instructions from Mr. C, the person in charge at the Business Administration Department of OS instructed Mr. AA, the Representative Director and President of PEO, and a person in charge at ORJ and other relevant personnel to develop the Legacy plan, and managed the status of the proposed plan.

(5) Management of the Legacy

a. Necessity to Manage the Legacy

The Legacy conducted to inflate operating profits as described above mainly consisted of (i) the Inflated Recognition of Sales through barter transactions, and (ii) the Deferral of Expenses.

With respect to (i) the Inflated Recognition of Sales through "barter transactions," OS recognized sales from recruitment information and banner advertisement services provided on the recruitment website operated by OS to specific companies mainly in the 4th quarter of OS's fiscal year, i.e., October, November and December. In the subsequent fiscal year, OS made transactions, which was called "repayment," with those companies in the form of an order for the service for recruiting temporary staffs, etc. and recognized the service fees as recruitment costs. With respect to (ii) the Deferral of Expenses, OS recognized such deferred expenses as expenses incurred in the subsequent fiscal year.

As a result, for (i) the Inflated Recognition of Sales through "barter transactions," it was necessary to manage the transaction amounts to be "repaid" in the subsequent fiscal year, and also necessary to reflect the "repayment" transactions (recognizing of expenses) in the budget for the subsequent fiscal years. Likewise for (ii) the Deferral of Expenses, it was necessary to reflect the expenses

deferred to the subsequent year in the budget. Thus, Mr. C and other relevant personnel had to manage the Legacy.

In addition, since Mr. C and other relevant personnel were aware that the amount of the Legacy to be repaid corresponded to the expenses incurred in the previous fiscal year, they managed the Legacy to know the "actual level" of earnings less the expenses to be repaid during the ongoing fiscal year.

b. Method of Managing the Legacy

To manage the Legacy, specifically for example, a list named "Legacy Chart as of the end of June 2019 (Sensitive / Do not distribute)" (a list named Legacy Chart being hereinafter referred to as a "Legacy Chart") was prepared and managed.

The investigation revealed that there were the Legacy Charts for the fiscal years ended December 2016, December 2018 and December 2019. A person in charge at the Business Administration Department, based on instructions from Mr. C, collated the information on the status of the Legacy in each department, and prepared all of those Legacy Charts. As described in (2) above, in the fiscal year ended December 2017 for which a Legacy Chart was not prepared, OS was performing well and the Legacy was not conducted, while in the fiscal year ended December 2020, though a Legacy Chart was not prepared, it is found that the Legacy was conducted due to lower profits caused by the Deferral of Expenses incurred in the preceding fiscal year.

The purpose of preparing a Legacy Chart was, in the second half of each fiscal year, to know how much the implementation of the Legacy would allow them to inflate operating profits, and confirm and share what Legacy would be planned and conducted based on such knowledge; and in the first half of the subsequent fiscal year, to reflect the Legacy conducted in the preceding fiscal year in the budget and manage the status of repayment of the Legacy.

2. Outline of Each Practice as Part of Legacy

(1) Inflated Recognition of Sales

The Inflated Recognition of Sales is a method in which OS made a sales transaction and an expense transaction with the same business partner, thereby recognizing inflated sales (the expense transaction which serves as transaction in return for the sales transaction was made in the fiscal year subsequent to the one in which the sale transaction had been made).

This practice worked as follows: (i) OS charged fees to companies such as recruitment agents for banner advertisements and/or advertisement posts on the recruitment website X and/or for visiting schools on behalf of those companies to carry out recruitment activities. OS recognized sales for these services in one fiscal year and recognized recruitment costs in return for the sales to the aforementioned companies in the subsequent fiscal year (the "'Barter Transactions' with Recruitment Companies").

In addition to the above, (ii) in the fiscal year ended December 2019, OS conducted the Inflated

Recognition of Sales through "barter transactions" with Company b, which worked as follows: as a return for the expenses incurred by OST pertaining to software purchase from Company b, OS recognized fictitious sales to Company b in the form of recruitment website X banner advertisement fee (the "'Barter Transaction' with Company b").

Details about (i) Barter Transactions with Recruitment Companies and (ii) Barter Transactions with Company b are described in sections 3 and 4 below.

(2) Deferral of Expenses

a. Overview

The Deferral of Expenses worked as follows: expenses pertaining to (1) unit price adjustments, (2) signing bonuses, (3) transportation expenses, (4) media expenses, and (5) other expenses were recognized in the subsequent fiscal year despite being incurred in the preceding fiscal year.

b. Unit Price Adjustments

OS reduced rental expenses for the goods OS rented from Company c for the period of October through December under the pretext of "year-end special campaign," and added the expenses so reduced to the rental expenses in the subsequent fiscal year, thereby deferring recognition of the rental expenses (fiscal years ended December 2016, December 2018 and December 2019).

c. Signing Bonuses[3]

Signing bonuses were allowances paid by OS to job seekers who had applied for jobs through OS subject to their joining certain companies after their joining date.

For example, OS presented to job seekers in October 2019 "Signing bonus campaign application form" which included the following "Payment requirements" and "Payment method" (the "Application Form"). When a job seeker affixed his/her signature and name to the Application Form and satisfied the following "Payment requirements," a signing bonus would be paid to the job seeker named in the Application Form in accordance with the "Payment method" specified in the Application Form.

Payment requirements:
(i) Those who apply for a job and register with OUTSOURCING Inc., ORJ Inc. or PEO Co.,

[3] Since "Guidelines for Employment Placement Business Providers, Job Offerors, Persons Conducting Labor Recruitment, Commissioned Recruiters, Persons Conducting the Business of Provision of Recruitment Information, Labor Supply Business Providers, Persons Intending to Receive Labor Supply. to Properly Deal with Equal Treatment, Clear Indication of Working Conditions, Handling of Personal Information of Job Seekers, Responsibilities of Employment Placement Business Providers, Accurate Indication of Details of Recruitment, Responsibilities of Persons Conducting Labor Recruitment, Responsibilities of Labor Supply Business Providers, etc." (Public Notice of the Ministry of Labor No. 141 of 1999; Public Notice of Ministry of Health, Labour and Welfare No.162 last updated in 2021) was revised on April 1, 2021, it is prohibited as of the date of this report to encourage job seekers to apply for jobs by offering money to them in the form of "sign-on bonus." (Section 5-9 (3) of the same guidelines)

> Ltd.
> (ii) Those whose referral date is October 7, 2019 or after and who attended a selection meeting
> (iii) Those who joined any target company between November 1 and November 30, 2019
> Payment method:
> Payment will be made by OUTSOURCING Inc. to the designated account on January 20, 2020.

Therefore, if the payment requirements described above were satisfied, OS should have recognized signing bonuses as expenses (fees paid) in the month when job seekers joined target companies. Despite that, OS took advantage of the absence of internal rules regarding recognition of signing bonuses and recognized them as expenses in the month which included the payment date specified in "Payment method" in the Application Form.

To take the above example, although OS should have recognized the signing bonuses as expenses in November 2019, they deferred and recognized it as expenses in January 2020 by changing the payment date to January 20, 2020 as specified in the payment method in the Application Form.

With respect to the deferral of signing bonuses, it was found that the person in charge at the Business Administration Department, based on instructions from Mr. C, instructed a person in charge at the Strategic Employment Management Department to develop a Legacy plan, and the person in charge at the Strategic Employment Management Department developed and orchestrated the Legacy plan (for the fiscal years ended December 2016, December 2018 and December 2019).

In addition, it was found that the deferral of signing bonuses was conducted at OSJ as well (for the fiscal year ended December 2016).

d. Transportation Expenses

Transportation expenses were expenses (fees paid) incurred at ORJ or PEO relating to transportation by bus from dormitories where temporary staffs reside to their workplace. These expenses should have been recognized as expenses in the month when the bus transportation services were actually provided.

At ORJ or PEO, the deferral of transportation expenses was conducted as follows: For example, they requested Company d, which is the transportation service provider, to offer "special discount rates" and reduce the fees in its invoices for October, November and December 2019. In return, they requested Company d to increase the fees in the form of "special assistance money" in its invoices for January, February and March of the subsequent year, thereby repaying the Legacy amount that had been reduced in the preceding fiscal year.

With respect to the deferral of transportation expenses, it was found that the person in charge at the Business Administration Department, based on instructions of Mr. C, instructed a person in charge at ORJ or PEO to develop a Legacy plan, and the person in charge at the Strategic Employment Management Department developed and orchestrated the Legacy plan (ORJ for the

fiscal year ended December 2016; PEO for the fiscal years ended December 2018 and December 2019).

e. Media Expenses (Recruitment Costs)

With respect to media expenses (recruitment costs), it was found that, other than those carried out as reverse transactions in "barter transactions," some media expenses (recruitment costs) were deferred.

The deferral of recruitment costs were conducted as follows: Recruitment costs incurred in each month against agents that OS used to recruit temporary staffs should have been recognized as expenses in the month incurred. However, OS issued invoices stating the amount reduced as a result of negotiations with the relevant agents, and made the agents charge the fees plus the amount so reduced in their invoices for the subsequent fiscal year.

With respect to the deferral of media expenses (recruitment costs), it was found that the person in charge at the Business Administration Department, based on instructions from Mr. C, instructed a person in charge at the Strategic Employment Management Department to develop a Legacy plan, and the person in charge at the Strategic Employment Management Department developed and orchestrated (including negotiations with agents) the Legacy plan (for the fiscal years ended December 2016, December 2018 and December 2019).

f. Other Various Expenses

Besides the above, expenses for employment medical examinations and annual medical examination were deferred at OS, and expenses such as workshop fees for interns were deferred at PEO.

Some of these deferred expenses have, from the perspective of the entire OS Group, only a minor impact on its earnings (for example, employment medical examination costs of JPY 49 thousand). However, even these small expenses were managed as part of the Legacy as long as they helped to increase the operating profit.

3. "Barter Transactions" with Company b

(1) Basic Concept

As already described, OS made a sale transaction and an expense transaction with the same business partner, which they called "barter transactions," thereby conducting the Inflated Recognition of Sales.

Specifically, (i) OS charged fees to companies such as recruitment agents for banner advertisements and/or advertisement posts on the recruitment website X and/or for visiting schools on behalf of those companies to carry out recruitment activities, and recognized sales for these services in one fiscal year. In the subsequent fiscal year, OS outsourced those companies to recruit temporary staffs and recognized recruitment costs paid to them in return for the aforementioned

sales (the "Barter Transactions" with recruitment companies).

In addition to the aforementioned "Barter Transactions," (ii) in the fiscal year ended December 2019, OS made "barter transactions" with Company b, which worked as follow: As a return for the expenses incurred by OST in respect of the software purchase from Company b, OS entered into a transactions with Company b in which Company b placed banner advertisements on the recruitment website X operated by OS (i.e., recognition of sales at OS). (As explained in (2) w. below, since these "Barter Transactions" involved OST which is an OS's consolidated subsidiary, it can be said that it was a variant of so-called "Barter Transaction" which is a bilateral transaction between two companies.)

These "Barter Transactions" with recruitment companies (as in (i) above) and "Barter Transaction" with Company b (as in (ii) above) cause suspicions as to the appropriateness of revenue recognition. Therefore, the following sub-sections first discuss the "Barter Transaction" with Company b (as in (ii) above) then "Barter Transactions" with recruitment companies (as in (i) above).

(2) History of Transactions

a. Around July to August 2019 (Beginning of Transaction)

"Barter Transaction" with Company b began, in around the summer of 2019, by bringing in System X, which was a unified staffing management system launched for sale by Company b, by Mr. AD, the President and Representative Director of Company b, to Mr. AB. System X had been operated and developed by Company b, and was launched for sale to other companies in around July to August 2017.

At that time, with the anticipation that the demand for short-term temporary staffs would rise around 2020 when the Tokyo Olympic Games would be held, Mr. AA (the Managing Executive Officer, Deputy Head of Manufacturing & Service Business Division of OS and President and Representative Director of OTS, OS's subsidiary) perceived that OTS would urgently need to have in place a management system for short-term temporary staffs.

Therefore, Mr. AA, to whom Mr. AB introduced Mr. AD, gave Company b an opportunity to make a presentation on System X to relevant executives and employees in business departments in the Manufacturing & Service Business Division, including OTS. Since the presentation was well received, OS decided to pursue with bringing in System X.

b. September to October 2019 (Negotiation period for "Barter Transactions")

After the presentation by Company b, Mr. AA and Mr. AB requested OST for an estimation of costs if OST was to develop a system building software comparable to System X.

As a result, OST prepared three "rough estimates" dated September 10, 2019, based on the "periods from commencement of development to delivery" (each "Work Period"). The estimated costs were (i) JPY ███ ██ if the Work Period was "approximately six months," (ii) JPY ███ ██ if the Work Period was "one year," and (iii) JPY ███ ██ if the Work Period was "approximately

28 months".

Upon receipt of those estimates showing that the development and production by OST of a comparable software by the summer of 2020 would cost at least more than JPY ■■■, Mr. AA and Mr. AB decided to pursue the purchase of System X which seemed to be usable immediately with slight modifications.

Thereafter, Mr. AA and Mr. AB asked for approval from Mr. B to bring in System X, explaining it as a system matching OTS's business characteristics. Mr. B responded that he would look into the proposal, which they interpreted as permitting them to purchase System X. Mr. AA and Mr. AB then told Mr. AD that they were going to purchase System X, and proposed to make a transaction in which Company b would place banner advertisements on the recruitment website X in the form of "Barter Transactions" in return for their purchase of System X.

On September 30, 2019, the person in charge at the Business Administration Department sent an email titled "Actions for Profit" to Mr. AA, Mr. AB and others, stating "as requested by Mr. C, we will collate information on the current status with respect to actions for profit, including the Legacy, for this fiscal year. Please kindly describe the measures you are currently working on in the attached document." and attaching the excel file named "■ Technical Profit Planning Chart for 2019 (including Legacy)." This excel file was a chart titled "Technical Profit Planning Chart for 2019 (including Legacy)" with cell titles for "details," "person in charge," "conclusive amount," "Legacy profit" ("October," "November," and "December"), "Legacy repayment" ("January," "February," "March," "April," "May," "June"), "Status" and "Remarks." The cells except the title cells were left blank for later entry of relevant information. The file contained the words "*Target: 1.5 billion yen."

The same excel file as of October 4, 2019 contained the following information about "System Y" as one item of the Legacy: "Barter transaction for system Y and service operations management system," which "Mr. AB" was in charge of; JPY ■■■ ■■ was expected to be recognized as "Legacy profit for the current fiscal year" in "December"; JPY ■■■ ■■ for each month for six months from "January" to "June" totaling "minimum ■■■ to maximum ■■■ in the year through sales contract negotiations" was repaid as "Legacy repayment for the subsequent fiscal year"; and the "status" was stated as "under negotiation."

From the above, it was found that, before October 4, 2019 at the latest, Mr. AA and Mr. AB proposed Mr. AD to place banner advertisements on the recruitment website X in the form of "Barter Transaction" in return for their purchase of System X.

c. Around October to November 2019 (Progress regarding Company b)

Thereafter, in around mid-October 2019, as offered by Mr. AD, some employees in the New Graduate Recruitment Section, Strategic Employment Management Department of OS planned to appear on TV. In early November 2019, a person in charge of banner advertisements on the recruitment website X in the Strategic Employment Management Department requested the Accounting Department to obtain registered information of Company b from TEIKOKU

DATABANK, Ltd. ("TDB") which was necessary to prepare a "Credit Sheet" to start a transaction with Company b. However, since TDB had no registered corporate information of Company b and the Accounting Department was not able to obtain the TDB data, the person in charge at the Strategic Employment Management Department confirmed the following information with Mr. AD: Company b's stated capital (JPY [redacted]), equity ratio ([redacted]%) and sales and ordinary profits for the most recent two fiscal years (sales of JPY [redacted] and profits of JPY [redacted] for the fiscal year ended February 2019; sales of JPY [redacted] and profits of JPY [redacted] for the fiscal year ended February 2018).

On November 5, 2019 at the latest, OS started to correspond with Company b to draft a software license agreement for System X. On November 21, OS started to consult their legal counsel regarding drafting of the license agreement, and continued to discuss with such legal counsel until around early December 2019.

d. November 8, 2019 (Offer to Purchase Banner Advertisements)

On November 8, 2019, a person in charge at the Strategic Employment Management Department sent a quote with the following information and an order form via email to Mr. AD regarding the placing of banner advertisements to promote "System X" on the recruitment website X. On the same date, he received a reply email from a person in charge at Company b, to which the order form, with its company seal and president seal affixed thereto, was attached.

Item name	Period	Amount
Recruitment website X banner advertisement fee Plan 1: common footer_website top	Nov. 18, 2019 to Nov. 30, 2019	JPY [redacted]
Recruitment website X banner advertisement fee Plan 2: common footer	Nov. 18, 2019 to Nov. 30, 2019	JPY [redacted]
	Consumption tax	JPY [redacted]
	Total	JPY [redacted]

e. November 8, 2019 (Suspension of the Company b Project)

As described in b. above, Mr. AA and Mr. AB explained to Mr. B about the purchase of System X, and Mr. B told them that he would look into the proposal. Assuming the purchase of System X would be approved, they proceeded to discuss with Mr. AD about the purchase of System X and the placing of banner advertisements on the recruitment website X as a "Barter Transaction." In the meanwhile, Mr. B consulted a system manager at OS about the purchase of System X, and was advised by the system manager that it would be better to have a new system developed by OST from scratch since the bringing in System X would require substantial additional costs to satisfy OS's system policy; specifically, (i) the database would have to be migrated into System Z adopted by the OS Group; and (ii) an approval function would be additionally required. Therefore, Mr. B was

reluctant to bring in System X.

Under these circumstances, Mr. AB emailed to persons in charge of the recruitment website X regarding the email from the person in charge at Company b as described in d. above, saying “Will you please put this on hold for a while? Mr. AA is having difficulties in persuading the Vice President to bring in System X.” Thereafter, Mr. AA and Mr. AB explained to Mr. B that JPY was expected to be generated from posting banner advertisements on the recruitment website X in the form of “Barter Transactions” in return for the purchase of System X, and as such System X was substantially cheap, expressing their strong wish to purchase it. However, Mr. B replied that it was difficult to determine that the purchase price of System X, even after subtracting the proceeds from that “Barter Transactions” therefrom, was comparatively cheap, taking into account the costs for improvements. He added that he would accept the responsibility for the shortfall of sales from the recruitment site X of JPY , and instructed them to inform Mr. AD of their intention not to purchase System X.

As per instructed, Mr. AA and Mr. AB tried to tell Mr. AD they were not going to purchase System X, which Mr. AD refused.

Therefore, Mr. AA and Mr. AB consulted Mr. B again. Although the entry into the transaction was approved, they were instructed to reduce the purchase price of System X.

f. November 18, 2019 (Resumption of the Company b Project)

Since the project was resumed as described in e. above, on November 18, 2019, an email was exchanged among persons in charge of the recruitment website X, saying “Apologies for delay, but please find attached the logo materials and others for Company b. Although the project was put on hold, it has now resumed, and we are proceeding with the project.”

On the same date, a person in charge of the recruitment website X sent a quote and an order form via email to Mr. AD, saying “Please find attached a quote and an order form for PR banner advertisements for “System X” on the recruitment website X. These are for the free (trial) plan for the period of six days from November 25 (Mon) to November 30 (Sat).”

On the same date, a reply email was sent from a person in charge at Company b, to which the order form, with its company seal and president seal affixed thereto, was attached.

g. November 21, 2019 (Recognition of “Barter Transactions” with Company b as Catch-up)

On November 21, 2019, persons in charge of performance control including actual expenses versus budget control of OS and OST had a meeting about catch-up for the period ended December 2019. The meeting summary was circulated via email. It included the following information: “With respect to catch-up on the manufacturing side” “since there is a measure in which the supplier of the system for OTS will purchase JPY of advertisements on the “recruitment website X,” the catch-up will not work unless the OS Group is the purchaser of the system,” “Therefore, we would like to find a way to ensure that the purchase of the system will be made by OST in December,”

and "JPY purchase of the system (OST needs to promptly complete internal application procedures and make arrangements for system development for the following year and maintenance contract)."

h. November 25, 2019 (Drafting and Approval of Credit Sheet of Company b)

On November 25, 2019, an application for approval of "Credit Sheet [New]" in respect of the transaction with Company b was made, and on November 27, 2019, it was approved that the Company b's credit rating was B (line of credit: "").

As described in c. above, the Company b's sales and ordinary profits for the most recent two fiscal years were (i) sales of JPY and profits of JPY for the fiscal year ended February 2019 and (ii) sales of JPY and profits of JPY for the fiscal year ended February 2018.

i. November 28, 2019 (Documents Sent from OTS to OST)

On November 28, 2019, a person in charge at the Administration Department, the Administration Division of OTS sent an email entitled "System X related documents" to Mr. S and others (copying Mr. AA and Mr. AB and others), saying "As per instructions from Mr. AA, I am sending the reference documents regarding System X." The PowerPoint document named "Introduction of New Core System at OTS" and a flyer for System X were attached to the email.

The PowerPoint document was dated November 28, 2019, and was prepared under the name of Mr. AA.

On the same date, Mr. S, who received the email, forwarded it to Mr. M and others.

In addition, on the same date, a person in charge at Company b sent a quote for System X dated November 27, 2019 via email to Mr. S. The total amount of the quote was JPY (JPY with consumption tax included).

Since Mr. S replied, on the same date, to the above email, saying "Thank you very much for promptly addressing my request and sending the quote," it is deemed the above quote was sent by Company b in response to the request from Mr. S.

In this regard, it is deemed that the documents sent from OTS and the quote obtained from Company b were for preparation of the extraordinary board of directors' meeting as described in j. below.

j. November 29, 2019 (Extraordinary Board of Directors' Meeting of OST)

At 3:51 am on November 29, 2019, Mr. S sent an email to Mr. AA (copying Mr. M) with a proposal in respect of the acquisition of System X to be presented at the extraordinary board of directors' meeting of OST scheduled to be held on the same date and the explanatory document in respect of the acquisition of System X attached, saying "There will be an extraordinary board of directors' meeting held at ten tomorrow, so will you please confirm the attached proposal?"

The explanatory document in respect of the acquisition of System X attached to the above email was prepared by partially revising the document Mr. S obtained from the person in charge at the Administration Department, the Administration Division of OTS.

In addition, the proposal entitled "Regarding the Acquisition of Fixed Asset" said that "the following proposal is presented in respect of the purchase by the Solution Service Business Division of a unified staffing management system "System X" with the aim of conducting an external sale in the future after completing system development," "1. Fixed asset purchase price: JPY ████ (depreciation period: 3 years)" and the like.

On the same date, the aforementioned proposal was approved unanimously at the extraordinary board of directors' meeting of OST. During a discussion about the proposal, when Mr. S was asked why it would be resolved at an extraordinary board of directors' meeting rather than the ordinary one, he explained "I would like you to resolve on this proposal today because the customer is eager to purchase it as soon as possible and this quoted price is conditional on our placing the order by the end of this year."

k. November 29, 2019 (Expected Banner Advertisement Fees (Sales))

On November 29, 2019, a person in charge of the recruitment website X sent to Mr. AA, Mr. AB and others the following email entitled "Information regarding advertisement placement on the recruitment website X (for Company b)."

Dear Mr. AA,
Hope this email finds you well.

As per your request, set out below is the information regarding Company b's advertisement placement on the recruitment website X (period, fee, etc.):

No.	From	～	To	Fee	Payment date	Remarks
1	11/25/19	～	11/30/19	¥0	－	Trial plan
2	12/02/19	～	12/08/19	[redacted]	12/06/19	
3	12/09/19	～	12/15/19	[redacted]	12/13/19	
4	12/16/19	～	12/22/19	[redacted]	12/20/19	
5	12/23/19	～	12/29/19	[redacted]	12/27/19	
6	12/30/19	～	01/05/10	[redacted]	01/03/19 (as in the original text)	
7	06/06/20	～	01/31/20	¥0	－	Free offer
				[redacted]		

Unit: thousand yen
Consumption tax excluded

Please confirm the above. Thank you.

According to the email above, it was found that, as of November 29, 2019, they were going to charge Company b JPY [redacted] [redacted] for banner advertisements on the recruitment website X, which was consistent with the catch-up measure as of November 21, 2019 as described in g. above.

On the same date, the person in charge of the recruitment website X also sent a quote and an order form in respect of No.2. (JPY [redacted] [redacted]) in the above email to Mr. AD via email.

l. December 3, 2019 (Change in Payment Dates of Banner Advertisement Fees)

On December 3, 2019, a person in charge of the recruitment website X sent the following email to Mr. S (copying Mr. AA and others).

> Mr. S of ostech,
> Hope this email finds you well.
> The following is what I told you on the phone earlier today.
>
> (i) Payment of JPY ███ ██ from ostech to Company b to be made on January 6, 2020
> * ostech will recognize the software purchase price and down payment of JPY ███ ██ from the amount of JPY ███ ██ in December 2019, and pay the same on January 6, 2020 to Company b. The remaining amount of JPY ███ ██ will be recognized at the time of acceptance.
>
> (ii) Payment of JPY ███ ██ from Company b to OS to be made on January 9, 2020
> * OS will recognize the fees for advertisements on the recruitment website X (from December 4, 2019 to January 3, 2020) in December 2019, and the payment will be received from Company b on January 9, 2020.
>
> Please confirm the above. Thank you.

As described in the email shown in k. above, as of November 29, 2019, the fees were scheduled to be paid on a week-by-week basis with the initial payment on December 6, 2019. However, as of 3 December, 2019, the payment method was changed as follows: OST would pay to Company b the software purchase price and down payment of JPY ███ ██ on January 6, 2020, and Company b would pay to OS JPY ███ ██ for banner advertisements on the recruitment website X on January 9.

As for the aforementioned amount "JPY ███ ██," the person in charge of the recruitment website X sent an email on the same date, correcting it to "JPY ███ ██ (tax included); JPY ███ ██ (tax excluded)" (as in the original text).

In this regard, the tax included amount could not exceed JPY ███ ██ for credit reasons. This was deemed to be the reason why the tax included amount and tax excluded amount were determined to be JPY ███ ██ and JPY ███ ██ (=JPY ███ ██ ÷1.1), respectively.

For the record, the email exchanged on January 8, 2020 among persons in charge of the recruitment website X said "the fees charged to Company b have been changed from JPY ███ ██ to JPY ███ ██." Given this description, it is deemed that the fraction less than 1,000 thousand yen was rounded off and the transaction price (tax excluded) of JPY ███ ██ in respect of the recruitment website X as described in the above email dated December 3, 2019 was regarded as JPY ███ ██.

m. December 4, 2019 (Change in Banner Advertisement Fees)

On December 4, 2019, a person in charge of the recruitment website X sent a quote with the following information and an order form via email to Mr. AD (copying a person in charge at Company b and another person in charge of the recruitment website X) regarding the placing of banner advertisements to promote "System X" on the recruitment website X. On the same date, a reply email was sent from the person in charge at Company b, to which the order form, with its company seal and president seal affixed thereto, was attached.

Item name	Period	Amount
Recruitment website X banner advertisement fee Plan 1: common footer_website top	Dec. 4, 2019 to Dec. 31, 2019	JPY ■
Recruitment website X banner advertisement fee Plan 2: common footer	Dec. 4, 2019 to Dec. 31, 2019	JPY ■
Website Y banner advertisement fee Plan 3: common footer_website top	Dec. 4, 2019 to Dec. 31, 2019	JPY ■
	Consumption tax	JPY ■
	Total	JPY ■

The quote and the order form were both dated "November 22, 2019," which indicate that they were backdated.

On December 4, 2019, a person in charge at the Strategic Employment Management Department sent to persons in charge at business departments via email, "Legacy chart of the Strategic Employment Management Department" which stated that the sales from transactions with Company b would be JPY ■ ■, informing that "the proceeds from the transaction with Company b has been changed to JPY ■ ■."

n. December 4, 2019 (Quote for System X)

On December 4, 2019, a person in charge at Company b sent a quote for System X via email to a person in charge at OST. On the same date, the person in charge at OST replied via email (copying Mr. AD), asking "did anyone instruct you to issue two separate invoices, one for JPY ■ ■ and the other for the remaining amount?"

o. December 9, 2019 (OST's Review of System X)

On December 9, 2019, a system manager at OST sent an email entitled "Comments on Company b's answers to QA sheet for System X" to Mr. AA and a system manager at OS (copying Mr. S), informing them that "On December 6, I sent questions regarding System X to Company b through Mr. ●● at OS (Committee's note: the person's name is confidential), and received answers from Mr. AD of Company b on December 7. Set out below are our comments on those answers," "Taking into account all the aspects and facts, System X is significantly unsatisfactory compared to general

packaged commercial products, and we consider it would be a serious risk for OST to maintain, manage, operate, customize System X."

An excel file named "(ii) QA sheet for System X_OST_20191206" was attached to the above email. The excel file contained 57 questions from a system manager at OST and answers thereto from Company b, and showed that those questions were asked on "December 4, 2019" and answered on "December 6, 2019."

p. December 13, 2019 (Purchase Order for Recruitment Advertisement Space on the Recruitment website X, Quote for System X)

On December 13, 2019, a person in charge of the recruitment website X sent a quote with the following information and an order form via email to Mr. AD (copying a person in charge at Company b) regarding the "recruitment advertisement space" on the recruitment website X. On the same date, a reply email was sent from the person in charge at Company b, to which the order form, with its company seal and president seal affixed thereto, was attached.

Item name	Period	Amount
"Recruitment website X" premium S plan fee	Dec. 4, 2019 to Dec. 31, 2019	JPY [redacted]
	Consumption tax	JPY [redacted]
	Total	JPY [redacted]

As described above, as for the proceeds from selling recruitment advertisement space on the recruitment website X, although the order form, with the seals affixed thereto, was obtained from Company b, it is deemed that the quote and the order form were both backdated because (i) the quote and the order form were both dated "November 22, 2019," and (ii) the period specified in the quote began on December 4, 2019, a date which had already passed when the above email was exchanged. Furthermore, the person in charge of the recruitment website X stated that the recruitment advertisements were not posted, and Mr. AD stated that he had no recollection of having placed such order or advertisements. Given the above, there are suspicions about the details of the sales of such recruitment advertisement space. However, it turns out that the sales were not recognized at OS.

In addition, on December 13, 2019, a person in charge at OST sent the following email entitled "Re: Quote for System X" to Mr. AD:

> Apologies for causing trouble, but it would be appreciated if you could send us the final versions of the quote and invoices.
>
> Quote

> To: OUTSOURCING TECHNOLOGY Inc.
> Total amount: JPY ███ ██ (Details are left to you)
> Down payment: JPY ███ ██ (January 6, 2020) / at the time of delivery: JPY ███ ██
> Delivery date: end of July 2020
> Maintenance contract: N/A
> Date of quote: end of November 2019
>
> Invoice 1
> To: OUTSOURCING TECHNOLOGY Inc.
> Payment date: January 6, 2020
> Amount charged: JPY ███ ██ (tax excluded)
> Details: JPY ███ ██ as down payment for Quote No.xx
> Date of invoice: December 5, 2019
>
> Invoice 2
> To: OUTSOURCING TECHNOLOGY Inc.
> Payment date: end of August 2020
> Amount charged: JPY ███ ██ (tax excluded)
> Details: JPY ███ ██ as the remaining amount for Quote No.xx
> Date of invoice: end of July 2020

q. January 6, 2020 (Partial Payment of the Purchase Price of System X)

On January 6, 2020, OST paid JPY ███ ██ to Company b as partial payment of the purchase price of System X in accordance with the payment method described in l. and p. above.

r. January 7, 2020 (Sending an Invoice to Company b)

On January 7, 2020, a person in charge of the recruitment website X sent an email entitled "Sending an invoice" to Mr. AD, a person in charge at Company b and others, attaching an invoice with the following information, saying "Please find attached the invoice for promotional banner advertisement fees for "System X" for December," and "The original copy of the invoice was sent via courier today."

Item name	Period	Amount
Recruitment website X banner advertisement fee Plan 1: common footer_website top	Dec. 4, 2019 to Dec. 31, 2019	JPY ████
Recruitment website X banner advertisement fee Plan 2: common footer	Dec. 4, 2019 to Dec. 31, 2019	JPY ████
Website Y banner advertisement fee	Dec. 4, 2019 to	JPY ████

Plan 3: common footer_website top	Dec. 31, 2019	
	Consumption tax	JPY [redacted]
	Total	JPY [redacted]

While the invoice, which was dated January 7, 2020, did not show a due payment date, the fee payment should be made on January 9, 2020 as stated in the email referred to in l. above. This payment method was different from OS's usual payment terms (closing at the end of the month, payment at the end of the following month).

s. January 9, 2020 (Payment of Recruitment Website X Banner Advertisement Fees)

On January 9, 2020 which was the payment date as stated in l. and r. above, the recruitment website X banner advertisement fees of JPY [redacted] were paid by Company b to OS.

t. February 12, 2020 (Consultation on How to Answer Questions from the Accounting Auditor)

On February 12, 2020, a person in charge of the recruitment website X sent the following email entitled "Submission of Division Meeting document to Tohmatsu" to Mr. C (copying persons in charge at OS Accounting Department and others)

> Mr. C,
>
> Hope this email finds you well.
> Today Tohmatsu asked us about the sales recognized at the Strategic Employment Department last year.
> We explained to them that the main reason for an increase in sales was that media companies had a high expectation for the recruitment website X's potential to increase customer traffic under the circumstances where year-end labor shortage is becoming more significant each year.
>
> Tohmatsu also asked whether it would be budgeted or whether it would be discussed at the Management Committee Meeting when pursuing expansion of external sales.
> In addition, they raised concern about recruitment information being entered from the admin screen by media companies and being posted on the website without any checks from the J-SOX perspective.
> * As for the concern raised, we replied that we would revamp it to ensure that recruitment information be posted after being checked by OS.
>
> In the course of questions and answers, when we said that the expansion of external sales was being discussed at the Division Meeting although it was not yet presented to the Management

> Committee, Tohmatsu requested us to submit relevant Division Meeting documents.
>
> I would appreciate it if you could check and approve submission of the attached document.
> * Although the document concludes that the recruitment website X does not have the potential to increase customer traffic, we see no problems here since it states that an increase in the number of website traffic and posts by adding articles and contents will lead to a further increase in the number of website traffic.

In this regard, a PowerPoint document named "Division Meeting_Strengthen Owned Media" dated December 17, 2019 was attached to the above email as a Division Meeting document the Accounting Auditor requested to submit. According to the above email, when the Accounting Auditor asked a question "about the sales recognized at the Strategic Employment Department last year," they "explained to them that the main reason for an increase in sales was that media companies had a high expectation for the recruitment website X potential to increase customer traffic under the circumstances where year-end labor shortage is becoming more significant each year." Despite this explanation, "the document concludes that the recruitment website X does not have the potential to increase customer traffic." Given this description in the document, suspicions arise as to whether the aforementioned explanation to the Accounting Auditor was true.

In addition, the above email said "we see no problems here since it states that an increase in the number of website traffic and posts by adding articles and contents will lead to a further increase in the number of website traffic." However, the document described the situation as of December 17, 2019, and it is hard to believe that the effect as of the same date of such future measures could be a reasonable reason for increase in sales in December 2019.

u. February 26, 2019 (Appropriateness of the Purchase Price of System X)

On February 26, 2019, Mr. S told Mr. AE about the appropriateness of the purchase price of System X, saying "it takes ██ man-months to create functions for OTS in addition to standard functions. The calculation is as follows: ██ man-months (man months for adding functions) x JPY ███ ██ (man month unit) = JPY ███ ██ (development cost for additional functions). Thus, I believe this is quite appropriate."

It is deemed that the excel file (named "QA sheet for System X OST man months added 20191213") attached to the email was prepared based on the QA sheet which a system manager at OST had prepared to ask Company b questions as stated in o. above. The differences from such original QA sheet were: (i) one question was added in the column "December 13, 2019," and (ii) a column "estimated man-months if OSTech conducts development work" was added and the estimated man-months for respective question items (totaling "██ man-months") were included.

In this regard, while the QA sheet originally prepared by the system manager at OST had questions designed to review System X, the updated excel file included the man-month information

in the column "estimated man-months if OSTech conducts development work" with respect to the activities for which Company b answered that they were "implementing." Therefore, it is hard to believe that they truly estimated the man-months in relation to the acquisition price of System X.

v. April 2021 (Inquiry from OST to OS)

On April 9, 2021, an accounting person in charge at OST sent the following email entitled "Regarding System X" to a system manager at OS.

I am writing this email because I was instructed by Mr. S of OST to check with Mr. ●● (Committee's note: a person's name is confidential.) about System X. We heard that System X was not operating in January 2021 and it would be used exclusively by a subsidiary of OS (probably OTS?) for some time. Do you have a management plan for System X or anything similar? We assume it is a commercial software, which should be depreciated over up to three years (according to the amount of sales). If our assumption is correct, we will depreciate it in line with the plan and the actual results. Your reply would be greatly appreciated.

On the same date, the system manager at OS replied to the accounting person, saying that "we are coordinating with OTS, but cannot tell for sure when it will start to operate. I will contact you once progress is made. * I will share information with Mr. S on this matter as well."

w. Present (Non-operation of System X)

Thereafter, System X, which was originally scheduled to be delivered by the end of July 2020, was delivered in December 2020.

Although it was originally planned to be used by OTS, OTS intended to have a new system in place before the 2020 Tokyo Olympic Games. As such, OTS brought in another software product and currently uses it.

At OST, sales transactions (such as software license fees) with OTS were planned as "Barter Transaction" in return for the purchase of System X from Company b (since this "Barter Transaction" is a transaction among three companies, OST, Company b and OTS, it can be said that it is a variant of so-called "Barter Transaction" which is a bilateral transaction between two companies). However, in respect of the aforementioned sales transactions with OTS, OST is currently planning to modify the software so that it can be used not for the original purpose but for training purposes for temporary staffs.

(3) Mr. AD's Understanding

According to the interview by the Committee with Mr. AD, when the sale of System X to the OS

Group was agreed as described in (2) above, Mr. AD wanted to sell it for approximately JPY .

In respect of placing banner advertisements on the recruitment website X, Mr. AA offered him "Barter Transactions" which combined the sale of System X and the purchase of banner advertisements, and he made transactions in a way which ensured that the sales price for System X actually paid by the OS Group less the banner advertisement fees would be JPY . As such, although he felt that the banner advertisement fees of JPY were expensive and caused a sense of discomfort, since the fees were subtracted from the sales price of System X and the remaining amount after subtraction of those fees was still the desired price, JPY , he thought "this is a good deal; not only we can sell System X, but also place banner advertisements."

Mr. AD believed that the fact that the OS Group brought in System X would have a great appealing effect on prospective customers when conducting external sales of System X, and banner advertisements would help them to publicize the fact that the OS Group has brought in System X.

(4) Other Matters

a. Belief that There Was no Price List for Recruitment Website X Banner Advertisement Fees

In respect of the recruitment website X, while there was a price list for "recruitment advertisement space" where recruitment information would be posted, it was a common understanding at OS that there was no price list for banner advertisement fees. In fact, the banner advertisement fees for Company b are different from those for other companies.

In this respect, on February 13, 2020, an accounting person in charge wrote via email to a person in charge of the recruitment website X regarding the answer to the question of the Accounting Auditor regarding the pricing method for banner advertisement fees, stating "I assume it is true that there is no price list and you are charging whatever price you like." As indicated by this statement, it is fair to say there was no price list for banner advertisement fees.

Therefore, although OS submitted a price list for banner advertisement fees, the Committee found from the circumstances described above that such price list was at least not used.

b. Mr. B's Understanding at That Time

Back in 2019, Mr. B, who had received explanation from Mr. AA and Mr. AB as to "Barter Transactions" with Company b, presumed that since System X "is a software product which was developed by Company b for internal use and is now offered for commercial sale, there is effectively no cost but operating expenses. As such, the price will be made up of the advertisement fees of JPY , subcontracting expenses for modification and other expenses of JPY and Company b's profit, totaling JPY ."

In reality, the initial asking price for System X was JPY . Given this, it is assumed that Mr. AA and Mr. AG explained to Mr. B at that time that the breakdown of such asking price was (i) recruitment website X banner advertisement fees of JPY , (ii) subcontracting expenses for

modification and other expenses of JPY ███ ██ and (iii) Company b's profit of JPY ███ ██.

(5) Economic Substance of OS's "Barter Transactions" with Company b

a. Facts Discovered

Taking into account sections (2) through (4) above, we discovered that OS's "Barter Transactions" with Company b have the following characteristics:

(i) OS's "Barter Transactions" with Company b consisted of a transaction in which OS posted banner advertisements for Company b (sales) and a transaction in which OST purchased System X from Company b (purchase transaction). Mr. AA and Mr. AB were in charge of the price negotiations and other processes in which OST had no involvement. OS took a lead in arranging the transaction. Thus, it is found that OST's involvement was only ancillary.

(ii) OS was able to determine the banner advertisement fees charged to Company b (sales) at its discretion ((4) a. above) and the banner advertisement placement transaction was entered into between Mr. AA and Mr. AB and Mr. AD as part of the "Barter Transaction" in return for the purchase by OST of System X. Thus, it is found that the purchase price of System X was inflated by adding the amount equivalent to the banner advertisement fees to the actual price of System X and the sales were recognized by such inflated amount which was used for the source of proceeds ((3) above).

(iii) The purchase price of System X was originally JPY ███ ██ ((2) j. above), but it was reduced by JPY ███ ██ to JPY ███ ██ ((2) p. above). Likewise, the banner advertisement fees were originally JPY ███ ██ ((2) l. above), but they were reduced by JPY ███ ██ to JPY ███ ██ ((2) m. above). Thus, it is found that as described in (ii), the purchase price of System X was actually linked to the banner advertisement fees.

(iv) As a result, even if there were credit restrictions (line of credit for rating B was "█████"), it can be said that OS was able to arbitrarily determine the banner advertisement fees within certain range. (In this respect, taking into account the Company b's financial results for the most recent two fiscal years: (i) sales of JPY ███ ██ and profits of JPY ███ ██ for the fiscal year ended February 2019 and (ii) sales of JPY ███ ██ and profits of JPY ███ ██ for the fiscal year ended February 2018, Company b should not be granted credit of "█████," which leads to the finding that OS's decision on granting credit rating B to Company b was arbitrary ((2) h. above). However, since OS was able to collect the banner advertisement fees with the purchase price of System X paid by OST to Company b ((2) l. above), there was no substantial credit risk.)

b. Summary

From the above, it is found as follows: While the posting of banner advertisements and the purchase of System X were both actually carried out, (i) they were paired with each other (if OST

did not purchase System X, banner advertisements would not have been posted), and (ii) since banner advertisement fees were "arbitrarily" set and the source of funds to pay the banner advertisement fees was added to the purchase price of System X, it is deemed that Company b did not really care how much they were charged for the banner advertisement fees as long as the proceeds from the sale of System X less the banner advertisement fees was not less than JPY ███ ██. As such, there was no "actual demand" in the sense that Company b actually needed to place banner advertisements on the recruitment website X.

In this respect, given the facts that the banner advertisement fees were linked to the purchase price of the system and that OS was able to arbitrarily set the banner advertisement fees within certain range despite the credit restrictions, it is found that the economic substance of "Barter Transactions" with Company b can be deemed as inflated recognition of the banner advertisement fees.

In respect of the amount of the inflated recognition, because it is found that Company b would not have place banner advertisements unless OST purchased System X, it is fair to say that the entire banner advertisement fees represent the inflated amount. In that sense, the posting of banner advertisements can be considered as a fictitious transaction to make the Barter Transactions happen.

(6) Examination of Accounting Matters

a. Examination of the Applicable Accounting Standard

OS's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The core principle of IFRS 15 for recognition of revenues arising from a contract with customer is that "an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services" (IFRS 15, paragraph 2).

To comply with the above mentioned core principle, an entity is required to take the following five steps: Step 1"Identify the contract(s) with a customer"; Step 2 "Identify the performance obligations in the contract"; Step 3 "Determine the transaction price"; Step 4 "Allocate the transaction price to performance obligations in the contract"; and Step 5 "Recognize revenue when (or as) the entity satisfies a performance obligation".

For the examination of the "barter transactions" of OS, the following requirements are to be complied with in taking Step 3 "Determine the transaction price": "an entity shall evaluate the nature of consideration payable and determine whether it is a reduction of the transaction price, a payment to a customer in exchange for a distinct good or service, or a combination of the two to properly account for the consideration payable" (IFRS 15, paragraph 70) and "if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs: (a) the entity recognizes revenue for the transfer of the related goods or services to the customer; and (b) the

entity pays or promises to pay the consideration” (IFRS 15, paragraph 72).

With regard to the accounting for consideration payable to a customer, while paragraph 70 and 71 of IFRS 15 set forth a principle that “if consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers", it also prescribes that "if the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price" and that "if the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.”

b. Application of the Accounting Standard

The "barter transactions" of OS with Company b consisted of: (i) OS’s sales concerning banner advertisement posts for Company b ("Transaction (i)" in this section); and (ii) OST’s purchase of System X from Company b ("Transaction (ii)" in this section).

As OS did not pay or owe any consideration to Company b, it appears unnecessary to consider the aforementioned requirement that “an entity shall evaluate the nature of consideration payable and determine whether it is a reduction of the transaction price, a payment to a customer in exchange for a distinct good or service, or a combination of the two to properly account for the consideration payable” (IFRS 15, paragraph 70) in taking Step 3 “Determine the transaction price” for Transaction (i) regarding banner advertisement posts between OS and Company b.

However, Appendix A of IFRS 15 defines a “contract” as “an agreement between two or more parties that creates enforceable rights and obligations”. Given that Transaction (ii) was a prerequisite for Transaction (i) as mentioned in (5) and that Transaction (i) would not have been carried out without Transaction (ii), it is considered that carrying out Transaction (ii) in order to carry out Transaction (i) was a “contract” as defined in Appendix A of IFRS 15, Appendix A as “an agreement between two or more parties that creates enforceable rights and obligations.”

Accordingly, "the transaction price" to be determined for Transaction (i) is considered to fall under “consideration payable to a customer” in paragraph 70 of IFRS 15.

Although OST (not OS) was the payer of consideration to Company b, given that the OS Group can be considered the payer on a consolidated basis and that Transaction (ii) was carried out substantially at the discretion of OS with OST’s involvement in a subordinate capacity, "the transaction price” to be determined for Transaction (i) should be considered to fall under “consideration payable to a customer”.

As such, the amount of the reduction should be calculated. Company b originally set a selling price of JPY ███ ██ for System X in Transaction (ii) as described above in (3). However, the price actually charged to OST included additional JPY ███ ██ equivalent to the banner advertisement posting fees on top of the original price, therefore, the original price of JPY ███ ██

is considered to fall into "the fair value of the good or service received". The selling price of System X charged to OST falls under the case described as "if the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer", and therefore, "the entity shall account for such an excess as a reduction of the transaction price". The acquisition cost of JPY [redacted] for System X less "the fair value of the good or service received" of JPY [redacted] brings the "excess" of JPY [redacted] by which the transaction price should be reduced.

Accordingly, the "transaction price" to be determined for Transaction (i), which was sales concerning banner advertisement posts for Company b, is considered zero (i.e. JPY [redacted] (transaction price) less JPY [redacted] (the excess of the transaction price over the fair value in Transaction (ii)).

(7) Summary

As described above, OS's "barter transactions" with Company b included banner advertisement posting fees charged to Company b in Transaction (i) that could be arbitrarily adjusted within a certain range by including an arbitrarily determined additional amount in the selling price of System X charged to OST in Transaction (ii), whereby this additional amount would subsequently be returned to OS in the form of fee payment by Company b, which means that, the funds OS received actually originated from within the OS group. These returned funds should not be recognized as revenue based on the core principle of "an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services" (IFRS 15, paragraph 2).

Accordingly, revenue recognition pertaining to banner advertisement posting fees should be limited to the transaction price less the reduction of the returned funds, which will equal to zero.

4. "Barter Transactions" with Recruiting Companies

(1) Basic Approach

In order to bring the result close to the budget for the respective fiscal year, there was a discussion at OS to examine potential "catch-up" measures to improve the results, i.e. legitimate sales efforts as well as the "barter transactions" with recruiting companies. The latter was one of the "legacy" accounting practices carried out at OS in order to inflate operating profit.

Specifically, while OS recognized sales from listing banner advertisements and/or advertisement posts on OS's recruitment websites including the recruitment website "X" in the fourth quarter (October, November, and December) of each year, it recorded reverse transactions with the same companies in the following year, and referred to them as "paybacks".

These reverse transactions mainly involved OS outsourcing placement of temporary employees to recruiting companies and recording related expenses as recruitment expenses.

At OS, these separate sales and expense incurring transactions were treated as a series of

transactions referred to as “barter transactions”, giving rise to suspected non-compliance with the core principle of IFRS 15 that “an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services” (IFRS 15, paragraph 2). As such, these “barter transactions” with recruiting companies and inflated sales are examined in detail below.

(2) Characteristics of the “Barter Transactions” with Recruiting Companies

a. Overview

OS’s "barter transactions" with recruiting companies have the distinctive characteristics as described below.

b. Negotiation by Top-level Management

Mr. C and other company executives in the manufacturing or service related divisions negotiated terms of each “barter transaction” with each recruiting Company b before they gave detailed instructions on practical tasks, such as preparation and handling of vouchers and other relevant documents, to the persons in charge at the concerned department(s) and instructed them to follow those instructions.

c. Substantial Commitment to Paybacks

It has been identified that OS carried out “barter transactions” with those recruiting companies which had given consent to be engaged in such transactions following the negotiation led by Mr. C and other company executives, under which OS recognized sales for posting recruitment advertisements (as media fee income) and listing banner advertisements (as banner advertisement listing fee income) on the recruitment website X operated by it in OS’s fourth quarter of the fiscal year and, at the same time, committed to outsourcing recruitment of temporary employees and relevant activities to those companies in the following fiscal year at an amount equivalent to the sales to them (a commission fee was added in some cases as described in (D) below), calling such a reverse transaction a “payback”.

The “barter transactions”, therefore, required; 1. adjustments of the amounts of “paybacks" in the following fiscal year; 2. inclusion of recruitment and other expenses arising from the payback transactions in the budget for the following fiscal year as described in Section 1(5) a of V. above . In this respect, it has been identified that Mr. C and other company executives created and used a Legacy Chart to manage payback schedules and records.

d. Commission Fees Additionally Charged for Some Payback Transactions

After recognizing sales for "barter transactions” with recruiting companies, OS additionally paid "commission fees" on the recorded sales to some of the recruiting companies through the relevant payback transactions.

For instance, an excel file titled “Legacy crib notes (final as at 1/13/2017)” attached to the email communication among members of the concerned business division on January 13, 2017 included a chart “Legacy payback plan”, which presented scheduled “payments” to Companies e, f, g, h and i and “recognition” of expenses.

Taking Company i as an example, the chart indicates that, for the payment of JPY 6,500,000 to Company i in January, OS was to recognize expenses of JPY 2,200,000 in that month, JPY 2,200,000 in February, and JPY 2,100,000 in March (JPY 6,500,000 in total). The chart also indicates a “commission fee” rate of “30%” for Company i.

In other words, while OS recognized JPY 5,000,000 sales in the fiscal year ended December 31, 2016 for the barter transactions with Company i, it recognized expenses of JPY 6,500,000, meaning that it additionally paid a commission fee of JPY 1,500,000 which is 30% of JPY 5,000,000 sales in the payback transactions with Company i, as indicated in the “Legacy payback plan”. In addition to Company i, OS seems to have paid Companies g and h “commission fees” at the rates of “5%” and “30%”, respectively.

(3) Economic Substance of the “Barter Transactions” with Recruiting Companies

a. Ambiguity of the Substance of Recruitment and Other Expenses Arising from Reverse Transactions

As aforementioned, the reverse transactions under OS’s “barter transactions” mainly involved OS outsourcing placement of temporary employees to recruiting companies and recording of related expenses as recruitment expenses; however, its substance was not clearly stated in the invoices issued by the recruiting companies.

For example, OS recognized JPY 30,000,000 sales for “barter transactions” with Company e in the fiscal year ended December 31, 2018.

The Legacy Chart emailed among the members of the concerned business division on March 28, 2019 (with a subject of “Legacy Chart as at June 30, 2019 (strictly confidential and private)” indicates that reverse transactions for these sales involved monthly payments of JPY 5,000,000 from January to June of the following year, 2019 (JPY 30,000,000 in total, with January and February payments marked as “paid” and those thereafter as “scheduled”).

The invoices issued by Company e for January to June 2019 services presented the following items and amounts.

Serial number	Product/customer	Amount
(Differs each month)	Website Z basic package Nationwide master for Outsourcing Group	JPY 1,500,000
234370140002 (same# throughout January to June)	Other merchandise Company e website posting options	JPY 5,000,000

While the above JPY 5,000,000 appears to be the charge under the "barter transactions" indicated in the aforementioned Legacy Chart, the invoices do not provide clear evidence as to the substance of the services actually provided by those companies under the reverse transactions and whether the consideration paid actually related to any of such services as described in b below.

b. "Barter Transactions" with Company e (fiscal year ended December 31, 2016)

OS also carried out "barter transactions" with Company e in the fiscal year ended December 31, 2016. OS recognized sales of JPY 40,000,000, JPY 35,000,000, JPY 20,000,000, JPY 18,260,000, and JPY 5,000,000 to Companies e, f, g, h, and i, respectively, in the fiscal year ended December 31, 2016.

In relation to these transactions, it has been identified that an employee of Strategic Recruitment Management Department sent an email titled "Legacy treatment (for Company e)" to Mr. C as per below.

> Mr. xxx (the Committee's note: the person's name is confidential)
>
> Hi
>
> In regard to the Legacy,
> JPY 40,000,000 legacy for Company e is due for paybacks over the six-month period from January to June (as below).
> We will treat these payments as charges for priority advertisement slots, as we have had 1,000 slots on web.
>
> January: JPY 10,000,000: "Website option of 1,000 slots flagged as the highest priority"
> February: JPY 6,000,000: "Website option of 600 slots flagged as the highest priority" (directly quoted from the original source, the same applies hereinafter)
> March: JPY 6,000,000: "Website option of 600 slots flagged as the highest priority"
> April: JPY 6,000,000: "Website option of 600 slots flagged as the highest priority"
> May: JPY 6,000,000: "Website option of 600 slots flagged as the highest priority"
> June: JPY 6,000,000: "Website option of 600 slots flagged as the highest priority"
>
> While we are treating paybacks to Companies h, i, f, and g as consulting fees, outsourcing expenses, and service fees, paybacks to Company e are to be treated as recruitment expenses.
> The reasons for such treatment are:
> (i) we already have dozens of millions of yen treated as consulting fees to Companies f, i and h; (ii) the paybacks to Company e are as large as JPY 40,000,000; and (iii) recruitment expenses are not easily traceable.

The statements in the above email: "We will treat these payments as charges for priority advertisement slots, as we have had 1,000 slots on web." and "The reasons for such treatment are ... recruitment expenses are not easily traceable." raise suspicions about the existence of the above transactions.

In the interviews the Committee have had with those involved in the "barter transactions", many of the interviewees, in fact, responded to the inquiry about the substance of the recruitment expense transactions carried out as paybacks for the "barter transactions" that those expenses were incurred for the "use of priority advertisement slots" to improve the hiring efficiency, and therefore, we cannot deny the possibility of such actual use as a fact. On the other hand, the email above does indicate a possibility that the paybacks were made under the pretext of "use of priority advertisement slots".

Thus, while those involved in the "barter transactions" did explain about the paybacks pertaining to the "barter transactions" that services were actually provided by the business partners and we cannot deny the existence of such transactions, these transactions were "barter transactions" with the business partners already in business relationships and we see a possibility of the transaction prices including additional Legacy paybacks. This point is more evident in the "barter transactions" with Company j described below in c.

c. "Barter Transactions" with Company j (fiscal year ended December 31, 2018)

OS recognized JPY 10,000,000 sales for "barter transactions" with Company j in December 2018 in the fiscal year ended December 31, 2018, and JPY 10,000,000 recruitment expenses for a reverse (payback) transaction with Company j in the following year.

This reverse transaction involved Company j charging fees for OS setting up an exhibition booth in events that Company j hosted to provide recruitment opportunities to corporations and job seekers in the fiscal year ended December 31, 2019. Such fees were charged under a ticket system, whereby OS recognized the cost of purchasing a number of tickets in advance as prepaid expenses and reclassified part of the expenses to recruitment expenses each time it participated in such an event.

The "application form for new graduate recruitment event package" relating to this reverse transaction indicates that 100 tickets for setting up a booth in events (JPY 200,000 yen per ticket) were purchased.

Email communications in relation to this reverse transaction included the email below titled "Re: [Request: Submission deadline of 15:00, Thu April 11] Confirmation of the Legacy as of March 31, 2019" and sent to members of OS's business divisions on April 16, 2019.

> Mr. C
>
> Further to our conversation earlier,

below are the (monthly) legacy payments to Company j.

	Payment amount	(included the Legacy amount)
February	JPY 600,000	(JPY 300,000)
March	JPY 2,000,000	(JPY 1,000,000)
April	JPY 5,600,000	(JPY 2,800,000)
May	JPY 4,400,000	(JPY 2,200,000)
June	JPY 4,600,000	(JPY 2,300,000)
July	JPY 2,800,000	(JPY 2,400,000) (the Committee's note: the correct amount is likely to be JPY 1,400,000)
Total	JPY 20,000,000	(JPY 10,000,000)

January to July

Events	JPY 10,000,000
Legacy	JPY 10,000,000
Total	JPY 20,000,000

Please kindly confirm the amounts above.

xxx (the Committee's note: person's name is confidential)

The above email indicates that half of the payments were legacy amounts, and remarks inserted for Company j in the Legacy Chart (with a subject of "Legacy Chart as at June 30, 2019 (strictly confidential and private)") also include a comment, "JPY 1,400,000 payment scheduled in July. The breakdown of JPY 20,000,000 expenses payable to Company j this year (comprising JPY 10,000,000 legacy paybacks and JPY 10,000,000 fees for setting up an exhibition booth in events), fully paid at the end of January, recognized as recruitment expenses over a period from February to July. Half of the monthly expenses are being recognized as legacy paybacks. *Since JPY 20,000,000 was recognized in a lump sum in February by mistake, this was fully reversed in March."

As evident from the above, although the payback transaction for sales to Company j recognized (as banner advertisement fee income) in December 2018 was recorded as recruitment expenses being treated as fees for setting up an exhibition booth in events Company j hosted to provide recruitment opportunities to corporations and job seekers, the transaction in substance consisted of JPY 10,000,000 for tickets purchased (JPY 100,000 per ticket) and additional JPY 10,000,000 as legacy paybacks, totaling JPY 20,000,000 (JPY 200,000 per ticket), both recognized as prepaid expenses upon purchase of the tickets and reclassified to recruitment expenses as the tickets were used.

In short, payback for sales to Company j recognized as banner advertisement fee income in

December 2018 was paid as fees for setting up an exhibition booth in events, but included additional JPY 10,000,000 of paybacks on top of JPY 10,000,000 of actual fees for the exhibition booth. We accordingly draw a conclusion that the additional JPY 10,000,000 in the payback transaction was added for the purpose of inflating recruitment expenses in the absence of corresponding services.

d. Summary

As discussed above, our investigation concludes that the payback (reverse) transactions for sales carried out as part of "barter transactions" at OS was executed for the purpose of inflating the paybacks under the "barter transactions", taking advantage of the existing business transaction with the business partner of the "barter transactions" (i.e. the recruitment company) on the grounds that: (i) the invoices issued by the business partner provide ambiguous description of the transactions; (ii) the statement, "the reasons for such treatment are ... recruitment expenses are not easily traceable", raises a suspicion regarding the substance of the payback transaction with Company e recorded as recruitment expenses; and (iii) the expenses recorded for the payback transaction with Company j included legacy paybacks added solely for the purpose of inflating expenses.

In addition, while OS's "barter transactions" with recruiting companies do seem to have actually involved listing banner advertisements and/or advertisement posts, the facts that: (i) they also came with commitment of OS to the business partners to carry out payback transactions (monthly payback schedules and records were prepared for this purpose) and there was a strong connection between the sales and the reversing payback transactions; (ii) the economic substance of the reverse transactions was the inflation of the paybacks under the "barter transactions", which took advantage of the existing business transaction with the business partner of the "barter transactions" (i.e. the recruitment company); and (iii) commission fees were additionally charged to some business partners, do give rise to suspected non-compliance with the core principle of IFRS 15 that "an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services" (IFRS 15, paragraph 2) in OS's sales transactions with recruiting companies referred to as "barter transactions".

(4) Examination of Accounting Matters

a. Accounting Standard

As aforementioned in Section 3 (6) above, an entity is required to take the five steps to comply with the core principle of IFRS 15 for recognition of revenue arising from a contract with customer described in Section 3 (6) a of V. IFRS 15 sets forth a further requirement to be complied with in taking Step 3 "Determine the transaction price": "an entity shall evaluate the nature of consideration payable and determine whether it is a reduction of the transaction price, a payment to a customer in exchange for a distinct good or service, or a combination of the two to properly account for the consideration payable" (IFRS 15, paragraph 70).

With regard to the accounting for consideration payable to a customer, while paragraph 70 and 71 of IFRS 15 set forth a principle that “if consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers", it also prescribes that "if the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price" and that "if the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.”

b. Application of the Accounting Standard

OS’s “barter transactions” with recruiting companies consisted of sales to those companies and reversing payback transactions with the same companies, and thus “determination of the transaction price” for these sales transactions require examination of the accounting treatment of “consideration payable to a customer”: the recruiting companies.

For example, as consideration payable to Company j under the reverse transaction is in substance the inflated portion of the transaction price, the substance of the transaction corresponding to the inflated portion is actually fictitious, thus, the “fair value of the distinct good or service that the entity receives from the customer” is considered zero, which is also the case in the transactions with Company e. Even if “consideration payable” under the reverse transactions with Company e and other recruiting companies was actually for provision of some services, on the grounds that the substance of any services provided is unknown and that “the entity cannot reasonably estimate the fair value of the distinct good or service received from the customer”, “it shall account for all of the consideration payable to the customer as a reduction of the transaction price.”

Accordingly, “determination of the transaction price” for sales in OS’s “barter transactions” with recruiting companies requires reduction of the recognized sales by the amount of payback transactions, and this results in zero recognition of sales with the sales and reversing payback transactions being equal in amount (excluding any commission fees charged).

(5) Other Matters (OST’s Paybacks for “Barter Transactions” (Margin Adjustments between OS and OST))

As aforementioned, OS’s “barter transactions” with recruiting companies consisted of sales transactions recognized in one year and reversing payback transactions recognized as expenses in the following year.

However, the “barter transactions” with recruiting companies in the fiscal year ended December 31, 2019 involved OST carrying out part of the payback (i.e. reserve) transactions.

Specifically, an email between the concerned employees of OS and OST indicates that, of the Legacy transactions in the year, the “barter transactions” with Companies f, e, and k were to involve

OST carrying out payback transactions.

The background circumstances and motives for such plans were due to focus on control of the ratio of OST (technology development business)'s profits and OS (manufacturing and services business)'s profits. The ratio of OST's profits within the OS group's total profits was being considered a key issue in preparation for the listing of the OST stock being made at the OS group as OST was the core subsidiary of OS with its profit accounting for large part of the OS Group's profit. Under such circumstances, the employees responsible for performance management such as budget control in OS and OST, which were coordinating each performance of manufacturing and services business and technology development business, had regular meetings among them to share OS and OST's performance results and planned profit improvement.

An email between these persons dated November 21, 2019 included matters discussed in the meeting held among them on the day. Around this date, they discussed the progress of the "OS JPY 500 million improvement plan" mentioned in the email, which included various measures such as a plan pertaining to "Company l" for the temporary employees seconded from OS to Company l to "place 40 employees to OST (business transfer) by the year end for consideration of JPY 40 million receivable by manufacturing business, for the transfer to take effect at the beginning of January 2020".

Thus, these employees shared and understood performance results of manufacturing and services business (under Mr. C's control) and technology development business (under Mr. L's control), and also discussed measures to improve OS's operating profits from the respective businesses.

While those involved in the "barter transactions" explained that OST was to carry out the reverse transactions for the "barter transactions" with recruiting companies because OS did not have any business reason to conduct such reverse transactions (it could not fully utilize recruitment expenses arising from the payback transactions), OST being considered the core subsidiary of OS and regular discussion of OS and OST' performance results among those entities' employees indicate that they did have a purpose of adjusting operating profits between OS and OST. Despite the substance of OS's "barter transactions" with recruiting companies that requires a reduction of the recognized sales by the amount of payback transactions, those transactions were used to recognize sales at the year end and carry out reverse transactions to defer recognition of expenses to the following year, except for those carried out as the Legacy for the fiscal year ended December 31, 2019, which seem to have been carried out for the purpose of adjusting operating profits between OS and OST.

5. Examination of Other Suspicious Cases at OS

The inappropriate accounting at OS was identified in the course of examination of other suspicious cases at EN and OST.

As a result of the Investigation of the Committee, it was confirmed that the inappropriate accounting at OS was mainly led by Mr. C, and that the negotiations with the business partners who cooperated with the inappropriate accounting at OS were conducted by Mr. C and other top officials

of the Manufacturing & Service Business Division. As for the Legacy, which is the inappropriate accounting related to the results of the said negotiations, the persons in charge at the business management department compiled the Legacy of each department under the instruction of Mr. C and maintained its schedule and completion status with the Legacy Chart.

Therefore, it is considered that the inappropriate accounting at OS is limited to the transactions listed in the Legacy Chart. However, since the Legacy Chart was not prepared for the fiscal year ended December 2020, the inappropriate accounting for such year was found by extracting "barter transactions" conducted as the Legacy.

In addition to the above, we examined if there was any other inappropriate accounting through the investigation through digital forensics and the Questionnaire Investigations, but no inappropriate accounting other than the Legacy was found.

6. The Result of Inappropriate Accounting of Each Fiscal Year

(Thousands of yen)

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

VI. Investigation Results concerning Suspicious Misconducts at OST

1. Overview of the Inappropriate Accounting at OST

(1) Overview of the Inappropriate Accounting

As a result of the Investigation of the Committee, it was revealed that, at OST, the inappropriate accounting started from the fiscal year ended December 2016 at the latest.

The inappropriate accounting at OST mainly consisted of the methods of: i) recognition of fictitious sales through sales transactions and purchase transactions with the same business partners despite no transaction truly existed, under the pretext of "barter transactions" ("Recognition of Fictitious Sales"); ii) deferral of recruitment expenses; iii) reallocation of cost by inflating work-in-progress inventory balance ("Inappropriate Adjustment to Work-in-progress Inventory Balance"); and iv) deferral of outsourcing expenses.

With respect to the above i) Recognition of Fictitious Sales, purchase transactions, which are reverse transactions of sales transactions, were conducted in the periods following the sales transactions. As a result, in the accounting periods in which the sales were recognized, the amount of sales recognized fell under the inflated amount of operating profits, and in the following periods, the amount of purchase recognized, as reverse transactions, decreased the amount of operating profits.

OST is a core subsidiary in the segment of domestic engineering outsourcing business in the OS Group, and Mr. L, President and Representative Director of OST, managed the segment of such business for the OS Group, including OST. Mainly when the expected amount of operating profits for the period in the domestic engineering outsourcing business was highly likely to fall short of the budget initially established, in order to meet the budget or reduce the amount of budget shortfall regarding the sales and operating profits, while Mr. L i) sought the improvement of business performance through considering ordinary business policies and taking measures including cost reduction, he also ii) engaged in the inflation of operating profits through inappropriate accounting including the Recognition of Fictitious Sales, deferral of recruitment expenses, Inappropriate Adjustment to Work-in-progress Inventory Balance and deferral of outsourcing expenses.

It is recognized that, at OST, as well as at OS, ordinary business policies in i) above were called "catch-up" or the like, and the inappropriate accounting in ii) above was called "legacy" among the personnel relevant to the inappropriate accounting at OST. It is not clear when the name "legacy" started to be used and it is not deemed that the name "legacy" had been used from the time the inappropriate accounting started. However, since a person in charge at the Business Management Division used the word "legacy" in the email sent to Mr. L on January 12, 2018, it is considered that the name "legacy" started to be used around 2018 at the latest. According to the statements by the relevant personnel, at OST, the word "legacy" was sometimes mistakenly used for the word "catch-up" which did not necessarily mean inappropriate accounting and, for example, with respect to the recognition of sales, closing adjustment to recognize the sales during the period from the cutoff date to the month end in case where the cutoff date is not the month end was also sometimes understood

as "legacy."

It is inferred that there were different understandings among the relevant personnel at OST regarding the word "legacy" because the word "legacy" that had been originally used at OS spread to OST and the word started to be used by each personnel according to their respective understanding. Nevertheless, basically, there was no inconsistency in the recognition that it referred to the measure to increase operating profits, so it is believed that such word was also used at OST as a common term among the personnel relevant to the inappropriate accounting.

(2) Beginning of the Inappropriate Accounting

At OST, the Inappropriate Adjustment to 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, the Fictitious Recognition of Sales was conducted in the fiscal years ended December 2019 and December 2020.

Among the above, deferral of outsourcing expenses was conducted by Mr. S, Executive Officer and Division Director of Solution Service Division of OST, and deferral of recruitment expenses was conducted by Mr. T, Executive Officer and Division Director of Human Resource Strategy Division of OST, respectively, as an "adjusting valve" in order to meet the budget or reduce the budget shortfall regarding operational profits of each period, in case where it was estimated that meeting the budget would be difficult or there would be a significant budget shortfall as approaching every fiscal year end. Furthermore, it is deemed that, since there was a significant budget shortfall due to poor business performance in the fiscal years ended December 2019 and December 2020, in order to reduce the budget shortfall even if only slightly, the Fictitious Recognition of Sales was conducted under the proposal and direction of Mr. S, in addition to an "adjusting value" mentioned above.

(3) Motives for the Inappropriate Accounting

As stated in detail in Section 2(1) of XI. below, 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 if only slightly 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.

(4) Planning, Conduct and Management of the Inappropriate Accounting

At OST, Mr. S took the lead in the management of the inappropriate accounting, and the person in charge at the Business Management Division controlled the impact on the profit and loss, but no material such as the "Legacy Chart" of OS was prepared.

It is deemed that Mr. T planned and conducted the deferral of recruitment expenses through consultation with Mr. S. With respect to the Inappropriate Adjustment to Work-in-progress Inventory Balance, it is deemed that Mr. S confirmed with a person in charge of accounting via the person in charge at the Business Management Division regarding to what extent adjustment to the amount of work-in-progress inventory balance was possible, and the person in charge of accounting made the adjustment to the amount that was accountable to the Accounting Auditor. It is deemed that Mr. S directed a person in charge at the Solution Service Division, who was his subordinate, to conduct the deferral of outsourcing expenses.

Furthermore, it is deemed that Mr. S proposed and directed the relevant personnel at OST and OST's subsidiaries to conduct the Fictitious Recognition of Sales. It is recognized that, a person in charge of the Office of the President prepared and managed an administration table with respect to the approval of transactions and preparation of vouchers regarding the Fictitious Recognition of Sales, and a person in charge of accounting prepared and managed an administration table with respect to the purchase transactions regarding the fictitious sales.

2. Overview of Methods of the Inappropriate Accounting

(1) Recognition of Fictitious Sales (in the fiscal years ended December 2019 and December 2020)

The Recognition of Fictitious Sales was conducted under the following scheme: fictitious sales were recognized at the closings of accounts (in December); purchase transactions as reverse transactions were conducted in the following periods; whereby funds credited with OST in the name of collection of accounts receivables related to the Recognition of Fictitious Sales were repaid to the relevant business partners in the name of payment of accounts payables or accrued accounts payables after adding a certain amount of money.

The Recognition of Fictitious Sales in the fiscal year ended December 2019 was conducted by Mr. S, relying on the connections of the business partners, because the figures in the preliminary report on the sales for December 2019 that was issued in January 2020 were lower than expected. It was conducted without sufficient consideration or preparation including negotiation with the business partners, with the slip processing being conducted on January 20, 2020, on which the accounts were closed.

Therefore, in the fiscal year ended December 2020, Mr. S, based on his experience in the preceding period, deems to have begun to consider recognizing fictitious sales around October 2020, when he became aware that the estimated amount of operating profits in the fiscal year ended December 2020 would be lower than expected. It is deemed that he also looked for business partners who would extend cooperation in the Recognition of Fictitious Sales, and in order to prepare vouchers to disguise sales transactions and purchase transactions, he obtained cooperation from Mr. M, Director and Division Director of Business Management Division of OST, together with Mr. R, Executive Officer, who supervised each segment, and Division Director of R&D Division and Mr. T, and ten (10) or more officers and employees of OST, Mr. X, Mr. Y and Mr. AF, then current

President and Representative Directors of OST's subsidiaries, as well as other officers and employees of OST's subsidiaries.

Thus, Mr. S led the Recognition of Fictitious Sales in the fiscal year ended December 2020, the supervisors of each segment above and others followed him, and they systematically conducted the practice by sharing the extent of amount, and by preparing and sharing the list of such business partners.

Mr. L is recognized to have tolerated the Recognition of Fictitious Sales in the fiscal year ended December 2019, although he was aware that such practice existed. However, based on the statements of the relevant personnel and relevant materials, it was not found that he was aware of the existence of the Recognition of Fictitious Sales in the fiscal year ended December 2020.

It is deemed that, a person in charge of the Office of the President prepared and managed an administration table with respect to the approval of transactions and preparation of vouchers regarding the Fictitious Recognition of Sales, and a person in charge of accounting prepared and managed an administration table with respect to the purchase transactions regarding the fictitious sales.

(2) Deferral of Recruitment Expenses

Deferral of recruitment expenses refers to the action where, in particular, the recruitment expenses predominantly for new graduate recruitment were not recognized in the periods in which such expenses should originally be recognized but were deferred to be recognized in the following periods.

In case where tickets (for fifty (50) employees to be recruited, for example) are purchased by prepayment from an employment agency and dispatched employees are recruited through such employment agency, expenses should be recognized by transferring the amount for the tickets corresponding to the number of recruited employees from the prepaid expenses to the recruitment expenses. Nevertheless, at OST, even in cases where dispatched employees were recruited through such employment agency, the prepaid expenses for such tickets were not recognized by transfer to the recruitment expenses in the periods in which such expenses should originally be recognized, but were left as the prepaid expenses, and the recruitment expenses were deferred.

Even if there were some remaining tickets, the remaining number of such tickets was not checked with the employment agency on each occasion, but OST was only offered a sale of additional tickets when the number of tickets became low. Therefore, as long as the understandings between OST and the employment agency were consistent with respect to the number of used tickets when there was no remaining ticket, no business issue occurred between OST and the employment agency. Although the number of tickets was managed at a responsible department in the Human Resource Strategy Division, there was no internal control procedure regarding such management. Taking advantage of this situation, it was possible to arbitrarily transfer the prepaid expenses to the recruitment expenses. Accordingly, it was possible for Mr. T to conduct the deferral of the

recruitment expenses at his own judgment without cooperation from external business partners.

It is recognized that deferral of recruitment expenses was planned and conducted by Mr. T, through consultation with Mr. S, as an "adjusting valve" in order to meet the budget or reduce the budget shortfall regarding operational profits of each period, in case where it was estimated that meeting the budget would be difficult or there would be a significant budget shortfall as approaching every fiscal year end, and that Mr. L tolerated the same, although he was aware that such practice existed.

(3) Inappropriate Adjustment to Work-in-progress Inventory Balance

The Inappropriate Adjustment to Work-in-progress Inventory Balance refers to the action where, with respect to work-in-progress, while the work-in-progress inventory balance against the recognized sales should originally be recognized as the cost of sales, a part of the work-in-progress inventory balance was reallocated to a different work-in-progress inventory balance to inflate operating profits.

With respect to such Inappropriate Adjustment to Work-in-progress Inventory Balance, it is deemed that, when the operating profits and other results of performance fell short of OST's estimated amount, Mr. S confirmed with a person in charge of accounting via the person in charge at the Business Management Division regarding to what extent adjustment to the amount of work-in-progress inventory balance was possible. Then the person in charge of accounting considered the amount of adjustment to the work-in-progress with balance that was reasonably accountable, using the amount of orders received, work-in-progress inventory balance, anticipated cost and so on, informed the person in charge at the Business Management Division of such amount, and made the adjustment to the breakdown amounts related to work-in-progress inventory balance.

At OST, since the cost accounting system was not sufficiently established, it is deemed that Mr. S had a misunderstanding that the Inappropriate Adjustment to Work-in-progress Inventory Balance was tolerable to a certain extent as long as the work-in-progress inventory balance that should be originally recognized was unknown, and taking advantage of such poor establishment of the cost accounting system, conducted the Inappropriate Adjustment to Work-in-progress Inventory Balance.

It is recognized that, the Inappropriate Adjustment to Work-in-progress Inventory Balance was also planned and conducted by Mr. S, through consultation with Mr. T, as an "adjusting valve" in order to meet the budget or reduce the budget shortfall regarding operational profits of each period, in case where it was estimated that meeting the budget would be difficult or there would be a significant budget shortfall as approaching every fiscal year end, and that Mr. L tolerated the same, although he was aware that such practice existed.

(4) Deferral of outsourcing expenses

Deferral of outsourcing expenses refers to the action where, at the Solution Service Division managed by Mr. S, Mr. S, with the cooperation from subcontractors, caused the outsourcing

expenses incurred at the closing of accounts (in December) to be charged in the following periods and deferred the outsourcing expenses.

It is deemed that Mr. S directed a person in charge at the Solution Service Division, who was his subordinate, to conduct such deferral of outsourcing expenses.

Mr. S also conducted deferral of outsourcing expenses in or before the fiscal year ended December 2018 without recording in vouchers. In the fiscal year ended December 2019, he started to manage the deferral of outsourcing expenses by directing a person in charge at the Solution Service Division, who was his subordinate. Therefore, the impact by the deferral of outsourcing expenses in or before the fiscal year ended December 2018 has not been clarified.

It is recognized that, the deferral of outsourcing expenses was planned and conducted by Mr. S, through consultation with Mr. T, as an "adjusting valve" in order to meet the budget or reduce the budget shortfall regarding operational profits of each period, in case where it was estimated that meeting the budget would be difficult or there would be a significant budget shortfall as approaching every fiscal year end, and that Mr. L tolerated the same, although he was aware that such practice existed.

3. Examination of Other Suspicious Cases at OST

The inappropriate accounting at OST was identified in the course of examination of other suspicious cases at EN.

As a result of the Investigation of the Committee, it was found that Mr. S mainly led the inappropriate accounting at OST, and Mr. T conducted the deferral of recruitment expenses through consultation with Mr. S.

Accordingly, it is recognized that the inappropriate accounting at OST was limited to the practice managed by Mr. S and Mr. T. However, it was found that in the fiscal years ended December 2018 and 2019, an employee in the position of manager conducted early recognition of outsourcing expenses. When his performance for a fiscal year was good, he recognized the outsourcing expenses for the following fiscal year earlier in order to make some "margin" for the performance for the following fiscal year. Such inappropriate accounting was a misconduct by an employee different from the inappropriate accounting led by Mr. S. As a result of the Questionnaire Investigations, inappropriate accounting to defer recognition of sales (the sales were recognized in the period later than the period in which the sales should originally be recognized) was revealed in addition to the above. However, as a result of the investigation through digital forensics conducted as a part of examination of other suspicious cases at OST, the Questionnaire Investigations and through the establishment of an information supplement desk, no inappropriate accounting was found at OST other than the above.

4. The Result of Inappropriate Accounting of Each Fiscal Year

(Thousands of yen)

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

VII. Investigation Results concerning Suspicious Misconducts at EN

1. Overview of the Inappropriate Accounting at EN

(1) Overview of the Inappropriate Accounting

As a result of the Investigation of the Committee, it was revealed that, at EN, the inappropriate accounting started from the fiscal year ended December 2016 at the latest.

The inappropriate accounting at EN mainly consisted of the methods of: i) Recognition of Fictitious Sales; ii) early recognition of sales; iii) Inappropriate Adjustment to Work-in-progress Inventory Balance; iv) inappropriate accounting relating to advance payments; v) avoidance of recognizing provision for loss on orders received; vi) avoidance of recognizing impairment loss; vii) Deferral of Expenses; viii) inappropriate recognition of fixed assets; and ix) inappropriate accounting relating to advance payments received.

(2) Beginning of the Inappropriate Accounting

It was informed that, at EN, the inappropriate accounting was already conducted around 2016 when the former General Manager of Accounting Department joined EN.

As stated below, since it is recognized that the inappropriate accounting at EN was conducted based on the instructions of Mr. X, the former CEO, it is highly likely that the inappropriate accounting started in or before 2016 at EN, but it is difficult to identify when it started.

Nevertheless, at EN, it is recognized that the inappropriate accounting started in the fiscal year ended December 2016 at the latest.

(3) Motives for the Inappropriate Accounting

As stated in Section 3(1) of XI. below, the inappropriate accounting at EN was caused by the pressure by Mr. X to meet the budget and a desire to avoid an adverse effect on employee bonuses. It is deemed that, among the above inappropriate accounting, avoidance of recognizing provision for loss on orders received and avoidance of recognizing impairment loss were conducted because the person who conducted them was afraid of being held responsible for the judgment that there were indications of impairment due to the business performance of the departments managed by his/her division.

(4) Planning and Conduct of the Inappropriate Accounting

It is recognized that the former General Manager of Accounting Department and others who were instructed by Mr. X mainly conducted the inappropriate accounting at EN.

With respect to the EN Suspicious Misconduct, it is deemed that, considering the contents of the statements and the detected emails of the relevant personnel, although Mr. X did not give instructions on specific journalization to the former General Manager of Accounting Department, Mr. X instructed the final target amount, saying, “Isn’t this amount possible for work-in-progress?” or “Isn’t it possible to do anything with the inventory?” and requested what seemed impossible

without conducting inappropriate accounting, and the former General Manager of Accounting Department conducted the inappropriate accounting.

In this regard, in the interview held by the Committee, while Mr. X admitted that he requested the former General Manager of Accounting Department to do something saying "We want to meet the budget. Isn't it possible to do anything about it?," looking at the figures of operating profits, he denied that he gave instructions on inappropriate accounting, saying that he did not request any inappropriate accounting. However, in the interview held by the Committee, the former General Manager of Accounting Department made statements in detail to the effect that he/she received the above instructions from Mr. X. The instructions by Mr. X, according to the statements by the former General Manager of Accounting Department, was to adjust the amount of work-in-progress and inventory or the like, which should originally be determined in the light of the objective facts, and it cannot in anyway be said that such instructions were something to request the handling within the scope of appropriate accounting. Furthermore, based on the detected emails, it is recognized that the former General Manager of Accounting Department reported in detail to Mr. X the inappropriate accounting expected to be conducted and the amount of money or the like thereof including to the effect that: there was a shortfall in tens of millions of yen to meet the budget of operational profit; the maximum amount of addition to work-in-progress was limited to several million yen; and he/she engaged in the reallocation of labor costs to the department not in operation and the transfer of cost, salary and consumables to the construction work-in-progress, and in response thereto, Mr. X replied that the profit would be too small (With respect to such emails, Mr. X stated that he was aware that such practice was not appropriate, but he thought there was no choice.). Thus, considering the fact that the details of the inappropriate accounting were reported by the former General Manager of Accounting Department to Mr. X and the above statement made by the former General Manager of Accounting Department, it is recognized that Mr. X, who overly focused on meeting the budget of operating profits, concretely understood the details and instructed the inappropriate accounting.

On the other hand, with respect to avoidance of recognizing provision for loss on orders received and avoidance of recognizing impairment loss, it is recognized that Mr. AG, an Executive Officer, conducted them based on the request by the former General Manager of Accounting Department and a desire to avoid the judgment that there were indications of impairment at EN before the listing of the OST stock, and because Mr. AG was afraid of being held responsible for the judgment that there were indications of impairment due to the business performance of the departments managed by his division.

2. Overview of Methods of the Inappropriate Accounting

(1) Recognition of Fictitious Sales

At EN, Recognitions of Fictitious Sales were identified for the fiscal years ended December 2016, December 2017, December 2018 and December 2020. The overview of the Recognitions of Fictitious Sales for each period is as follows:

a. The fiscal year ended December 2016

For December 2016, in the fiscal year ended December 2016, Recognitions of Fictitious Sales in the amount of JPY 1,680 thousand for each of Company m and Company n who were business partners were conducted. For February 2017, in the following fiscal year ended December 2017, such Recognitions of Fictitious Sales were cancelled.

b. The fiscal year ended December 2017

For November 2017, in the fiscal year ended December 2017, Recognition of Fictitious Sales of JPY 19,800 thousand (JPY 21,384 thousand including consumption tax) for Company o, with which Mr. X was acquainted, was conducted.

In doing so, while Mr. X placed an order for the construction of the laboratory building and proto-type building for training at Seisho Technical Center of EN with Company p, which he was also acquainted with, he added JPY 21,384 thousand on the payment when he paid to Company p the progress payment upon completion of framework of such laboratory building and the payment for underground obstacles removal and soil improvement of the proto-type building for training on December 20, 2017. Thereafter, by circulating such money from Company p to Company o, EN collected JPY 21,384 thousand as (fictitious) accounts receivable from Company o on December 29, 2017.

c. The fiscal year ended December 2018

For December 2018, in the fiscal year ended December 2018, Recognition of Fictitious Sales in the amount of JPY 8,500 thousand with Company q, which Mr. X was acquainted with, was conducted, and for March 2019, in the following fiscal year ended December 2019, the fictitious purchase in the amount of JPY 8,514 thousand from Company q was recognized.

d. The fiscal year ended December 2020

In the fiscal year ended December 2020, at OST, while Mr. S, in taking the lead in the Recognition of Fictitious Sales, requested Mr. X to consider business partners who could extend cooperation in the Recognition of Fictitious Sales, Mr. X, with the cooperation from Company r, which he was acquainted with, conducted the Recognition of Fictitious Sales in the amount of JPY 6,400 thousand from the sales transactions with such Company r for December 2020.

Subsequently, EN collected the accounts receivable relating to such Recognition of Fictitious Sales for January 2021, in the following fiscal year ended December 2021. However, for the same month, EN conducted purchase transactions in the amount of JPY 7,680 thousand with Company s, who is also considered that Mr. X was acquainted with, and in the following month, paid the accounts payable relating to such purchase transactions.

In this regard, based on the facts that: i) such transactions were conducted under the pretext that

EN sold a used automobile, which had been purchased from Company s, to Company r, but assuming the above was true, there is no justifiable reason for sales to precede. Accordingly, it is believed that such transactions were fictitious; ii) such transactions were considered when the Recognition of Fictitious Sales through "barter transactions" was conducted at OST for the fiscal year ended December 2020, and the reverse transactions of the sales transactions with Company r fell under the purchase transactions from Company s; and iii) in the same manner as the Recognition of Fictitious Sales through "barter transactions" at OST in the fiscal year ended December 2020, reverse transactions were conducted by adding a certain amount of money, and 20% (twenty percent) of the amount was added with respect to such transactions, the Committee determined that such transactions were fictitious sales and fictitious purchase respectively.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	-3,360	-16,440	-8,500	0	-6,400	0
Cost of sales	0	0	0	-8,556	0	-7,680
Gross profit	-3,360	-16,440	-8,500	8,556	-6,400	7,680
SG&A expenses	0	0	-326	-653	-653	-326
Operating profit	-3,360	-16,440	-8,173	9,210	-5,746	8,006
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	57	0	1,408	0
Profit before tax	-3,360	-16,439	-8,231	9,210	-7,154	8,006

(2) Early Recognition of Sales

At EN, in the first quarter of the fiscal year ended December 2019 and in the fiscal year ended December 2020, early recognitions of sales were identified in amounts of JPY 19,031 thousand and JPY 38,100 thousand respectively.

In addition, in the fourth quarter of the fiscal year ended December 2020, two (2) sales transactions of a damper tester and early recognition in the amount of JPY 27,491 thousand were found. With respect to one of the above transactions with the sales amount of JPY 10,500 thousand, the accounting stated in (8) below was conducted for the amount corresponding to the cost of sales

thereof.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	-65,591	65,591
Cost of sales	0	0	0	0	-25,421	25,421
Gross profit	0	0	0	0	-40,170	40,170
SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	0	0	-40,170	40,170
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	0	-40,170	40,170

(3) Inappropriate Adjustment to Work-in-progress Inventory Balance

It was recognized that the Inappropriate Adjustment to Work-in-progress Inventory Balance started from the fiscal year ended December 2017 at the latest.

The Inappropriate Adjustment to Work-in-progress Inventory Balance specifically consisted of the methods of: i) recognition of fictitious inventory; ii) Inappropriate Adjustment to Work-in-progress Inventory Balance for the Testing Department for each fiscal year; and iii) adjustment to the timing of the work-in-progress inventory to be expensed for Hekinan office.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	23,382	-11,486	35,544	-8,996
Gross profit	0	0	-23,382	11,486	-35,544	8,996
SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	-23,382	11,486	-35,544	8,996
Other operating income	0	0	0	0	0	0

Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	-23,382	11,486	-35,544	8,996

(4) Inappropriate Accounting Relating to Advance Payments

It was recognized that the inappropriate accounting relating to advance payments started from the fiscal year ended December 2016 at the latest.

The inappropriate accounting relating to advance payments was conducted by the method of not reclassifying the relevant advance payments as expenses, despite that expenses such as purchase were incurred with respect to the transactions for which advance payments were recognized.

Although the inappropriate accounting relating to such advance payments was revealed at EN and the OST Group in February 2021, appropriate accounting was not conducted at that time.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	2,811	-2,811	1,717	20,777	-22,494	0
Gross profit	-2,811	2,811	-1,717	-20,777	22,494	0
SG&A expenses	0	0	1,699	-1,699	0	0
Operating profit	-2,811	2,811	-3,417	-19,077	22,494	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	-2,811	2,811	-3,417	-19,077	22,494	0

(5) Avoidance of Recognizing Provision for Loss on Orders Received

It was recognized that avoidance of recognizing provision for loss on orders received started from the first quarter of the fiscal year ended December 2020 at the latest.

Avoidance of recognizing provision for loss on orders received was conducted by the method of Adjustment to Work-in-progress Inventory Balance for specific projects.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	0	0	11,292	-3,068
Gross profit	0	0	0	0	-11,292	3,068

SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	0	0	-11,292	3,068
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	0	-11,292	3,068

(6) Avoidance of Recognizing Impairment Loss

It was recognized that avoidance of recognizing impairment loss started from the fiscal year ended December 2019 at the latest.

Avoidance of recognizing impairment loss refers to the action where, specifically, the judgment that there were indications of impairment was avoided by reallocating the sales from the other departments to the two (2) locations of Kobe Technical Center and Seisho Technical Center, whereby the recognition of impairment loss was avoided.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	0	0	-11,607	-36,107
Gross profit	0	0	0	0	11,607	36,107
SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	0	0	11,607	36,107
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	166,110	854,176	0
Profit before tax	0	0	0	-166,110	-842,568	36,107

(7) Deferral of Expenses

It was recognized that the Deferral of Expenses started from the second quarter of the fiscal year ended December 2016 at the latest.

Deferral of Expenses was conducted, specifically, by the methods of: i) not recognizing expenses in the month in which the expenses were incurred, or arbitrarily recognizing the reduced amount of expenses and recognizing the balance in the month in which cash and deposits expenditures were incurred (in the following fiscal year (or in the following quarter)); and ii) with respect to labor insurance premiums and social insurance premiums, arbitrarily not recognizing the estimated

amount of recognition, or recognizing the reduced amount.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	-437	405	4,741	-2,648	2,217	-3,450
Gross profit	437	-405	-4,741	2,648	-2,217	3,450
SG&A expenses	-100	80	3,275	-1,174	721	-792
Operating profit	537	-485	-8,016	3,823	-2,939	4,243
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	537	-485	-8,016	3,823	-2,939	4,243

(8) Inappropriate Recognition of Fixed Assets

It was recognized that inappropriate recognition of fixed assets was conducted in the second quarter of the fiscal year ended December 2020 and in the fiscal year ended December 2020.

The inappropriate recognition of fixed assets was conducted, specifically, by the methods of: i) recognizing as fixed assets the modification of optical single-cylinder engines which were procured for the purpose of sale (for the second quarter of the fiscal year ended December 2020); and ii) recognizing as fixed assets the damper testers which were procured for the purpose of sale and already sold (for the fiscal year ended December 2020).

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	0	0	2,298	9,333
Gross profit	0	0	0	0	-2,298	-9,333
SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	0	0	-2,298	-9,333
Other operating income	0	0	0	0	0	0

Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	0	-2,298	-9,333

(9) Inappropriate Accounting Relating to Advance Payments Received

It was recognized that the inappropriate accounting relating to advance payments received was conducted in the fiscal year ended December 2019.

The inappropriate accounting relating to advance payments received was conducted, specifically, by the methods of offsetting the expenses incurred as repairs and maintenance and consumable expenses against unrelated advance payments received, instead of recognizing such expenses as expenses.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	0	7,425	0	0
Gross profit	0	0	0	-7,425	0	0
SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	0	-7,425	0	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	-7,425	0	0

3. Examination of Other Suspicious Cases at EN

The Investigation of the Committee was conducted with the inappropriate accounting at EN as a start.

As a result of the Investigation of the Committee, it was recognized that the inappropriate accounting at EN was conducted mainly by the former General Manager of Accounting Department, by considering specific methods based on the instructions of Mr. X. In addition to the above, after

Mr. X and the former General Manager of Accounting Department retired, avoidance of recognizing provision for loss on orders received and avoidance of recognizing impairment loss were conducted by Mr. AG. However, as a result of the investigation through digital forensics, the Questionnaire Investigations and through the establishment of an information supplement desk conducted in the course of the Investigation of the Committee, no inappropriate accounting was found at EN other than the above.

4. The Result of Inappropriate Accounting of Each Fiscal Year

(Thousands of yen)

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

VIII. Investigation Results concerning Suspicious Misconducts at RPM

1. Overview of the Inappropriate Accounting at RPM

(1) Overview of the Inappropriate Accounting

As a result of the Investigation of the Committee, it was revealed that, at RPM, the inappropriate accounting started from the fiscal year ended December 2014 at the latest.

The inappropriate accounting at RPM mainly consisted of the methods of: i) Inappropriate Adjustment to Work-in-progress Inventory Balance; ii) avoidance of recognizing provision for loss on orders received; iii) early recognition of sales; iv) deferral of recruitment expenses; and v) inappropriate accounting relating to software.

(2) Beginning of the Inappropriate Accounting

Since Inappropriate Adjustment to Work-in-progress Inventory Balance was conducted by Mr. AH, Representative Director of RPM at that time, from the fiscal year ended December 2014 at the latest, it is recognized that the inappropriate accounting at RPM began from the fiscal year ended December 2014 at the latest.

(3) Motives for the Inappropriate Accounting

As stated in detail in Section 4(1) of XI. below, among the inappropriate accounting at RPM, it is recognized that the Inappropriate Adjustment to Work-in-progress Inventory Balance for the fiscal year ended December 2014 was apparently made by Mr. AH to avoid the pursuit of his own management responsibility, and that the subsequent Inappropriate Adjustment to Work-in-progress Inventory Balance or the like was made by a desire to avoid recognition of provision for loss on orders received, a desire to reduce the amount of budget shortfalls by increasing operating profits, or a desire to avoid an adverse effect on employee bonuses.

(4) Planning and Conduct of the Inappropriate Accounting

With respect to the inappropriate accounting at RPM, especially on and after Mr. Y became the Representative Director of RPM, it is recognized that Mr. Y instructed the person in charge of the Clinical Development Department and the person in charge of the Control Department to conduct the Inappropriate Adjustment to Work-in-progress Inventory Balance and avoidance of recognizing provision for loss on orders received, etc.

The avoidance of recognizing provision for loss on orders received was recognized by falsifying the amount of “work-in-progress balance” and other items in the “order loss judgment sheet” prepared by the person in charge of the Clinical Development Department and the person in charge of the Control Department. It is recognized that the judgment of the kind of projects, amount and extent of falsification was made by the person in charge of the Clinical Development Department because the person in charge of Control Department could not determine the item and the extent of amount of “work-in-progress balance” which should be falsified.

2. Overview of Methods of the Inappropriate Accounting

(1) Inappropriate Adjustment to Work-in-progress Inventory Balance

With respect to the Inappropriate Adjustment to Work-in-progress Inventory Balance, it is recognized that the increase of approximately JPY 165,000 thousand in the work-in-progress balance (as of the end of fiscal year ended December 2015) related to lost orders from the fiscal year ended December 2014 was apparently made by Mr. AH to avoid the pursuit of management responsibility, and subsequent Inappropriate Adjustment to Work-in-progress Inventory Balance was conducted by a desire to reduce the amount of budget shortfalls by inflating operating profits, or a desire to avoid recognizing provision for loss on orders received.

RPM was initially a subsidiary of OS and became a subsidiary of OST in January 2019. At that time, OST was preparing for listing, and it was decided to take care the work-in-progress balance related to lost orders and other items which was inflated by Mr. AH in the fiscal year ended December 2014. Around November 2019, Mr. P, the External Director; Full-time Audit and Supervisory Committee Member of OST and an Auditor of RPM, Mr. V, then current Director of OST, the person in charge of accounting in the Business Management Division and employees of the Business Management Division of OST, and the person in charge of the Clinical Development Department of RPM conducted an investigation, and ultimately decided to recognize the balance of JPY 93,000 thousand of "the amount that can be explained as work-in-progress to the auditing corporation" out of approximately JPY 165,000 thousand, not the entire amount, as cost in the fiscal year ended December 2019. As a result, the balance that should have been recorded as work-in-progress remained, thus, the Inappropriate Adjustment to Work-in-progress Inventory Balance to avoid recognizing provision for loss on orders received continued thereafter.

As it is difficult to separate and identify the amount of impact related to this section and the methods described in (3) and (5) below, the following table includes the amount of impact related to the procedures described in (3) and (5) below.

(Thousands of yen)

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	-13,408	-104,502	91,474	-55,085	7,195	16,909
Gross profit	-22,362	-3,689	-29,863	80,206	-14,041	39,612
SG&A expenses	0	0	0	0	0	0
Operating profit	-22,362	-3,689	-29,863	80,206	-14,041	39,612

Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	-22,362	-3,689	-29,863	80,206	-14,041	39,612

(2) Avoidance of Recognizing Provision for Loss on Orders Received

With respect to avoidance of recognizing provision for loss on orders received, it is recognized that such inappropriate accounting was conducted from the fiscal year ended December 2014 at the latest.

The avoidance of recognizing provision for loss on orders received was conducted in a manner by falsifying the amount of "work-in-progress balance" and other items in the "order loss judgment sheet" prepared by the person in charge of the Clinical Development Department and the person in charge of Control Department, as described in Section 1(4) above. The judgment regarding the category of projects, amount and extent of such falsification was made by the person in charge of the Clinical Development Department and conducted the avoidance of recognizing provision for loss on orders received and Inappropriate Adjustment to Work-in-progress Inventory Balance, because the person in charge of the Control Department could not determine the item and the extent of amount of "work-in-progress balance" which should be falsified.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	-12,526	0	9,878	-17,051	-1,798	0
Gross profit	12,526	0	-9,878	17,051	1,798	0
SG&A expenses	0	0	0	0	0	0
Operating profit	12,526	0	-9,878	17,051	1,798	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0

Profit before tax	12,526	0	-9,878	17,051	1,798	0

(3) Early Recognition of Sales

At RPM, it is recognized that the early recognition of sales was conducted from the third quarter of the fiscal year ended December 2015 at the latest.

Early recognition of sales was recognized upon the issuance of invoice, which was made without the provision of services defined in the contracts.

The amount of impact is included in the table listed in (1) above.

(4) Deferral of Recruitment Expenses

With respect to deferral of recruitment expenses, it is difficult to identify when it began, but it is recognized that it was conducted from the fiscal year ended December 2015 at the latest.

Although recruitment expenses should be recognized in the month they are incurred, RPM recognized recruitment expenses in the month of payment instead of the month they are incurred. In addition, as for the ticket-based recruitment fees (recognized as prepaid expenses at the time of payment), RPM recognized expenses when monthly results exceeded the budget and arbitrarily manipulated the timing in which expenses were to be recognized.

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	0	0	0	0
Gross profit	0	0	0	0	0	0
SG&A expenses	-5,110	3,167	6,987	927	-5,048	-9,191
Operating profit	5,110	-3,167	-6,987	-927	5,048	9,191
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	5,110	-3,167	-6,987	-927	5,048	9,191

(5) Inappropriate Accounting Relating to Software

With respect to the inappropriate accounting in relation to software, the software in progress related to development which had been substantially discontinued around 2013 should have been expensed, but was still recognized as software in progress thereafter. In this regard, there was a possibility that this accounting practice may be erroneous, but subsequently, in the fiscal year ended December 2015, another work-in-progress balance was transferred to such software in progress account. Furthermore, such software in progress account was transferred to the formal account at the end of December 2017, while being aware that it should be accounted in a software in progress account, not treated as assets. Therefore, it is recognized that the inappropriate accounting was conducted by the fiscal year ended 2015 at the latest.

Specifically, the following inappropriate accounting practices were performed in relation to software: i) inappropriate allocation of work-in-progress to software; ii) arbitrary setting of the amortization period of software to understate the amortization cost; and iii) capitalization of software costs that should not be treated as assets.

The amount of impact is included in the table listed in (1) above.

3. Examination of Other Suspicious Cases at RPM

The inappropriate accounting at RPM was identified in the course of examination of other suspicious cases at EN.

As a result of the Investigation of the Committee, it was found that the inappropriate accounting at RPM was mainly conducted under the instruction of Mr. Y by the person in charge of the Clinical Development Department and the person in charge of the Control Department.

In addition, the investigation through digital forensics and the Questionnaire Investigations were conducted and an information supplement desk was established in the course of the Investigation of the Committee, but no inappropriate accounting was found at RPM other than the above.

4. The Result of Inappropriate Accounting of Each Fiscal Year

(Thousands of yen)

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

IX. Investigation Results concerning Suspicious Misconducts related to Other Subsidiaries

1. Overview

As stated above, in the Investigation of the Committee, as a result of the investigation triggered by the EN Suspicious Misconduct, it was found that the inappropriate accounting was conducted at the four (4) companies of OS, OST, EN and RPM. In addition to these companies, in the Investigation of the Committee, it was found that: i) when the inappropriate accounting (Legacy) was conducted at OS, inappropriate accounting was also conducted at subsidiaries (ORJ, PEO, OTS, OS VIETNAM and OS SELNAJAYA) in the same manner; ii) when the inappropriate accounting (Recognition of Fictitious Sales) was conducted at OST, inappropriate accounting was also conducted at subsidiaries (Thinketh Bank, ADVANTEC and Mobile Communications) in the same manner; iii) inappropriate accounting was conducted at OST subsidiaries and others (Kyodo Engineering, GLocal (later absorbed into OST), Three S Japan Co., Ltd. ("Three S Japan") and TryAngle (later absorbed into RPM)); and iv) inappropriate accounting was conducted at other subsidiaries (ELEMENT (later absorbed into AVANCE CORPORATION)).

2. Subsidiaries Involved in the Inappropriate Accounting (Legacy) at OS

(1) Overview

As stated in V. above, at OS, the inappropriate accounting was conducted through "barter transactions" and Deferral of Expenses, under the pretext of the Legacy, at the Manufacturing & Service Business Division managed by Mr. C.

In doing so, Mr. C requested ORJ, PEO, OTS and OS VIETNAM, which are the subsidiaries in the segment of manufacturing and service business managed by himself, to consider the plan of the Legacy and caused them to conduct "barter transactions" and Deferral of Expenses.

In this regard, i) at ORJ, in addition to "barter transactions" and Deferral of Expenses, adjustment after cutoff date, which is a method of inappropriate adjustment to the amount of sales recognized until the last day of the period, after the cutoff date for invoicing customers, ii) at PEO, deferral of transportation expenses or the like, iii) at OTS, "barter transactions," iv) at OS VIETNAM, early recognition of sales, and v) at OS SELNAJAYA, early recognition of sales by education and training of locally recruited employees, were conducted as methods of the Legacy respectively (*see* also Section 2(2)c., d. and f. of V. above for the methods with respect to ORJ and PEO).

(2) Impacts of the Inappropriate Accounting

The impacts of the inappropriate accounting at ORJ, PEO, OTS, OS VIETNAM and OS SELNAJAYA are as follows:

a. ORJ

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	-26,820	26,820	0	0	0	0
Cost of sales	11,462	-11,462	0	0	0	0
Gross profit	-38,282	38,282	0	0	0	0
SG&A expenses	22,224	-22,224	0	0	0	0
Operating profit	-60,506	60,506	0	0	0	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	-60,506	60,506	0	0	0	0

b. PEO

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	33,606	-8,995	-24,610	0
Gross profit	0	0	-33,606	8,995	24,610	0
SG&A expenses	0	0	30	-30	0	0
Operating profit	0	0	-33,636	9,025	24,610	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0

Profit before tax	0	0	-33,636	9,025	24,610	0

c. OTS

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	-13,979	-11,892	25,871	0	0	0
Cost of sales	9,135	-9,135	0	0	0	0
Gross profit	-23,114	-2,757	25,871	0	0	0
SG&A expenses	98	-98	0	0	0	0
Operating profit	-23,212	-2,658	25,871	0	0	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	-23,212	-2,658	25,871	0	0	0

d. OS VIETNAM

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	-18,853	18,853	0
Cost of sales	0	0	0	0	0	0
Gross profit	0	0	0	-18,853	18,853	0
SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	0	-18,853	18,853	0
Other operating income	0	0	0	0	0	0

Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	-18,853	18,853	0

e. OS SELNAJAYA

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	-25,119	25,119	0
Cost of sales	0	0	0	0	0	0
Gross profit	0	0	0	-25,119	25,119	0
SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	0	-25,119	25,119	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	-25,119	25,119	0

3. Subsidiaries Involved in the Inappropriate Accounting (Recognition of Fictitious Sales) at OST

(1) Overview

As stated in VI. above, at OST, in the fiscal years ended December 2019 and December 2020, Mr. S took the lead in the Recognition of Fictitious Sales.

In doing so, Mr. S directed, in addition to the relevant departments at OST, the relevant personnel at OST's subsidiaries to consider business partners who could extend cooperation for the Recognition of Fictitious Sales. Thus, Mr. S conducted the Recognition of Fictitious Sales at OST utilizing such business partners and caused some subsidiaries, which are Thinketh Bank, ADVANTEC and Mobile Communications, to conduct the Recognition of Fictitious Sales at such subsidiaries.

It was found that, at Thinketh Bank, in addition to such Recognition of Fictitious Sales, early recognition of sales was conducted from the fiscal year ended December 2015 at the latest. In this

regard, Mr. AF, the current CEO of Thinketh Bank, when he became in charge of finance around 2017 (he was not an officer at that time), noticed the existence of discrepancies in the timing of sales recognition. According to him, he wanted to pay bonuses to the employees by securing operating profits at Thinketh Bank, which had a tendency to have chronic deficits, and through consultation with Mr. T, Director of Thinketh Bank (who concurrently served as Corporate Officer of OST), directed employees in the management department to continue adjustment to the timing of sales recognition.

(2) Impacts of the Inappropriate Accounting

The impacts of the inappropriate accounting at Thinketh Bank, ADVANTEC and Mobile Communications are as follows:

a. Thinketh Bank

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	2,999	8,372	8,846	-59,689	-38,102	-1,468
Cost of sales	0	0	0	0	0	0
Gross profit	2,999	8,372	8,846	-59,689	-38,102	-1,468
SG&A expenses	0	0	0	0	0	0
Operating profit	2,999	8,372	8,846	-59,689	-38,102	-1,468
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	3,291	0
Profit before tax	2,999	8,372	8,846	-59,689	-41,393	-1,468

b. ADVANTEC

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	0	0	0	0

Gross profit	0	0	0	0	0	0
SG&A expenses	0	0	0	0	0	-2,988
Operating profit	0	0	0	0	0	2,988
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	0	0	2,988

c. Mobile Communications

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	-12,000	0	0
Cost of sales	0	0	0	0	0	0
Gross profit	0	0	0	-12,000	0	0
SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	0	-12,000	0	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	-12,000	0	0

4. OST’s Subsidiaries and Others

(1) Overview

As stated in VII. and VIII. above, the inappropriate accounting was conducted at EN and RPM, which are OST’s subsidiaries. As a result of the Investigation of the Committee, it was found that,

in addition to EN and RPM, the inappropriate accounting was also conducted at Kyodo Engineering, GLocal, Three S Japan and TryAngle.

Kyodo Engineering became a subsidiary of OST in 2015. Due to its budget shortfall in the fiscal year ended December 2017, in accordance with the instructions of Mr. U, the current Representative of Kyodo Engineering, deferral of recruitment expenses began to be conducted by the human resource department and accounting section. OST was also aware of such deferral of recruitment expenses. It is recognized that such deferral of recruitment expenses was adopted for inflating operating profits of Kyodo Engineering and the whole OST Group.

GLocal was a subsidiary of OST and was absorbed into OST in January 2020. In the fiscal year ended December 2019 before the absorption, inappropriate accounting of work-in-progress account was conducted.

Three S Japan was a subsidiary of OS as of December 31, 2018, and on January 1, 2019, was absorbed into TryAngle, which became a subsidiary of OST as of the same day. Then TryAngle was absorbed into RPM in April 2021. At Three S Japan, in the projects that continued for a long term among the overseas business departments, early recognition of sales, wherein the sales were recognized upon the invoice of advance payments despite that the project had not been closed, and Deferral of Expenses were conducted. At TryAngle, early recognition of sales, wherein sales were recognized early with inaccurate amounts despite that obligations under a contract that imposes performance of several obligations had not been fully performed, and Deferral of Expenses were conducted.

(2) Impacts of the Inappropriate Accounting

The impacts of the inappropriate accounting at Kyodo Engineering, GLocal, Three S Japan and TryAngle are as follows:

a. Kyodo Engineering

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	0	0	0	0
Gross profit	0	0	0	0	0	0
SG&A expenses	0	-13,500	19,100	-11,900	-55,000	1,350
Operating profit	0	13,500	-19,100	11,900	55,000	-1,350

Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	13,500	-19,100	11,900	55,000	-1,350

b. GLocal

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	0	19,868	0	0
Gross profit	0	0	0	-19,868	0	0
SG&A expenses	0	0	0	0	0	0
Operating profit	0	0	0	-19,868	0	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	-19,868	0	0

c. Three S Japan

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	-92,708	43,837	48,871	0	0
Cost of sales	0	-52,084	29,577	22,507	0	0
Gross profit	0	-40,623	14,259	26,363	0	0

SG&A expenses	0	0	0	0	0	0
Operating profit	0	-40,623	14,259	26,363	0	0
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	-40,623	14,259	26,363	0	0

(With respect to the impacts related to the inappropriate accounting conducted at Three S Japan, the amounts for the fiscal year ended December 2019, after being absorbed into TryAngle, are also included in the above table.)

d. TryAngle

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	-210	-21,590	-11,175	3,900	-9,603	0
Cost of sales	0	0	40,620	-31,585	-3,467	-5,566
Gross profit	-210	-21,590	-51,795	35,485	-6,135	5,566
SG&A expenses	1,173	4,069	3,618	-10,014	6,008	-15,594
Operating profit	-1,383	-25,659	-55,413	45,500	-12,144	21,161
Other operating income	0	0	0	0	0	8,603
Other operating expense	0	0	0	0	0	0
Profit before tax	-1,383	-25,659	-55,413	45,500	-12,144	29,765

5. ELEMENT

(1) Overview

ELEMENT was a subsidiary of AVANCE HOLDINGS, which is a subsidiary of OS, but was absorbed into AVANCE CORPORATION in August 2021. It was found that, in the fiscal year ended December 2021, the recognition of taxes and duties was overstated due to an error in processing of consumption tax.

It was recognized that such overstatement was not a misconduct but an error. This error was detected when the company auditor of AVANCE CORPORATION pointed out in March 2021.

(2) Impacts of the Inappropriate Accounting

The impacts of the inappropriate accounting at ELEMENT are as follows:

(Thousands of yen)

Element／FY	2016	2017	2018	2019	2020	2021（2Q）
Revenue	0	0	0	0	0	0
Cost of sales	0	0	0	0	0	0
Gross profit	0	0	0	0	0	0

SG&A expenses	0	0	0	0	-10,382	10,382
Operating profit	0	0	0	0	10,382	-10,382
Other operating income	0	0	0	0	0	0
Other operating expense	0	0	0	0	0	0
Profit before tax	0	0	0	0	10,382	-10,382

6. Examination of Other Suspicious Cases

The inappropriate accounting at other subsidiaries was identified in the course of examination of other suspicious cases at EN, OST and OS.

In addition to the above, the investigation through digital forensics and the Questionnaire Investigations were conducted and an information supplement desk was established in the course of the Investigation of the Committee to investigate the existence of any other inappropriate accounting, but no inappropriate accounting was found at other subsidiaries other than the above.

X. Status of Involvement in Inappropriate Accounting

1. Outline

As a result of the Investigation of the Committee, the following describes the involvement of the officers and employees of each company who were found to have proactively engaged in or who proactively concealed the inappropriate accounting at OS, OST, EN and RPM.

2. Officers and Key Personnel of OS

(1) Principal Person Involved in the Inappropriate Accounting

It is recognized that the inappropriate accounting at OS was conducted under the instruction of Mr. C, the Senior Executive Director.

(2) Mr. A (Chairman and CEO)

It is recognized that Mr. A was not involved in the inappropriate accounting at OS and its subsidiaries, or that he was not aware of or could not have been aware of such inappropriate accounting.

(3) Mr. B (Executive Vice President)

As for the inappropriate accounting at OS, Mr. B had been aware of the word “legacy" for some time, but he understood it to mean significant cost reduction, i.e., cutting expenses that were to be expended in a fiscal year in order to increase operating profit as much as possible when business performance did not meet the budget. It is, therefore, recognized that Mr. B was not aware that the word “legacy” even meant inappropriate accounting.

With respect to OS’s subsidiaries, it is recognized that Mr. B was aware, by around 2015, of the existence of the Inappropriate Adjustment to Work-in-progress Inventory Balance at RPM and had the opportunity to correct such inappropriate accounting.

(4) Other Directors

It is recognized that other directors are not involved in the inappropriate accounting at OS or its subsidiaries, or that they were not aware of or could not have been aware of such inappropriate accounting.

(5) Important Employees

It is recognized that the inappropriate accounting at OS was conducted under the instruction of Mr. C, and that the Legacy plan was formulated and implemented by the General Manager and other employees from the Manufacturing & Service Business Division of which Mr. C is in charge, and the officers and employees of OS’s subsidiaries. It is also recognized that several employees from the Manufacturing & Service Business Division and several employees of OS’s subsidiaries were involved.

As for the "barter transactions" with Company b, it is recognized that Mr.. AA and Mr. AB, the Managing Executive Officers, initiated and implemented such transactions.

In addition, it is recognized that Mr.. AC, the Managing Executive Officer, conducted the early recognition of sales in OS VIETNAM.

With regard to the inappropriate accounting at OS's subsidiaries, it is recognized that the person in charge of the Accounting Department of OS did not respond appropriately to the communication regarding the accounting treatment from the person in charge of accounting of RPM, even though the contents of the communication raised suspicions of inappropriate accounting.

3. OST

(1) Principal Person Involved in the Inappropriate Accounting

It is recognized that the inappropriate accounting at OST was conducted under the instruction of Mr. S, the Corporate Officer. It is also recognized that the inappropriate accounting (Recognition of Fictitious Sales) at OST's subsidiaries for the fiscal year ended December 2020 was conducted under the instruction of Mr. S.

(2) Mr. L (President and Representative Director)

Among the inappropriate accounting at OST, it is recognized that Mr. L was not aware of the Recognition of Fictitious Sales for the fiscal year ended December 2020, however, he tolerated the Recognition of Fictitious Sales, deferral of recruitment expenses, Inappropriate Adjustment to Work-in-progress Inventory Balance and deferral of outsourcing expenses for the fiscal year ended December 2019, although he was aware of such practice.

In addition, it is recognized that Mr. L tolerated the inappropriate accounting (Recognition of Fictitious Sales) at OST's subsidiaries for the fiscal year ended December 2019, although he was aware of such practice.

(3) Mr. M (Director)

Among the inappropriate accounting at OST, it is recognized that Mr. M himself was involved in the Recognition of Fictitious Sales for the fiscal year ended December 2020, but there is no fact that indicates that he was aware of or could have been aware of other inappropriate accounting at OST.

With respect to OST's subsidiaries, it is recognized that Mr. M tolerated the inappropriate accounting (Recognition of Fictitious Sales) for the fiscal year ended December 2020, although he was aware of such practice. With respect to other inappropriate accounting at OST's subsidiaries, there is no fact that indicates that he was aware of or could have been aware of such inappropriate accounting. However, as stated in Section 3(2)b. of XI. below, when the inappropriate accounting practice relating to advance payment was discovered in February 2021 at EN, in the course of investigation, he became aware of the existence of statements suggesting that Mr. X gave instructions for such accounting treatment, but concealed the fact of such involvement by Mr. X.

(4) Other Directors

It is recognized that other directors were not involved in the inappropriate accounting at OST or its subsidiaries, or that they were not aware of or could not have been aware of such inappropriate accounting at OST or its subsidiaries.

(5) Important Employees

It is recognized that the inappropriate accounting at OST was conducted under the instruction of Mr. S by Mr. R, the Corporate Officer, who gave direction to other employees to implement such accounting. It is also recognized that Mr. T, the Corporate Officer, has conducted deferral of recruitment expenses after consultation with Mr. S.

Moreover, even though the Manager of the Internal Audit Office was aware of the statements suggesting that Mr. X gave instructions for such inappropriate accounting relating to advance payments at EN, which was discovered in February 2021, and was also aware of the inappropriate recognition of sales at EN, he concealed these matters.

4. EN

(1) Principal Person Involved in the Inappropriate Accounting

It is recognized that the inappropriate accounting at EN was conducted under the instruction of Mr. X (Previous CEO) by the former General Manager of the Accounting Department after considering the specific method.

(2) Mr. W (current CEO)

It is recognized that Mr. W had tolerated the Inappropriate Adjustment to Work-in-progress Inventory Balance at Gyoda Branch of EN at the time when he was a director, although he was aware of such practice. However, it is not recognized that Mr. W was aware of or could have been aware of the other inappropriate accounting at EN.

(3) Other Officers

It is not recognized that other officers were involved in the inappropriate accounting at EN, or that they were aware of or could have been aware of such inappropriate accounting at EN.

However, as for Mr. V, the Director, it is recognized that he concealed the existence of the instruction given by Mr. X, even though he was aware that Mr. X gave instructions for such inappropriate accounting, which he became aware of in the course of the examination conducted when EN discovered a different inappropriate accounting relating to advance payments in February 2021.

(4) Important Employees

It is recognized that the inappropriate accounting at EN was conducted under the instructions of Mr. X by the former General Manager of the Accounting Department after considering the specific method.

In addition, it is recognized that Mr. AG, the Executive Officer, independently or upon consultation with the former General Manager of the Accounting Department, was involved in avoidance of recognizing impairment loss and avoidance of recognizing provision for loss on orders received.

5. RPM

(1) Principal Person Involved in the Inappropriate Accounting

It is recognized that the inappropriate accounting at RPM was conducted under the instruction of Mr. Y, the CEO.

(2) Other Officers

It is not recognized that other officers were involved in the inappropriate accounting at RPM, or that they were aware of or could have been aware of such inappropriate accounting.

(3) Important Employees

It is recognized that the inappropriate accounting at RPM was conducted under the instruction of Mr. Y by the person in charge of the Clinical Development Division and the persons in charge of the Management Department.

6. Accounting Auditor

As for the Accounting Auditor, the accounting auditor for OS and OST, it is recognized that there was no problem with the planning of the accounting audit and the implementation of audit procedures.

In particular, as for the inappropriate accounting relating to advance payments at EN discovered in February 2021, the Manager of the Internal Audit Office at OST knew the actual situation, but gave a false explanation to the Accounting Auditor that the action was led at the sole discretion of EN's former General Manager of the Accounting Department and that there was no problematic accounting other than the advance payment, which caused a significant impact on the judgment of the Accounting Auditor. Therefore, it is recognized that there is no fault that can be questioned regarding the accounting procedures of the Accounting Auditor at that time.

XI. Analysis of the Causes of the Inappropriate Accounting

1. OS

(1) Motives for the Inappropriate Accounting

a. Insistence on Continuous Growth

The Committee found that, from the fiscal year ended December 2013 at the latest, inappropriate accounting, including Inflated Recognition of Sales through so-called “barter transactions” and the Deferral of Expenses, was conducted at OS.

The background circumstances for the above inappropriate accounting include, as an example, excessive focus on growth at OS, especially an excessive focus on meeting the budget for operating profits.

Under the powerful leadership of Mr. A, the founder and the top shareholder of OS, the OS Group has achieved significant growth under a management policy which strongly demands continuous growth. For instance, sales revenue and operating profits of the OS Group show continuing growth at a high rate; the average growth rates for the 10 years from the fiscal year 2011 to 2020 are approximately 31% and 38%, respectively, and, in the last five years (from fiscal year 2016 to 2020), the same are approximately 38% and 42%, respectively. Moreover, the medium-term management plan (VISION 2024), which was released on February 21, 2020 set high numerical targets for average annual growth rates concerning sales revenue and operating profits at 18% and 33%, respectively, for the five years from fiscal year 2020 to 2024.

It is not recognized that directors and executive officers who control the respective segments of business divisions were facing strong pressure from Mr. A or their superiors to meet the budget without fail. However, it is considered that the idea of strongly demanding continuous growth had spread among the officers and employees of the business divisions, as it was required to present a high-level budget striving for further growth and concrete measures to achieve such budget at the meeting of the Board of Directors, the Management Meeting or other occasions which involved budget planning or conducting detailed examinations of achievement of the budget, etc.

While it is presumed that the OS Group is a group of companies that grew based on such manner of thinking, to achieve such growth, substantial reduction of costs and reduction of bonuses have been conducted to an extent that does not rise to the level of inappropriate accounting, but, as described above, it is also recognized that inappropriate accounting took place from the fiscal year ended December 2013, at the latest.

With respect to the motives, the course of events, and other matters regarding the commencement of “Legacy” at OS, they are as described in Section 1(4) of V. above. It is recognized that Mr. C started inappropriate accounting in response to a request made by Mr. Z to improve the business performance even a little bit, and after Mr. Z retired, Mr. C gave instructions for the management, implementation, etc., of Legacy to meet the budget for sales or operating profits for the relevant fiscal year or reduce the range of shortfall in the budget. One reason behind such persistence of the business divisions to go so far as to engage in inappropriate accounting to meet the budget or reduce

the range of the shortfall in the budget during a business slump appears to be that, due to an excessive insistence on the above idea of continuous growth, the business divisions were not able to accept their actual figures as they were at the time of a business slump, and, although they understood it was not proper growth nor an appropriate measure, eventually they were motivated to create apparent growth as an ad hoc measure by providing even slightly better figures.

b. A Desire to Avoid an Adverse Effect on Employee Bonuses

It is stipulated that bonuses for employees to whom the annual salary system is not applicable shall be paid by taking into consideration the performance of the company and other factors, and may be unpaid in some circumstances pursuant to the determination of the Board of Directors (Article 23 of the Salary Rules). In conducting the inappropriate accounting, Mr. C and executive officers (to whom the annual salary system is applicable) stated that they were concerned about adverse effects on the amount of bonuses or whether or not bonuses would be paid to employees due to a large shortfall in the budget, and they intended to meet the budgets for sales and operating profits or reduce the range of the shortfall in the said budgets for the respective fiscal years during a business slump in order to, as much as possible, pay a sufficient amount of bonuses to employees. Such circumstances can be cited as one of the motives for the inappropriate accounting.

c. Request to Increase Operating Profits for Listing of the OST Stock

In addition, when OST started to consider listing its issued shares from June 2018, with respect to the listing of the stock of subsidiaries accounting for approximately half of the revenue and managerial resources of their group, and other core subsidiaries, the Tokyo Stock Exchange and other institutions expressed their view thereon, stating, “we will comprehensively consider the characteristics of its business, scale of operation, status of performance, potential for earning and other aspects carefully when we examine the listing application” (the “*View of the Securities Exchange on the Listing of Core Subsidiaries*” dated October 29, 2007). While the operating profit of the OS Group in the fiscal year ended December 2018 was 15,073 million yen, the operating profit of the domestic engineering outsourcing business controlled by the OST Group was 7,267 million yen, thus OST was deemed as an entity constituting a core subsidiary. In light of the content of statements and discovered emails of the relevant personnel, it is recognized that, from 2018, inappropriate accounting was conducted to increase the operating profits of the OS Group for the purpose of preventing OST from falling under the category of a core subsidiary, and enabling OST to become a listed company as well.

(2) Existence of the Opportunity

a. Concentration of Authority in Mr. C (ineffectiveness of internal control)

After Mr. Z retired from the office of Director of OS as of November 29, 2016, Mr. C was in the top position in the domestic manufacturing outsourcing business division, including OS, at the OS

Group, regardless of the name of the title, and controlled the domestic manufacturing outsourcing business. Mr. A also left the practice of sales concerning the manufacturing segment to Mr. C's discretion.

It is recognized that Mr. C, who was in such position, demanded executive officers who were under his reporting line, to prepare recovery measures against the forecasted result, including inappropriate accounting under the name "Legacy," and managed them in a tabulated list. It appears that, through Mr. C's proactive involvement in inappropriate accounting at OS, inappropriate accounting became normalized at OS, and nobody raised objections to such accounting. It is considered that, as a result, internal control was ineffective at OS.

b. Malfunction of Supervision and Audit by the Board of Directors and the Audit and Supervisory Committee, and Malfunction of Internal Control by the Internal Audit Office

As described in Section 1(4)b. of III. above, the Board of Directors of OS, from the fiscal year ended December 2016, was composed of internal directors including Mr. A, Mr. B and Mr. C, and three to seven outside directors. When there were three to four outside directors, all of them were appointed as independent directors, and from March 2020, when there were seven outside directors, six of them were appointed as independent directors.

Independent outside directors are expected to perform "monitoring of the management" and appropriately represent the views of stakeholders in the boardroom from "a standpoint independent of the management and controlling shareholders" (Corporate Governance Code Principle 4-7).

However, OS was expecting the outside directors to perform the role of educating executive officers and employees who were considered to be executive candidates. As shown by the fact that there were some outside directors who continued to serve over a long period, it can be assessed that such outside directors had a close relationship with persons who executed the business of the company and therefore, from a practical perspective, the level of their independency was low. It appears that supervision by the Board of Directors did not necessarily function appropriately.

With respect to the Audit and Supervisory Committee Members, they were carrying heavy burdens, such as holding concurrent positions as corporate auditors of multiple subsidiaries and being expected to perform multiple roles, including educating executive officers and other staff; therefore, it is considered that they were not able to fully perform their audit function. With respect to the Audit and Supervisory Committee, one or more meetings with the Accounting Auditor were arranged every month. If any issue was pointed out thereat, such as insufficient information sharing between the company and the Audit and Supervisory Committee and questionable accounting, the Audit and Supervisory Committee communicated such matters at a meeting with the management to request improvement thereof. However, the Audit and Supervisory Committee completely left the accounting audit to the Accounting Auditor, and it is difficult to say that the Audit and Supervisory Committee had sufficient audit and supervision functions for early discovery of any inappropriate accounting.

Furthermore, while the Internal Audit Office was established as an internal audit department, the Internal Audit Office was comprised of only six members (eight members in 2021), which was insufficient as an internal audit system for a company which has 206 consolidated subsidiaries. Under such situation, the Internal Audit Office was so busy that they were only able to perform operational audits for the respective business bases once every few years. As the target of such internal audit, bookkeeping and accounting did not emerge as a theme, and the accounting audit was completely left to the Accounting Auditor. Although the Internal Audit Office shared information with the Accounting Auditor, and performed review on provided information in light of the business form of OS and other tasks, it was difficult to say the Internal Audit Office had sufficient internal control function for early discovery of any inappropriate accounting.

c. Malfunction of the Whistleblowing System

As described in Section 1(4)d. of III. above, at OS, a whistleblowing contact window was established which was available to all domestic OS affiliated companies, and there were dozens of whistleblowing reports made each fiscal year. In the past four years, no whistleblowing report was made regarding the matters relating to accounting; furthermore, the status of whistleblowing was not shared with the Audit and Supervisory Committee and no review was made on the functioning of the whistleblowing system based on the status of the whistleblowing reports that were made. Based on such circumstances, it is difficult to say that OS's whistleblowing system was functioning as a measure for early discovery and prevention of inappropriate accounting.

The current matter was also a case in which the EN Suspicious Misconduct was reported to the Accounting Auditor without using the whistleblowing systems established by OS, and in the course of the Investigation of the Committee, which was established as a result this report the inappropriate accounting at OS came to be revealed. In light of the course of events in which the inappropriate accounting was revealed, it can be said that the whistleblowing system of OS was not functioning, not only with respect to EN but also for OS itself, as a measure to detect inappropriate accounting.

d. Unclear Internal Rules Concerning Accounting and Inappropriate Operation Thereof

At OS, the internal rules concerning accounting, such as the timing of recognition of expenses concerning hiring bonuses (one of the Deferral of Expenses that was part of "Legacy"), were not clearly established; therefore, it is considered that arbitrary interpretations could be made with respect to accounting, and such situation led to the Deferral of Expenses.

e. Inappropriate Accounting was Implemented by a Method that Made Detection by the Accounting Divisions Difficult

Among the methods used for the Deferral of Expenses, with respect to the prepaid ticket based recruitment expenses, although the invoice was received at the time of prepayment of some fees, no invoice was received when the ticket was used (when the expense should be recorded for accounting

purposes); as a result, the accounting divisions were not involved in this process and this resulted in a situation where arbitrary manipulation of the timing of recognition of expenses by the Strategic Recruitment Management Department could be easily conducted. It is presumed that such situation was one of the causes that allowed the continuous implementation of inappropriate accounting without the functioning of the internal control by the accounting divisions.

f. Business Environment in which Cooperation from Business Partners Necessary for Inappropriate Accounting was Easily Gained

Many business partners of OS are so-called small and medium-sized companies that are unlisted. In light of its relationship with such business partners, OS has stronger bargaining power in many cases, and in view of the situation at the administration divisions at the business partners, it was relatively easy to request cooperation from business partners for the Inflated Recognition of Sales through so-called "barter transactions" or manipulation of invoices and other means. It is presumed that such situation enabled OS to obtain cooperation from its business partners rather easily, and became one of the causes that allowed continuous implementation of inappropriate accounting.

g. Credit Management being a Mere Facade

According to the statements of the relevant personnel, at the time of the fiscal year ended December 2019, when the Inflated Recognition of Sales through "barter transactions" with Company b took place, the credit management at OS was merely a facade. Upon making a determination of whether or not to commence any transaction, the process was merely to confirm whether or not such company is insolvent or confirm the brand name of the relevant business partner based on company information obtained from TDB and TOKYO SHOKO RESEARCH, LTD., and the credit rank was determined only by looking at the transaction amount with the relevant business partner.

In fact, with respect to the credit approval process for Company b, since no company information was available from TDB, the process merely included hearing its sales and net profit from Mr./Ms. AD. In spite of such extremely simple process, a high credit determination was made without engaging in careful consideration, which set the credit limit amount at no less than JPY ███ ████████, which was greater than Company b's annual sales (JPY ████ ███) for the most recent fiscal year at that time.

If a reasonable credit approval process was implemented at OS, it is considered that it would not be easy to immediately commence transactions with a business partner that was unable to engage in large transactions. It is presumed that, however, since the credit management at OS was a mere facade, it became possible to conduct the Inflated Recognition of Sales through "barter transactions" with Company b.

(3) Justification of the Inappropriate Accounting

a. Justification and Normalization of the Inappropriate Accounting due to Weakened Normative Consciousness among Relevant Officers and Employees

According to the statements of the relevant personnel, from the fiscal year ended December 2013, at the latest, the use of the word "Legacy" spread in the OS Group including business divisions from the very first time when the inappropriate accounting started, and, once Mr. C started engaging in the inappropriate accounting, excel files titled "Legacy Chart" or otherwise were prepared with respect to recovery measures at each division that Mr. C controlled, and for each fiscal year, the amount relating to recovery measures, including inappropriate accounting, and the impact on the following fiscal year were managed therein. In the beginning, the "Legacy Chart" was prepared by Mr. C for the purpose of understanding the true sales or operating profits as the actual figures as if the inappropriate accounting had not been implemented, and was shared and managed among the executive officers and employees in the Business Control Department in charge of budget control to confirm the current budget and results at the time of monthly settlement or other occasions by using the "Legacy Chart." As such, it is considered that, by sharing and managing "Legacy" in a manner as if it was part of normal operations, together with recovery measures which did not fall under inappropriate accounting, engagement in inappropriate accounting was normalized and justified in the business divisions.

Furthermore, during the interviews conducted as part of the Investigation of the Committee, Mr. C, as well as executive officers, including Mr. AA and Mr. AB, and other relevant personnel stated with respect to inappropriate accounting that they had thought that such accounting would not become an issue if some explanation could be provided to the Accounting Auditor without providing an accurate explanation that reflects the actual status of the relevant transaction, and that such transactions had been conducted as a business practice with business partners, and they were not aware that such transactions were an issue from an accounting perspective.

That being said, as it is clear from the fact that management through the "Legacy Chart" was implemented to understand the actual figures, it is considered that the relevant personnel had an abstract awareness that the inappropriate accounting performed under the name of "Legacy" was a practice that should not be done in the first place. 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.

b. Wrong Understanding of Accounting Audit and Inappropriate Response to the Accounting Auditor

It is considered that Mr. C and other relevant personnel had at least an abstract understanding that such practices were inappropriate accounting. However, they also stated that they had an erroneous awareness that it was not necessary to proactively inform the Accounting Auditor of the actual status

of transactions pertinent to such accounting, and that there was no problem if they could provide some explanations, which were not necessarily accurate explanations. Actually, it is recognized that they did not disclose their awareness at the time of transactions nor the actual status thereof, and provided explanations that were made up later by them.

In the first place, an accounting auditor states its opinion on the presumption that it has received accurate information from the relevant company. The Committee obtained another statement that, although OS did not provide explanations that reflect the actual status of the relevant transaction as stated above, it came to have an erroneous idea that it received an endorsement from the Accounting Auditor by obtaining its unqualified opinion, and later inappropriate accounting was justified thereby.

As described above, it is considered that the spread of such wrong understanding of the accounting audit and inappropriate response to the Accounting Auditor arising out of such wrong understanding at OS resulted in justification of the inappropriate accounting and failure to discover and prevent the same.

2. OST

(1) Motives for the Inappropriate Accounting

a. Insistence on Continuous Growth

The Committee recognized that, at OST, Inappropriate Adjustment to 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, Recognition of Fictitious Sales through the so-called "barter transactions" was conducted in the fiscal years ended December 2019 and December 2020.

As described in Section 1(1) above with respect to OS, the background circumstances for the above inappropriate accounting include, as an example, an excessive focus on the growth of OST, especially an excessive focus on meeting the budget concerning operating profits.

As described in Section 1(1)a. above, it is considered that, at the OS Group, under the powerful leadership of Mr. A, the idea of a strong demand for continuous growth was spread among its officers and employees. It is also considered that the abovementioned focus on growth at the OS Group was shared by Mr. L, who had been controlling the domestic engineering outsourcing business, which is regarded as one of the major business segments at the OS Group together with the domestic manufacturing outsourcing business controlled by Mr. Z and Mr. C, while serving as Director of OS for approximately six years and three months, from March 2013 to his retirement as of July 1, 2019 (Senior Executive Director, from March 2015; Senior Executive Director and Head of Technology Business Division, from March 2016; and Director, from March 2019).

In addition to the foregoing, according to the statements of the relevant personnel, due to the fact that Mr. L introduced new business methods, including engineer training, to the stagnant temporary engineering worker dispatching business, he was recognized to be a person who was elevating the status of the temporary engineering worker dispatching business in the temporary worker dispatching business, and would establish and guide the future orientation of the temporary engineering worker dispatching business. Under such circumstances, while OST was managed under the powerful leadership of Mr. L, Mr. L delegated day-to-day business activities in each segment to the discretion of persons controlling the relevant segments, and when he received a report forecasting any shortfall in the budget, Mr. L said to the relevant person controlling each segment, "Please sort it out somehow," or made similar comments, and demanded the consideration of recovery measures at each segment. Although it is not recognized that Mr. L explicitly instructed employees to conduct inappropriate accounting, it is recognized that the persons controlling each segment considered the desire of Mr. L to break through the business slump, and they started to conduct inappropriate accounting to discharge their duties in response to the delegation of power from Mr. L and to suppress the range of shortfall in the budget of their divisions even if only by a small amount.

Furthermore, as stated in Section 2(1) of VI. above, while the Recognition of Fictitious Sales in

the fiscal year ended December 2019 was implemented by Mr. S, with respect to the Recognition of Fictitious Sales in the fiscal year ended December 2020, it was systematically implemented by Mr. S with the persons controlling each segment and others based on the experience of the preceding year, at the point when they first understood that the forecasted result for the fiscal year 2020 was lower than the expectation. As such, it is recognized that inappropriate accounting, which was first conducted by a single person, grew in scale to a systematic practice. According to the interviews by the Committee, it appears that, as a background for why the persons controlling each segment and others followed Mr. S, there was an atmosphere in which one should take part in the improvement of business performance even by committing inappropriate conduct if the business of one's division was in a slump, and it is also recognized that since it was a suggestion made by Mr. S, who was Mr. L's right-hand-man and had influential power, they started to cooperate with Mr. S.

Regarding the background that led to the conduct of such inappropriate accounting, it appears that persons controlling each segment desired to develop OST into an entity that leads the temporary engineering worker dispatching business through the further growth of OST, including the listing of the OST stock, as described below, under the powerful leadership of Mr. L, and had a strong desire to somehow overcome the period of a business slump to realize the aforementioned growth, without their divisions becoming an obstruction, and such desire itself became the pressure that was put upon them. It appears that such desire turned into a strong pressure during the time when there were shortfalls in the budget, which aimed for continuous growth, and made them unable to accept their actual figures as they were, and resulted in the desire to make it appear as if the figures improved even a little bit or as if their business was growing, and as such, the focus on growth went so far as to be transformed into a motive for the inappropriate accounting.

b. Pressure to Meet the Budget for the Purpose of Listing of the OST Stock

In addition, while OST started to consider the listing of the OST stock from June 2018, it appears that, during the preparation period for listing, a strong desire to improve operating profits as much as possible was shared among the management and executives of OST, and the pressure to meet the budget described in Section a. above became even greater. It is considered that such strong pressure to meet the budget caused by the preparation for listing had an impact on the inappropriate accounting implemented from 2018.

For clarity, as described in Section 1(1)c. above, it is considered that an increase of operating profits was sought at OS for the purpose of avoiding OST being deemed a core subsidiary. On the one hand, with respect to OST, while it is considered that it was not desirable for OST to reduce its operating profits in order to increase the selling price of its shares at the time of listing and thereafter and there was an intention at OST to pursue an increase of operating profits as described above, from the viewpoint of the relationship with OS, there was also a need to avoid becoming a core subsidiary as described above. For this reason, with respect to the inappropriate accounting revealed by the Investigation of the Committee, in addition to conduct aimed to increase the operating profits

of OST, there was also conduct that sought adjustments of the profit between OST and OS.

c. A desire to Avoid an Adverse Effect on Employee Bonuses

In addition, it is stipulated that bonuses for employees shall be paid by taking into consideration the performance of the company and other factors, and may be unpaid in some circumstances pursuant to the determination by the Board of Directors (Article 28 of the Wage Rules). It was stated in the interviews by the Committee that there was a concern regarding the effect on the amount of bonuses or whether or not bonuses would be paid to employees due to a shortfall in the budget, so the inappropriate accounting was conducted to meet the budgets for sales and operating profits or reduce the range of the shortfall in the said budgets for the respective fiscal years. Such circumstances can be cited as one of the motives for the inappropriate accounting.

(2) Existence of the Opportunity

a. Ineffectiveness of Internal Control

At OST, based on the management policies of Mr. L, each segment, such as the R&D Business Division, Solution Service Division, Human Resource Strategy Division and the Business Management Division, was given broad discretion, and each director and executive officer who controlled the respective segments had very strong authority therein.

Because of such strong discretion and authority, some persons in control of the respective segments conducted inappropriate accounting alone, without letting other employees know of such process, while some conducted inappropriate accounting by instructing other employees to engage in the same. It appears that, especially with respect to the Recognition of Fictitious Sales in December 2020, since it was systematically conducted by sharing the details of instructions given by persons controlling the relevant segments and the progress and other information pertinent to the conduct thereof among multiple segments and subsidiaries, the employees who received such instruction were not able to raise any objection to such inappropriate accounting.

In response to such situation, the Business Management Division, which is an administrative division, was compliant with the persons controlling the business divisions, and with respect to the Recognition of Fictitious Sales in December 2020, it is seen that Mr. M failed to stop the actions of Mr. S and others despite his knowledge thereof, but rather facilitated the same by giving instructions to persons involved in the matter to prepare a list of prospective business partners and so on; the Business Management Division was not able to perform the function of the internal control required as the second line, but it rather assisted the misconduct.

Furthermore, after the detection of inappropriate accounting pertaining to advance payments of EN conducted by the former General Manager of the Accounting Department of EN, although Mr. V received an email from Mr. X saying, “The reason for such accounting treatment is that I demanded the former General Manager of the Accounting Department to cope with such situation through accounting treatment, despite the circumstances under which meeting the budget was

difficult," after he reported to and consulted with Mr. M, Mr. M and Mr. V concealed such fact because they were concerned about the adverse impact on the listing of the OST stock that might be caused by the revelation of management misconduct in its subsidiary, and took actions including covering up other inappropriate accounting, which are being revealed as described in Section (4)d. below.

Thus, it is recognized that internal control was ineffective at OST.

b. Tacit Admission by Mr. L

In light of the statements and discovered emails by the relevant personnel, although it is not recognized that Mr. L expressly instructed the inappropriate accounting and was aware of the Recognition of Fictitious Sales in the fiscal year ended December 2020, it is recognized that Mr. L was aware of the existence of Inappropriate Adjustment to Work-in-progress Inventory Balance, deferral of recruitment expenses and deferral of outsourcing expenses as an "adjusting valve," and the existence of the Recognition of Fictitious Sales in the fiscal year ended December 2019.

With respect to the persons controlling the respective segments, it is also considered that, since they did not receive any instruction to immediately stop the inappropriate accounting from Mr. L, who was aware of it, but rather, it could be said that Mr. L gave tacit permission for the inappropriate accounting, they continuously implemented the inappropriate accounting.

c. Malfunction of Internal Control and Auditing Function by the Audit and Supervisory Committee of OS and OST

Although the Audit and Supervisory Committee of OST conducted on-site audits and had interviews with directors and executive officers, it is questionable whether it performed a sufficient auditing function due to the fact that, among other things, it did not conduct an audit of business divisions at the OST.

In addition, with respect to auditing by the Audit and Supervisory Committee of OS, the Tokyo Stock Exchange and other institutions announced their view that they would "consider…carefully" the listing of a subsidiary that is substantially integrated with its parent company ("View of the Securities Exchange on the Listing of Core Subsidiaries" dated October 29, 2017), and Mr. H, who had concurrently served as the Auditing and Supervising Committee Member both at OS and OST, stated that he had refrained from engaging in proactive audits as an Auditing and Supervising Committee Member of OST to avoid OST being deemed "a subsidiary that is substantially integrated with its parent company."

On the other hand, it is also seen with respect to the Auditing and Supervising Committee of OS that, since Mr. H concurrently served as the Auditing and Supervision Committee Member of OST, audits of OST, its subsidiary, were left entirely up to Mr. H; therefore, it is recognized that neither of the Auditing and Supervisory Committees of OS nor OST were able to perform their auditing functions with respect to OST, and they failed to achieve early detection of inappropriate accounting.

d. Malfunction of Internal Control by the Internal Auditing Office of OST

OST commenced its consideration for the listing of its stock from June 2018, the Internal Audit Office was newly established at OST, and internal audits by OST's Internal Audit Office started from the fiscal year ended December 2019.

However, while OST was required to submit an internal audit report and written instructions for improvement to the Tokyo Stock Exchange and its securities company since OST was preparing its listing, the Manager of the Internal Audit Office at OST heard, among other things, a remark by an OST executive to the effect that he/she was reluctant to show all of the discovered facts to the Tokyo Stock Exchange and its security company. Accordingly, the Manager of the Internal Audit Office at OST determined to avoid causing any obstacle in the listing of OST; so he/she refrained from describing all the matters discovered and pointed out in the internal audit in the internal audit reports and the written instructions for improvement and, on his own decision, only described matters that could be improved within the submission deadline of the improvement report, which is stipulated as within one month by the Internal Audit Rules (Article 24). With respect to the matters pointed out in the audit but not described in the internal audit reports, etc., besides communicating the same to Mr. L, Mr. M and Mr. V at the reporting meeting with the President, a separate document called the "audit summary report," what might be called a "hidden report," was prepared and submitted to Mr. L, directors and the full-time audit and supervisory committee members of OST, and OS's Internal Audit Office. Furthermore, although the matters described in the said audit summary report were in fact communicated to the respective business bases with requests for the improvement thereof, OST's Internal Audit Office had no knowledge of the status of such improvement, and sometimes it came to OST's Internal Audit Office's knowledge through an audit conducted later that such matters were left unimproved. Since nobody, including Mr. L, raised any questions regarding the continuous submission of two types of reports, the Manager of the Internal Audit Office at OST stated that he/she understood that such handling was demanded by OST executives, and continued the aforementioned handling. With respect to the aforementioned handling, as the Manager of the Internal Audit Office at OST himself/herself stated in an interview with the Committee, it was an act in violation of the Internal Audit Rules and not correct as the proper procedure for an internal audit, it was inappropriate as an internal audit, and it is difficult to say that OST's Internal Audit Office had a sufficient internal control function.

In addition, it is recognized that the Manager of the Internal Audit Office at OST had a significant problem with his awareness of compliance as can be seen through his conduct, such as proactively concealing facts from the Accounting Auditor and others. After the discovery of inappropriate accounting pertaining to advance payments of EN by the former General Manager of the Accounting Department in February 2021, as a result of conducting interviews regarding such accounting by himself/herself, Mr. X, who was in the position of the CEO of EN, admitted that his remarks resulted in pressure on the former General Manager of the Accounting Department. In

addition, the former General Manager of the Accounting Department stated that, despite the forecasted result, he was told by Mr. X to sort it out in an amount of several tens of million yen, and that the instruction was substantially the same with respect to the instruction to implement the inappropriate accounting. Therefore, the Manager of the Internal Audit Office at OST felt that it was difficult to determine whether Mr. X gave an instruction to conduct the inappropriate accounting. However, since there was no explicit instruction made by Mr. X to the former General Manager of the Accounting Department, and he/she should not have conducted such accounting as an general manager of the accounting department as a matter of fact, the Manager of the Internal Audit Office at OST concluded that the former General Manager of the Accounting Department conducted such inappropriate accounting alone. With respect to the foregoing, the Manager of the Internal Audit Office at OST considered that, if Mr. X and the former General Manager of the Accounting Department made their respective statements above at the time of investigation by the Accounting Auditor, there was a concern that the Accounting Auditor might refrain from providing an audit opinion, saying that this case was difficult to judge. Therefore, he/she prepared potential questions and answers in preparation for an interview with the Accounting Auditor, provided guidance to Mr. X and the former General Manager of the Accounting Department that no statement should be made by Mr. X concerning the pressure and other circumstances described above, and also provided the said prepared potential questions and answers to Mr. P, who was a full-time Audit and Supervisory Committee Member, to be careful in his remarks at the Audit and Supervisory Committee meeting that he was scheduled to attend. In addition, during the investigation above, he/she came to know that the sales that should be recorded for January 2021 were recorded for December 2020, but after consultation with Mr. M and Mr. V, he concealed this fact from the Accounting Auditor, the Tokyo Stock Exchange and its security company. As such, it is recognized that the Manager of the Internal Audit Office at OST had been proactively trying to conceal facts from the Accounting Auditor and others. Statements were obtained in the interviews held by the Committee that the Manager of the Internal Audit Office at OST made remarks that made light of compliance during an internal audit, including remarks such as, “it should be okay if misconduct is performed well; if we do it, it should be done thoroughly,” and “although it is an accounting deficiency, (the inappropriate accounting by EN is) not a significant amount.” As such, considering the fact that the top of OST’s Internal Audit Office appears to have a significant problem in his awareness of compliance, it is very difficult to consider that the internal audit by OST’s Internal Audit Office was functioning in an effective manner, but rather, it cannot be denied that, in some respects, OST’s Internal Audit Office was functioning as a department to conceal inappropriate accounting at OST.

Furthermore, before the establishment of OST’s Internal Audit Office, OS’s Internal Audit Office conducted internal audits of OST; however, at OS’s Internal Audit Office at that time, they needed to train employees who had insufficient experience in internal audits or insufficient understanding of the business of the OS Group, and, due to such burden, they were merely able to visit the

respective business bases once every two or three years. Therefore, it is difficult to say that the OS's Internal Audit Office had a sufficient internal control function for early discovery of inappropriate accounting at OST.

e. Malfunction of the Whistleblowing System at OS and OST

As described in Section 1(4)d. of III. above, at OST, a whistleblowing contact window established by OS was available, and in addition, internal and external whistleblowing contact windows were independently established by the OST Group, and there were dozens of whistleblowing reports made each year. However, in the past three years, no whistleblowing report was made with respect to the matters relating to accounting.

Furthermore, although the Internal Whistleblowing Rules of OST have a provision to protect whistleblowers so that no disadvantageous treatment shall be made based on the making of a whistleblowing report (Article 14 of the Whistleblowing Rules) and also provide for a confidentiality obligation for all persons involved in the whistleblowing process (Article 15 of the said Rules), according to the interviews conducted by the Committee, it appears that there are some persons among the employees who are concerned that disadvantageous treatment might be taken against them if such report was communicated in full to the management or executives of OST and hesitate to use the whistleblowing system. Therefore, it is considered that sufficient efforts were not made to make the protection measures for whistleblowers and others provided under the Whistleblowing Rules widely known, as well as to ease the sense of anxiety of employees.

Based on such circumstances, it is difficult to say that the whistleblowing system at OS as well as the whistleblowing system that was independently established by OST were functioning as a measure for early discovery or prevention of inappropriate accounting.

f. Unclear Internal Rules concerning Accounting and Inappropriate Operation Thereof

It is recognized that since the internal rules concerning accounting for job order costing were not clearly established at OST, arbitrary interpretations were made, and such situation led to the Inappropriate Adjustment to Work-in-progress Inventory Balance, which was part of "Legacy."

g. Inappropriate Accounting was Implemented by a Method that Made Detection by the Accounting Departments Difficult

Among the methods used for the deferral of recruitment expenses, with respect to the prepaid ticket based recruitment expenses, although the invoice was received at the time of prepayment of some fees, no invoice was received when the ticket was used (when the expense should be recorded for accounting purposes); as a result, the accounting departments were not involved in this process and this resulted in a situation where arbitrary manipulation of the timing of recognition of expenses by the Human Resource Strategy Division could be easily conducted. It is presumed that such situation was one of the reasons that allowed the continuous implementation of inappropriate

accounting without the functioning of the internal control by the accounting departments.

h. Business Environment in which Cooperation from Business Partners Necessary for Inappropriate Accounting was Easily Gained

Many business partners of OST are so-called small and medium-sized companies that are unlisted. In light of its relationship with such business partners, OS has stronger bargaining power in many cases, and in view of the situation at the administration divisions at the business partners, it was relatively easy to request cooperation from business partners for the Inflated Recognition of Sales through so-called “barter transactions” or manipulation of invoices and other means. It is presumed that such situation enabled OST to obtain cooperation from its business partners rather easily, and became one of the causes that allowed continuous implementation of inappropriate accounting.

(3) Justification of the Inappropriate Accounting

a. Justification and Normalization of the Inappropriate Accounting due to Weakened Normative Consciousness among Relevant Officers and Employees

According to the statements of the relevant personnel, the word “Legacy,” which was used as a concept that included inappropriate accounting at OS, was also spread within OST, and the word was used as if it had been a term used in OST in the course of normal operation. By using the word “Legacy” in with the same feeling as a normal operation, the inappropriate accounting was normalized and justified.

Furthermore, as stated in Section (1)a. above, it appears that pressure to meet the budget existed in the entire OST Group, and with respect to the persons in charge of departments that failed to meet the budget, such persons were not able to raise objections when a proposal for inappropriate accounting was made because they felt that they were in a weak position due to not meeting the budget, and, rather, there was an atmosphere in which it was felt that inappropriate accounting should be conducted. It is considered that the fact that such persons were placed in such situation became one of the reasons that justified the inappropriate accounting at OST.

b. Wrong Understanding of Accounting and Inappropriate Response to the Accounting Auditor

During the interviews in the Investigation of the Committee, Mr. S stated that, from the beginning, he was clearly aware of the inappropriateness of the Recognition of Fictitious Sales, but, with respect to the deferral of outsourcing expenses, he considered that it was one of the methods of sales efforts and a commercial practice, and while he was aware that it might be technically inappropriate from an accounting point of view, he did not consider it to be a grave misconduct, and thought it would be sufficient to rectify it if the Accounting Auditor pointed it out.

In addition, Mr. T stated that, with respect to the deferral of recruitment expenses, it is merely a deferral of the recording of expense, and not an understatement of the total amount thereof, and accordingly it was a measure to make the total amount of the recruitment expenses correct in the

end. So, while he was aware that it was inappropriate from an accounting point of view, he had little awareness that it was problematic.

It appears that, in fact, OST concealed facts from the Accounting Auditors by, among other things, not disclosing its recognition at the time of transactions nor the actual status thereof, provided explanations that were made up later, and submitted support documents that were not in line with the actual status. As a result, it came to have an erroneous idea that it received an endorsement from the Accounting Auditor by obtaining its unqualified opinion.

As described above, it is considered that the spread of such wrong understanding of accounting and inappropriate response to the Accounting Auditor at OST resulted in justification of the inappropriate accounting and failure to discover and prevent the same.

3. EN

(1) Motives for the Inappropriate Accounting

a. Pressure from Mr. X to Meet the Budget

The Committee recognized that, fictitious recognition of sales through fictitious transactions was conducted at EN from the fiscal year ended December 2016 at the latest, and that inappropriate accounting, including Inappropriate Adjustment to Work-in-progress Inventory Balance concerning the EN Suspicious Misconduct, as well as the Recognition of Fictitious Sales and the Deferral of Expenses, was continuously conducted at EN thereafter.

The background circumstances for the above inappropriate accounting include the existence of pressure by Mr. X to meet the budget.

As described in Section 1(1)a. of XI., the OS Group increased the size of its companies based on a management policy which strongly required continuous growth. The medium-term management plan (VISION 2024), which was released on February 21, 2020 set high numerical targets for average annual growth rates concerning sales revenue and operating profits at 18% and 33%, respectively, for the five years from fiscal year 2020 to 2024. At EN, after it became a subsidiary of OS in June 2009, a budget predicting a high-level of continuous growth was prepared with the involvement of OS, its original parent company, and OST, which became its parent company from January 2017, which set a sales increase of approximately 109% to 133% over the previous year, and an increase in operating profit of approximately 117% to 166% over the previous year (figures based on the budgets for the fiscal year ended December 2017 to the fiscal year ended December 2020). In addition, around January 2020, Mr. X set a high numerical target of 10 billion yen sales for fiscal year 2024, in comparison to EN's net sales of 3,044,140,000 yen for the fiscal year ended December 2019.

However, from the fiscal year ended December 2017, although EN obtained results for operating profit for the fiscal year ended December 2017, which were slightly better than the target, EN failed to meet the budget with respect to any of the net sales, gross profit and operating profit until the fiscal year ended December 2020. In this respect, as for the inappropriate accounting at EN, it is

recognized as described in Section 1(4) of VII. above that Mr. X, who insisted on meeting the budget for operating profit, instructed the former General Manager of the Accounting Department to conduct inappropriate accounting for the purpose of meeting the budget. As for the reasons that Mr. X had so insisted on achieving the budget for operating profit, Mr. X said that, although he had never received pressure from OS or OST to make sure to fully meet the budget, and he received no special comments with respect to not meeting the budget, he made efforts to meet the budget for operating profit through measures such as a reduction of the cost price, as the budget for operating profit was a figure committed by EN to OS and OST, and that he was conscious about the medium-term business plan. Mr. X also said that he thought that EN would not be able to gain approval of OST for investment in plants and equipment, which is set forth in the Rules on the Management of Subsidiaries without meeting the budgets several times although it is necessary for the growth of EN's business performance to continue making such investment. Under such circumstances, the Committee recognized that a goal was set to meet the budget for sales and operating profit or reduce the shortfall in the budget for each fiscal year.

b. A desire to Avoid an Adverse Effect on Employee Bonuses

According to the List of Official Duties and Authorities at Domestic Related Companies of OST (revised on April 1, 2021), with respect to the payment of bonuses to employees of each OST subsidiary, it is required to report to the Management Meeting of OST and obtain approval of the Division Director of the Business Management Division and officers in charge thereof.

From the statements made by the personnel who conducted the inappropriate accounting, the payment of bonuses to EN employees required a report to the Management Meeting of OST and approval of the Division Director of the Business Management Division and officers in charge thereof, and as such, being concerned about an adverse effect on the amount of bonuses or whether or not bonuses would be paid to employees due to a large shortfall in the budget, such personnel were unable to reject the instructions given by Mr. X in order to ensure that sufficient amounts of bonuses would be paid to employees as much as possible. Such circumstance can be considered as one of the motives for the inappropriate accounting.

c. A Desire to Avoid the Judgment that There Were Indications of Impairment at EN for the Listing of the OST Stock

As described in Section 2(6) of III. above, while OST started to consider listing of its stock from June 2018, and applied for listing with the Tokyo Stock Exchange in June 2021, it was indicated by the Accounting Auditor around late July 2021 that it could be judged that there was indication of impairment in the third quarter of the fiscal year ended December 2021. Mr. S, who assumed the position of an Executive Officer of EN in March 2021 and concurrently served as a Corporate Officer of OST, stated that he considered the judgment that there was indication of impairment at EN, a subsidiary of OST which applied for listing by utilizing M&As as a powerful weapon, would

likely cause an adverse effect on the share price of OST at the time of listing, and that he wanted to avoid such judgement being made before the listing by all means. As such, the fact that the listing of the OST stock was near at hand at such time can be considered as one of the motives for the inappropriate accounting for avoidance of the judgment that there was indication of impairment at EN.

d. A Desire of the Personnel who Conducted Inappropriate Accounting to Avoid Discovery of their Responsibility

It is recognized that the avoidance of recognizing a provision for loss on orders received and avoidance of recognizing impairment loss were conducted by Mr. AG, because, in addition to the fact that he was requested to do so by the former General Manager of the Accounting Department, he was afraid that he would be held responsible if a judgment that there was indication of impairment was made because of the results of the business bases controlled by the department he belonged to.

(2) Existence of the Opportunity

a. Concentration of Authority in Mr. X and Corporate Culture in which it is Hard to Object to Mr. X's Intention (Ineffectiveness of the Internal Control)

EN became a subsidiary of OS in June 2009, and Mr. X was the founder of the EN and had served as the CEO of EN for approximately 20 years until he retired in March 2021. Mr. X had promoted management at EN with his strong leadership.

According to the statements by the relevant personnel, at meetings of the Board of Directors of EN, it was Mr. X who mostly made statements, while internal directors and executive officers of EN scarcely made comments. When internal directors and executive officers of EN asked questions, it was Mr. X who answered instead of the personnel who reported the relevant matter. Especially, in the Management Meeting, Mr. X went on talking by himself and it was almost his one-man show. It is said that the atmosphere was such that it was difficult for EN's officers and employees, including the former General Manager of the Accounting Department, to speak up about their opinions or ideas.

In addition, Mr. X did not delegate authority to personnel in charge of respective departments, but directly gave instructions to employees who were doing the work. It is said that when Mr. X gave instructions, it was not infrequent for him to yell with excitement, talk in an authoritative tone and deny the opinions of others without listening to them, allowing no counterargument. As for accounting, EN had the Head of the Administrative Division, but Mr. X himself gave instructions directly to the General Manager of the Accounting Department, who was under the reporting line to the said Head, by bypassing the said Head.

Thus, Mr. X assumed full power at EN, ignoring the authority and opinions of the personnel in charge of the respective departments. It is recognized that there existed a corporate culture in which

it was difficult to object to Mr. X's intention: it was difficult not only for employees working on–site, but also for officers and employees at the meeting of the Board of Directors and the Management Meeting, to state their opinions. Accordingly, employees who received instructions from Mr. X to conduct inappropriate accounting were not able to object to him. In addition, the system to monitor and verify such matters by employees, including the Head of the Administrative Division, was not functioning.

Therefore, it is recognized that the internal control at EN was made ineffective by Mr. X, who was in the top management position, and the former General Manager of the Accounting Department and others conducted inappropriate accounting in accordance with Mr. X's intentions.

b. Malfunction of the Internal Control and the Audit Function by the Corporate Auditor(s) of EN, the Audit and Supervisory Committee and the Internal Audit Office of OST, as well as of the Supervising Function by the Business Management Division of OST

One of the Audit and Supervisory Committee Members of OST concurrently served as a corporate auditor of EN. The Audit and Supervisory Committee of OST did not have any employees to assist the duties of the Audit and Supervisory Committee, and each Committee Member concurrently served as a corporate auditor at 16 subsidiaries and affiliates. Audits of OST and its subsidiaries were conducted in cooperation with OST's Internal Audit Office, but the number of the members of OST's Internal Audit Office was only three, which was not sufficient for the internal audit system of a company which has 15 consolidated subsidiaries.

EN underwent internal audits by OST's Internal Audit Office, but as described in Section 2(2)d. above, the Manager of the Internal Audit Office at OST intentionally omitted reporting in the internal audit report, etc., of portions of the matters that had been discovered in the internal auditing, in order to conceal these matters from the Tokyo Stock Exchange, etc. In addition, when it was revealed that there was inappropriate accounting regarding advance payments at EN in February 2021, the Manager of the Internal Audit Office at OST instructed personnel who were scheduled to undergo interviews by the Accounting Auditor to answer in accordance with the potential questions and answers prepared by him/her. Accordingly, a serious issue is found with his/her compliance awareness, and it is difficult to say that OST's Internal Audit Office had sufficient function to audit and supervise EN for the early detection of inappropriate accounting. Rather, it cannot be denied that the Internal Audit Office functioned as a department to conceal inappropriate accounting at EN.

In this respect, when the inappropriate accounting regarding advance payments was revealed in February 2021, an employee of EN disclosed that there was inappropriate accounting other than those regarding advance payments during the investigation conducted by OST's Internal Audit Office, Mr. V and others. However, such inappropriate accounting was not confirmed or investigated in detail, and it was concealed without being communicated to the Accounting Auditor and remained unrevealed until the Investigation of the Committee. Under such circumstances where the inappropriate accounting was concealed despite information provided by an employee, it is

evident that the internal auditing by OST was not functioning.

Further, Mr. V stated during the interviews with the Committee that when he concurrently served as a Director of EN, the meetings of the Board of Directors were held online from the beginning and it was only a few times that he met with Mr. X face-to-face, and that he himself was not able to manage accounting at EN as it was managed under the instructions of Mr. X and the former General Manager of the Accounting Department. Thus, management of subsidiaries by the Business Management Division of OST was not sufficient as a supervising function for the accounting divisions of EN.

c. Malfunction of the Whistleblowing System

As described in Section 2(2)e. above, at EN, the whistleblowing contact window established by OS, described in Section 1(4)d. of III. above, was available, and, in addition, internal and external whistleblowing contact windows were independently established by the OST Group. There were dozens of whistleblowing reports made to such windows each fiscal year, but there were only a few whistleblowing reports regarding EN per year, and no report was made with respect to its accounting over the past three years.

According to the interviews conducted by the Committee, there were some employees who considered that there would be no improvement even if any report was made under Mr. X, and who hesitated to use such whistleblowing system due to concerns that some kind of disadvantageous treatment might be taken against them if such report was communicated in full to the management or executives of OST. It is considered that efforts such as elimination of the sense of anxiety among employees regarding the effectiveness of the whistleblowing system and protection of whistleblowers were not sufficient.

As described above, it is difficult to say that OS's whistleblowing system described in Section 1(4)d. of III. above and the whistleblowing system independently established by OST were functioning as a measure for early detection and prevention of inappropriate accounting.

The current matter was also a case in which the EN Suspicious Misconduct was reported to the Accounting Auditor without using the whistleblowing systems established by OS or OST, and in the course of the Investigation of the Committee, which was established as a result this report the inappropriate accounting at EN came to be revealed. In light of the course of events in which the inappropriate accounting was revealed, it is recognized that the whistleblowing systems of OS and OST were not functioning as a measure to detect inappropriate accounting.

d. Unclear Internal Rules concerning Accounting and Inappropriate Operation Thereof

At EN, internal rules concerning job order costing, the timing at which recognition of expenses was made in accounting and setting of project codes were not clearly provided, and accordingly, arbitrary interpretation was made, which led to the Inappropriate Adjustments to Work-in-progress Inventory Balance. This is also recognized to be one of the causes which helped such practice to

continue without being detected at an early stage.

(3) Justification of the Inappropriate Accounting

a. Justification and Normalization of Inappropriate Accounting due to Weakened Normative Consciousness among Relevant Officers and Employees

As described in Section 1(4) of VII. above, although Mr. X did not admit that he instructed employees to conduct inappropriate accounting, he stated to the effect that the events which he understood to be inappropriate accounting were unavoidable. It is considered that Mr. X justified inappropriate accounting by prioritizing meeting the budget and reducing the amount of budget shortfalls with the motives stated in Section (1) above.

It is found that the employees who received instructions from Mr. X were not able to object to Mr. X as described in Section (2)a. above, although they were aware that such practices were inappropriate accounting, and as such, that they managed to organize their feelings and justified the inappropriate accounting by considering that such practices were an act committed for the cause of bonuses to EN employees and postponing the timing of recognition was less malicious than the fictitious recognition.

The former General Manager of the Accounting Department was aware of the existence of inappropriate accounting such as the Recognition of Fictitious Sales through the inappropriate "barter transactions" at OST in the fiscal year ended December 2020, and stated that he/she had considered, compared to the inappropriate accounting at OST, EN's practices were "little things, to be honest." As such, it is considered that the fact that inappropriate accounting was conducted at OST, the parent company of EN, served as one of the causes which cultivated the feeling that inappropriate accounting at EN could be justified.

When inappropriate accounting pertaining to advance payments was revealed at EN in February 2021, EN caused Mr. X to retire as the CEO, without clarifying the reasons therefor and leaving it unclear whether Mr. X had been involved in the matter. As a result, officers and employees of EN who suspected Mr. X's involvement in inappropriate accounting pertaining to advance payments became involved in the inappropriate accounting by themselves even after Mr. X's retirement, based on the wrong idea that "even if we conduct inappropriate accounting, the company will not make any clear disposition and it would not be a big deal." Thus, it is considered that the fact that the responsibility of a person who was involved in inappropriate accounting was left unclear served as one of the causes which cultivated the feeling that inappropriate accounting at EN could be justified.

b. Wrong Understanding of Accounting Auditing and Inappropriate Response to the Accounting Auditor

Mr. S stated that he was aware that the accounting regarding the avoidance of the judgement of indication of impairment in the third quarter of the fiscal year ended December 2021 was inappropriate. However, Mr. S also stated that he had an erroneous idea that it was not necessary to

proactively inform the Accounting Auditor of the actual status of transactions and there was no problem if he could provide some explanations, which were not necessarily accurate explanations. In fact, it is recognized that Mr. S, after giving instructions to Mr. AG and the former General Manager of the Accounting Department, caused them to prepare support documents that were not in line with the actual status and had such documents submitted to the Accounting Auditor.

In the first place, accounting auditors state their opinions on the presumption that they have received accurate information from the relevant company. However, it is found that, as described above, Mr. S justified inappropriate accounting based on the wrong understanding that there was no problem if an unqualified opinion was obtained from the Accounting Auditor even if he did not provide explanations in line with the actual status.

It is considered that the inappropriate accounting was justified since such wrong understanding of the accounting auditing and inappropriate response to the Accounting Auditor became normalized practices for Mr. S.

4. RPM

(1) Motives for the Inappropriate Accounting

a. Existence of the Goal of Avoiding Significant Budget Shortfalls or Reducing the Amount of Budget Shortfalls, etc.

The Committee found that, at RPM, as of the end of the fiscal year ended December 2014 at the latest, Inappropriate Adjustments to Work-in-progress Inventory Balance were made, and such inappropriate adjustments were revealed around January 2015, but RPM did not completely correct all of such adjustments immediately, and instead, the work-in-progress inventory balance was maintained by reallocating it to the provision for loss on orders received or by other means.

The background circumstances and motives for the above inappropriate accounting include the goal of avoiding significant budget shortfalls.

With respect to the timing when the inappropriate accounting started and the course of events at that time, it is recognized that, according to the statements of the relevant personnel, Mr. AH, who was then the CEO of RPM, aimed to meet the budget by receiving a high-volume order, but failed to do so, and as a result, increased the inappropriate work-in-progress inventory balance in the fiscal year ended on December 2015 to approximately 165,000 thousand yen.

It is said that such increase of the inappropriate work-in-progress inventory balance was found out by the person in charge of the Clinical Development Department of RPM around January 2015, and Mr. Y (the current CEO of RPM, and then a Director of RPM) who received such report, consulted with Mr. B, who was then the Executive Vice President of OS, the parent company of RPM, and concurrently served as a Director of RPM at that time, regarding how to handle it.

Later, it turned out that sales would not be made with respect to the matter pertaining to the accumulated cost of work-in-progress inventory, so Mr. AH retired in September 2015, taking management responsibility, and then Mr. Y assumed the office of the CEO of RPM. Mr. Y continued

to consult with Mr. B regarding how to handle the accumulated work-in-progress inventory balance, but no clear decision or response was made or taken, and thereafter the correction was not made to the full amount of such inappropriately accumulated work-in-progress inventory balance, as there was also a need to prevent a significant deterioration in operating profits.

Further, in addition to not appropriately recording the amount of such work-in-progress inventory balance, it became a practice to make Inappropriate Adjustments to Work-in-progress Inventory Balance and avoid recognizing a provision for loss on orders received, for the purpose of reducing the amount of budget shortfalls for each fiscal year. In fact, from the fiscal year ended December 2015 to the fiscal year ended December 2018, it is recognized that acts such as Inappropriate Adjustments to Work-in-progress Inventory Balance and avoidance of recognizing a provision for loss on orders received were conducted, for the purpose of avoiding significant budget shortfalls or to reduce the amount of budget shortfalls by inflating operating profit. Furthermore, it is also recognized that Inappropriate Adjustments to Work-in-progress Inventory Balance were also conducted for the purpose of avoidance of recognizing a provision for loss on orders received.

It is recognized that Mr. Y instructed the person in charge of the Clinical Development Department of RPM and the person in charge of the Management Department of RPM to conduct such inappropriate accounting at RPM. The avoidance of recognizing a provision for loss on orders received was conducted through manipulating the amounts of the "work-in-progress inventory balance," etc. of the "list for determination of loss on orders received", which was prepared by the person in charge of the Clinical Development Department and the person in charge of the Management Department. It was Mr. Y or the person in charge of the Clinical Development Department who determined how much of the work-in-progress inventory balance for which case would be manipulated.

Later in January 2019, accompanied by the reorganization of OS, OST became the parent company of RPM, replacing OS. In preparation for the stock listing of OST, Mr. Y and the person in charge of the Clinical Development Department discussed with Mr.. AE, an Executive Officer of OS, the person in charge of accounting at OS, Mr. V, who was then a Director of OST, and the person in charge of accounting at OST, regarding how to handle the work-in-progress inventory balance which remained unrecorded in the course of events described above. They determined that it was necessary to make an adjustment of at least approximately 93,000 thousand yen, and an adjustment in the said amount was made after explaining it to the Accounting Auditor.

Regarding this point, Mr. Y and the person in charge of the Clinical Development Department stated that, although they wished to recognize all the work-in-progress inventory balance inappropriately handled at that time, based on the judgement by OS and OST, it was decided to recognize the said amount pertaining to the work-in-progress inventory balance, which was not accountable at all, and accordingly, the some unrecorded amount was left as it was, which still remains unrecorded until today.

As for the motives of Mr. Y and the person in charge of the Clinical Development Department in

conducting the inappropriate accounting as described above, Mr. Y stated that he did not feel that the budget must be met by all means and felt that what cannot be done could not be done. However, it was his impression that Mr. L, the President of OST, insisted on meeting the budget for operating profit in particular, and the atmosphere was that it was impossible to make requests to OS or OST without meeting the budget. He also considered that if he did not prepare a budget with continued growth as demanded by OS or OST, their company or departments performing contracted work might be abolished, and that RPM could not afford to be an exception by avoiding following the direction in which the OS Group or the OST Group was advancing as a whole. Although the person in charge of the Clinical Development Department suggested to Mr. Y that they stop such practices, the person stated that he considered it was unavoidable after hearing Mr. Y's thoughts described above, and came to conduct the inappropriate accounting.

Thus, the inappropriate accounting by RPM was at first conducted at the decision of Mr. AH, but after that, upon consultation with OS and OST, it has been conducted over a long time for the purpose of avoiding significant budget shortfalls, as a response to go along with the intentions of its parent company.

b. A Desire to Avoid an Adverse Effect on Employee Bonuses

According to the List of Official Duties and Authorities at Domestic Related Companies of OST (revised on April 1, 2021), payment of bonuses to employees of each OST subsidiary requires report to the Management Meeting of OST and approval of the Division Director of the Business Management Division and officers in charge thereof.

From the statements of the relevant personnel, the payment of bonuses to RPM employees thus required report to the Management Meeting of OST and approval of the Division Director of the Business Management Division and officers in charge thereof, and as such, being concerned about an adverse effect on the amount of bonuses or whether or not bonuses would be paid to employees due to a large shortfall in the budget, Mr. Y was unable to take measures to correct the inappropriate work-in-progress inventory balance all at once by ignoring the intentions of OS and OST. Such circumstance can be also considered as one of the motives for the inappropriate accounting.

(2) Existence of the Opportunity

a. Malfunction of the Internal Control and the Auditing Function of the Auditor(s) of RPM, the Audit and Supervisory Committees and the Internal Audit Offices of OS and OST

While one of the Audit and Supervisory Committee Members of OST concurrently served as an Auditor of RPM, the management of subsidiaries by the Audit and Supervisory Committee of OST was not sufficient as an internal control system, as described in Section 2(2)c. In addition, it is questionable whether OST's Internal Audit Office conducted sufficient internal audits, as described in Section 2(2)d.

Furthermore, RPM has been a subsidiary of OST since January 2019, and until then it used to be

a subsidiary of OS. With respect to the Audit and Supervisory Committee and the Internal Audit Office of OS, as described in Section 1(2)b., considering the large burden of duties required of the Audit and Supervisory Committee Members, as well as the number of members of the Internal Audit Office and the number (as many as 206) of consolidated subsidiaries subject to internal audits, it is recognized that it is difficult to say that either organization had sufficient auditing and supervising functions to detect inappropriate accounting at an early stage.

b. Malfunction of the Whistleblowing Systems of OS and OST

As described in Section 2(2)e. above, OS has a whistleblowing contact window, which was available for use by the whole OS Group in Japan, and OST also has whistleblowing contact windows, which were available for use by the whole OST Group, and accordingly, RPM had systems under which both of the said windows could be used. However, as described in Section 2(2)e. above, it was difficult to say that such systems were functioning as a measure for early detection and prevention of inappropriate accounting.

c. Unclear Internal Rules concerning Accounting and Inappropriate Operation Thereof

At RPM, internal rules concerning the timing at which recognition of sales was made in accounting were not clear and there was no clear standard for the cost of sales associated therewith, and accordingly, it is found that arbitrary recognition of sales and arbitrary recognition of the cost of sales were conducted.

(3) Justification of the Inappropriate Accounting

a. Justification and Normalization of the Inappropriate Accounting due to Weakened Normative Consciousness among Relevant Officers and Employees

According to statements made by the relevant personnel, they were aware of accounting problems in the inappropriate accounting and desired to correct all the inappropriate adjustments at once in 2015, when the inappropriate work-in-progress inventory balance of approximately 165,000 thousand yen was revealed. However, no clear decision or response was made or taken even after consultation with OS, the parent company at that time. The relevant personnel stated that, thereafter, as RPM continued the avoidance of recognizing a provision for loss on orders received and the Inappropriate Adjustments to Work-in-progress Inventory Balance, such accounting became a normalized practice, and the normative consciousness that there was an accounting problem became further numbed day by day. Thus, it is recognized that the fact that RPM was in a situation where it was forced to comply with the intentions of the parent company dulled the employees' normative consciousness, and became a factor that justified such inappropriate accounting.

How the normative consciousness of the employees who were in charge of accounting at OS and OST weakened was described in Section 1(3) and Section 2(3) above.

XII. Recommendations for Preventive Measures

1. Establishing Feasible Business Plans and Budgets

As described in Section 1(1) of XI. above, the cause of the series of inappropriate accounting in this case was the existence of aggressive numerical targets set forth under the management policy which strongly demanded continuous growth. For example, in the mid-term management plan announced on February 21, 2020 (VISION2024), as the five-year growth plan from the fiscal year 2020 to fiscal year 2024, aggressive numerical targets, which are average annual growth rates of the revenue and operating profit, are set at 18% and 33% respectively.

In the process of formulating of a business plan and budget, the reported amounts may need to be adjusted by increasing or decreasing them based on the materials reported from each business department and each subsidiary, by taking into account the business environment of each business department and each subsidiary, and from the perspectives of the entire OS Group and the mid to long-term management thereof. 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

As described in Section 3(3)a. of XI. above, when EN discovered different inappropriate accounting relating to advance payments in February 2021, EN made Mr. X resign from the president's office without clarifying the cause thereof and without determining whether or not the president was involved. As a result, some EN executives and employees, who had suspected his involvement in the inappropriate accounting relating to advance payments, became involved in the inappropriate accounting thereafter based on the misunderstanding that the inappropriate accounting would be acceptable and the dispositions by the company would not be definite or serious.

The fact that the inappropriate accounting was covered up or trivialized in this way when it was revealed is considered to have fostered a sense of acceptance of inappropriate accounting among other executives and employees.

Hence, 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

It is found that, in the OS Group, Mr. C invalidated the internal control at OS by taking advantage of his position controlling the domestic manufacturing outsourcing business, including OS. In addition, it is recognized that, in the OST Group, Mr. L, who was in the position to control the

domestic engineering outsourcing business, and the executive officers controlling each segment of the business departments, to whom authority had been delegated, took advantage of their positions and invalidated the internal control at OST. In fact, it can be seen that the management division was compliant with the decisions of the business department and no one objected to such treatment.

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

As described in Section 1(2)b. of XI. above, independent outside directors are required to "supervise management" and appropriately reflect the opinions of stakeholders in the board of directors from "a standpoint independent from management and controlling shareholders" (Principle 4-7 of the Corporate Governance Code). However, OS requires outside directors to play a role in educating executive officers and employees who will become future executive candidates, and there are some independent outside directors who can be regarded as having little or no independence due to their close relationship with the executives, such as the fact that a few of them had been in office for a long period of time.

According to the statements of the related persons, the monthly meetings of OS's board of directors held under this structure were mainly focused on "gas pedal" discussions, such as monthly reporting of the status of budget attainment in each segment and discussions on measures to be taken in the event of budget shortfalls, and discussions focused on the "brake pedal," such as accounting and bookkeeping issues, were rarely engaged in. It is considered that "highly effective supervision" (Principle 4 of the Corporate Governance Code) has not been sufficiently conducted.

Accordingly, at the board of directors of OS, it is necessary to appoint highly independent outside officers and to separate the execution and oversight of operations (Principle 4-6 of the Corporate Governance Code), for the purpose of securing the effectiveness of independent and objective supervision of management by the board of directors, 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 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.

Although OS and OST seem to be securing human resources through mid-career hiring, the quality and number of human resources are insufficient for the accounting department of a company

listed on the 1st Section of the Tokyo Stock Exchange, which holds 206 consolidated subsidiaries and 3 equity method affiliates. This is also true for OST, a company preparing for listing, which holds 15 consolidated subsidiaries.

Moreover, OS and OST scarcely take measures to manage their subsidiaries such as by seconding accounting staffs from the parent company to the accounting departments of each group company.

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 accounting practice. It is also well 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 in 3(3) above, OS and OST have been implementing a full-scale M&A strategy since the fiscal year 2020, and the number of their umbrella affiliated companies has increased significantly. As a result, the need to manage acquired subsidiaries is increasing. Nevertheless, OS and OST have not recruited, trained, and retained human resources for their management departments to meet this need.

On the other hand, Mr. V, the executive officer in charge of the management of the OST subsidiaries in the OST Group, concurrently serving as a director of a number of the OST subsidiaries, is unable to devote sufficient time to the management of each OST subsidiary. Therefore, it is difficult to say that OST is sufficiently managing its 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 only 6 (8 in 2021) and 3 respectively, which is not sufficient as an internal audit system for companies with 206 and 15 consolidated subsidiaries respectively. Accordingly, as personnel in charge of the internal audits, 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, and OS left the accounting audits entirely to the Accounting Auditor. For the future, OS's internal audits will need to cover accounting.

For OST, as stated in Section 2(2)d. of XI. above, there were serious problems with compliance awareness, wherein, based on the intention of Mr. M, the Head of OST's Internal Audit Office actively sought to conceal inappropriate conduct from the Accounting Auditor and others for the

purpose of the listing of the OST stock. And it must be said that it is doubtful that the Internal Audit Office was substantially independent from management, executives, and business divisions. Hence, it would be necessary for OST to secure substantial independence of personnel of the Internal Audit Office from management, executives, and business divisions.

(3) Strengthening Internal Control System by the Audit and Supervisory Committee

Each of the Audit and Supervisory Committees 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

As described in Section 2(2)e. of XI., 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. Further, based on to the interviews conducted by the Committee, it was observed that some employees hesitated to use the whistleblowing system because they were afraid of disadvantageous treatment, assuming all the contents of their reports would be conveyed to the management or executives of OST.

In fact, the beginning of the discovery of the EN Suspicious Misconduct 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 acts or misconducts and inappropriate accounting. Therefore, it is necessary to review the existing whistleblowing system.

For the future, OS and OST should foster confidence among all officers and employees of the OS Group and the OST Group to use the whistleblowing system without hesitation, and at the same time, they should foster an internal culture that does not permit turning a blind eye to illegal acts or misconducts, especially inappropriate accounting. It is necessary to develop and operate an effective whistleblowing system and conduct risk management, etc., by actively utilizing the whistleblowing system.

Specifically, in order to eliminate the concerns among officers and employees that their whistleblowing may be treated improperly due to the influence of management and executives over the staffs who respond to whistleblowing, the following measures are necessary : 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 fostering confidence in the whistleblowing system among officers and employees within the OS Group, after establishing an internal disciplinary code which stipulates that violation of the code is subject to discipline. In addition, from the perspective of enhancing the effectiveness of

whistleblowing, the following measures should be considered: iv) introducing an internal leniency system that allows whistleblowers and relevant persons who were involved in illegal or inappropriate activities to reduce or be exempted from dispositions; and v) taking measures that reward whistleblowers and provide a 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 these rules within such company and ensure that operations are conducted in accordance with these internal rules.

In addition, the introduction of a unified 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

As discussed in Sections 1(1)a. and 2(1)a. of XI., in the OS Group and the OST Group, the idea of demanding continuous growth had spread among the executives and employees of business divisions, and this idea was considered to be one of the causes of the series of inappropriate accounting. Although a company's executives naturally emphasize budget attainment, it is important for all executives and employees of the OS Group to emphasize compliance in the process of achieving their budgets, that is, to be fully aware that "Legacy" should be eliminated, that the inappropriate accounting should never occur or be overlooked again, and that compliance must be prioritized in the event of a conflict between continuous growth and compliance.

To this end, it is necessary for the top management and executives of the OS Group and the OST Group to be fully aware of the fact that OS is a listed company, and to have a renewed and strong awareness of compliance as described above. On that basis, it is essential that Mr. A, the top of the management of the OS Group, strongly and regularly sends out a message emphasizing compliance to all executives and employees of the OS Group.

Furthermore, it is necessary to regularly conduct compliance training on prevention of inappropriate accounting throughout the OS Group, and to conduct continuous risk management training regarding specialized knowledge of legal compliance and financial accounting operations, particularly for the management and accounting departments.

In addition, the business practices within the gray zone called "barter transactions," which are conducted as if they were appropriate transactions, must be eliminated in the future, as they could be suspected as inappropriate accounting.

End

List of interviewees

No.	Name	Company	Affiliation / Position (If retired, last affiliation and position.)	enrollment
1	A	OS	Chairman and CEO	enrolled
2	B	OS	Executive Vice President and Head of Business Management Division	enrolled
3	C	OS	Senior Executive Director Head of Manufacturing & Service Business Division Head of Technology Business Division	enrolled
4	E	OS	External Director	enrolled
5	H	OS	External Director (Full-time Audit and Supervisory Committee Member) OST Director (Audit and Supervisory Committee Member)	enrolled
6	K	OS	External Director (Audit and Supervisory Committee Member)	enrolled
7	I	OS	External Director (Audit and Supervisory Committee Member)	enrolled
8	J	OS	External Director (Audit and Supervisory Committee Member)	enrolled
9		OS	Managing Executive Officer Executive Manager of Internal Audit Office	enrolled
10	AB	OS	Managing Executive Officer Deputy Head of Division Manufacturing & Service Business Division and Senior Manager Manufacturing Management Department 1	enrolled
11	AA	OS	Managing Executive Officer Deputy Head of Division Manufacturing & Service Business Division and Senior Manager Solution Business Management Department/Service Business Management Department	enrolled
12	AE	OS	Managing Executive Officer Deputy Head of Division Business Management Division	enrolled
13		OS	Executive Officer Deputy Executive Manager Overseas Human Resources Supporting Business Management Department Manufacturing & Service Business Division	enrolled
14		OS	General Manager Accounting Department Business Management Division	enrolled
15		OS	Chief Accounting Department Business Management Division	enrolled
16		OS	General Manager Business Control Department Manufacturing & Service Business Division	enrolled
17		OS	Senior Manager Strategic Recruitment Management Department Manufacturing & Service Business Division	Reteired
18		OS	Senior Manager Overseas Human Resources Supporting Business Management Department Manufacturing & Service Business Division	enrolled
19	L	OST	President and Representative Director	enrolled
20	M	OST	Director Division Director Business Management Division EN Director RPM Director	enrolled
21	P	OST	External Director (Full-time Audit and Supervisory Committee Member) RPM Auditor	enrolled
22	Q	OST	External Director (Audit and Supervisory Committee Member)	enrolled
23	O	OST	External Director	enrolled
24	N	OST	External Director	enrolled
25	S	OST	Corporate Officer Division Director Solution Service Division EN Executive Officer	enrolled
26	R	OST	Corporate Officer Division Director R&D Division EN Executive Officer	enrolled
27	T	OST	Corporate Officer Division Director Human Resource Strategy Division	enrolled
28	V	OST	Corporate Officer EN Director RPM Director	enrolled
29		OST	Manager Internal Audit Office	enrolled
30		OST	Associate Manager Business Management Division	enrolled
31		OST	Manager Accounting and Finance Department Business Management Division	enrolled

32		OST	Subsection Chief Accounting and Finance Department Business Management Division	enrolled
33		OST	Section Manager Industry Sales Section Solution Technology Department Solution Service Division	enrolled
34	X	EN（Currently OST）	Previous CEO (Currently OST Adviser R&D Division)	enrolled
35	W	EN	CEO and Head of Division Engineering Division	enrolled
36		EN	Director and Head of Division Administrative Division	enrolled
37	AG	EN	Executive Officer General Manager General Affairs and Human Resources Department Administrative Division	enrolled
38		EN（Currently OST）	Previous General Manager Accounting Department Administrative Division (Currently OST Associate Manager Kariya Branch Tokai Area R&D Division)	enrolled
39		EN	General Manager Accounting Department Administrative Division	enrolled
40		EN	Chief Accounting Department Administrative Division	enrolled
41		EN	General Manager Autoparts Department Sales Division	enrolled
42	Y	RPM	CEO	enrolled
43		RPM	Director	enrolled
44		RPM	General Manager Clinical Development Department	enrolled
45	AF	TB	CEO OST General Manager Human Resource Strategy Division	enrolled
46	AD	Company b	CEO	enrolled
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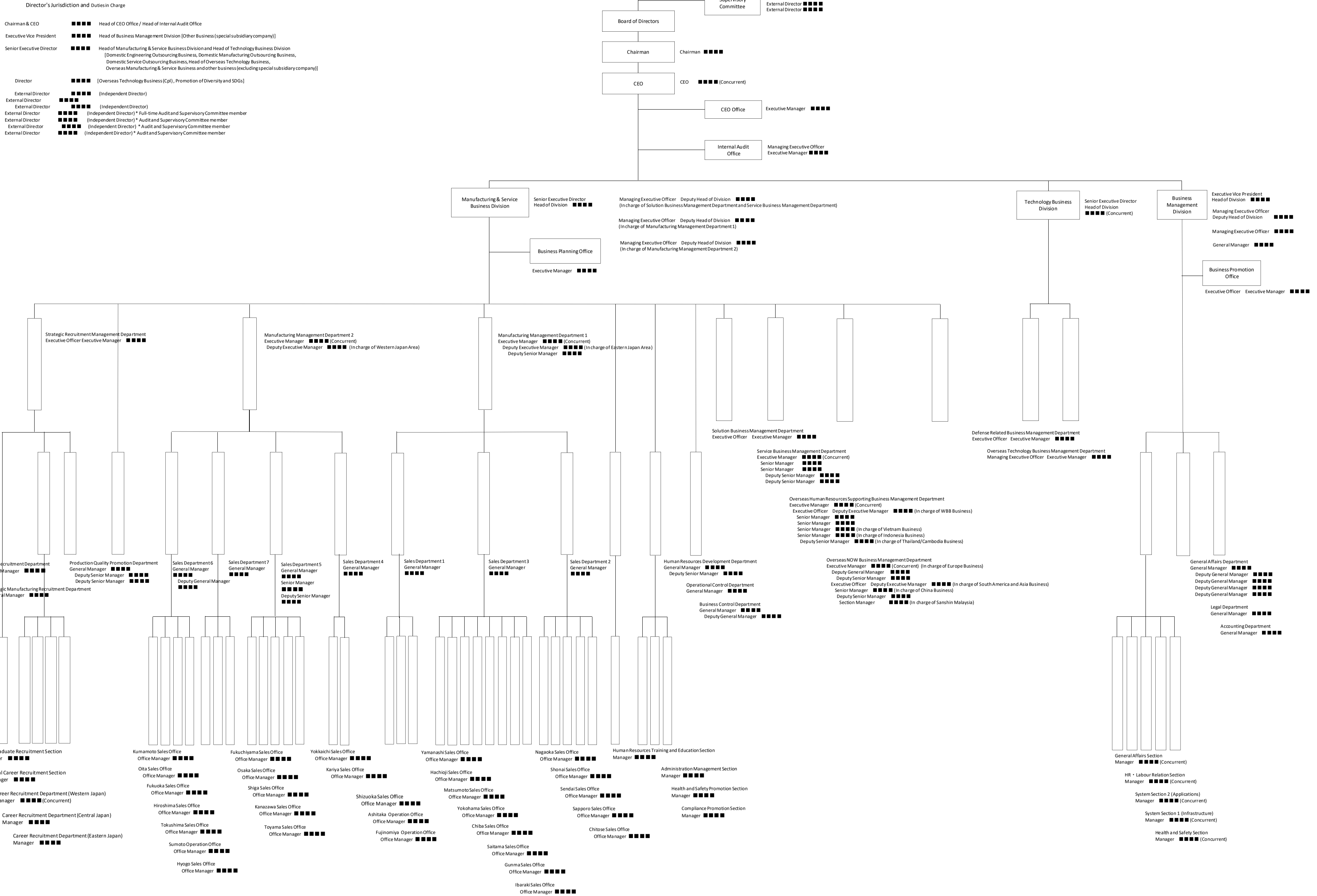
List of Forensic Subjects

No.	Name	Company	Affiliation / Position (If retired, last affiliation and position.)	enrollment
1	B	OS	Executive Vice President and Head of Business Management Division	enrolled
2	C	OS	Senior Executive Director Head of Manufacturing & Service Business Division Head of Technology Business Division	enrolled
3		OS	General Manager Accounting Department Business Management Division	enrolled
4		OS	General Manager Business Control Department Manufacturing & Service Business Division	enrolled
5	L	OST	President and Representative Director	enrolled
6	M	OST	Director Division Director Business Management Division EN Director RPM Director	enrolled
7	P	OST	External Director (Full-time Audit and Supervisory Committee Member) RPM Auditor	enrolled
8	S	OST	Corporate Officer Division Director Solution Service Division EN Executive Officer	enrolled
9	R	OST	Corporate Officer Division Director R&D Division EN Executive Officer	enrolled
10	V	OST	Corporate Officer EN Director RPM Director	enrolled
11		OST	Manager Internal Audit Office	enrolled
12		OST	Associate Manager Business Management Division	enrolled
13		OST	Manager Accounting and Finance Department Business Management Division	enrolled
14		OST	Subsection Chief Accounting and Finance Department Business Management Division	enrolled
15		OST	Section Manager General Administration Section General Affairs Department Business Management Division	enrolled
16		OST	Associate Manager Product Development Section Southern Kanto Area R&D Division	enrolled
17	X	EN (Currently, OST)	Previous CEO (Currently OST Adviser R&D Division)	enrolled
18	W	EN	CEO and Head of Division Engineering Division	enrolled
19		EN	Director and Head of Division Administrative Division	enrolled
20		EN	Director and Head of Division Sales Division	enrolled
21	AG	EN	Executive Officer General Manager General Affairs and Human Resources Department Administrative Division	enrolled
22		EN	Executive Officer General Manager Development Department Engineering Division	enrolled
23		EN (Currently, OST)	Previous General Manager Accounting Department Administrative Division (Currently OST Associate Manager Kariya Branch Tokai Area R&D Division)	enrolled
24		EN	General Manager Accounting Department Administrative Division	enrolled
25		EN	Chief Accounting Department Administrative Division	enrolled
26		EN	Accounting Department Administrative Division	enrolled
27		EN	General Manager Autoparts Department Sales Division	enrolled
28	Y	RPM	CEO	enrolled

29		RPM	General Manager Clinical Development Department	enrolled
30		TB	General Manager Management Department	enrolled
31		OUTSOURCING Communications Co.,Ltd.	Executive Manager Management Office	enrolled
32		Kyodo Engineering Corporation	Manager Accounting Section	Retired


Organization Chart as of October 1, 2021
Director's Jurisdiction and Duties in Charge
Chairman & CEO ■■■■ Head of CEO Office / Head of Internal Audit Office
Executive Vice President ■■■■ Head of Business Management Division [Other Business (special subsidiary company)]
Senior Executive Director ■■■■ Head of Manufacturing & Service Business Division and Head of Technology Business Division
[Domestic Engineering Outsourcing Business, Domestic Manufacturing Outsourcing Business,
Domestic Service Outsourcing Business, Head of Overseas Technology Business,
Overseas Manufacturing & Service Business and other business (excluding special subsidiary company)]
Director ■■■■ [Overseas Technology Business (Cpl), Promotion of Diversity and SDGs]
External Director ■■■■ (Independent Director)
External Director ■■■■
External Director ■■■■ (Independent Director)
External Director ■■■■ (Independent Director) * Full-time Audit and Supervisory Committee member
External Director ■■■■ (Independent Director) * Audit and Supervisory Committee member
External Director ■■■■ (Independent Director) * Audit and Supervisory Committee member
External Director ■■■■ (Independent Director) * Audit and Supervisory Committee member
General Meeting of Shareholders
Audit and Supervisory Committee
External Director ■■■■
External Director ■■■■
External Director ■■■■
External Director ■■■■
Board of Directors
Chairman
Chairman ■■■■
CEO
CEO ■■■■ (Concurrent)
CEO Office
Executive Manager ■■■■
Internal Audit Office
Managing Executive Officer
Executive Manager ■■■■
Manufacturing & Service Business Division
Senior Executive Director
Head of Division ■■■■
Managing Executive Officer Deputy Head of Division ■■■■
(In charge of Solution Business Management Department and Service Business Management Department)
Managing Executive Officer Deputy Head of Division ■■■■
(In charge of Manufacturing Management Department 1)
Managing Executive Officer Deputy Head of Division ■■■■
(In charge of Manufacturing Management Department 2)
Business Planning Office
Executive Manager ■■■■
Technology Business Division
Senior Executive Director
Head of Division
■■■■ (Concurrent)
Business Management Division
Executive Vice President
Head of Division ■■■■
Managing Executive Officer
Deputy Head of Division ■■■■
Managing Executive Officer ■■■■
General Manager ■■■■
Business Promotion Office
Executive Officer Executive Manager ■■■■
Strategic Recruitment Management Department
Executive Officer Executive Manager ■■■■
Manufacturing Management Department 2
Executive Manager ■■■■ (Concurrent)
Deputy Executive Manager ■■■■ (In charge of Western Japan Area)
Manufacturing Management Department 1
Executive Manager ■■■■ (Concurrent)
Deputy Executive Manager ■■■■ (In charge of Eastern Japan Area)
Deputy Senior Manager ■■■■
Solution Business Management Department
Executive Officer Executive Manager ■■■■
Service Business Management Department
Executive Manager ■■■■ (Concurrent)
Senior Manager ■■■■
Senior Manager ■■■■
Deputy Senior Manager ■■■■
Deputy Senior Manager ■■■■
Overseas Human Resources Supporting Business Management Department
Executive Manager ■■■■ (Concurrent)
Executive Officer Deputy Executive Manager ■■■■ (In charge of WBB Business)
Senior Manager ■■■■
Senior Manager ■■■■
Senior Manager ■■■■ (In charge of Vietnam Business)
Senior Manager ■■■■ (In charge of Indonesia Business)
Deputy Senior Manager ■■■■ (In charge of Thailand/Cambodia Business)
Overseas NOW Business Management Department
Executive Manager ■■■■ (Concurrent) (In charge of Europe Business)
Deputy General Manager ■■■■
Deputy Senior Manager ■■■■
Executive Officer Deputy Executive Manager ■■■■ (In charge of South America and Asia Business)
Senior Manager ■■■■ (In charge of China Business)
Deputy Senior Manager ■■■■
Section Manager ■■■■ (In charge of Sanshin Malaysia)
Defense Related Business Management Department
Executive Officer Executive Manager ■■■■
Overseas Technology Business Management Department
Managing Executive Officer Executive Manager ■■■■
Career Recruitment Department
General Manager ■■■■
Strategic Manufacturing Recruitment Department
General Manager ■■■■
Production Quality Promotion Department
General Manager ■■■■
Deputy Senior Manager ■■■■
Deputy Senior Manager ■■■■
Sales Department 6
General Manager
■■■■
Deputy General Manager
■■■■
Sales Department 7
General Manager
■■■■
Sales Department 5
General Manager
■■■■
Senior Manager
■■■■
Deputy Senior Manager
■■■■
Sales Department 4
General Manager
■■■■
Sales Department 1
General Manager
■■■■
Sales Department 3
General Manager
■■■■
Sales Department 2
General Manager
■■■■
Human Resources Development Department
General Manager ■■■■
Deputy Senior Manager ■■■■
Operational Control Department
General Manager ■■■■
Business Control Department
General Manager ■■■■
Deputy General Manager ■■■■
General Affairs Department
General Manager ■■■■
Deputy General Manager ■■■■
Deputy General Manager ■■■■
Deputy General Manager ■■■■
Deputy General Manager ■■■■
Legal Department
General Manager ■■■■
Accounting Department
General Manager ■■■■
New Graduate Recruitment Section
Manager ■■■■
Global Career Recruitment Section
Manager ■■■■
Career Recruitment Department (Western Japan)
Manager ■■■■ (Concurrent)
Career Recruitment Department (Central Japan)
Manager ■■■■
Career Recruitment Department (Eastern Japan)
Manager ■■■■
Kumamoto Sales Office
Office Manager ■■■■
Oita Sales Office
Office Manager ■■■■
Fukuoka Sales Office
Office Manager ■■■■
Hiroshima Sales Office
Office Manager ■■■■
Tokushima Sales Office
Office Manager ■■■■
Sumoto Operation Office
Office Manager ■■■■
Hyogo Sales Office
Office Manager ■■■■
Fukuchiyama Sales Office
Office Manager ■■■■
Osaka Sales Office
Office Manager ■■■■
Shiga Sales Office
Office Manager ■■■■
Kanazawa Sales Office
Office Manager ■■■■
Toyama Sales Office
Office Manager ■■■■
Yokkaichi Sales Office
Office Manager ■■■■
Kariya Sales Office
Office Manager ■■■■
Shizuoka Sales Office
Office Manager ■■■■
Ashitaka Operation Office
Office Manager ■■■■
Fujinomiya Operation Office
Office Manager ■■■■
Yamanashi Sales Office
Office Manager ■■■■
Hachioji Sales Office
Office Manager ■■■■
Matsumoto Sales Office
Office Manager ■■■■
Yokohama Sales Office
Office Manager ■■■■
Chiba Sales Office
Office Manager ■■■■
Saitama Sales Office
Office Manager ■■■■
Gunma Sales Office
Office Manager ■■■■
Ibaraki Sales Office
Office Manager ■■■■
Nagaoka Sales Office
Office Manager ■■■■
Shonai Sales Office
Office Manager ■■■■
Sendai Sales Office
Office Manager ■■■■
Sapporo Sales Office
Office Manager ■■■■
Chitose Sales Office
Office Manager ■■■■
Human Resources Training and Education Section
Manager ■■■■
Administration Management Section
Manager ■■■■
Health and Safety Promotion Section
Manager ■■■■
Compliance Promotion Section
Manager ■■■■
General Affairs Section
Manager ■■■■ (Concurrent)
HR・Labour Relation Section
Manager ■■■■ (Concurrent)
System Section 2 (Applications)
Manager ■■■■ (Concurrent)
System Section 1 (Infrastructure)
Manager ■■■■ (Concurrent)
Health and Safety Section
Manager ■■■■ (Concurrent)

Appendix 4