February 14, 2022

To whom it may concern

Company name: Nihon M&A Center Holdings Inc.
Representative: Suguru Miyake, President and Representative Director
(Stock exchange code: 2127, TSE First Section)
Contact: Takamaro Naraki,
Senior Managing Director, General Manager, Administration Division
(Phone: +81-3-5220-5451)

Announcement regarding receipt of the Research Committee Investigation Report and publication of its findings

On December 20, 2021, Nihon M&A Center Holdings Inc. (the “Company”) issued a statement “Announcement of Investigation on Attribution Period of Sales at our Subsidiary” concerning the discovery of some erroneous apportionment of sales to accounting periods at its subsidiary Nihon M&A Center Inc., as a consequence of internal verification. Since then the Company has conducted an internal investigation using external experts, covering the period of five and a half years up to the present.

Furthermore, on January 31, 2022 as the report of the investigation was reaching completion, the Company decided to form a Research Committee comprising of the people who had hitherto undertaken the research. Having now received the Research Committee Investigation Report, the Company has set out below the findings and plans for how to respond in the future.

The Company again profusely apologises for the huge trouble and concern that this has caused our shareholders, the investment community and related parties. The Company shall do its utmost to implement policies which prevent any future reoccurrence and to regain everyone’s confidence.

Details

1. Contents of Research Committee Investigation Report

   Please refer to the separate document “Investigation Report” for the content of the report received from the Research Committee.

2. Impact on prior year results

   Today on February 14, 2022, the Company is releasing a statement “Announcement regarding submission of the report on restatements and the impact of restatements on published financial accounts” concerning the announcement of the report findings and amendments being made to officially published results publications for incorrect reporting during all quarterly periods since Q1 FY2020 (April-June 2020).

3. Directors response

   Due to the severity of the research findings, at today’s Board of Directors meeting the following action was resolved.

Job title	Name	Actions		
		Reduction in remuneration	Voluntary return	Others
President and Representative Director	Suguru Miyake	50% of monthly remuneration	50% of monthly remuneration	-
Executive Vice President and Director	Takamaro Naraki	30% of monthly remuneration	20% of monthly remuneration	Downgrade from Executive Vice President to Senior Managing Director
Managing Director	Naoki Takeuchi	30% of monthly remuneration	20% of monthly remuneration	Downgrade from Managing Director to Director, Removed from Head of Sales Division
Managing Director	Masahiko Otsuki	10% of monthly remuneration	10% of monthly remuneration	-
Chairman and Representative Director	Yasuhiro Wakebayashi	20% of monthly remuneration	10% of monthly remuneration	-

*10% voluntary return of monthly remuneration from other Directors and Outside Directors.

Treatment of individual employees responsible for the related inappropriate actions will be taken fairly in accordance with the company’s internal disciplinary rules.

4. Future action points

In sincere response to the causes for the occurrence and proposed future preventative measures identified in the Investigation Report, the Company is implementing the following measures as the focal point for the effective prevention of any reoccurrence and strengthening of internal controls. Details of the implementation progress will be announced appropriately in due course.

(1) Formation by management of ethos for the observance of compliance regulations and clarity of management aims.
(2) Formation of a dedicated compliance department and the role of Chief Compliance Officer (CCO)
(3) Implementation of effective compliance training and education programmes.
(4) Reevaluation of management methods for the overall process of human resources performance reviews and quarterly results targets.
(5) Strengthening of process for reporting and system for regular discussions with key people in the sales division.
(6) Strengthening the audit and supervisory department functions.
(7) Clarification of responsibility for the inappropriate reporting which took place and review of the sales organization.
(8) Reconstruction of system for the flow of reporting sales and recording sales.
(9) Establishment of optimal systems to manage handling of contract documents.

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INVESTIGATION REPORT

February 14, 2022

Nihon M&A Center Holdings Inc.

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February 14, 2022

To: Nihon M&A Center Holdings Inc.

Nihon M&A Center Holdings Inc. Investigation Committee

Investigation Committee Chair:	Yo Yamagishi, Attorney-at-Law
Investigation Committee Member:	Yuya Inoue, Attorney-at-Law
Investigation Committee Member:	Masahiko Kume, Certified Public Accountant
Investigation Committee Member:	Joji Ikegawa, Certified Public Accountant
Investigation Committee Member:	Naoki Kinoshita, Outside Director (Audit and Supervisory Committee Member)
Investigation Committee Member:	Yoshinori Yamada, Outside Director (Audit and Supervisory Committee Member)

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I. Regarding Investigation by Investigation Committee

1. Purposes of Investigation

The purposes of this Investigation are as follows:

a. To investigate and determine the existence and content of the improper cases subject to investigation (hereinafter, the improprieties subject to the investigation are referred to as the "Improprieties") at Nihon M&A Center Inc. (hereinafter, the "Company), a wholly owned subsidiary of Nihon M&A Center Holdings Inc. (hereinafter, "NMAH"), during the period from April 1, 2016 through September 30, 2021;

b. To investigate the impact on the financial results (including annual financial results and quarterly financial results) disclosed as a listed company pursuant to the Financial Instruments and Exchange Act (*kin-yū shōhin torihiki hō*), the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements *(renketsu zaimu shohyō no yōgo, yōshiki oyobi sakusei hōhō ni kansuru kisoku)* and the rules of the Tokyo Stock Exchange; and,

c. To consider and present NMAH with measures for preventing the recurrence of the Improprieties.

2. Background Leading up to Commencement of Investigation

(1) Mr. Miyake, President of the Company (the officers' titles in this report shall be as set forth in Section III-1 below) and Mr. Naraki, General Manager of Administration Division at the Company, learned of suspicions of the Improprieties through a report from Mr. Watanabe, Director of the Company (Mr. Naraki, General Manager of Administration Division learned of them on October 18, 2021, and Mr. Miyake, President, on the following day, October 19, 2021).

What led Mr. Watanabe, Director of the Company, to make the report as described above is as follows: On October 8, 2021, in the Industry Specific Business Department, which is under the charge of Mr. Watanabe, Mr. Watanabe received a report from two general managers of the Industry Reorganization Department to the effect that other departments had approached them to ask for their cooperation in accelerating recording of sales but they had refused. Based on this report, Mr. Watanabe instructed his department staff to conduct an investigation. Through the comparison of the seal impressions on the copies of the intermediation service agreements with those on the copies of the definitive agreements, which were used for the internal reporting purposes, Mr. Watanabe confirmed that there were cases in which it was highly likely that these seal impressions were remarkably similar. Further investigation indicated a considerably high possibility of suspicions, and therefore Mr. Watanabe reported such suspicions of the Improprieties on October 18, 2021, as described above.

(2) Mr. Miyake, President of the Company, Mr. Naraki, General Manager of Administration Division at the Company, and Mr. Takeuchi, General Manager of Sales Division at the Company, discussed the matter, and decided that it was necessary to interview the representatives in charge of the cases to confirm the facts, that such interview should be conducted while respecting the honor of the representatives in charge and taking care not to invoke rumors within the company, and that therefore Mr. Naraki, General Manager of Administration Division, should interview, on his own, each and every representative in charge and carefully verify the facts. By around the end of November 2021, the interview conducted by Mr. Naraki, General Manager of Administration Division, revealed a total of 17 cases of improprieties related to M&A deals.

(3) The improprieties which were revealed through the investigation conducted by Mr. Naraki, General Manager of Administration Division, consisted of false reports in the sales reports and their supporting materials, which sales representatives are required to submit to the Administration Division. Specifically, the administrative system within the Company requires that the sales representatives submit internal sales reports regarding the M&A intermediation services. In such system, sales representatives are required to report the execution of memoranda of understanding or definitive agreements with respect to the individual M&A deals for which the Company were retained, which would serve as the basis for service commissions to be recorded as sales. The sales representatives are also required to submit copies of the executed versions of such agreements to the Administration Division, so as to enable the Administration Division to verify the execution of such agreements. However, in all cases of those improprieties revealed by the investigation by Mr. Naraki, the sales representatives, despite the fact that no memoranda of understanding or definitive agreements had yet been executed between the parties, made false reports to the effect that sellers and buyers had executed memoranda of understanding or definitive agreements on or prior to the last day of each quarter, and, to that end, the sales representatives had created the appearance that such agreements were actually executed by the parties by the said timing, by utilizing (e.g., cutting and pasting) the name (signature) and seal blocks in the copies of other executed written agreements (intermediation service agreements, confidentiality agreements, memoranda of understanding and letters of intent, etc.), which had been in the possession of such sales representatives.

(4) On December 6, 2021, at the Company's managing director meeting, Mr. Miyake, President of the Company, announced these results of the investigation described above, and indicated the intention of imposing disciplinary actions on the nine general managers as well as Mr. Takeuchi, General Manager of the Company's Sales Division, who were involved in the problems.

Meanwhile, members of the NMAH's Audit and Supervisory Committee (*kansa tō i-in*) learned of the suspicions of the Improprieties at the Company around December 2021 from information they had independently acquired. Further, the Audit and Supervisory Committee members were informed on December 8th by Deloitte Touche Tohmatsu LLC that they had been provided with a report on the Improprieties. In light of these circumstance, at the board of directors' meeting of NMAH on December 10th, the Audit and Supervisory Committee members raised the suspicions of the Improprieties and the need for an investigation thereof involving outside attorneys at least, and further discussion thereon was held during the said meeting of the board of directors. Based on the discussion at the said meeting, in the afternoon of the same day, Mr. Miyake, President of the Company, requested Yo Yamagishi, Attorney-at-Law (*bengoshi*), to conduct a fact-finding investigation of the Improprieties at the Company. Yo Yamagishi, Attorney-at-Law (*bengoshi*) responded that he would take on this investigation, and at a meeting of NMAH's board of directors held on December 20, 2021, it was resolved that Yo Yamagishi, Attorney-at-Law (*bengoshi*), an outside attorney, would be engaged to conduct investigation of the Improprieties. At the same time, it was also resolved that, as the investigation progressed NMAH would appoint members of an investigation committee who held the requisite qualifications.

With this decision, Yo Yamagishi, Attorney-at-Law (*bengoshi*), an outside attorney, together with a total of 12 attorneys who assisted him, conducted a preliminary investigation from December 20, 2021 through January 11, 2022. Yoshinori Yamada, an outside director (*shagai torishmariyaku*) and member of the Audit and Supervisory Committee (*kansa tō i-in*), joined in this investigation from December 20, 2021, and Naoki Kinoshita, an outside director (*shagai torishmariyaku*) and member of the Audit and Supervisory Committee (*kansa tō i-in)*, joined in this investigation from January 5, 2022.

Subsequently, based on the result of the aforementioned preliminary investigation by Yo Yamagishi, Attorney-at-Law (*bengoshi*), NMAH, at a meeting of its board of directors held on January 12, 2022 and attended by all of the directors (*torishimariyaku*), decided to appoint six individuals, Yo Yamagishi, Attorney-at-Law (*bengoshi*), Yuya Inoue, Attorney-at-Law (*bengoshi*), Masahiko Kume, Certified Public Accountant (kōni-n kaikeishi), Joji Ikegawa, Certified

Public Accountant (*kōni-n kaikeishi*), as well as Naoki Kinoshita, Attorney-at-Law (*bengoshi*) and Yoshinori Yamada, who are both outside directors (*shagai torishmariyaku*) (Audit and Supervisory Committee members (*kansa tō i-in*)) as members of an investigation committee concerning the Improprieties, and to request them to conduct an investigation for the purposes set forth in Section I-1 above.

(5) On January 21, 2022, after the start of this Investigation, Deloitte Touche Tohmatsu LLC informed NMAH that they had been provided with a new report on the Improprieties. NMAH relayed it to the members engaged in the investigation, and the investigation was continued with recognition of the content of such report.

Thereafter, at a meeting of its board of directors on January 31, 2022, NMAH resolved to establish an investigation committee to accommodate the activities of the aforementioned six committee members and to appoint Yo Yamagishi, Attorney-at-Law (*bengoshi*) as the chair of the Investigation Committee.

In the following descriptions, for the sake of convenience, the fact-finding investigation conducted during the period from December 12, 2021 through January 11, 2022 is referred to as the “Preliminary Investigation”, and the fact-finding investigation and the investigation from the viewpoint of accounting conducted during the period from on and after January 12, 2022 through the submission date of this investigation report are collectively referred to as this “Investigation”. Furthermore, all of the content of the Preliminary Investigation has been carried over into this Investigation, and as such both investigations should be understood to be continuous investigations from the perspective of unravelling the Improprieties.

II. Overview of Investigation

1. Terms of Investigations

(Preliminary Investigation)
from December 20, 2021 to January 11, 2022
(Investigation)
from January 12, 2022 to February 14, 2022

2. Term Subject to Investigation

April 1, 2016 - September 30, 2021

The term subject to investigation is through the second quarter of the current fiscal year ending March 2022, and the preceding five fiscal years, that is, from the fiscal year ending March 2017 through the fiscal year ending March 2021.

For the two fiscal years starting from April 1, 2016 and ending March 31, 2018, the investigation using the methods of investigation set forth in Section 7 below identified no materials indicating the Inappropriate Sales Reports discussed below, which would necessitate correction of the financial results. Consequently, based also on such results of the investigation, it was determined that there was little need for the investigation to cover the periods prior to these terms.

3. Companies Subject to Investigation

The entity subject to the investigation is Nihon M&A Center Inc., a wholly-owned subsidiary of NMAH. As of October 1, 2021, NMAH changed its trade name to Nihon M&A Center Holdings Inc. and succeeded its M&A intermediation business to Nihon M&A Center Inc. through an absorption-type company split (*kyūshū bunkatsu*).

4. Members of Investigation Committee and their Profiles

The members of the Investigation Committee and their profiles are as follows.

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Name	Title	Profile
Yo Yamagishi (Chair of Committee)	Attorney-at-Law (*bengoshi*)	April 1986 Admitted to bar (Dai-ni Tokyo Bar Association) April 1990 Founded Miyakezaka Sogo Law Offices Partner, Miyakezaka Sogo Law Offices
Yuya Inoue (Committee Member)	Attorney-at-Law (*bengoshi*)	October 2004 Admitted to bar (Dai-ichi Tokyo Bar Association) January 2015 Partner, Miyakezaka Sogo Law Offices
Masahiko Kume (Committee Member)	Certified Public Accountant (*kōni-n kaikeishi*)	May 1998 Registered as Certified Public Accountant June 2006 Founded Aoyama Trust Accounting Firm Co., Ltd. Representative Director, Aoyama Trust Accounting Firm Co., Ltd.
Joji Ikegawa (Committee Member)	Certified Public Accountant (*kōni-n kaikeishi*)	June 2008 Registered as Certified Public Accountant July 2011 Director, Aoyama Trust Accounting Firm Co., Ltd.
Naoki Kinoshita (Committee Member)	Outside Director (*shagai torishmariyaku*) (Audit and Supervisory Committee Member (*kansa tō i-in*)) / Independent Officer (*dokuritsu yakuin*) / Attorney-at-Law (*bengoshi*)	April 1994 Admitted to bar (Tokyo Bar Association) June 2006 Statutory Auditor (*kansayaku*), June 2016 NMAH's Outside Director (Audit and Supervisory Committee Member)

Name	Title	Profile
Yoshinori Yamada (Committee Member)	Outside Director (*shagai torishmariyaku*) (Audit and Supervisory Committee Member(*kansa tō i-in*)) / Independent Officer (*dokuritsu yakuin*)	June 2013 Statutory Auditor (*kansayaku*) June 2016 NMAH's Outside Director (Audit and Supervisory Committee Member)

5. Individuals Who Conducted Investigation

The following are the Investigation Committee Members who participated in the Investigation Committee's investigation activities.

Yo Yamagishi, Attorney-at-Law (*bengoshi*)
Yuya Inoue, Attorney-at-Law (*bengoshi*)
Masahiko Kume, Certified Public Accountant (*kōni-n kaikeishi*)
Joji Ikegawa, Certified Public Accountant (*kōni-n kaikeishi*)
Naoki Kinoshita, Audit and Supervisory Committee Member (*kansa tō i-in*) (Outside Director (*shagai torishmariyaku*) / Attorney-at-Law (*bengoshi*))
Yoshinori Yamada, Audit and Supervisory. Committee Member (*kansa tō i-in*) (Outside Director (*shagai torishmariyaku*))

The persons who served as assistants to Investigation Committee Members are as follows:

12 attorneys (*bengoshi*) designated as assistants by Yo Yamagishi, Attorney-at-Law (*bengoshi*), Investigation Committee Member:

Shigenobu Ebata, Hisato Oba, Tomohiro Morikawa, Takashi Shimose, Ko Kagayama, Misho Sugahara, Tomoki Matsushita, Satoshi Kojima, Gaku Nakatani, Hiroaki Tanaka, Jun-ya Yamamoto and Kana Hara.

Two certified public accountants (*kōni-n kaikeishi*) designated as assistants by Masahiko Kume, Certified Public Accountant (*kōni-n kaikeishi*, Investigation Committee Member:

Yuji Kokabe and Kota Goto.

The Investigation Committee Members caused the aforementioned assistants (attorneys-at-law (*bengoshi*) and certified public accountants (*kōni-n kaikeishi*)) to conduct the investigation as persons assisting in the aforementioned investigation work under the supervision of the Investigation Committee Members.

The digital forensics investigation described below (in addition to the investigation conducted by the Investigation Committee Members and the assistants thereto, as described in Paragraph 7(5) below) was conducted until February 4, 2022 by the Forensics Business Department of Ernst & Young ShinNihon LLC, which was selected and retained by the Investigation Committee Members. The investigation report by the Forensics Business Department of Ernst & Young ShinNihon LLC, as well as the aforementioned investigation conducted by the Investigation Committee Members who are also attorneys-at-law (*bengoshi*), are collectively treated by the Investigation Committee as the digital forensics investigation.

6. Company's Cooperation with Investigation Committee Members

In this Investigation, the Investigation Committee Members, who have been asked to conduct highly independent and objective investigations by NAMH, have been able to smoothly obtain the materials which the Investigation Committee Members requested, and conduct interviews with the officers, department general managers, and sales representatives of the Company to the extent required in this Investigation, with the cooperation of Mr. Naraki, General Manager of Administration Division, during the term of this Investigation.

7. Methods of Investigation

This Investigation is a further investigation continued based on the results of the preceding Preliminary Investigation.

The following paragraphs explain the method of investigation without distinction between the Preliminary Investigation and this Investigation. Descriptions in the following paragraphs concerning the investigation conducted on or before January 11, 2022 should be understood as descriptions concerning the Preliminary Investigation, and descriptions concerning the investigation conducted on and after January 12, 2022 should be understood as descriptions concerning this Investigation.

If a person who is currently an Investigation Committee Member is involved in the investigation, the title as Investigation Committee Member is used retrospectively for the sake of convenience.

(1) Investigation to Identify Inappropriate Sales Report Cases (Sampling Cases to be Investigated and Review of Materials)

The Preliminary Investigation investigated those cases for which accounts receivable concerning M&A deals were recorded as of the last day of each quarter during the period subject to investigation as set forth in Paragraph 2 above. This means that we reasonably adopted such method which meets the purpose of determining whether, as a result of the impact of any Improprieties, corrections should be made to the financial results for each quarter during the period subject to investigation, which have already been disclosed.

As the result of extracting the cases which should be subject to investigation by applying the method described above, it was determined on the system at NMAH's Administration Division that a total of 1,075 deals should be subject to investigation (hereinafter, one M&A deal is referred to as "1 case"). Review of materials related to the cases subject to investigation was conducted by the Investigation Committee Members (attorneys-at-law (*bengoshi*)) and the attorneys (*bengoshi*) acting as their assistants (12 attorneys (*bengoshi*) in total) in the conference room located at the Company's Tokyo Head Office from December 20, 2021 to February 4, 2022, in accordance with the following investigation methods.

The methods of Inappropriate Sales Reports (as defined in Paragraph A.(b) below) arise from the improprieties where copies of agreements, which serve as evidence of execution of the agreements between the sellers and the buyers with regard to the M&A intermediation services, have been created in forms different from those actually executed. In this regard, while the Company is engaged in other transactions, such as the transactions conducted by its TOKYO Pro Market Business Department, than the M&A deals subject to this Investigation, no other department makes sales reports in the manners similar to those made with respect to the M&A deals, and no representatives who made Inappropriate Sales Reports are working on such other transactions. In addition, the amount of the total sales from such transactions account for only an insignificant part of the Company's total sales including those from the M&A deals. Based on the above, it was determined that there are relatively little need to conduct investigation on similar incidents with respect to the transactions other than the M&A deals subject to this Investigation.

A. Comprehensive Investigation of Materials with Respect to Sales Reports for the Period Subject to Investigation

(a) Visual Verification of Investigation Materials

The Investigation Committee Members (attorneys-at-law (*bengoshi*)) and their assistants (attorneys-at-law (*bengoshi*)) visually examined whether the seal impressions (*in-ei*) or hand-writings in the name/signature and seal blocks (*kimei* (*shomei*) *ō-in ran*) are consistent in the documents concerning the cases subject to investigation (1,075 M&A deals in total) which were stored in the Company's administrative system (copies of the confidentiality agreements with sellers and buyers, respectively, the intermediation services agreements with sellers and buyers, respectively, as well as the memoranda of understanding and the definitive agreements, etc. between sellers and buyers, which were reported to have been concluded).

(b) Asking Questions to and Obtaining Responses from Representatives in Charge of Cases of Suspected Improprieties

With respect to those cases for which it was determined that the name/signature and seal blocks (*kimei* (*shomei*) *ō-in ran*) were improperly created by the representatives, etc. of the Company who were in charge and that therefore the sales reports by them were determined to be inappropriate (hereinafter, the "Inappropriate Sales Reports"), the representatives in charge of these cases (the persons who reported sales) were asked questions regarding the method of the improprieties and their involvement, and a total of 153 sets of written responses, including those obtained through the supplemental investigation conducted thereafter, were obtained.

(c) Implementation of Investigation to Supplement the Above-Mentioned Investigation

For the purpose of ensuring the comprehensiveness of the investigation, in order to detect cases of Inappropriate Sales Reports that might not have been detected by the investigation described in Paragraphs (a) and (b) above, a sampling investigation was conducted with respect to the 156 M&A deals in total which were considered to be potentially with high risks (transactions in which the amount of sale was high, transactions for which the date of the execution of the agreements was immediately prior to the last day of each quarter, transactions in which the payment maturities were longer, and transactions in which the representatives who made Inappropriate Sales Reports were involved, etc.).

Specifically, analyses were made concerning the appropriateness of the periods for which sales were reported, through reviewing the communication between the representatives in charge of the cases and the respective clients (e-mails, etc.) prior to and after the date of execution of the memoranda of understanding and the definitive agreements, etc., which were used as the basis of the sales report, as well as the IR information released by the clients (but limited to such instances where the clients are engaged in IR activities), etc., and verifying whether they are consistent with the dates of execution of the above-mentioned agreements.

B. Questions to All Sales Employees Regarding Inappropriate Sales Reports

The 481 sales employees (regular employees) of the Company who are currently in the position of making or potentially making sales reports were asked to self-report any case of Inappropriate Sales Reports or to pledge that they had not been involved in any Inappropriate Sales Reports if that was the case. Responses from all 481 employees were received by January 18, 2022. As the result thereof, additional investigation was conducted with respect to three cases in total, which were self-reported as inappropriate cases.

C. Investigation Concerning the Periods in which Costs of Sales Corresponding to Sales in Cases Subject to Investigation Were Reported

Taking account of the possible impact on the financial statements of the Company, and in order to determine whether the cost of sales associated with the cases subject to investigation were recorded in appropriate periods, a sampling investigation on 40 cases was conducted with respect to the project referral fees, which is one of the major items of cost of sales.

Specifically, analyses concerning the appropriateness of the periods in which the cost of sales were recorded was made with respect to the project referral fees recorded in the general ledger for the months immediately following the end of each quarter during the term subject to investigation, through checking whether there was any failure to record any of the cost of sales by identifying the periods during which the corresponding sales were recorded.

(2) Interview with Sales Employees

A. General Managers of Sales Departments

As discussed below, the Company has a total of 27 sales departments (*eigyo bu*). Since the sales target figures were set for each department respectively, it was determined that it would be essential to conduct interviews with the general managers of each such department. Therefore, interviews were conducted with six key general managers during the Preliminary Investigation on January 6, 2022, then conducted with all other general managers during the period from January 12, 2022 to January 14, 2022, to interview them with respect to, among other things, the backgrounds which led to the Improprieties, the motives therefor, the level of pressure to achieve results, and the scope of persons who were involved in the Improprieties. Subsequently, after the work to ascertain the Inappropriate Sales Report cases had advanced, in order to analyze the causes of such cases and to consider improvement measures, during the period from January 26, 2022 to January 28, 2022, additional interviews were conducted with the 14 current general managers of the departments in which Inappropriate Sales Reports occurred, and 14 sets of written responses were received.

B. Representatives who Made Inappropriate Sales Reports

Separate from the analysis to ascertain each case, during the period from January 26, 2022 to February 4, 2022, interviews were conducted with the 73 sales representatives, etc. who made Inappropriate Sales Reports regarding the recognition within the departments in charge, the causes of the cases and improvement measures, and 73 written responses were received.

(3) Interview with Management

During the period from January 11, 2022 to January 30, 2022, in order to ascertain their recognition of the Improprieties and the systems of management, business and operation within the Company which may have led to or fostered the Improprieties, interviews were conducted with seven current directors (*torishimariyaku*) of the Company, with respect to the timing of their recognition of the facts related to the Improprieties, how they had come to be aware of them, whether they had possibly been aware of the Improprieties prior thereto. The contents heard by the Investigation Committee members from the current directors (*torishimariyaku*) during the said interview were reduced to 7 sets of written confirmation, which were confirmed by each such directors (*torishimariyaku*), who affixed their respective signatures and seals thereon.

(4) Review of Materials Concerning Management

A wide variety of materials including the following were collected and reviewed in each stage of the Preliminary Investigation and this Investigation and with respect to the matters subject to review: materials pertaining to the management of the Company (the company's medium term business plan, IR materials, organization chart, staffing chart, list of general managers, and materials pertaining to the efforts for the 30th anniversary of the Company's foundation); materials pertaining to the annual goals for each sales department, the commitment values for each general manager and the achievement status thereof; Mr. Miyake, President's monthly letters to the company-wide sales meetings; materials prepared by Mr. Otsuki, former General Manager of Sales Division and Mr. Takeuchi, General Manager of Sales Division and submitted to the monthly general managers' meetings in the fiscal years subject to investigation; materials pertaining to employees' working conditions (materials pertaining to the business achievement incentives and employee stock options for general managers and sales employees, all operating materials for the client management system that included the items for sales reports); internal compliance related materials (employee handbooks, compliance training materials, written explanations of the internal and external whistleblowing system, and the like); sales reports, business commission invoices to clients and remittance confirmations, and other sales administrative materials.

(5) Digital Forensics Investigation

In order to ascertain whether the executive directors (*gyōmu shikkō torishimariyaku*) of the Company (excluding the outside directors (*shagai torishimariyaku*) and Audit and Supervisory Committee members (*kansa tō i-in*)) gave instructions with respect to, or were actively or passively involved in, the Improprieties, the following investigations were conducted with respect to the communication data, such as e-mails and chats of the eight directors (*torishimariyaku*) (Mr. Wakebayashi, Chairman, Mr. Miyake, President, Mr. Naraki, General Manager of Administration Division, Mr. Otsuki, former General Manger of Sales Division, Mr. Takeuchi, General Manager of Sales Division, Mr. Watanabe, Director, Mr. Kumagai, Director and Mr. Ohyama, former Director) who held their respective offices during the period subject to investigation (of during the period from April 1, 2016 to December 20, 2021). The Investigations described in Paragraphs A. and B. below were conducted by the Investigation Committee Members (attorneys-at-law (*bengoshi*)) and their assistants (attorneys-at-law (*bengoshi*)), and those described in Paragraphs C. through E. below were conducted by appointing the Forensics Division of Ernst & Young ShinNihon LLC (18individuals) as the assistants to the Investigation Committee Members.

A. Review of Microsoft 365 Mails

With respect to the Microsoft 365 Mails (which was introduced since December 2018; for the e-mails prior thereto, see Section (E) below) for which the eight directors (*torishimariyaku*) who were subject to the investigation were either senders or recipients, data were preserved and narrowed-down through keyword searches using a total of 26 kinds of certain key phrases related to the Improprieties and improprieties in general, as the result of which 4,204 e-mails in total were subject to investigation; provided, however, that it should be noted that the number of e-mails actually reviewed was larger than that, because not only those e-mails but also the e-mails exchanged prior thereto or thereafter were visually reviewed and analyzed to understand the content of the e-mail communication.

B. Review of Team Area of Microsoft Teams

The posts by the directors (*torishimariyaku*) who were subject to the investigation, using Microsoft Teams, which was introduced since April 1, 2020, to communicate with the total of 75 members of the general managers' meetings, as well as the data attached to those posts, were subject to investigation. All of such posts and the data attached thereto were visually reviewed and analyzed by the Investigation Committee Members.

C. Review of SMS in Company Smartphones

Of the eight directors (*torishimariyaku*) who were subject to the investigation, Mr. Wakebayashi, Chairman, was not provided with a Company Smartphone. The data of the Company Smartphones of the remaining seven directors (*torishimariyaku*) were preserved and the chat data of the SMS was investigated. The Company Smartphones were set up so that it was not possible to install applications other than those approved by the Company, and the Company Smartphones had no applications other than SMS and Microsoft Teams. A total of 1,231 SMSs contained in the Company Smartphones that were subject to investigation were all visually reviewed and analyzed.

D. Review of Chat Area of Microsoft Teams

With respect to the eight directors (*torishimariyaku*) who were subject to the investigation, the data in the Chat Area of Microsoft Teams were preserved. It was determined that the following five individuals, who use chats and are mainly engaged in execution of business and marketing activities, should be subject to chat data investigation: Mr. Miyake, President, Mr. Naraki, General Manager of Administration Division, Mr. Takeuchi, General Manager of Sales Division, Mr. Watanabe, Director, and Mr. Otsuki, former General Manager of Sales Division. As the result of narrowing-down the total of 189,406 chats through keyword searches using certain key phrases related to the Improprieties and improprieties in general, 1,187 charts were subject to investigation (the proviso in Sub-Paragraph A. above applies to the investigation described in this Sub-Paragraph D).

E. Review of *Shuriken* e-mails

At the Company, Microsoft365 has been used since December 2018. Prior to that, *Shuriken*, an e-mail software by JustSystems Corporation was used. The operational rule in the Company is that each individual saves her/his Shuriken e-mail data from the period prior to the transition to Microsoft365 in the local folders of Company PCs and refers to them as necessary. Therefore, the data in the Company PCs used by the seven directors (*torishimariyaku*) (of the eight directors (*torishimariyaku*) who were subject to the investigation, the Company PC of Mr. Ohyama, former Director, was not available since he had left the Company) were preserved. It was determined that the following five individuals, who are mainly engaged in execution of business and marketing activities, should be subject to *Shuriken* e-mail data investigation: Mr. Miyake, President, Mr. Naraki, General Manager of Administration Division, Mr. Takeuchi, General Manager of Sales Division, Mr. Watanabe, Director, and Mr. Otsuki, former General Manager of Sales Division. As the result of narrowing-down the total of 322,316 *Shuriken* e-mails through keyword searches using the e-mail accounts of the persons who were involved in the Improprieties and certain key phrases related to the Improprieties and improprieties in general, 715 e-mails were visually reviewed and analyzed. It should be noted that key phrases used in the keyword search were identical to those referenced in Sub-Paragraphs A. and D. above.

As the result of the investigation described in Sub-Paragraphs A. through E. above, 25 pieces of data (9 for Sub-Paragraph A., 0 for Sub-Paragraph B., 0 for Sub-Paragraph C., 11 for Sub-Paragraph D., and 5 for Sub-Paragraph E.) were extracted as the data which should be further investigated, and the important data thereof were also utilized in the interviews conducted by the Investigation Committee as materials for to fact findings.

(6) Contact Point for All Sales Employees to Report Involvement in Inappropriate Sales Reports by Executive Directors (*gyōmu shikkō torishimariyaku*) of Company (from January 25, 2022 to January 27, 2022)

A contact point was made available to report to the Investigation Committee Members (Yo Yamagishi and Yuya Inoue, attorneys-at-law (*bengoshi*)) by postal mail, e-mail, or phone: (i) any instruction of or involvement in the Inappropriate Sales Reports by any of the executive directors (*gyōmu shikkō torishimariyaku*) of the Company, if any, or (ii) any tacit approval, if any, by any of them even where he was informed of the Inappropriate Sales Reports. The 481 sales employees of the Company were informed of such contact point by e-mail, which expressly indicated that anonymous handling was available.

(7) Supplemental Investigations

Mr. Takeuchi, General Manager of Sales Division, is currently in a position as the person to manage the entire Sales Division and to receive sales reports from the general managers of all sales departments. Further, he concurrently serves as the general manager of the Strategy Control Business Department (a/k/a Direct Business Department); in the past he was the general manager of the business entity department. For those reasons, as a supplemental investigation to ascertain whether any of the officers were involved, investigations was conducted in the same manner as described in Paragraph (1)A.(a) above with respect to the cases for which accounts receivable were recorded by the business entity department during the two-year period from April 2014 to March 2016, which precedes the period subject to investigation (43 cases in total).

(8) Investigation on Impacts on Financial Statements

Interviews with the person in charge within the Administration Division with respect to the revenue recognition criteria currently adopted by the Company and the corresponding costs (expense items), and assessment was made as to how the financial statements should be impacted by the Inappropriate Sales Reports. Further, impacts on each profit/loss items were investigated by the means described below.

A. Impacts on Amount of Sales

Appropriate timing for the sales to be reported were identified by reviewing the materials which show the fact that payments concerning the Inappropriate Sales Report cases were received, and the impact on the profit and loss for each quarter during the period subject to investigation was assessed. For those cases for which it turned out no payments were received, the period during which the sales amount was cancelled by the Company were identified by the relevant materials, and the impact on the profit and loss for each quarter during the period subject to investigation was assessed.

B. Impacts on Cost of Sales

The project referral fees concerning the Inappropriate Sales Report cases were checked by comparing with the materials such as invoices, and the impact on the profit and loss for each quarter was assessed in case where the project referral fees are cancelled and recorded again.

C. Impacts on Selling, General and Administrative Expenses

Of the selling, general and administrative expenses, the performance-based portion of the compensations to the officers are affected by the correction of the sales amount and the cost of sales. The impact of such performance-based portion of the compensations to the officers on the profit and loss for each quarter was assessed.

III. Overview of Management Organization and Business System at Company

1. Scope of Responsibilities of Executive Directors (*gyōmu shikkō torishimariyaku*)

The executive directors (*gyōmu shikkō torishimariyaku*) of the Company and the scope of their responsibilities are as follows.

Name	Position During Term Subject to Investigation	Scope of Responsibilities
Yasuhiro Wakebayashi	Chairman and Representative Director (*daihyō torisimariyaku kaichō*) (since June 2008)	Supervise all business of the Company
Suguru Miyake	President and Representative Director (*daihyō torisimariyaku shachō*) (since June 2008)	Supervise all business of the Company
Takamaro Naraki	Senior Managing Director and General Manager, Administration Division (*sen-mu torishimariyaku kanri honbu chō*) (from June 2013 to March 2017) Executive Vice President and Director, General Manager, Administration Division (*torishimariyaku fuku shachō kanri honbu chō)* (since April 2017)	Supervise business of Administration Division Supervise business of Administration Division
Masahiko Otsuki	Managing Director, General Manager, Sales Division *(jōmu torishimariyaku eigyō honbu chō*) (from April 2015 to December 2019) Managing Director, in Charge of Related Businesses *(jōmu torishimariyaku kanren jigyō kanshō*) (since December 2019)	Supervise business of the Sales Division Supervise the business of the relevant divisions

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Name	Position During Term Subject to Investigation	Scope of Responsibilities
Naoki Takeuchi	Director and General Manager, Strategy Control Business Department (*torishimariyaku senryaku tōkatsu jigyō buchō*) (from June 2018 to March 2019) Director and Deputy General Manager, Sales Division and General Manager, Strategy Control Business Department (*torishimariyaku eigyō fuku honbuchō senryaku tōkatsu jigyō bu*) (from April 2019 to December 2019) Director, General Manager, Sales Division and General Manager, Strategy Control Department (*torishimariyaku eigyō honbuchō senryaku tōkatsu jigyō*) (from December 2019 to June 2020) Managing Director, General Manager, Sales Division and General Manager, Strategy Control Business Department (*jōmu torishimariyaku eigyō honbu chō senryaku tōkatsu jigyō bu*) (since June 2020)	Supervise business of Strategy Control Business Department in Sales Division Supervise business of Strategy Control Business Department in Sales Division Supervise business of Sales Division Supervise business of Sales Division
Tsuneo Watanabe	Director, General Manager, Industry Specific Business Department (*torishimariyaku gyōshu tokka buchō*) (since June 2020)	Supervise business of Industry Specific Business Department

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Name	Position During Term Subject to Investigation	Scope of Responsibilities
Hideyuki Kumagai	Director, General Manager, Corporate Adviser Control Department (*torishimariyaku corporate advisor tōkatsu buchō*) (since June 2020)	Supervise business of Corporate Adviser Control Department in Sales Division

In this investigation report, Mr. Yasuhiro Wakebayashi is referred to as "Mr. Wakebayashi, Chairman," Mr. Suguru Miyake is referred to as "Mr. Miyake, President," Mr. Takamaro Naraki is referred to as "Mr. Naraki, General Manager of Administration Division," Mr. Masahiko Otsuki is referred to as "Mr. Otsuki, former General Manager of Sales Division," Mr. Naoki Takeuchi is referred to as "Mr. Takeuchi, General Manager of Sales Division," Mr. Tsuneo Watanabe is referred to as "Mr. Watanabe, Director," Mr. Hideyuki Kumagai is referred to as "Mr. Kumagai, Director," and Mr. Takayoshi Ohyama is referred to as "Mr. Ohyama, former Director."

2. Business System at Sales Division

As of September 30, 2021, the last day of the term subject to investigation, there are five business departments under the Sales Division of the Company. Such business departments, which are in charge of sales at the Company, are as follows: the Alliance Control Business Department (commonly known as the Network Business Department), Large Financial Institutions Business Department, Strategy Control Business Department (commonly known as the Direct Business Department), Growth Strategy Business Department (commonly known as the Mid-Cap Business Department) and Industry Specific Business Department. While there were some changes the composition of these business departments during the term subject to investigation, the details of such changes are not discussed herein.

The Alliance Control Business Department (commonly known as the Network Business Department) is roughly divided into the Accounting Channel, Regional Finance Channel and the Fukuoka Branch Office. The Accounting Channel provides M&A advisory services on the base of alliances with accounting firms, and the Regional Finance Channel provides M&A advisory services on the base of alliances with regional banks, credit associations and credit unions.

The Large Financial Institutions Business Department provides M&A advisory services on the base of alliances with some city banks and securities companies.

The Strategy Control Business Department (commonly known as the Direct Business Department) provides M&A advisory services directly to business entity clients without reliance on the alliances referenced above.

The Growth Strategy Business Department (commonly known as the Mid-Cap Business Department) provides strategic M&A support emphasizing corporate growth strategies and management strategies and M&A advisory services based thereon, and serves mainly relatively large unlisted enterprises, listed companies and funds as clients.

The Industry Specific Business Department provides M&A advisory services focusing on M&A deals in specific industries and sectors.

Under the five business departments described above, there are 27 departments including the Fukuoka Branch Office. The departments which existed as of September 30, 2021 and in which the Inappropriate Sales Reports were made are listed in Section IV-1(5) below.

The overall business of the Sales Division, which supervises these business departments, is supervised by the General Manager of the Sales Division, and during the term subject to investigation, Mr. Otsuki, currently a Managing Director, served as the General Manager of the Sales Division from April 1, 2016 through December 22, 2019; and during the period from December 23, 2019 through September 30, 2021, the last day of the term subject to investigation, the General Manager of the Sales Division was Mr. Takeuchi, who is currently a Managing Director.

From February through March of each year, the Company formulates a management plan for the following fiscal year. The sales target figures for each sales department serves as the basis for this management plan, and the general manager of the Sales Division assesses the sales target figures for the following fiscal year as submitted by each sales department, examines whether these are consistent with the management target figures at the Sales Division of the Company, coordinates each department's sales target figures, and reflects these in the management plan for the following fiscal year.

The following year's sales target figures for each department discussed above are established as the important figures from the sales management perspective which the general manager of each department should achieve through managing each department in the following year.

Separate from the following year's sales target figures for each department, individual sales target figures are set not only for each of the general managers of the departments but also for each of all sales employees in each department. Such individual sales target figures are determined by the general manager of the department to which each sales employee belong, and servs as the important figures from the sales management perspective which such sales employee should achieve.

Further, at the Company, there are also sales targets known as "*commitment*s", which serve as sales management indicators for each department (these are set for each of the first quarter, second quarter, third quarter and fourth quarter of each fiscal year). They are set by the general manager of each of the departments, who promises the achievement thereof to the president, general manager of the Sales Division and the other management of the Company. Each department general manager is required to provide an explanation of the achievement status of these *commitments* in monthly department general managers' meetings, which are convened under the supervision of the general manager of the Sales Division and attended by all officers.

At the Company, in each quarter - specifically in June, September, December and March (i.e., the last month of each quarter), the progress status of each department's annual sales target figures and the department general manager's achievement status for *commitments* set for each quarter were checked through verifying the facts that memoranda of understanding and/or definitive agreements were executed for each of the M&A deals during each quarter by the last day of such quarter. Such practices of checking sales achievement in each quarter have long continued under Mr. Miyake, President.

3. Company's M&A Advisory Services

The majority of the Company's M&A advisory service takes the form of so-called "intermediation-type" M&A advisory services, and are typically carried out as follows: (1) an intermediation service agreement is executed with the potential seller in an M&A deal; (2) potential buyer(s) are searched out and selected (matched) based on the seller's demands; (3) an intermediation service agreement is executed with the selected potential buyer; and (4) the Company's representative(s) in charge of the seller provides supports to the seller, and the Company's representative(s) in charge of the buyer provides supports to the buyer, respectively, for (i) the execution of a memorandum of understanding between the seller and the potential buyer, or the submission of buyer's letter of consent and seller's submission of a letter of acceptance in response thereto, (ii) due diligence by the potential buyer and the professionals retained by the potential buyer, (iii) negotiation between the seller and the buyer toward the signing of the definitive agreement and concerning the terms and conditions in such definitive agreement, and (iv) the closing of the transaction as set forth in the executed definitive agreement.

While the Company also provides so-called "FA-type" M&A advisory services where the Company is retained by only one of the parties to the M&A deal, this accounts for only a small percentage of the M&A advisory services provided by the Company.

In the phases of items (4) (i) and (iii) described above, typically, the process leading to conclusion of an M&A deal is that either the Company's representative(s) in charge of seller or the Company's representative in charge of the (potential) buyer presents to the seller or the (potential) buyer, as the case may be, drafts of the relevant agreements (memorandum of understanding, letter of intent, letter of acceptance or definitive agreement) prepared using the Company's standard form of those agreements, and the seller and the (potential) buyer negotiates the terms of the memorandum of understanding (letter of intent) or definitive agreement while taking the said draft agreements into consideration; although, on an exceptional basis, either the buyer or the seller, on its own, drafts and presents relevant agreements (memorandum of understanding, letter of intent, letter of acceptance or definitive agreement) to the other party, or causes the appropriate professionals to draft and present those agreements. While the draft of the relevant agreements presented to the seller or (potential) buyer are reviewed by in-house counsels in the Company's Legal Affairs Office in advance, the Company's Legal Affairs Office is not involved in the negotiation concerning the memorandum of understanding (or letter of intent) or the definitive agreement during the course of the M&A deals for which the Company is retained. The Company's Legal Affairs Office is not involved in providing supports to sellers/buyers or their respective representative from the Company with respect to the execution the agreements or the closing of the transactions contemplated therein, or in managing the process of the relevant work.

4. Administrative Works at Administration Division

During the term subject to investigation, Mr. Naraki, General Manager of Administration Division, supervised the operation in the Administration Division, and the Administration Division, through the client management system as described in Paragraph 6 below, received sales reports from individual representatives in sales departments concerning the M&A deals under their charge, and checked whether the reported sales met the requirements for recording the sales, through the interviews with each sales department and review of supporting materials. In addition, the Administration Division conducted sales management work up through the remittance of sales proceeds, and would also accommodate quarterly audits by an audit corporation. The Administration Division was not directly involved in managing the business process of individual M&A deals or the appropriateness of the business activities by the sales departments, and these business processes were generally addressed by the Sales Division by itself.

5. Process for Recording Sales

The starting point for recording sales at the Company is when the representative in charge of each deal creates certain documents in "*Salesforce*" (hereinafter, "*Salesforce*") (hereunder, the process of recording contingency commissions, which are the principal sales revenue earned by the Company, is described). For the deals for which agreements have been executed (deals for which it is anticipated that agreements will be executed), the representatives in charge thereof create a "contingency commission calculation statement (*seikō hoshū gaku keisan meisai sho*)" (a form for calculating the amount to be invoiced) and a "deal schedule management table (*seiyaku anken nittei kanri hyō*)" (a form in which the dates of execution of the agreements, scheduled remittance date, the status of resolving dealbreakers and the like are described) in *Salesforce*, and seek the approval on them by the general manager of the department to which the representative belong. Further, a request for the issuance of an invoice is made on the sales management system (hereinafter, the "*Hataraku*-DB") and circulated to the Administration

Division. Additionally, the copy of the definitive agreements for the executed deal is uploaded to *Salesforce* within the period designated by the internal rules (this period is revised from time to time; in the past the copies of the said agreements were supposed to be uploaded prior to an audit by the audit corporation, but recently the rule requires uploading by the business day immediately following the last day of each quarter).

The Administration Division reviews whether forms, etc. circulated in accordance with the above are consistent with the content of the intermediation service agreement, and if there are no issues, they register on the "*Hataraku*-DB" the month in which the sales are recorded on the financial accounting, obtain the approval of the general manager of the Administration Division, and issue an invoice. For the deals for which a request for issuance of an invoice is submitted, review is conducted in terms of whether the following two requirements are met: (i) definitive agreements (such as share purchase agreement) are executed, and (ii) dealbreakers are resolved. These two requirements are the criteria for recording sales at the Company and the said review is conducted from the following two perspectives.

Firstly, "deal schedule management table (*seiyaku anken nittei kanri hyō*)", which is submitted on *Salesforce* is compared against the copy of the definitive agreements that has been uploaded, to confirm that the content of the definitive agreement is consistent with "deal schedule management table (*seiyaku anken nittei kanri hyō*)".

Secondly, whether dealbreakers are resolved is examined. In whose cases for which remittances from clients are made within the same quarter as the time of the execution of the definitive agreement, they are recorded as sales, based on the assumption that there are no particular issues. The cases for which remittances are not made in the same quarter are recognized as credit sales cases, and the cases for which remittances are not made by the accounts receivable recording determination date (*urikakekin keijō hantei bi*) in the month immediately following the last month of the quarter (approximately the 7th through the 10th thereof) becomes subject to detailed review by the Administration Division. A list of the credit sales cases is distributed by the Administration Division to the general managers of the respective sales departments, who are required to comment on the status of the deals. The responses from the general managers of the respective sales departments, as well as the information on "deal schedule management table (*seiyaku anken nittei kanri hyō*)" concerning the expected remittance date are reviewed by the general manager of the Administration Division, and the recording as sales is cancelled for such cases for which extraordinary circumstances are identified or for which the period from the execution date of the agreements through the scheduled remittance date exceeds a prescribed period (such period is revised from time to time, but at present approximately a one-month period is allowed) as it is deemed that the dealbreakers have not been resolved.

For those credit sales cases in which remittances are not made by the end of the immediately following quarter, the Administration Division makes an inquiry with the representative in charge of the case, and makes determination as to whether or not the dealbreakers have been resolved, and if it is determined that they have not yet been resolved, at that point the recording as sales is cancelled. Similarly, for those cases in which the deal is broken off prior to the expected remittance date, the recording as sales is cancelled.

6. Sales Database at the Company

(1) After Introduction of "*Salesforce*" (From 3rd Quarter of Fiscal Year 2019)

The client management system called "*Salesforce*" was introduced from the 3rd quarter of fiscal year 2019, and sales reports are made on this system in accordance with the progress status of a client's M&A deal.

Sales reports for a deal is made by the representatives (including deputy representatives) for the seller and the buyer, respectively, by reporting in the page of "deal schedule management table (*seiyaku anken nittei kanri hyō*)" in *Salesforce* that sales has accrued based on the intermediation service agreements with the clients as the agreements (definitive agreement or memoranda of understanding, etc.) are executed in the deal.

As to the agreements for the deal, which serve as the basis for the sales report, a PDF copy of the executed version of the agreements (definitive agreements or memoranda of understanding, etc.) entered into by and between the seller and buyer are uploaded on the "M&A Deal" page in *Salesforce*.

The sales reports made on the "deal schedule management table (*seiyaku anken nittei kanri hyō*)" pages through the last day of each quarter is aggregated. On the other hand, with respect to the uploading of the agreements concerning the M&A deals on the "M&A Deal" pages, the rules were that the uploading did not necessarily need to be completed by the last day of each quarter, but that it would be sufficient so long as they are uploaded within a certain period thereafter (approximately seven days after the last day of each quarter). (However, because the quarterly audits by the audit corporation were conducted approximately two weeks after the lapse of the last day of each quarter, during certain period in the past, in reality, it was deemed acceptable if the uploading of the copy of the agreements takes place within approximately two weeks of the last day of each quarter - that is, prior to the start of the audits for a certain period in the past.)

The Administration Division reviewed the consistency between the sales reports made in the manner described above and the PDFs/copies of the agreements in *Salesforce* and the sales figures. The Administration Division responded that so far it had not detected inappropriate sales reports.

(2) Prior to Introduction of "*Salesforce*" (on and Prior to 2nd Quarter of Fiscal Year 2019)

Each representative submitted reports to the Administration Division using written reports created by inputting the required matters into the "deal schedule management table (*seiyaku anken nittei kanri hyō*)" in a document management system called *Cybozu Dezie*, in accordance with the progress status of the M&A deal. Either paper copies or PDF copies of the agreements concerning client's M&A deals, which served as the basis of the said reports, were submitted to the Administration Division directly or by email. The copies of such agreements were included in the audit materials submitted to the audit corporation. Similarly as discussed in Paragraph (1) above, in reality, it was deemed acceptable if the copies of agreements are submitted approximately two weeks of the last day of each quarter.

IV. Finding of Facts and Results of Investigation, and Methods of Finding

1. Finding of Facts and Results of Investigation

The Investigation Committee Members identified the Inappropriate Sales Reports during the term subject to investigation (from April 1, 2016 to September 30, 2021). Described below are (1) the number of such Inappropriate Sales Reports, (2) periods during which the Inappropriate Sales Reports were made, (3) the individuals involved in the Inappropriate Sales Reports (4) features of the Inappropriate Sales Reports, and (5) the business departments and departments where the Inappropriate Sales Reports were made.

The motives of the individuals who were involved in the cases in the context of the mechanism that fostered the improprieties in the Section VII-2(2) below entitled "Psychological Factors of Those who Made Inappropriate Sales Reports".

(1) Number of Inappropriate Sales Reports

83 Inappropriate Sales Reports in total during the term subject to investigation

It should be noted that there were five sets of cases in each of which Inappropriate Sales Reports concerning the same M&A deal were made for two consecutive quarters. Therefore, although the number of the M&A deals with respect to which Inappropriate Sales Reports were made is 78, the number of the Inappropriate Sales Reports should be counted as 83.

In most cases for which the Company was retained, the Company provided "intermediation-type" advisory services pursuant to intermediation service agreements, and representatives were assigned for a seller and for a buyer respectively in each M&A deal. Therefore, in one M&A deal, each of the seller's representative and the buyer's representative reported commissions as sales.

(2) Periods during which Inappropriate Sales Reports were Made

(i)	fiscal year ending March 2022 (current fiscal year)	39 cases
(ii)	fiscal year ending March 2021	35 cases
(iii)	fiscal year ending March 2020	7 cases
(iv)	fiscal year ending March 2019	2 cases
(v)	fiscal year ending March 2018	0 cases
(vi)	fiscal year ending March 2017	0 cases

As described above, the majority of the Inappropriate Sales Reports (approximately 89%) were made with respect to the sales reports provided during or after April 2020. Moreover, taking into account of the fact that the number of cases described above for the fiscal year ending March 2022 (the current fiscal year) is only those for the first two quarters, it would be fair to say that the number of Inappropriate Sales Report cases during fiscal year ending March 2022 (the current fiscal year) would be approximately 2.2 times more than those during the fiscal year ending March 2021.

(3) Individuals Involved in Inappropriate Sales Reports

In many of the Inappropriate Sales Reports, multiple individuals were involved.

Among the cases in which multiple individuals were involved, there are more than a few cases such as: cases in which general managers instructed the representatives in charge of the deal to make Inappropriate Sales Reports; and cases in which general managers or other persons in the relevant departments either explicitly or impliedly approved the Inappropriate Sales Reports through their consultations or discussions with the representatives for the seller and the buyer, respectively. In contrast, there are fewer cases in which the Inappropriate Sales Reports were made solely by the representatives for either the seller or the buyer (presumably this would be because in M&A deals separate representatives are assigned to each of the seller and the buyer, and even if the representatives in charge of one of the parties intended to make an Inappropriate Sales Report, practically it would be difficult to accomplish it unless the representatives in charge of the other party participated. There are also cases in which the representatives were sought for cooperation in Inappropriate Sales Reports from general managers or other sales representatives, but refused to cooperate.

(4) Features of Cases in which Inappropriate Sales Reports were Made

A. Categories of Commissions regarding which Inappropriate Sales Reports were made

The categories of the commissions regarding which the 83 Inappropriate Sales Reports were made are as follows. It should be noted that there are 3 cases regarding which Inappropriate Sales Reports were made concerning both the contingency commissions and the milestone commissions, and in the bellow each commission is counted as one case.

(i) Inappropriate Sales Reports concerning contingency commissions: 71 cases
(ii) Inappropriate Sales Reports concerning milestone commissions: 15 cases

B. Status as of Last Day of Quarter of Cases for which Inappropriate Sales Reports were Made

Among the aforementioned 83 cases of Inappropriate Sales Reports, there are no cases which fall under "fictitious cases", for which no negotiation process took place for an M&A deal.

As the result of review conducted by Investigation Committee Members of the written responses from the representatives involved in each case of Inappropriate Sales Reports and the materials attached to these responses, it was confirmed that in each of these cases the respective representatives for the sellers and buyers did provide to the sellers and (potential) buyers, respectively, services intended toward the execution of memoranda of understanding (or letters of intent) or the definitive agreements, although there were some differences in the level of progress.

However, it should be noted that, as described in item (iii) in Sob-Paragraph C. below, there were cases in which the definitive agreements, which the sales reports were made based upon, ended up not being executed and therefore the sales for the deal were subsequently cancelled. On the other hand, there were also a certain number of cases in which negotiations had matured to a considerable level and the execution of agreements was imminent as of the time of the "execution date" indicated in the Inappropriate Sales Reports, such as: (i) cases in which one party had affixed their seal to the memorandum of understanding or the definitive agreement and were only waiting for the other party to affix its seal thereon; (ii) cases in which the content of the memorandum of understanding or the definitive agreement had been finalized between the parties but the internal authorization or approval had not been obtained yet within each party; and (iii) cases in which one party had approved the content of the memorandum of understanding or the definitive agreement and the other party was conducting final review thereof.

C. Consequences of Cases for which Inappropriate Sales Reports were Made

Whether definitive agreements or memoranda of understanding (including submission of letters of intent) in the aforementioned 83 cases subsequent to the Inappropriate Sales Reports are as follows. It should be noted that there is one case in which Inappropriate Sales Reports were made concerning both contingency commissions and milestone commissions for an identical M&A deal during one quarter, and after such Inappropriate Sales Reports were made a memorandum of understanding and a definitive agreement were executed and the deal was closed, and that such deal is counted as one case in Item (i) below and is not counted in Item (ii) below. It should be also noted that there is one case in which a memorandum of understanding was executed after an Inappropriate Sales Report was made concerning the milestone commission but it ended up with a definitive agreement not being executed although an Inappropriate Sales Report was made concerning the contingency commission, and thus subsequently the sales were cancelled, and that such case is counted as one case in Item (iii) below and is not counted in Item (ii) below:

(i) Cases in which the definitive agreements were subsequently executed and the transactions were closed: 60 cases

(ii) Cases in which the memoranda of understanding were executed: 10 cases

(iii) Cases in which sales were eventually cancelled although they had been reported: 13 cases

D. Period from the time when Inappropriate Sales Reports were Made and until Commissions were Received

Of the 83 cases described above, there are 70 cases (described in items (i) and (ii) in Sub-Paragraph C. above) in which the agreements, which should be the basis for accruing the commissions, were executed and the commissions were received. For Such 71 cases, the period from the last day of the immediately preceding quarter until the Commissions were received are as follows:

(i)	Within one month:	32 cases
(ii)	Within two months:	21 cases
(iii)	Within three months:	11 cases
(iv)	After the lapse of three months:	6 cases

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(5) Business Departments and Departments in which Inappropriate Sales Reports were Made

The table below shows the number of the business departments and departments in which the Inappropriate Sales Reports were made during fiscal year.

Current Name of Business Department	Current Name of Department	Fiscal year ending March 2019	Fiscal year ending March 2020	Fiscal year ending March 2021	From April to September 2021	Total
Alliance Control	Accounting Firm Dept. 1	−	1	3	2	6
	Accounting Firm Dept. 3	−	−	3	2	5
	Regional Finance Dept. 1	−	0	0	1	1
	Regional Finance Dept. 2	−	2	4	5	11
	Regional Finance Dept. 3	−	0	2	0	2
	Regional Finance Dept. 4	−	2	4	1	7
	Fukuoka Branch Office	0	0	6	3	9
	Subtotal	0	5	22	14	41
Strategy Control	Business Corporation Dept. 1	2	2	10	14	28
	Business Corporation Dept. 2	−	−	0	8	8
	Business Corporation Dept. 4	−	−	7	4	11
	Direct Marketing Dept. 1	−	−	13	15	28
	Direct Marketing Dept. 2	−	−	1	3	4
	Subtotal	2	2	31	44	79
Growth Strategy	Growth Strategy Dept.	−	1	3	7	11
	Fund Dept.	0	0	1	2	3
	Corporate Strategy Dept.	0	1	0	3	4
	Subtotal	0	2	4	12	18
Large Financial Institutions	Large Securities Firm (A) Alliance Dept. 2	−	−	−	1	1
	Large Securities Firm (B) Alliance Dept. 1	−	−	−	1	1
	Subtotal	0	0	0	2	2
Others	Departments abolished in or prior to March 2021	2	4	6	−	12
	Subtotal	2	4	6	0	12
Total		4	13	63	72	152

*1 Each business department shown above is under the Sales Division, and each department shown above is under each business department. Business departments/departments in which no Inappropriate Sales Reports were made do not appear in this list.
It should be noted that, since we choose not to refer to the specific names of the company's business partners, departments under the Large Financial Institution Business Department are referred to as an alliance department of Large Securities Firm (A) and an alliance department of Large Securities Firm (B), respectively.

*2 The number of the M&A deals with respect to which Inappropriate Sales Reports were actually made is 83 (in this list, each Inappropriate Sales Report concerning a milestone commission and concerning a contingency commission, respectively, is counted as 1 case.).
In intermediation-type advisory services, representatives were assigned for a seller ("representative in charge of seller" (*uri tantō*)) and a buyer ("representative in charge of buyer" (*kai tantō*)) respectively, but 1 case is counted in each department to which each representative belongs.

*3 If the departments do not exist at that point of time, a hyphen ("－") is shown in the corresponding box.

*4 The Business Corporation Department 2 in or prior to March 2021 was divided into two departments: the current Business Corporation Department 3 and the current Business Corporation Department 4. Therefore, Inappropriate Sales Reports made in the Business Corporation Department 2 in or prior to March 2021 are counted and stated as cases in the current Business Corporation

Department 4.

*5 Inappropriate Sales Reports made during the period from April 2020 to March 2021 in the then Business Corporation 2nd Department Eastern Japan (*jigyō hōjin dai-ni bu higashi nihon*), the then Business Corporation 3rd Department Eastern Japan (*jigyō hōjin dai-san bu higashi nihon*), the then Tokyo Business Corporation 2nd Department (*tōkyō jigyō hōjin ni bu*) and the then Tokyo Business Corporation 3rd Department (*tōkyō jigyō hōjin san bu*), which were the predecessors of the current Business Corporation Departments 1 and 2, are counted and stated as cases in the current Business Corporation Department 1.

*6 In the rows of "Others", the total number of cases which arose in departments abolished in or prior to March 2021 is counted.

*7 If an Inappropriate Sales Report was made in a certain department not on the initiative of a representative of such department but on the initiative of a representative, etc. of another departments, such case is excluded from the count of cases in that certain department.

2. Methods of Fact Finding

The methods of fact finding by the Investigation Committee Members are as follows.

(1) Fact Finding based on Objective Materials including Inspection of Seal Impressions

The number of cases for which it was determined through the investigation based on objective materials (such as seal impressions) that Inappropriate Sales Reports were made is 52. The following methods were adopted to detect "Inappropriate Sales Reports": to determine whether the name (*kimei*)/signature (*shomei*) and seal blocks in other documents (intermediation service agreements, confidentiality agreements, memoranda of understanding, etc.) were copied and improperly used in the copies (PDF data, etc.) of the agreements (definitive agreements for contingency commissions, memoranda of understanding or letters of intent and the acceptance letters thereto for milestone commissions), which were included in the sales reports uploaded to *Salesforce* (from the 3rd quarter of fiscal year ending March 2019) or submitted to the Accounting Department (on or prior to the 2nd quarter of fiscal year ending March 2019), and thereby served as the basis of recording accounts receivable as of the last day of each quarter; to that end, the name (*kimei*) or the signature (*shomei*) that appear on each of these documents were compared; and also, the relative positions of the name (*kimei*)/signature (*shomei*) and the seal impression in each of these documents were compared.

Among the total 1,075 cases which became subject to investigation, there are a total of 98 in which some of the intermediation service agreement, confidentiality agreement, memorandum of understanding or definitive agreement, which were necessary to make the determination described above, was/were not uploaded or submitted. However, each M&A deal could progress its own, unique manner. As such, from the perspective of ensuring the thoroughness of the investigation, the representatives in charge of those cases were asked questions to confirm whether there actually existed (copies of) any of such missing agreements. As a result, for 68 cases, the copies of the agreements were submitted by the representatives in charge, and for one case, the representative in charge admitted his involvement in Inappropriate Sales Reports (however, for the remaining 29 cases, the representatives in charge thereof responded that as of then they were not able to submit the copies of the agreements. Based on the further review of the materials to date, there has been no indication that any Inappropriate Sales Reports were made in connection with the aforementioned 29 cases).

Among 1,075 cases in total, there are 55 cases in which the copies of the agreements were not uploaded to "*Salesforce*" until more than 15 days had passed from the last day of each quarter. With respect to these cases, for the sake of thoroughness, regardless of whether or not any improprieties were discovered through the comparison of the name (*kimei*) or the signature (*shomei*) as well as the relative positions of the name (*kimei*)/signature (*shomei*) and the seal impression in the uploaded/submitted documents, all of the representatives in charge thereof were asked to explain the reason why uploading of the documents was considerably delayed, and to pledge that they had not been involved in any Inappropriate Sales Reports.

(2) Fact Finding Based on Methods other than those including Inspection of Seal Impressions

There are 31 cases in total which the Investigation Committee determined as Inappropriate Sales Reports based on that the representatives or the general managers of the relevant departments admitted, in their responses to the questions or inquiries by the Company or on other occasions, that they were involved in Inappropriate Sales Reports, although it was not feasible to make determination based on objective materials such as inspection of seal impressions (for example, in cases in which the seal impressions on the materials were indecipherable).

V. Whether Executive Directors (*gyōmu shikkō torishimariyaku*) (Management) were Involved

In light of that multiple improprieties took place in the Company's sales departments, this Investigation covered whether executive directors (*gyōmu shikkō torishimariyaku*) of the Company were involved in the Improprieties, and whether they impliedly approved any Improprieties despite that they had received specific reports on such Improprieties.

Specifically, the Investigation Committee Members interviewed executive directors (*gyōmu shikkō torishimariyaku*) and general managers, and a digital forensics investigation was also conducted with respect to the emails exchanged by the executive directors (*gyōmu shikkō torishimariyaku*) for internal communications with employees. Additionally, the responses in each case were reviewed to determine if such responses contain anything which indicated the involvement by any of the executive director (*gyōmu shikkō torishimariyaku*). Furthermore, certain measures were taken to give the sales employees opportunities to report to the Investigation Committee whether any of the executive directors (*gyōmu shikkō torishimariyaku*) were involved.

The overview of the foregoing investigation is as follows.

(i) In the Company, the president explained to employees the management policies at the monthly sales meetings, and there were the materials (including the president's letters to employees) used in such sales meetings. These materials were reviewed but they did not include any statements suggesting or encouraging inappropriate sales reports.

(ii) In the Company, the materials which were submitted by the individuals who served as the general managers of the Sales Division during the term subject to investigation (from April 1, 2016 to December 22, 2019: Mr. Otsuki, currently Managing Director; from December 23, 2019 to September 30, 2021: Mr. Takeuchi, currently Managing Director) to the general managers' meetings which every month reviewed the status of sales achievements. These materials were reviewed but they did not include any statements suggesting or encouraging inappropriate sales reports.

(iii) Written inquiries were made to the employees in the sales departments in which the Inappropriate Sales Reports were made, and written responses were obtained from each of such employees. While many employees responded to the effect that given that it involved sales reports they had shared the awareness of the improprieties with the general managers of their departments, i.e., their direct superiors, none of them responded to the effect that any of the executive directors (*gyōmu shikkō torishimariyaku*) were aware of the improprieties.

(iv) All of the general managers in charge of the sales departments in which Inappropriate Sales Reports were made responded in their written responses to the effect that they had not reported these cases to the executive directors (*gyōmu shikkō torishimariyaku*).

(v) In the interviews with the executive directors (*gyōmu shikkō torishimariyaku*), the following sequence of events was confirmed: Mr. Watanabe, Director, became aware of the potential improprieties within the Company and reported to Mr. Naraki, General Manager of Administration Division on October 18, 2021, and to Mr. Miyake, President on October 19, 2021, the following day; thereafter Mr. Miyake, President, discussed with Mr. Naraki, General Manager of Administration Division, and Mr. Takeuchi, General Manager of Sales Division; and Mr. Naraki, General Manager of Administration Division, conducted a secret investigation. No statements by the relevant individuals or emails were identified which are inconsistent with the above. For the review of the contents of the emails, see Paragraph (vi) below in which the digital forensics investigation is described.

(vi) The digital forensics investigation did not identify any facts that the executive directors (*gyōmu shikkō torishimariyaku*) suggested or encouraged the improprieties, or any facts that they were involved in the improprieties.

(vii) As described above, Investigation Committee Members, by using the email system of the Company, sent 481 sales employees emails and informed that a contact point was available for them to report, by telephone, in writing, or by email, whether executive directors (*gyōmu shikkō torishimariyaku*) were involved in the Improprieties or whether executive directors (*gyōmu shikkō torishimariyaku*) impliedly approved the Improprieties while details of such Improprieties had been reported to them (and that their anonymities would be guaranteed, if they wish). During the period from January 25, 2022 to January 27, 2022, the designated reporting period, no report was made from sales employees to the effect that the fact described above existed.

(viii) The supplemental investigation concerning Mr. Takeuchi, General Manager of the Sales Division (described in Section II-7(7) above), did not identify any materials suggesting his involvement in any improprieties.

As the results of this Investigation, it is determined that, during the period until the end of September 2021, none of the executive directors (*gyōmu shikkō torishimariyaku*) of the Company was involved in any improprieties by the sales employees of the Company concerning the sales reports which have been identified in this Investigation, and none of the executive directors (*gyōmu shikkō torishimariyaku*) impliedly approved the improprieties while such improprieties had been reported to them.

It would be appropriate to add that, at some point in 2021, when the Improprieties increased, sometimes certain group psychology or atmosphere which the general managers were not able to resist were generated as the result of the management, through general managers' meetings, etc., requested that general managers should achieve the sales targets. Therefore, the suspicion remains that if the general manager of the Sales Division, the general manager of the

Administration Division or the president had paid attention especially around the time when the end of a quarter was approaching and the sales representatives from various departments were making efforts toward more sales and making sales reports, it might have been feasible for the general managers of the Sales Division and the Administration Division as well as the president to become aware that the Improprieties were spreading. However, this is merely a discussion regarding whether improprieties could have been recognized, and this does not change the Investigation Committee's conclusion that none of the executive directors (*gyōmu shikkō torishimariyaku*) was involved in the Improprieties and that none of them impliedly approved the Improprieties while such Improprieties had been reported to them.

Since 2020, in the sales reports made by the last day of each term, there has been increase in "Credit Sales Cases" in which receipt of commissions are carried over past the last day of each term, and the rate at which they increased exceeded the rate at which the sales was growing, and the Company, in accordance with the advice by its audit corporation, has been paying attention to accounts receivable, in particular, the accounts receivable for which the number of days from the date reported as the date of execution of agreements through the expected payment date is larger, and considered adopting a policy under which recording of accounts receivable should be reduced. In addition, in the cases for which the prospect for the recovery of accounts receivable was considered to be poor based the sales reports, the general manager of the Administration Division cancelled the sales for accounting purposes with respect to cases for which it was expected that it would take relatively longer (two months or more) to collect the accounts receivable. In light of the above, the suspicion remains that if the details of the backgrounds and factors for the increase of those cases for which it took long time to collect the accounts receivable had been reviewed in more detail in the context of individual deals, it might have been feasible to detect these improprieties. However, this is merely a discussion regarding whether improprieties could have been recognized, and this does not change the Investigation Committee's conclusion that none of the executive directors (*gyōmu shikkō torishimariyaku*) was involved in the Improprieties and that none of them impliedly approved the Improprieties while such Improprieties had been reported to them.

VI. Impact of Improprieties on Accounting

1. Regarding the Current Revenue Recognition Criteria (Sales Recording Criteria)

At the Company, the breakdown of the sales is as follows: "commissions upon execution of intermediation service agreement (corporate appraisal fees and proposal preparation fees)", "milestone commissions", "contingency commissions", "other M&A consulting commissions" and "others".

The cases investigated in this Investigation are the M&A deals during the period subject to investigation (from April 1, 2016 to September 30, 2021) for which the collection of commissions did not complete by the last day of the quarter and accounts receivable was recorded for the quarter (hereinafter "Credit Sales Cases"), the inappropriate sales reports for which may impact the financial results for each quarter. Of these, the cases determined as cases of Inappropriate Sales Reports during the course of the aforementioned facts finding are primarily concerning "milestone commissions" and "contingency commissions". Therefore, in the below "milestone commissions" and "contingency commissions" are discussed.

Incidentally, in the context of reviewing the impact of the inappropriate sales reports on accounting, it should be noted that for the quarters during the period subject to investigation for which inappropriate sales reports in question were made (from the quarter ending June 2018 through the quarter ending September 2021), the revenue recognition criteria adopted by the Company are as follows (cited from the Company's "Quarterly Securities Report for the Quarter ending September 2021").

In connection with the above, though the Company has been applying the "Accounting Standard for Revenue Recognition (*shūeki ninshiki ni kansuru kaikei kijun*) (ASBJ Statement (*kigyō kaikei kijun*) No. 29)" and "Implementation Guidance on Accounting Standard for Revenue Recognition (*shūeki ninshiki ni kansuru kaikei kijun no tekiyō shishin)* (ASBJ Guidance (*kigyō kaikei kijun tekiyō shishin)* No. 30)" from the fiscal year ending March 2022, the timing of the recognition of revenues has remained unchanged since the period prior to the adoption of these standards, and therefore the revenue recognition criteria has been consistent during the period in which the Improprieties were committed.

(Company's Revenue Recognition Criteria)

"milestone commissions": upon the execution of the memorandum of understanding between the seller and the buyer

"contingency commissions": after the execution of the definitive agreement (such as share purchase agreement) between the seller and buyer and upon the determination that factors which could prevent the closing of the contemplated M&A transaction (dealbreakers) have been resolved

While the Company records sales in accounting based on the aforementioned revenue recognition criteria, as an objective requirement for the timing of recording sales in the actual practices at the Company, to record "milestone commissions", execution of the memoranda of understanding between the seller and the buyer (this may be replaced by the letter of intent by buyer if a memorandum of understanding is not executed) is required, and, to record contingency commission, execution of a definitive agreement for the M&A deal (such as a share purchase agreement) between the seller and buyer is required.

However, given that in today's M&A deals it is not uncommon that, due to the increased complexity of such deals, the period between the execution of the definitive agreement for an M&A deal and the closing of the transaction contemplated therein (e.g., delivery of shares and payment of the purchase price) is long, contingency commissions is not recorded as sales until it is determined that factors which could prevent the closing of the contemplated M&A transaction (dealbreakers) have been resolved, in addition to that the definitive agreement is executed. That is, contingency commission is recorded as sales only when the aforementioned two requirements are satisfied.

In the Company's practice, provision of the services by its representatives is basically regarded to have been completed when the definitive agreement for the M&A deal is executed, and while it is understood that there are no dealbreaker factors (or such factors have been resolved) unless there any particular circumstances, the Administration Division was slated to check whether there were any circumstances specific to each deal - in particular in such case in which the period between the date of execution of the agreement and the expected date of payment is longer than the typical cases, whether there were any factor which could lead to cancellation of the agreement (*e.g.*, to review the reasons why the expected date of payment date was one month or more from the date of the execution of the definitive agreement).

If no payment is made by the expected payment date for any case which was recorded as a Credit Sales Case for each quarter, the Administration Division makes an inquiry with the representatives in charge of the case and demands that they resubmit the "deal schedule management table (*seiyaku anken nittei kanri hyō*)" and updates the expected date of payment. For any cases for which it turns out at this point of time that the M&A deal had been aborted or that the period from the date of the execution of the agreement through the updated expected payment date is long, the sales cancelled in the following quarter or the quarters thereafter, based on the judgment by the Administration Division (hereinafter, "Cancellation of Sales").

(Determination of Recording of Sales and Cancellation of Sales with respect to Contingency Commissions)

	Determination upon Recording of Sales	Subsequent Confirmation concerning Credit Sales Cases
Supporting documents (definitive agreement for M&A deal)	Required	-
Determination of whether dealbreakers have been resolved	(Representatives in charge of the case) · Assessment of situation in each case · Confirmation of expected payment date (Administration Division) · Inquiry to representatives in charge of case · Confirmation of expected payment date	(Representatives in charge of the case) · Assessment of situation in each case · Confirmation of expected payment date (update of expected payment date) (Administrative Headquarters) · Inquiry to representatives in charge of case · Confirmation of expected payment date (confirmation of the updated expected payment date)
Accounting Treatment	Recorded as sales if a definitive agreement is executed and there are no particular factors	Sales are cancelled for cases in which the M&A deal had been aborted or in which the period from the date of the execution of the agreement through the updated expected payment date is long

2. Costs of Sales Corresponding to Revenues

At the Company, costs of sales are categorized as personnel costs such as salaries, bonuses, project referral fees, other expenses such as travel and transportation expenses. Of these, the personnel costs, travel and transportation expenses are period costs which are recorded in the period they are incurred, regardless of the recording of sales in the cases. The only costs recorded corresponding to milestone commissions and contingency commissions are project referral fees (referral fees the Company pays to accounting firms or financial institutions that have referred projects to the Company). Project referral fees are recorded, on an accrual basis, for the period during which the contingency commissions for the cases for which project referral fees have arisen are recorded as sales. However, the Company pays project referral fees only after the contingency commissions are paid to the Company. Thus, for those cases for which the contingency commissions were not paid to the Company, eventually no referral fees were paid by the Company.

(Breakdown of Costs of Sales and Accounting Treatment)

Account		Accounting Treatment
Personnel Costs	Salaries	Period Cost
	Bonuses	Period Cost
	Provision for accrued bonuses	Period Cost
	Statutory welfare expenses	Period Cost
	Other	Period Cost
Expenses	Project referral fees	correspond to the sales in each case for which project referral fees arise
	Travel and transportation expenses	Period Cost
	Other	Period Cost

3. Accounting Treatment of Inappropriate Sales Report Cases

(i) Sales

In the cases in which the Inappropriate Sales Report were made, the supporting materials which are required to record sales at the Company were created with the appearance that both of the parties to the agreement have executed it by affixing their names/seals in the respective name/seal blocks therein, while in reality one of the parties had not affixed its name/seal (hereinafter, "Improper Handling"). For the cases with respect to which such Improper Handling was detected as the result of the aforementioned fact-finding investigation, since the definitive agreement for the M&A transaction between the parties was not confirmed, the sales should not be recognized, and therefore it should be concluded it is appropriate to cancel the sales.

However, while in each of these cases of Inappropriate Sales Reports (83 cases in total) sales were recorded earlier, as described in the above, they are cases in which the execution of definitive agreements in the process of the relevant M&A deal were not confirmed by the end of the quarter during which the sales reports were made.

For 70 cases out of these 83 cases, it was confirmed that milestone commissions and contingency commissions which were reported as sales were actually paid to the Company. Therefore, such 70 cases should be understood as so-called "*kizure*" (being recorded in an improper period), as the result of the accounting treatment described below being applied. For the 13 cases in which sales reports were inappropriate and it ended up that the relevant M&A deals were aborted, the Administration Division already cancelled the sales which had once been recorded, and therefore, for the purpose of the review currently conducted concerning the impact on accounting, these cases should also be understood as so-called "*kizure*" (being recorded in an improper period).

As to the cases for which commissions were actually paid (70 cases), sales need to be re-recognized as of the true sales recording dates (the date on which the requirements for sales to be recorded are satisfied). For some of these cases, the result of the fact-finding investigation described above indicates that the copies of the supporting materials (i.e., agreements) which were actually executed by the parties were not obtained. However, if the payment corresponding to sales reports are received, the fact that such payment was made shows that the definitive agreements between the parties were actually carried out. Therefore, in this Investigation it is concluded that it would be appropriate to re-determine, taking into account the actual date on which payments were received, etc., the timing at which the requirements to record sales (execution of definitive agreement and dealbreakers being resolved) were satisfied, and to re-record the sales as of such timing.

(Illustration of Correcting Journal Entry (*shūsei shiwake*)) *Consumption taxes are not taken into consideration.

Example: correction to sales in the case in which sales of 100 were recorded in the fiscal year ending March 2021 based on inappropriate sales reports, and payment of 100 was received during the 1st quarter ending June 2021

Fiscal year ending March 2021	Correction to cancel sales	(debit)	Sales	100	(credit)	Accounts Receivable	100
1st quarter ending June 2021	Re-recording of sales	(debit)	Accounts Receivable	100	(credit)	Sales	100

As to the cases for which the M&A deals were eventually aborted (13 cases) (hereinafter, "Non-Payment Cases"), it would be appropriate to cancel the sales which were initially recorded, and at the same time, to reverse the cancellation of sales, which was made during the following quarters (reverse the cancellation of sales).

(Illustration of Correcting Journal Entry (*shūsei shiwake*)) *Consumption taxes are not taken into consideration.

Example: correction to sales in the case in which sales of 100 were recorded in the fiscal year ending March 2021 based on inappropriate sales reports, and sales of 100 were cancelled during the 1st quarter ending June 2021 because the deal broke

Fiscal year ending March 2021	Correction to cancel sales	(debit)	Sales	100	(credit)	Accounts Receivable	100
1st quarter ending June 2021	Reverse the correction to cancel sales	(debit)	Accounts Receivable	100	(credit)	Sales	100

(ii) Costs of Sales

As described above, at the Company, costs of sales are broadly categorized as personnel costs and other expenses. Of these, the only expenses that individually correspond to sales are the project referral fees, and other personnel costs and expenses are treated as period costs and accounted as expenses in the period they are incurred, regardless of sales. As such, only with respect to those project referral fees recorded as cost of sales corresponding to the sales resulting from the cases of Inappropriate Sales Reports, it would be reasonable to cancel and re-record such project referral fees, corresponding to the cancellation and re-recording of sales.

Since the gross sales, which is the amount of sales minus the amount of the project referral fees, are used as the sales in terms of the performance evaluation at the Company, it is conceivable that the representatives in charge of cases might manipulate the timing of recording the project referral fees for the purposes of achieving budgets and commitments. However, since the recording of cases to "*Salesforce*" requires the registration of sales and project referral fees at the same time, and the accounting system is also structured so that the sales and project referral fees are recorded at the same time, the likelihood is low that the project referral fees and sales are recorded in separate months, or that the project referral fees are recorded as costs for other cases. In this Investigation, sampling investigation was conducted with respect to project referral fees which are recorded in the general ledger for the month immediately following the last month of a quarter. In such sampling investigation, it was checked whether the project referral fees are recorded in the same month during which the corresponding sales are recorded. As a result of such investigation it was confirmed that the sales and project referral fees had been recorded in the same month, and as such it was determined that, except for the project referral fees concerning the cases of Inappropriate Sales Reports, there were no items for which correction should be made in terms of periods in which they are recorded.

As to the timing of recording of period costs, the timing to record the personnel costs is not something which can be manipulated by the representatives in charge of the cases who made the Inappropriate Reports (incentive salary will be described below). The primary item in other expenses is travel and transportation expenses for the representatives in charge of cases. Basically these are settled using corporate cards, and it is not feasible for the representatives to manipulate the timing of recording as expenses. If corporate cards are not used, these expenses are reimbursed. However, if a request for reimbursement of expenses is delayed, explanation has to be provided using the designated form to request the approval for delayed reimbursement. Therefore, it would be reasonable to conclude that the likelihood is low that the representatives intentionally delay the timing of reimbursement of expenses and thereby delay the timing at which travel and transportation expenses are recorded. Therefore, it was determined that there were no items for which correction should be made with respect to the personnel costs and expenses (excluding the project referral fees) which were treated as period costs.

By the way, the expenses accounted for as period costs include the incentive salary paid to the employees of the Sales Division. The incentive salary is paid pursuant to the "Incentive Plan" independently established by the Company, and the major factor therefor is the level of achievement of the sales target for each quarter (determinations are made by taking into consideration not only sales but other various factors). As such, it is necessary to assess whether it is necessary to correct the period costs corresponding to the correction of sales concerning the cases of the Inappropriate Sales Reports.

Regarding this point, while the amount recorded as sales in each quarter changes in accordance with the correction relating to the cases of the Inappropriate Sales Reports, the determination to pay incentive salary is made by the Company based on the evaluation criteria the Company establishes on its own, and even if any "*kizure*" (being recorded in an improper period) arises as the result of the correction by this Investigation ("*kizure*" (being recorded in an improper period) is the only item which could arise), the Company has responded to the effect it how to handle the past payment amounts is a matter that requires careful business judgment (who should be held responsible, the need for refunds by the representatives in charge of the relevant cases, future treatment, and the like) taking into account the results of this Investigation.

Based on the foregoing, it was concluded in this Investigation that it would be reasonable not to make adjustments in the term subject to investigation with respect to the period in which the incentive salaries are recorded.

(iii) Selling, General and Administrative Expenses

The selling, general and administrative expenses (hereinafter, "SG&A") consist of period costs such as compensation for officers and land rent, and are not directly affected by the correction of "*kizure*" (being recorded in an improper period) concerning the sales in the Inappropriate Sales Report cases. The entertainment expenses, etc. spent by the representatives in charge of cases are also recorded as selling, general and administrative expenses. However, the same reimbursement system applies as described above in connection with the cost of sales, and therefore it would be reasonable to conclude that the likelihood is low that the representatives intentionally delay the timing of reimbursement of expenses and thereby delay the timing at which these expenses are recorded.

However, the productivity-linked portion of the compensation for officers is paid based on the level of achievement of the recurring profits (*keijō rieki*) target in each fiscal year, and therefore it is affected by the changes in the recurring profits (*keijō rieki*) resulting from the results of this Investigation. As such, in this Investigation it is determined it would be reasonable to correct the impact of the productivity-linked portion on the profits and losses for each quarter, and do a proforma calculation of the amount of such impact.

4. Impact on Consolidated Income Statement and Consolidated Balance Sheet

Discussed below are the results of examining, in accordance with the handling described in the immediately preceding section, the impact of the cases of the Inappropriate Sales Reports on the periodic profits and losses as well as on the financial conditions during the term subject to investigation. Furthermore, in the term subject to this Investigation, the fiscal year ending March 2017 and the fiscal year ending March 2018 are not referred to because during these fiscal years there are no items to be adjusted as the result of the aforementioned fact-finding investigation.

(i) Amount of Impact on Sales, Costs of Sales and Gross Margin (*uriage sō reiki*) (on Consolidated Basis)

(Impact in each quarter of each fiscal year)

■ fiscal year ending March 2019 ("FYE2019/3") (Unit: Case/JPY1,000)

		1Q 2018/6		2Q 2018/9		3Q 2018/12		4Q 2019/3		Full Year Cumulative FYE 2019/3	
		No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount
Sales	Rerecording, etc.	-	-	1	17,000	-	-	1	127,470	2	144,470
	Cancellation of Sales	1	-17,000	-	-	1	-127,470	-	-	2	-144,470
	Total		-17,000		17,000		-127,470		127,470		-
Costs of Sales	Rerecording, etc.	-	-	-	-	-	-	1	32,500	1	32,500
	Cancellation of Sales	-	-	-	-	1	-32,500	-	-	1	-32,500
	Total		-		-		-32,500		32,500		-
Gross Margin			-17,000		17,000		-94,970		94,970		-

■ fiscal year ending March 2020 ("FYE2020/3") (Unit: Case/JPY1,000)

		1Q 2019/6		2Q 2019/9		3Q 2019/12		4Q 2020/3		Full Year Cumulative FYE 2020/3	
		No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount
Sales	Rerecording, etc.	-	-	-	-	3	97,466	2	110,547	5	208,014
	Cancellation of Sales	-	-	3	-97,466	2	-110,547	2	-88,000	7	-296,014
	Total				-97,466		-13,081		22,547		-88,000
Costs of Sales	Rerecording, etc.	-	-	-	-	1	15,400	1	6,000	2	21,400
	Cancellation of Sales	-	-	1	-15,400	1	-6,000	1	-9,500	3	-30,900
	Total		-		-15,400		9,400		-3,500		-9,500
Gross Margin			-		-82,066		-22,481		26,047		-78,500

This English translation is for reference purposes only and not an official translation of the original Japanese texts. In the event a difference arises regarding the meaning herein, the original Japanese version shall prevail as the official authoritative version.

■ fiscal year ending March 2021 ("FYE 2021/3") (Unit: Case/JPY1,000)

		1Q 2020/6		2Q 2020/9		3Q 2020/12		4Q 2021/3		Full Year Cumulative FYE 2021/3	
		No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount
Sales	Rerecording, etc.	2	88,000	3	221,289	6	418,699	9	592,249	20	1,320,238
	Cancellation of Sales	3	-221,289	6	-418,699	9	-592,249	17	-1,335,275	35	-2,567,514
	Total		-133,289		-197,410		-173,550		-743,025		-1,247,275
Costs of Sales	Rerecording, etc.	1	9,500	2	47,457	4	73,676	2	59,248	9	189,881
	Cancellation of Sales	2	-47,457	4	-73,676	2	-59,248	12	-224,388	20	-404,770
	Total		-37,957		-26,218		14,428		-165,140		-214,888
Gross Margin			-95,331		-171,192		-187,978		-577,885		-1,032,387

■ fiscal year ending March 2022 ("FYE 2022/3") (Unit: Case/JPY1,000)

		1Q 2021/6		2Q 2021/9		2 Quarters Cumulative FYE 2022/3	
		No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount
Sales	Rerecording, etc.	18	1,335,275	16	1,190,811	34	2,526,087
	Cancellation of Sales	17	-1,220,811	22	-1,519,355	39	-2,740,166
	Total		114,464		-328,544		-214,079
Costs of Sales	Rerecording, etc.	12	224,388	6	62,401	18	286,790
	Cancellation of Sales	6	-62,401	10	-186,536	16	-248,938
	Total		161,987		-124,135		37,852
Gross Margin			-47,522		-204,408		-251,931

(Cumulative for Term Subject to Correction)

■ FYE 2019/3 - Quarter ending September 2021 (Unit: Case/JPY1,000)

		FYE 2019/3 Cumulative		FYE 2020/3 Cumulative		FYE 2021/3 Cumulative		FYE 2022/3 Cumulative (through Q2)		Cumulative	
		No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount
Sales	Rerecording, etc.	2	144,470	5	208,014	20	1,320,238	34	2,526,087	61	4,198,810
	Cancellation of Sales	2	-144,470	7	-296,014	35	-2,567,514	39	-2,740,166	83	-5,748,165
	Total		-		-88,000		-1,247,275		-214,079		-1,549,355
Costs of Sales	Rerecording, etc.	1	32,500	2	21,400	9	189,881	18	286,790	30	530,571
	Cancellation of Sales	1	-32,500	3	-30,900	20	-404,770	16	-248,938	40	-717,108
	Total		-		-9,500		-214,888		37,852		-186,536
Gross Margin			-		-78,500		-1,032,387		-251,931		-1,362,818

Note: Rerecording, etc.: total of (i) the sales re-recorded which once cancelled, in cases in which payments were eventually made; and (ii) correcting journal entry (*shūsei shiwake*) to reverse the cancellation of sales, in cases in which it ended up payments were not made

(ii) Amount of Impact on Selling, General and Administrative Expenses, Non-operating Profits and Losses, and Extraordinary Profits and Losses (on Consolidated Basis)

The fact-finding investigation described above did not identify any facts which would impact the Company's selling, general and administrative expenses, non-operating profits and losses, and extraordinary profits and losses. The selling, general and administrative expenses are all period costs and have not been impacted by "*kizure*" (being recorded in an improper period). As such, there is no impact on the items mentioned above.

However, a proforma calculation of the impact on the productivity-linked portion of the compensation for officers, which needs to be examined due to the secondary impact of "*kizure*" (being recorded in an improper period) is as follows.

■ Amount of Impact on Compensation for Officers (Unit: JPY 1,000)

	2018/6	2018/9	2018/12	2019/3	cumulative total
Compensation for Officers (provision for director's bonuses)	-	-	-	-	-

	2019/6	2019/9	2019/12	2020/3	cumulative total
Compensation for Officers (provision for director's bonuses)	-	-1,969	-539	625	-1,884

	2020/6	2020/9	2020/12	2021/3	cumulative total
Compensation for Officers (provision for director's bonuses)	-2,287	-4,108	-4,511	-13,869	-24,777

	2021/6	2021/9	cumulative total
Compensation for Officers (provision for director's bonuses)	-1,235	-5,314	-6,550

(iii) Amount of Impact on Consolidate Balance Sheet

■ Quarter ending June 2018 - FYE 2020/3 (Unit: JPY 1,000)

	2018/6	2018/9	2018/12	2019/3	2019/6	2019/9	2019/12	2020/3
Accounts receivable	-18,360	-	-137,668	-	-	-105,263	-121,602	-96,800
Accounts payable	-	-	-35,100	-	-	-16,632	-6,600	-10,450
Advance Received			-	-	-	-	-	-
Provision for officers' bonuses	-	-	-	-	-	-1,969	-2,509	85

■ Quarter ending June 2020/6 - Quarter ending September 2021 (Unit: JPY 1,000)

	2020/6	2020/9	2020/12	2021/3	2021/6	2021/9
Accounts receivable	-243,417	-460,569	-651,474	-1,431,403	-1,342,892	-1,704,290
Accounts payable	-52,203	-81,043	-65,172	-246,827	-68,641	-205,190
Advance Received	-	-	-	37,400	-	-
Provision for officers' bonuses	-2,287	-6,396	-10,908	-24,777	-1,235	-6,550

(iv) Other Impacts

The amounts of impact described above do not take into consideration the impact on taxes and tax expenses.

VII. Causes of Inappropriate Sales Reports

1. Regarding the Analysis of Causes

As described in Section IV-1(2) above, Inappropriate Sales Reports increased in frequency with a total of four cases in fiscal year ending March 2019 (at a total of two M&A deals), a total of 12 cases in fiscal year ending March 2020 (at a total of seven M&A deals), a total of 61 cases in fiscal year ending March 2021 (at a total of 35 M&A deals), and a total of 71 cases in the first half of the current fiscal year ending March 2022 (at a total of 39 M&A deals), with the rate of increase being considerably higher in fiscal year 2021 than in fiscal year 2020.

Additionally, the Inappropriate Sales Reports, as described in above in Section IV-1(5) above, were made broadly throughout numerous departments, and approximately 80 department general managers and sales representatives either engaged in, or instructed, tacitly permitted, or discussed the Improprieties.

In light of the circumstances that these Inappropriate Sales Reports were made across departments and wide-spread, it is unlikely that the cause of the Inappropriate Sales Reports can be attributed to a single individual or the ethics and atmosphere of one department, rather they likely arose from common psychological factors shared among those who made Inappropriate Sales Reports and common opportunities and environment that allowed for improprieties.

This kind of in-depth analysis of the cause is necessary in order to find out what happened in the Improprieties, and is important in looking into effective measures for preventing a recurrence thereof, and as such, we will discuss it in detail below.

2. Psychological Factors of Those who Made Inappropriate Sales Reports and the Surrounding Management Environment

(1) Management Environment

A. Management's Sense of Company Growth and Profits, and Company-wide Prevalence Thereof

According to the results of the interviews and the messages, etc. issued by the management in the department general managers' meetings, the Company's management demonstrated extremely strong sense for and pride in the Company's growth and profits, based on the fact that the Company posted record-high consolidated net profits in 11 consecutive terms up through fiscal year ending March 2021.

Additionally, since the second half of 2020 when the Company was hit with the worldwide spread of the COVID-19 pandemic, the management has repeatedly conveyed in internal company-wide sales meetings strong messages that "don't lose to COVID-19" even in fiscal year ending March 2021.

Also, in response to its 30th anniversary since its foundation in April 2021, the Company, on January 8, 2021, upheld the theme of "EXCEED30" and positioned the current fiscal year ending March 2022 as the first year of its second foundation. With this, it was found that the management shared the intention that they had to achieve performance appropriate for the first year of its second foundation.

The management's foregoing strong sense for the importance and necessity of growth is thought to have permeated throughout the company to each department general manager and each sales representative through messages issued from the monthly department general managers' meetings, through other messages from the management, and through the management of quarterly performance in each quarter, addressed in Section B. below.

B. Method of Performance Management

(a) Establishment of Annual Sales Targets

In each end of fiscal year, the Company establishes sale targets for the following year. Each department general manager considers and plans the sales targets for the expected amounts in the following year, based on the performance and abilities of their subordinate sales representatives, the status of cases, etc. Additionally, each department general manager reports this plan to the general manager of the Sales Division, and the final annual sales targets are determined through coordination by and among the general manager of the Sales Division and the respective department general managers.

The annual sales targets are set for each department and for each sales representative respectively. The annual sales targets determined for each department and for each sales representative are shared with all sales representatives.

(b) "*Lap*" System

Based on the annual sales targets established as described in Paragraph (a) above, the quarterly targets ("*lap* goals") are set at 34%, 67%, 100% and 120% of the annual sales targets, and achieving the annual sales targets by the third quarter is considered as one ideal progress.

However, most departments do not necessarily achieve the *lap* goals (for example, only five departments reached 120% of their annual sales targets in fiscal year ending March 2021), and the *lap* goals serve more as the ideal progress than as a minimum target.

Each quarter, the achievement status of the *lap* goals is shared at the department general managers' meeting, run by the general manager of the Sales Division.

(c) "*Commitment*" System

Aside from the *lap* system addressed in Paragraph (b) above, the Company has also established a system called the "*commitment*" system.

Each sales representative, based on the progress status of the deals they are in charge of, submits the amount of sales they believe they will be able to achieve in each quarter, i.e. a *commitment* amount.

Each department general manager totals the *commitment* amounts from the sales representatives in their department, and uses this total to establish the *commitment* amount for their department.

Each *commitment* amount is self-reported based on individual progress, and may be greater than or lower than the assumed progress under the *lap* system (i.e., 34%, 67%, 100% and 120%).

Each quarter, the achievement status of the *commitments* is also shared at the department general managers meeting, run by the general manager of the Sales Division.

(2) Psychological Factors of Those who Made Inappropriate Sales Reports

A. Performance Achievement as Departments and Individuals

As addressed above in Section (1)B., the Company strictly managed its quarterly performance not only using annual sales targets but also its "*lap*" and "*commitment*" systems, and the progress thereof was shared all the way up to the department general managers and sales representatives in the respective departments.

We conducted the following survey on the psychological factors the Company's strict performance management had on the general managers and sales representatives in the respective departments, and state the results thereof.

With regard to this point, the Investigation Committee sought responses to the questions on such factors from the general managers of the respective departments where Inappropriate Sales Reports were made (14 individuals), and received the following responses (in the following responses, ◎ means being largely applicable, ○ means being considerably applicable, △ means being not considerably but somewhat applicable, and × means being not applicable).

The said 14 general managers' average age is about 40 years old.

(i) In your department, the sales target figures for your department in the fiscal years in which the Inappropriate Sales Reports occurred were too high to be achieved:
◎ 1 ○ 4 △ 6 × 3

(ii) In establishing the foregoing sales targets, the Company set figures that exceed your independent expectation as a department general manager:
◎ 2 ○ 1 △ 6 × 5

(iii) In your department, the *commitment* figures established in each quarter of the fiscal years in which the Inappropriate Sales Reports were made were not in line with the achievements and abilities of your department:
◎ 4 ○ 3 △ 3 × 4

(iv) As the department general manager in the fiscal years in which the Inappropriate Sales Reports were made, the sales target figures set for each sales employee were not in line with their individual achievements and abilities:
◎ 1 ○ 1 △ 6 × 6

(v) Regarding the review of progress status in the meetings (including department general managers' meetings, etc.) checking the monthly sales progress status, and the various demands from directors (*torishimariyaku*) if these were not achieved:

a. As a department general manager, I really wanted to meet the expectations:
◎ 9 ○ 4 △ 1 × 0

b. As a department general manager, I felt the failure of my department to achieve the sales target figures would adversely affect the Company's evaluation on and treatment of myself:
◎ 1 ○ 2 △ 2 × 8, with 1 responding × for evaluation and △ for treatment

c. I felt the check of and demands for the sales progress status to be stringent:
◎ 0 ○ 4 △ 3 × 7

Furthermore, based on the fact that the frequency of Inappropriate Sales Reports increased from 2019 to 2020, and from 2020 to 2021, we sought responses of either of ◎ (largely applies), ○ (considerably applies), △ (somewhat applies), and × (does not apply) regarding the circumstances applicable to their departments, and received the following responses.

a. The sales goal figures sequentially established for your department in 2020 and 2021 exceeded your department's achievements and abilities:
◎ 2 ○ 1 △ 6 × 5

b. The company-wide efforts in the EXCEED30, 30th anniversary of the company's foundation, had a psychological impact on the department general manager and sales employees:
◎ 1 ○ 0 △ 6 × 7

c. The effects of the COVID-19 had a negative effect on the number of M&A deals where the Company was retained by clients and their progress status:
◎ 1 ○ 6 △ 2 × 5

d. The effects of the COVID-19 made it difficult to manage the M&A progress process due to the reduced opportunities to meet, and have other direct contact with, the clients:
◎ 3 ○ 3 △ 5 × 3

e. The company-wide sales targets established by the Company's management (directors (*torishimariyaku*)) exceeded the Company's achievements and abilities:
◎ 2 ○ 3 △ 5 × 4
With regard to this point, the following have been pointed out: the Company regularly pursues growth of 120%, and evaluation criteria for departments were sales-biased as the Company's evaluation of department general managers was based on KPI by sales figures and amount of activities, which made it difficult for an M&A deals with a high degree of client satisfaction to be appreciated.

f. I am affected by the management policy that sales target figures should be achieved, regardless of the effects of the COVID-19:
◎ 1 ○ 2 △ 7 × 4

g. The various demands on the achievement of sales targetsfrom the Company's management (directors (*torishimariyaku*)) were more stringent in 2020 than in 2019:
◎ 1 ○ 1 △ 5 × 6, with 1 failing to respond

h. The various demands on the achievement of sales targets from the Company's management were more stringent in 2021 than in 2020:
◎ 1 ○ 1 △ 3 × 9

We observed responses mainly from departments where multiple Inappropriate Sales Reports were made, that the Improprieties spread within the departments with the passage of time, and became uncontrollable.

These responses are merely subjective responses provided by department general managers who are members of the middle-level management, but they serve as a useful information, to a certain extent, in the analysis of the causes.

In addition, the Investigation Committee Members questioned the sales representatives (73 individuals) who made Inappropriate Sales Reports under the department general managers (the middle-level management) regarding the factors therefor, and received the following responses.

(i) The Company's management and business tends to be too focused on sales:
◎ 30 ○ 22 △ 4 ✕ 14

(ii) The sales target figures imposed on individuals are too high:
◎ 22 ○ 24 △ 5 ✕ 14

These responses indicated deviance between the speed of the growth touted by the Company and the sales targets imposed on sales representatives.

(iii) I wanted to be highly valued as an individual sales representative:
◎ 5 ○ 12 △ 12 ✕ 50

(iv) I wanted to promote as an individual sales representative:
◎ 1 ○ 5 △ 10 ✕ 21

(v) I wanted to meet the demands and expectations of the department general manager or the department:
◎ 21 ○ 20 △ 10 ✕ 18

(vi) I followed instructions which I had received from the department general manager:
◎ 10 ○ 11 △ 9 ✕ 27

(vii) I followed demands which I had received from someone other than the general manager in my department:
◎ 6 ○ 9 △ 7 ✕ 48

(viii) I was unable to refuse the demands of the department in charge of the counterparty for the M&A deal:
◎ 12 ○ 8 △ 4 ✕ 34

These responses reflect a psychological state that they had no other choice but to cooperate in the achievement of the sales target figures imposed on the department, and a psychological state under which improprieties with respect to M&A deals spread to departments in charge of counterparties through the respective representatives for the seller's side and buyer's side.

The foregoing is merely the state inside departments where the Inappropriate Sales Reports were made and that there were a large number of departments at the Company that produced few or no Inappropriate Sales Reports by improper methods, even under the Company's such management policy and established sales targets. Therefore, the results of the foregoing responses should be construed as trends specific in those departments at the Company where the problems happened.

Additionally, asked the sales representatives whether they were influenced by the individual economic benefits obtainable through the achievement of sales targets as stated below, and they responded as follows.

(Early achievement incentive)

◎4 ○7 △5 ✕ 55

(Special favor for participating in other special training)

◎1 ○4 △4 ✕ 62

In light of the results of the foregoing responses, it is considerably probable that, under the current performance management system, department general managers and sales representatives felt that their individual sales could not be allowed to drop or new sales had to be recorded for their department in order to achieve its *lap* goals or *commitment* for the department, which led to making the Inappropriate Sales Reports.

In addition, the annual sales targets are the aggregates of individual annual sales targets, and a department's *commitment* is calculated as the aggregate of *commitments* for individuals. Accordingly, the failure of an individual to achieve their annual sales targets and *commitment* would lead to deterioration of the overall department's performance, and the performance achievements for the department and individuals are considered to be closely and intrinsically linked.

In particular, *commitments* are a system wherein sales representatives, at start of each quarter, estimate the sales that they are certain to achieve, and make promises to achieve these sales. Considering the nature of a *commitment* system where the representatives in charge of cases make promises, it could be inferred that this led to circumstances where they were susceptible to feeling responsible not only when cases were broken off, but even if cases were slightly delayed due to their mistaken anticipations or other factors. The results of the foregoing responses indicate that such a *commitment* system served as a psychological factor to cause department general managers and representatives to make Inappropriate Sales Reports.

Based on the foregoing, it is highly possible that the psychological state placed on department general managers and the key sales representatives in the departments that they had to do whatever they could to achieve results as departments and individuals, especially *commitments*, served as a principal cause of the Inappropriate Sales Reports.

At the Company, in the past few years the management under the president has set the target of annual growth of approximately 120%, and in practice, the general manager of the Sales Division who supervises the sales departments has thoroughly managed performance based on a KPI-based management index, aiming for the achievement of these management goals. However, a considerable number of the department general managers who bear the roles to achieve these management goals and their sales employees supporting them consequently engaged in the Improprieties, and their number has increased sharply in the most recent two years, which should be important issues to be pointed out.

B. Possibility that Personal Economic Benefits, etc. Served as Factors, and Evaluation Thereof

To encourage performance achievements, the Company has introduced various incentive programs which grant employees economic benefits conditioned on performance achievements.

Each program is examined hereunder.

(a) Stock Options

NMAH grants stock options to the employees of the company and its subsidiaries (a total of 289 employees) pursuant to a board of directors' decision dated October 30, 2017.

The exercise of these stock options is linked to the achievement of the medium-term management plan. Namely, in summary, it prescribes (i) that 30% of the allocated options may be exercised if the recurring profits for fiscal year ending March 2019 exceed JPY 11.5 billion and the recurring profits for fiscal year ending March 2020 exceed JPY 12.5 billion; (ii) that a further 30% of the allocated options may be exercised if the recurring profits for fiscal year ending March 2021 exceed JPY 13.5 billion; and (iii) that a further 40% of the allocated options may be exercised if the recurring profits for fiscal year ending March 2022 exceed JPY 15 billion.

Meanwhile, with respect to whether these conditions for exercise have been actually satisfied, the recurring profits for fiscal year ending March 2019 were JPY 12.53 billion and the recurring profits for fiscal year ending March 2020 were JPY 14.46 billion (which means the abovementioned requirement (i) was satisfied), and the recurring profits for fiscal year ending March 2021 were JPY 16.54 billion (which means the abovementioned requirement (ii) was satisfied). Accordingly, the conditions for exercise were satisfied, and such conditions would also be satisfied even if the effect of the Inappropriate Sales Reports were excluded.

In addition, the status of whether the conditions for exercise are satisfied is published in the company's IR materials where they are accessible to anyone.

Based on the foregoing, it is difficult to determine that the existence of the stock options led to the Inappropriate Sales Reports.

Furthermore, none of those who made Inappropriate Sales Reports mentioned their own stock options in their responses to our questions, which supports the foregoing determination.

(b) Incentive Commissions

In addition to fixed wages, the Company pays incentive commissions based on sales achievement rates, the number of contracted cases and other factors.

While there are various types of incentive commissions, and the design of incentive commissions differs from year to year, the majority thereof is consistently made up of (i) department general manager incentives for department general managers based on the department's real achievement rate (the achievement amounts for each department less expenses, divided by the amount of the annual sales achievement goal) and (ii) sales representative incentives for sales representatives based on an individual's annual sales goal achievement rate.

a. Department General Manager Incentives

The program is designed so that department general manager incentives are not paid when the real achievement rate is less than 100%.

It is necessary to examine the possibility that the department general managers instructed or tacitly approved of the Inappropriate Sales Reports in order to avoid the non-payment of department general manager incentives. However, by program design, the enhancing of department performance and the payment of department general manager incentives are inextricably linked, and it is extremely difficult to analyze which was the principal aim ex post facto.

However, the only effect of the Inappropriate Sales Reports is basically the accelerating of the time when sales are recorded, and this would not change the payment or nonpayment of department general manager incentives even if improprieties happened other than in the final quarter. Namely, the real achievement rate is not affected whether sales are recorded in the third quarter or in the second quarter, so the payment or nonpayment of sales representative incentives would be unaffected (It should be noted that, when the real achievement rate of 100% is achieved prior to or in December, this is evaluated to fulfill a certain evaluation item of the department general manager incentives, which leads to the increase of the amount of the department general manager incentives. However, the most evaluation items for the department general manager incentives are not designed to be affected in case of early achievement.).

Nonetheless, the Inappropriate Sales Reports were made not particularly in the final quarter of each fiscal year, but also in the first quarter or in the second quarter in the current fiscal year ending March 2022. This suggests that the department general manager incentives did not serve as the principal factors for the Inappropriate Sales Reports, and that the psychological effects which the department general manager incentives had on the department general managers were secondary and limited.

Additionally, considering that Inappropriate Sales Reports were frequently made even in departments, the department general managers in charge of which had been determined to be entitled to the department general manager incentives, it would be reasonable to conclude that cases where the department general manager incentives served as a principal factor were limited overall.

Furthermore, interviews were conducted with the department general managers who were involved in the Inappropriate Sales Reports, and none referred to the department general manager incentives as a reason.

Based on the foregoing, while the possibility that the department general manager incentives served as factors in the Inappropriate Sales Reports cannot be denied, their effect was only secondary and limited.

b. Sales Representative Incentives

The sales representative incentive program is designed so that payment is not provided when the annual sales goal achievement rate is less than 100%.

It is necessary to examine the possibility that the sales representatives made or tacitly approved of the Inappropriate Sales Reports in order to avoid the non-payment of sales representative incentives. However, by program design, the enhancing of individual performance and the payment of sales representative incentives are inextricably linked, and it is extremely difficult to analyze which was the principal aim ex past facto.

However, as set forth in Paragraph a. above, the only effect of the Inappropriate Sales Reports is basically the accelerating of the time when the sales are recorded, and this would not change the payment or nonpayment of sales representative incentives even if improprieties occurred other than in the final quarter (It should be noted that the Company adopts the system where the rate for calculation of the sales representative incentives is higher if the annual sales targets are achieved by the end of September or the end of December than by the end of March. However, the amount increased due to such early achievement would account for only insignificant part of the entire sales representative incentives.).

Nonetheless, the Inappropriate Sales Reports were made not particularly in the final quarter of each fiscal year, but also in the first quarter or in the second quarter in the current fiscal year ending March 2022. This suggests that the sales representative incentives did not serve as the principal factors for the

Inappropriate Sales Reports, and that the psychological effects which the sales representative incentives had on the sales representatives are secondary and limited.

(c) Target Achievement and Promotions, Demotions and Other Personnel Evaluations

As described above, *lap* goals and *commitment* achievement rates were shared at department general managers' meetings. Additionally, the evaluation criteria for department general managers included the *lap* goal and *commitment* achievement rates, etc. for the departments under their charge.

Additionally, it is thought that it was a shared recognition inside the Company that those sales representatives who achieve particularly good performance would be promoted to department general managers.

Based on the foregoing, it is necessary to examine the possibility that department general managers and sales representatives made Inappropriate Sales Reports in order to improve their chances for promotion in the future.

However, the promotion standards have never been clarified within the Company (for example, the Company has not establish a standard such as one will be promoted if they achieve their annual sales target), and there is no explicit system that calls for someone to be excluded from consideration for promotion or demoted for failing to achieve performance. Based on the foregoing circumstances, the question of to what degree promotions, etc. motived those who made Inappropriate Sales Report is very likely dependent on each person's personality, etc., and we cannot conclude that it was a generally applicable factor.

C. Company's Overall Performance Achievements

As described in Paragraph (1)A. above, considering the importance and necessity for maintained growth shared throughout the Company, it is necessary to examine the possibility that the Inappropriate Sales Reports were made, not only for each department's performance achievements, but for the purpose of the growth of the entire Company, and for meeting the expectations of the management.

According to the proforma calculations of the actual annual sales target achievement rates for each department, excluding and adjusted for the cases in which Inappropriate Sales Reports were made, five departments exceed an adjusted achievement rate of 100% in fiscal year ending March 2021, with some reaching 126%.

Based on the fact that there were departments that made Inappropriate Sales Reports despite exceeding the beginning-of-the-year goal of 100% and the final lap goal of 120%, it is reasonable to think that the psychological desire to contribute to the Company's overall growth and profits and to meet the expectations of the management were key factors.

3. Existence of Opportunity and Environment for Inappropriate Sales Reports

(1) Vulnerabilities in Business Flow concerning Sales Reports

As described in Section III-6 above, the Company's sales reports are based on the materials uploaded to *Salesforce* by individual representatives (prior to the 2nd quarter of 2019, the materials submitted to the Administration Division).

The Inappropriate Sales Reports reported that definitive agreements (or memoranda of understanding) had been executed between sellers and buyers (or that the buyer has submitted a letter of intent) even though they had not, and are reports of the conclusion of agreements where the parties are buyers and sellers, i.e. third parties other than the Company. With regard to these, validation of whether a report is inappropriate can be performed by verifying the relevant documents from a document authenticity verification perspective, or by asking the seller and the buyer whether they actually affixed seals to the relevant contracts as shown in the copies of the contracts uploaded to *Salesforce* (or submitted to the Administration Division).

However, the Company failed to adopt either a method for verifying the execution of irregular definitive agreements by asking the seller and the buyer regarding the seals affixed to contracts or carefully examining daily reports, etc., or a method for solving irregularities through the chain of documents related to cancelled cases (cases in which sales have been recorded based on the execution of definitive agreements, etc., but then have the sales subsequently cancelled). The reason therefor is that a business flow for reporting sales has been built based on trust in employees, assuming that employees would never submit copies of falsified final agreements (or memoranda of understanding).

Additionally, invoices to clients are created by the Administration Division pursuant to requests by the representatives in charge of sellers and the representatives in charge of buyers, but the sending of these invoices to the clients is left to the discretion of the respective representatives (the sending method of whether to deliver the original directly or by mail, to e-mail a PDF file, etc. is also left to the discretion of the respective representatives), and a system where the invoices are sent by the Administration Division to the clients by mail or e-mail has not been adopted. As such, this was a situation which made it possible for the representatives who made Inappropriate Sales Reports to delay the timing when the invoices were actually sent to clients while requesting the Administration Division to prepare invoices (i.e. it was possible to wait until an authentic contract was prepared by the parties' affixing their names and seals or signatures to the contract).

Also, with regard to sales reports, determinations of whether dealbreakers have been resolved have to be made by the representatives in charge of the case and their direct department general managers, but since there is no way for others to objectively confirm the intent and state of the Company's clients, i.e., sellers and buyers, it was possible for the representatives in charge of the cases to make a subjective determination of whether deal breakers have been resolved. As such, if a copy of a definitive agreement, etc. is created by fraudulent manipulation, it is thinkable that it would be possible to make a sales report by establishing a scheduled remittance date within the range allowed by the Administration Division regardless of whether the dealbreakers have been actually resolved in the case. The failure to clarify determination standards where the Administration Division could objectively control the determinations made by the representatives in charge of cases regarding the whether deal breakers have been resolved, one of the requirements that must be met under the sales recording standards, is considered to have been a factor in the fraudulent manipulation of copies of final agreements, etc. by the representatives in charge of cases.

As described above, it can be assessed that vulnerabilities in the business flow for sales reports were exploited to make the Inappropriate Sales Reports.

Furthermore, the Company, with regard to sales receivable, has a rule for obtaining written confirmation on cases with long-term remittance dates. However, the written confirmation is obtained by individual sales representatives and not by the Administration Division, and this is not an objective confirmation method. In addition, it appears that a copy of the written confirmation has been treated as sufficient, and if that is the case, Inappropriate Sale Reports can be made by the same method as with the definitive agreements, and in reality, the names and seals (*kimei ō-in*) or signatures and seals (*shomei natsu-in*) on other documents were used without authorization to create unauthentic written confirmations.

(2) Vulnerabilities in Business Flow for Recording Sales

For cases in which sales have been reported as stated above, the recording of sales is determined by Mr. Naraki, General Manager of Administration Division, and these determinations were not made in accordance with a determination standard which had been uniformly created, but made for each case based on experience.

Additionally, in reported cases, the determination by Mr. Naraki, General Manager of Administration Division, is made from the standpoint of whether dealbreakers have been resolved, and specifically, it appears that determination was made on the time-sequence matching up through the execution of the definitive agreement, the existence of risk factors, financial concerns, the completion of disclosure to key persons, etc. However, a determination of whether dealbreakers have been resolved can only be made by asking the representative in charge of the case about the status, and if the seller and buyer have executed a definitive agreement, etc., the reality is that the sales would have to be recorded, unless the period up through remittance is long enough not to find dealbreakers have been resolved or unless other extraordinary circumstances.

Meanwhile, conversely, this did not include determinations regarding the authenticity of the copies of definitive agreements, etc. and other reporting documents. The Company built a business flow premised on the lack of improprieties related to application documents, so it did not have a business flow for checking sales when recorded. Since the Inappropriate Sales Reports were the false reports of the execution of the definitive agreements, etc. between sellers and buyers, so it would have been possible to prevent improprieties by verifying the facts by obtaining written confirmations from sellers and buyers and by making inquiries by other means. However, the Company did not have such business flow.

(3) Failure of Performance of Mutual Deterrence and Check

In the Company's alliance intermediation services, with the exception of a few cases in which the seller's side and the buyer's side are both under the charge of the same department, at least four individuals are involved in one case: the representative in charge of the seller, the general manager of the department in charge of the seller, the representative in charge of the buyer, and the general manager of the department in charge of the buyer. As such, even if a representative seeks to make an Inappropriate Sales Report, the representative in charge of the other side (or the department in charge of the other side) would find that, and would ordinarily be expected to perform an appropriate deterrence function and check function.

However, there were some cases where such mutual deterrence and check did not function, because departments in charge of both sides of the sellers and the buyers attempted to achieve the sales.

(4) Decline in Normative Consciousness due to Multiple Factors

The Inappropriate Sales Reports were accompanied by the creation of improper documentation, and this would not have taken place under an ordinary normative consciousness. It cannot be denied that the fact that they nonetheless ended up engaging in these actions means a decline in the normative consciousness. We believe that multiple factors contributed to this decline in the normative consciousness.

The first is a recognition that these were not fictitious reports. All of the cases occurred with respect to deals in progress, and according to the responses, etc. of those who made Inappropriate reports, they ended up making early reports in cases that were certain to proceed. Additionally, in reality, as stated in Section IV-1(4)C. above, among the 83 cases in which Inappropriate Sales Reports were made, there were only 13 cases where definitive agreements or memoranda of understanding were concluded (all of which were cancelled in the accounting process), and, in a majority of these cases, definitive agreements or memoranda of understanding were concluded. This recognition that these were not fictitious reports is considered to lead to a decline in the normative consciousness.

The second is a recognition that the Inappropriate Sales Reports were limited to internal reports. While those who made Inappropriate Reports recognized that the sales reports in the Improprieties were inappropriate, they did not recognize that they had participated in fraudulent account reports that would likely lead to so-called window dressing. This indicates that those who made Inappropriate Reports recognized that the inappropriate sales reports and the financial recording of sales were separate issues, and that the final decision of whether to record the sales was to be made by Mr. Naraki, General Manager of Administration Division. Additionally, this recognition was held not only by each and every representative but also extended to the department general managers. Of course, this was not a proper recognition, but such recognition was considered to be encouraged by a lack of knowledge regarding financial accounting and by the operation that the recording of sales relied on individual determinations made by Mr. Naraki, General Manager of Administration Division.

The third is a recognition that they were not alone. Namely, each person who made Inappropriate Reports stated that they had heard the method of the Improprieties from others, and they created the excuse that they were not the only ones engaging in these improprieties. In addition, the involvement of multiple individuals in one case reduced an individual's role and gave rise to a recognition that they were acting jointly with others, which could be considered to lead to a decline in the normative consciousness.

The decline in the normative consciousness among those who made Inappropriate Reports is thought to be due to these multiple factors.

(5) Rapid Spread of Improper Conducts

The Inappropriate Sales Reports were made, as described in Section IV-1(2) above, with 35 cases in the fiscal year ending March 2021 and with 39 cases in the current fiscal year ending 2022, and the majority of the Inappropriate Sales Reports (approximately 89%) were made with respect to the sales reports provided during or after April 2020.

As such, the Inappropriate Sales Reports were clearly on the rise from April 2020, and the root cause thereof was that, in the midst of the COVID-19 crisis, the respective representatives experienced cases where parties could not conclude definitive agreements which could have been concluded in a normal year since the parties had no objection to the content of the agreement, facing a variety of circumstances where the respective representatives were unable to meet with clients. In a way, these were also the circumstances that the span of time from the formation of an agreement through the final agreement between the parties increased.

Despite in the midst of this COVID-19 crisis, the management issued the company-wide messages to promote sales using the language "don't lose to COVID-19" and "COVID-19 is no excuse". It can be infered that the messages placed considerable psychological pressure on the department general managers in charge and low rank sales representatives, which led to the increase in the number of cases.

(6) Failure by Audit and Regulatory Bodies to Discover Indications

As set forth in the background leading up to commencement of the investigation, members of NMAH's Audit and Supervisory Committee (*kansa tō i-in*) became aware of the suspicions of the Improprieties at the Company around December 2021 from information they had independently obtained, and they mentioned the suspicion of Improprieties and the need for an investigation thereof, along with the need for the involvement of outside attorneys, at the very least, in the investigation, at the NMAH's board of directors meeting on December 10^{th}. In that sense, while the audit by NMAH's Audit and Supervisory Committee was effective to a certain extent, it had been unable to discover clues until then. With regard to this matter, even if inappropriate sales reports facilitated by the creation of definitive agreements or memoranda of understanding were unthinkable in the ordinary business process, the internal audits and audits by members of the Audit and Supervisory Committee (*kansa tō i-in*) cannot be assessed as having been sufficiently effective. Additionally, these clues were not discovered by the board of directors as well, and on this point it cannot be assessed that the board of directors fully performed their regulatory function.

(7) Failure of Whistleblowing System to Function

NMAH established a reporting window facilitating reports to three members of the Compliance Committee in August of 2007, and since August of 2007, an outside director and Audit and Supervisory Committee Member who is an attorney has been appointed as members of the Compliance Committee and added to the reporting window. However, in the period from the establishment of the reporting window in August of 2007 through the end of December 2021, no reports have been submitted to this reporting window at NMAH, and the Improprieties were never reported to the reporting window. With regard to this, NMAH was found to have attempted to make the existence of the reporting window widely known by providing information on the existence of the reporting window and its activities, etc. to the respective employees in sales meetings. However, based on the absence of reports on the Improprieties to the reporting window while Improprieties occurred in a total of 83 cases, we cannot find that the whistleblowing system sufficiently functioned with regard to the Improprieties.

VIII. Measures to Prevent Recurrence

1. Introduction: Toward Realization of Compliance Management

The Investigation Committee, based on the finding of facts in Section IV above and the analysis of cause in Section VII above, makes the following recommendations regarding the management improvements mainly focusing on the Company's realization of compliance management, as measures for preventing the recurrence of the Improprieties revealed under this Investigation.

The Improprieties identified in this Investigation include serious issues that cannot be overlooked, as follows: (i) the false reports (as internal sales reports) were made on the conclusion of the definitive agreements, etc., by affixing the clients' names (signatures) and seals on (copies of) the client's definitive agreements, etc. without clients' authorization, while the conclusion of the definitive agreements were important in M&A advisory services; (ii) the Improprieties were made in 10 or more of the Company's sales departments in which 80 or more individuals were involved; and (iii) the number of the Improprieties have increased and spread to a number of departments in the most recent two years extending up to the last day of the term subject to investigation (September 30, 2021).

This is an extremely serious situation in light of the standard of compliance required of NMAH and the Company by their clients and the accounting firms, regional financial institutions and large financial institutions that have business relationship with regard to M&A business, and the shareholders of NMAH, including overseas investors, and therefore, the Company's management policy and business system must be re-examined.

The management of NMAH and the Company should come to grips with the circumstances in which the Company's sales employees stepped over a line that is not permitted as business persons in the shadow of management performance that has realized continuous profit growth in the past, and should clarify and implement a compliance management policy, as well as an aggressive management policy that maintains and strengthens the sales with an aim towards growth.

Corporate reform aimed at such compliance management should be urgently performed under the initiatives of the top management, and the Investigation Committee would like to make the following specific recommendations.

2. Clarification by Management of Management Philosophy and Policy on Compliance and Introduction of Various Measures Aimed at Establishment of Compliance System

In order to prevent the recurrence of improprieties, the following are extremely important: the management's firm posture that never permits improprieties, and improving many employees' sense on compliance and fostering high ethics as a business person, which will support such management's firm posture. The most important point will be to foster such an atmosphere and culture.

It is essential that the top management (the president) makes a clear commitment (declaration of intent) on a management policy on compliance management for a profound improvement to the atmosphere and culture of the Company.

The following matters are important for a more effective commitment by the management:

(i) The formulation of clear code of conduct that prohibits violations of laws and regulations and socially unacceptable behavior;

(ii) The establishment of a department in charge of compliance, independent from the Sales Division and the sales departments under its control, that is capable of dealing with internal improprieties and other compliance violations as quickly as possible;

(iii) Furthermore, if a compliance department is newly established at the Company, the appointment of general manager who is well-versed in practices of compliance, preferably as the Company's director (*torishimariyaku*) (CCO);

(iv) The establishment of a business system where a compliance department, which has been granted certain authorities in the Company, is able to detect internal improprieties and other compliance violations as soon as possible and promptly report these problems to the management, thereby making possible for the management to rapidly and appropriately deal with these problems upon receipt of the reports;

(v) The conduct of comprehensive personnel evaluations on sales employees that includes both an assessment of performance achievement and compliance status, and imposes decisive disciplinary actions (sanctions) when compliance violations arise;

(vi) The enhancement of a mechanism that makes it possible to report improprieties to a department in charge of compliance; and,

(vii) The creation of a culture in which employees are able to frankly share opinions with the management free from psychological burdens.

The consideration and introduction of the foregoing measures must be announced and no time should be wasted in the creation of a specific internal mechanism that supports compliance management.

Here, the Company should engage in management while understanding that it is extremely important for the management and employees to unite to implement socially fair compliance for the purpose of the enhancement of the Company's importance and corporate value as leader in Japan's M&A industry, and that the considerably high level of compliance management, supervision and internal control is required of the Company by the financial institutions and foreign investors who are important stakeholders of the Company, since NMAH and the Company have already been recognized as a leading company in Japan's capital market.

3. Establishment of Management Policy that Balances Corporate Growth and Trust, and Reconsideration of Business System for Prompt Implementation thereof

The Company has developed a so-called "aggressive" management to realize its corporate growth in terms of sales and profits, but at the same time, on the assumption that it deals with a variety of M&A-related services, it is also essential to have a management policy that balances growth and trust.

To conduct highly trustworthy business, the Company should, on this occasion, fully examine whether customer satisfaction concerning M&A deals is eroded as a result that the Company has placed too much emphasis on the achievement of quarterly sales and the schedule therefor, , and if problems exist, appropriate improvement measures should be implemented as needed. It is essential to reconsider a business system required to establish a management policy where highly ethical employees perform highly trustworthy work, based on a corporate atmosphere and culture that never permits any improprieties.

(1) Reconsideration of Business Management Methods to Achieve Quarterly Performance

As the background of the Improprieties, we must not overlook the psychological factors placed on the general managers of sales departments due to circumstances where they were absolutely required to achieve their *commitments* and circumstances where they faced strong demands on the achievement of the established annual sales target figures imposed on respective departments.

When the Company thoroughly implements the strict performance management methods that "the sales targets figures must be achieved and non-achievement is not allowed", its employees foster their distorted internal business ethics where "non-achievement must absolutely be avoided to survive in the Company, and therefore we will do anything to accommodate these demands (which we understand are demands from the Company's management)". Sense of employees' duties that "we want to meet the Company's management's expectations" and "we may not trouble others" has consequently invite their distorted behavior where people "do whatever they can within the department without saying anything to the management, even if it is not good". This is a striking expression of the harmful effects of "sales-supremacy" management.

The management, when adopting a business management method that emphasizes quarterly sales achievement figures, etc., should have simultaneously adopted such measures as the moral education for department general managers and other middle management, an internal check system, and early report to prevent the harmful effects arising from "sales-supremacy" management. Such various measures were not sufficiently implemented in the main business line led by the Company's president and general manager of the Sales Division.

In order to avoid falling into such a "sales-supremacy" management, the management needs to make balanced the contents of the management policy in department general managers meetings and messages to sales employees by not excessively focusing on sale achievements but mentioning the realization of socially fair and customer-oriented business practice.

Additionally, the Company's performance management to date has set the end of quarter as the cut-off date. However, there is a concern that such performance management leads to last-minute M&A deal making concentrated on the last day of the quarter. The question of whether such performance management causes problems for customer services (i.e. whether clients are forced to adopt unreasonable schedules, and pushy sales are being made that harm customer's satisfaction) should be carefully examined in order to avoid the harms of "sales-supremacy" management.

Also, although the Company needs to set high sales targets as a company that is pursuing growth, it is also important that the Company presents a management posture that closely considers the actual situations and realities under which sales representatives work. However, in the midst of the COVID-19 crisis for the last one to two years, the Company's management cannot necessarily be evaluated to have fully performed this. Namely, the COVID-19 crisis has created a situation where sales representatives are unable to meet clients and it takes longer time than normal to proceed with the M&A process, and it is undeniable that this has produced difficult situation. It cannot be denied that the management's message to employees that "don't lose to the COVID-19" has caused their psychological frustration regarding the achievement of department sales target figures. In such instances, in the situation of the COVID-19 crisis or when the declaration of a state of emergency (*kinkyū jitai sengen*) was issued, the management should have also taken measures to foster a sense of relief, etc. among sales representatives by provisionally making a downward revision of the target of the growth rate below that of the initial management plan to suit the reality, rather than issuing the message that "don't lose to the COVID-19". If such appropriate measures had been taken, it is reasonable to assume that fewer employees would have been involved in Improprieties to achieve sales goals.

Furthermore, it is possible that the various sales incentives applied by the Company to the department general managers and sales representatives led up to the

Inappropriate Sales Reports. Based on the results of this investigation into Improprieties, the Company should reexamine how the Company designs various incentives provided to department general managers and sales representatives, based on opinions of sales representatives, etc.

(2) Appointment of Department General Managers and Other Key Employees Based on Fair and Appropriate Evaluations

The spread of the Improprieties was particularly serious in the Strategy Control Business Department, including Corporate Client Departments and Direct Marketing Departments. While the Company has experienced rapid growth in recent years, sales representatives with excellent sales skills (as players) have been appointed as department general managers at young ages. It has also been assessed and pointed out that perhaps they were promoted too fast, since they lack experience and maturity as managers supervising the sales departments while they are extremely outstanding as sales consultants. In addition, these appointments were made coincidently in the COVID-19 crisis, and as a result thereof, the Company also acknowledges the situations where the newly appointed department general managers did not undergo sufficient training, guidance and checks. Although it is merely a general theory, if sales representatives who are excessively sales-oriented are selected and promoted to department general managers, they might, as a result, lack fairness and trustworthiness as managers. Therefore, it is important that key personnel affairs such as appointments of department general managers should reflect evaluations provided by a variety of directors (*torishimariyaku*) in the Company, based on the achievement of customer's satisfaction for services provided and a variety of other evaluation indicators, not only in the Sales Division but in the Administration Division (and, if newly established, the compliance department).

(3) Fair Internal Disciplinary Actions for Improprieties and Reconsideration of Business Organization

With the Improprieties, there is also likely a concern that internal distrust would grow in the Company between the sections where a number of Improprieties occurred and the sections that had conducted business appropriately.

As such, to take the Improprieties very seriously and promote a harmony in the Company, imposing internal disciplinary actions from an impartial standpoint will be an important message by the management to employees in the relaunching of the Company.

If such disciplinary action is considered, since the president, general manager of the Sales Division, general manager of the Administration Division and other directors (*torishimariyaku*) did not fully foresee the distortion to the appropriate business system and business environment where the general managers and their subordinate sales representatives of each sales department worked, and were unable to recognize and prevent the Improprieties over an extended period, such directors (*torishimariyaku*) should accept appropriate disciplinary actions with their full awareness of their management responsibilities, based on the opinions of outside directors (*shagai torishimariyaku*) and Audit and Supervisory Committee members (*kansa tō i-in*), etc.

The disciplinary actions on the department general managers and other meddle management involved in the Improprieties must be fair and appropriate in content, fully based on the opinions of outside directors (shagai torishimariyaku) and the Audit and Supervisory Committee members (kansa tō i-in), premised on the imposition of appropriate disciplinary actions on the management.

It is essential that the Company will impose such fair disciplinary actions at each level of officers, department general managers and sales representatives and implement other appropriate measures such as an appropriate reorganization for reconciliation among the various departments (specifically, the rearrangement of those departments where there were considerable Improprieties, and the appropriate reshuffling of general managers of divisions, supervisory general managers, department general managers and other middle management level employees).

4. Rebuilding of Business Flow for Reporting Sales

At present, copies of the final agreements must be uploaded as PDF files to Salesforce when reporting sales.

Nevertheless, this method is merely to review copies of the definitive agreements serving as the Company's sales recognition standard, and this point became the cause of the Improprieties. Additionally, it has been treated as sufficient that the documents are uploaded by either representative for the seller or representative for the buyer, and such practice enabled either representative to engage in Improprieties.

Based on the above, the Company should consider taking such measures as requiring both parties (i.e., a seller and a buyer) to submit written confirmation of the execution of a final agreement to the Company with copies of the final agreement attached. The representative for seller will obtain this from the seller, and the representative for buyer will obtain this from the buyer. By requiring two originals of these written confirmations to be submitted to the Administration Division in addition to a copy of the definitive agreement when recording sales, it will become possible for the Administration Division to check the execution of the definitive agreement by using such original, and to conduct double-check by comparing documents submitted from both the representative for the seller and the representative for the buyer. This method may appear to be complicated, but it will be sufficient to add one set of forms to be affixed with the parties' seals to be submitted to the Company at the same time when the parties affixed their seals on the final agreement. We believe that this should be stipulated in the rule of sales recording.

5. Rebuilding of Business Flow for Recording Sales

As addressed above, with respect to how the Company determines the recording of sales on cases in which sales are reported, (1) the Company does not determine the authenticity of reports, and (2) the recording of sales is determined from the perspective of determination of whether dealbreakers have been resolved.

However, as the size of the Company expands, the determination of the authenticity of the reports of Item (1) above became essential. In accordance with the rebuilding of the system for the reporting of sales above, this would be conducted by (i) reviewing the originals of the seller's written confirmations on the execution of a definitive agreement submitted by the representative for the seller, and checking the date and attached documents, etc., (ii) reviewing the originals of the buyer's written confirmations on the execution of a definitive agreement submitted by the representative for the buyer, and checking the date and attached document, etc., and (iii) comparing documents of Items (i) and (ii).

In the standard for the recording of sales of Item (2), the use of the requirement of "whether dealbreakers have been resolved", as adopted by the Company, cannot be labelled as an issue of the accounting standards. However, the determination thereof can be made only by the representatives in charge of the cases and their direct supervisor, and the Administration Division can check this only by the scheduled remittance date for the corresponding case and interviews with the representatives in charge of the cases, and determinations were not made by objective criteria. With regard to the recording of sales, the Company should establish clear requirements that the Administration Division can check by objective criteria. For example, the Company should establish a clear requirement that considers the deal breakers might not be resolved when the period from the execution of a stock purchase agreement or other definitive agreement through remittance exceeds a certain time period (e.g., around 10 days), and therefore, does not recognize sales as of the time of the execution of the definitive agreement, unless extraordinary circumstances exist.

Such a requirement should be established based on a decision made by the appropriate organization under multifaceted consideration, and the decision should be clearly stated in the accounting rules or manual, and commonly understood by all employees.

6. Thorough Document Management concerning Contract, etc.

The internal document management at the Company requires assurance at an appropriate level due to the extent of missing materials, for the purpose of verification of contract at a later date. However, it is possible to replace and save the uploaded definitive agreements on the Company's system, and impossible to objectively validate the business activities at a later date once the data for the replaced definitive agreements has been deleted. Such a document management system for contracts, etc. is also problematic from the standpoint of internal control, and therefore, the Company needs to reconsider the document management system, improve document management rules as necessary, have a person responsible for document management manage appropriately and build a system in which once documents are uploaded, they cannot be deleted even after they have been updated.

7. Enhancement of Effective Compliance Training and Education

Based on the decline in normative consciousness in some of the Company's department general managers, other middle management and sales employees caused by multiple factors, which led to the actions related to the Improprieties, the Company should enhance compliance training and education, and NMAH should make it efforts to promote sound ethics throughout NMAH.

Also, while regular compliance training is conducted at NMAH, most of it takes the form of lectures by members of the internal Compliance Committee, and this is thought not to be effective enough.

With regard to this, under the recognition that a culture of compliance cannot be built in a day, we believe that NMAH needs to develop and continually implement effective compliance training that affects the employees' behavior, including the invitation of outside lecturers.

8. Enhancement of Early Detection Measures

The Company failed to discover and address the Improprieties over an extended period, and the spread of the Improprieties to numerous departments is a major issue. As such, the Company needs to consider measures and a business system that rapidly detect business related improprieties and enable the management to rapidly respond to these improprieties without permitting any of them.

(1) Enhancement and Strengthening of Reporting Window

Where the whistleblowing system has failed to function effectively, the Company should consider the improvement measures of such situation.

If the Improprieties, or other important improprieties that would possibly arise in the future, could be detected earlier, they would be resolved by imposing an appropriate disciplinary action as a problem that involves the individual who committed the improprieties. A major theme of the Improprieties is that "the Improprieties expanded and spread".

In particular, it is reasonable to obligate general managers of the sales departments and other upper-level managers who play a part in management to report to an external reporting window or the department in charge of compliance when they learn of improprieties, inappropriate behavior, power harassment, sexual harassment, compliance violations, etc.

(2) Regular Interviews of Department General Managers and Other Key Persons in Charge of Sales

The Company should consider the measures to directly hear employees' opinions in order to supplement the limitations of the means of whistleblowing which is triggered by employee's action. With regard to this point, it would be considered that Audit and Supervisory Committee, for example, sets interviews with each sales representative. Such a method would create an opportunity to hear the voices in the field, even if there are some limitations on absorbing these voices, and would be meaningful for each sales representative as they can recognize the opportunity to have their complaints heard.

9. Strengthening of Audit and Supervisory Division

While NMAH has established the Internal Audit Office and it has conducted internal audits, these internal audits were unable to detect the Improprieties.

At present, NMAH's Internal Audit Office is ran by two individuals, both of which also serve as corporate advisers, and does not have a dedicated office or any assistants. It would be difficult to conduct effective audits to prevent improprieties under this system. As such, we believe that the system needs to be strengthened by improving the audit system so that it can audit to prevent improprieties, by appointing at least one dedicated employee to the Internal Audit Office and by providing a dedicated office and assigning assistants to the Internal Auditing Office. Additionally, regarding its alignment with the Audit and Supervisory Committee, efforts need to be made to create a close cooperation by adding opportunities for regular reports and establishing opportunities for regular reports, to strengthen the system in the audit division. Furthermore, it is necessary that the details of the audits by the Internal Audit Office are closely shared through regular reports to the board of directors, etc.

10. Strengthening of Company's Risk Management

The discovery of the Improprieties was delayed because improper reports through the creation of copies of definitive agreements or copies of memoranda of understanding was not imaginable in the ordinary business process. However, with expansion of the Company's size and the diversification of business, ordinarily unforeseeable risks may arise in the business processes. With regard to this, in the past NMAH established the Risk Assessment Committee comprised of full-time directors (*torishimariyaku*) and members from managers in the Legal Affairs Office, and engaged in the examination of internal risk management and preventions across NMAH and its subsidiaries, but in light of the occurrence of the Improprieties, this cannot be assessed to have been fully effective. As such, in addition to this examination of risk management and prevention, the Company should validate the business process, and thereby realize the environment where an internal control functions to eradicate an atmosphere that allows for improprieties by employees. Additionally, if the Risk Management Committee is positioned to serve for this purpose, we believe that it is necessary for the Company, mainly by the newly-established department in charge of compliance, to validate the existence of risks which may arise in each business process, to continuously discuss and validate the establishment of business process that minimize the possibility thereof.

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