



February 18, 2022

To Whom It May Concern

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Representative: Haruhiko Doi
Chairman and CEO
(First Section of TSE: Securities Code 2427)
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Notice Regarding the Formulation of Measures to Prevent Recurrence and Director Candidates

As announced in the “Notice Regarding the Formulation of Measures to Prevent Recurrence and Related Matters” released on January 14, 2022, we are working on the implementation of measures to prevent recurrence of the incident of inappropriate accounting regarding 17 companies of the OUTSOURCING Group (hereinafter, “the Incident”). We hereby notify that we have decided on the following specific measures to prevent recurrence at our board of directors meeting held today. Additionally, as part of this effort, we have also decided to propose candidates for independent external directors at our shareholder meeting and establish the “Recurrence Prevention Committee,” which we also describe below.

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

Particulars

I. Measures to Prevent Recurrence

In this document, we also have included the measures to prevent recurrence which have been notified in the “Notice Regarding the Formulation of Measures to Prevent Recurrence and Related Matters” released on January 14, 2022. Specific points which have been newly decided as concrete measures to prevent recurrence are underlined.

1. Reform of the corporate culture led by the CEO

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

In implementing the measures to prevent recurrence, we will establish as of today the “Recurrence Prevention Committee” (see “III. Establishment of the Recurrence Prevention Committee” described later). The CEO, as chairperson of the Recurrence Prevention Committee, will lead the measures to prevent recurrence, including strengthening the group governance system.

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

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

(1) Instill compliance awareness throughout our group and raise awareness

- Raise awareness through the CEO's visits to our offices and sites, which will create opportunities for direct discussion between the CEO and the employees (starting sequentially in February)
- Raise awareness through the announcement of the CEO's comments in the groupwide in-house newsletter (every quarter starting in April)
- Instill compliance awareness by posting articles on compliance in the groupwide in-house newsletter (every month starting in April)
- Create and distribute compliance guidebooks and collection of case studies on compliance violation to instill compliance awareness (by the end of June)

(2) Strengthen compliance education (by the end of June)

- Increase awareness and knowledge through trainings for management positions and for directors and officers of our group companies
- Internal control training
- Training as stipulated by the Anti-Corruption Policy and submission of a written pledge

(3) Reinforcement of the system for promoting compliance and other related measures

- Establish a division specialized in compliance (under consideration)
- Strengthen monitoring by the finance and accounting departments (including periodical visits for checking and periodical reports) (by the end of September)
- Periodical survey toward employees (the first one will be held at the end of September; to be held once a year)

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

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

(1) Revise the delegation of authority through disciplinary actions against the persons involved, changes in the organization to which they belong and personnel changes (took effect on February 1; a part of the change will take place in March)

(2) Hire for management positions and hire talents with high expertise through both external recruitment using recruitment agencies and an open internal recruitment system (partially still under consideration)

(3) In principle, terminate the contracts for transactions (including transactions via other subsidiaries) that are likely to induce inappropriate accounting such as those of the Incident (by the end of March; due to the terms of contract, some will be terminated in April or later)

4. Restructuring the corporate governance system and organizational structure

(1) Appropriate allocation of authority through a strengthened management system

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

a. Revise the authority of group companies in the Domestic Engineering Outsourcing Business to strengthen our management functions (finished on January 13)

b. Strengthen through the revision of the internal rules (by the end of June)

- Review and revise the authority of OUTSOURCING Inc.'s sales division based on the revision of the Authority Rules

- Strengthen OUTSOURCING Inc.'s management function by reviewing and revising the Management Rules for Subsidiaries and Affiliates and the documents related to the management of group companies

- Hold online seminars on basic internal rules to instill the rules throughout our group (once a month from July to September)

c. Strengthen cooperation by regularly holding groupwide corporate management division meetings (once a month starting in February)

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

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

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

a. Appoint new independent external directors to strengthen the roles of external directors as part of the Board of Directors

(see "II. Director Candidates" described later)

b. Review the agenda of the meetings of the Board of Directors (by the end of June)

- Delegate a part of the authority of the Board of Directors to the Management Meeting to improve the supervisory function of the Board of Directors

- Focus on discussion of business challenges and monitor the responses taken and the progress

- Introduce discussions on investment strategies as well as strategies and tactics in response to changes in the business environment, in addition to performance management and forecast management

- Make regular reports by group companies on business situations mandatory and monitor their situations

c. Create a system in which information necessary for supervision is shared, including the enhancement of prior explanations to directors (by the end of March)

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

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

a. Strengthen our system regarding both its quality and capacity by hiring talents with

[Translation]

- experience working at listed companies or with expertise (by the end of September)
- b. Increase awareness and knowledge through compliance education by external specialists mainly on accounting (by the end of June)

5. Strengthening the internal control division

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

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

- a. Strengthen the management division by hiring for management positions and hiring talents with high expertise through external recruitment using recruitment agencies and an open internal recruitment system
 - Formulate a human resources development plan for employees of the management division (by the end of June)
 - Provide training in line with the human resources development plan (employees must take training twice a year and also work on self-training in line with the plan aside from the provided training)
- b. Continued reinforcement of risk self-management by each company's president based on the MCR (Minimum Control Requirements) under the initiative of governance team to strengthen global governance (by the end of June)
- c. Set up a dedicated compliance department to foster compliance awareness and enhance education (under consideration)
 - Formulate the basic policies and operation policies for the major processes (recording sales, work in process, etc.) and ensure that all employees understand the policies
 - Education led by each division on the relevant laws and regulations (by the end of December)
 - Education on labor-related matters by labor and social security attorney (by the end of September)

(2) Enhancing the internal audit system

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

- a. Add two new internal auditors with sufficient knowledge of finance and accounting (one has already been appointed; another will be appointed by the end of June)
- b. Shift to an integrated audit system in which a management-level employee of the Internal Audit Office of OUTSOURCING Inc. is temporarily sent to OUTSOURCING TECHNOLOGY Inc. and works together by other means as well (completed on February 1)
- c. Reinforce awareness through compliance training of the internal audit division (on a regular basis, once every half a year) (by the end of March)
- d. Improve knowledge of finance and accounting through training (on a regular basis, once every half a year) (by the end of March)
- e. Create an audit plan that emphasizes the areas of accounting and finance based on a revised risk approach method (period, target, areas of focus and audit items) (by the end of February)
- f. Further enhancement of cooperation among the internal audit division, Audit and Supervisory Committee and the accounting auditor (by the end of June)

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

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

a. Audit and Supervisory Committee

- i. Review and revise the group auditing system of the domestic and overseas businesses and improve audits
- ii. Create a system that enables sufficient group auditing by changing the composition of the Audit and Supervisory Committee from the current composition of one full-time member and three part-time members (of which one is a semi-full-time member) to two full-time members, establishing an audit system that separately checks the domestic businesses, overseas businesses and each business division and adding more employees to assist in the duties of the Audit and Supervisory Committee.
- iii. Review and revise the auditor system in group audits and add more employees as necessary based on the scope of duty

b. Internal audit

- i. Maintain an audit system that is in cooperation with the Internal Audit Office
- ii. Add more auditing staff with the capability to conduct audits of the domestic and overseas businesses and with accounting knowledge and strengthen the system toward greater comprehensiveness in handling conventional auditing duties and greater capability in handling matters related to financial accounting
- iii. Continue to communicate frequently with the Internal Audit Office, especially in important cases by reporting in a timely manner, and strengthen auditing by regularly coordinating with each other

c. Accounting auditor

- i. Continue to communicate with the accounting auditor on a monthly basis and cooperate in audits with important information shared
- ii. Consider whether sufficient audits of the group companies can be ensured in making a contract with the accounting auditor

6. Revising the internal reporting system

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

- (1) Review and revise the internal reporting system (by the end of March)
- (2) Create a point of contact that is independent from the management team (by the end of April)
- (3) Notify and build awareness of the internal reporting system and handling rules by posting information on the groupwide in-house newsletter, pays slips and other places (by the end of April)
- (4) Consider the adoption of an incentive scheme and an internal leniency program (by the end of May)

Please note that the (domestic) internal reporting rules were formulated and became effective on December 15, 2021.

7. Revising the internal accounting rules and the accounting system

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

- (1) Review and clarify the accounting rules in coordination with external specialists (by the end of September)
- (2) Develop and introduce a tool for checking abnormal values to prevent inappropriate

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accounting in operations (by the end of April)

- (3) Introduce a financial data analysis tool to detect inappropriate accounting (by the end of September)
- (4) Define the requirements for the renovation of the current enterprise system (by the end of July)

8. Establishing feasible business plans and budget

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

- (1) Improve the accuracy of budget through analysis using KPIs (at the time of creating the budget for the fiscal year ending December 2023)
 - Add an evaluation axis for the business divisions
 - Although the main focus will be to achieve the budget goals for sales and operating profit, consider the addition of indicators for sustainable or future growth such as KPIs (for processes) and average growth rates
- (2) Create a realistically achievable budget through careful evaluation of the rationale for the budget by the business divisions and management division of OUTSOURCING Inc. (at the time of creating the budget for the fiscal year ending December 2023)
- (3) Careful evaluation of the adequateness of the premises used in creating the budget (at the time of creating the budget for the fiscal year ending December 2023)

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II. Director Candidates

We have selected the candidates for director that we will propose at the 25th Ordinary General Meeting of Shareholders to be held on March 29, 2022. We currently have seven external directors, but we plan to add three new independent external directors and two new internal directors to further strengthen our corporate governance system.

1. Candidates for new director (for election at the 25th Ordinary General Meeting of Shareholders to be held on March 29, 2022)

Name (Date of birth)	Career summary, and position and responsibility in the Company
<p>Masashi Umehara (November 24, 1969)</p>	<p>Jan. 1993 Joined NAGOYA OHARA GAKUEN Aug. 1999 Joined Noboru Imamoto Tax Accounting Office Sept. 2000 Joined Tomoyoshi Fushimi Tax Accounting Office (currently Fushimi Tax & Accounting Corporation) Dec. 2002 Joined OUTSOURCING Inc. Mar. 2006 Managing Director and Head of Management Division Apr. 2006 Managing Director, Head of Management Division and Executive Manager of Corporate Planning Office Jan. 2011 General Manager of Accounting Department Aug. 2017 Executive Officer and General Manager of Accounting Department Oct. 2019 Managing Executive Officer and Deputy Head of Corporate Management Division Jan. 2022 Managing Executive Officer and Head of Corporate Management Division (present position)</p> <p>[Significant concurrent positions outside the Company] Auditor, AVANCE CORPORATION Director, OUTSOURCING TALENT IRELAND LIMITED Supervisory board, OTTO Holding B.V.</p>
<p>Franciscus van Gool (June 19, 1965)</p>	<p>Jan. 1998 Joined Scherpenhuizen B.V., Commercial Director Mar. 1999 Chairman, OTTO Holding B.V. (present position) Nov. 2003 Founded OTTO Work Force B.V., CEO (present position)</p> <p>[Significant concurrent positions outside the Company] Chairman, OTTO Holding B.V.</p>
<p>Hiroto Abe (November 1, 1957)</p>	<p>Apr. 1980 Joined MITSUI & CO., LTD. Sept. 1988 Manager, Legal Department, MITSUI & CO. (BRASIL) S.A. Apr. 1992 Assistant General Manager, Legal Department, MITSUI & CO. (U.S.A.), INC. Oct. 2002 General Manager, Legal Department, MITSUI & CO. EUROPE PLC May 2005 General Counsel and Chief Compliance Officer, Europe, Middle East, and Africa Business Unit, MITSUI & CO., LTD. Apr. 2009 Professor, Faculty of Law, Meiji Gakuin University Apr. 2011 Professor, Graduate School of Law, Hitotsubashi University June 2019 External Director (Audit and Supervisory Committee Member), CASIO COMPUTER CO., LTD. (present position) Apr. 2021 Professor Emeritus, Hitotsubashi University (present position) Apr. 2021 Professor, NUCB Business School (present position)</p> <p>[Significant concurrent positions outside the Company] External Director (Audit and Supervisory Committee Member), CASIO COMPUTER CO., LTD. Professor, NUCB Business School</p>

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<p>Yasuharu Toyoda (March 19, 1948)</p>	Apr. 1971	Joined Toyota Motor Sales Co., Ltd. (currently TOYOTA MOTOR CORPORATION)
	Jan. 1997	Finance Officer, New United Motor Manufacturing, Inc.
	Jan. 2001	Chief Accountant, Toyoda Automatic Loom Works, Ltd. (currently TOYOTA INDUSTRIES CORPORATION)
	June 2001	Director, TOYOTA INDUSTRIES CORPORATION
	June 2003	Managing Director, TOYOTA INDUSTRIES CORPORATION
	June 2004	Auditor, Fuji Logistics Co., Ltd.
	June 2005	Representative Director and Senior Managing Director, TOYOTA INDUSTRIES CORPORATION
	June 2006	Senior Managing Director, TOYOTA INDUSTRIES CORPORATION
	June 2010	Representative Director and Executive Vice President, TOYOTA INDUSTRIES CORPORATION
	June 2012	President and CEO, Wanbishi Archives Co., Ltd.
	June 2014	Chairman of the Board, SKM CORPORATION
	Sept.2018	Advisor, PEO Co., Ltd.
	<p>Makiko Ujiie (Current Family Name: Ninagawa) (April 28, 1983)</p>	Jan. 2011
Jan. 2018		Partner Lawyer, Umegae-Chuo Legal Profession Corporaion (present position)
Oct. 2021		External Auditor, ORJ INC. (present position)
[Significant concurrent positions outside the Company]		
Partner Lawyer, Umegae-Chuo Legal Profession Corporation External Auditor, ORJ INC.		

*Hiroto Abe, Yasuharu Toyoda, and Makiko Ujiie meet the requirements for an independent director as stipulated by the Tokyo Stock Exchange. If their appointment is approved, we will designate them as independent directors and submit a report to the Tokyo Stock Exchange accordingly.

Reference: List of directors after appointment

Name	Election Type	Position in the Company
Haruhiko Doi	Reelection	Chairman and CEO
Kazuhiko Suzuki	Reelection	Senior Executive Director
Masashi Umehara	New election	Director
Masashi Fukushima	Reelection	Director
Anne Heraty	Reelection	Director
Franciscus van Gool	New election	Director
Atsuko Sakiyama	Reelection	Independent External Director
Hiroto Abe	New election	Independent External Director
Yasuharu Toyoda	New election	Independent External Director
Makiko Ujiie	New election	Independent External Director
Hideyo Nakano	Reelection	External Director
Ichiro Otani	Reelection	Independent External Director (full-time Audit and Supervisory Committee Member)
Masaru Namatame	Reelection	Independent External Director (full-time Audit and Supervisory Committee Member)

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Hiroshi Otaka	Reelection	Independent External Director (Audit and Supervisory Committee Member)
Hideo Shiwa	Reelection	Independent External Director (Audit and Supervisory Committee Member)

*This matter will be officially decided by a resolution of the 25th Ordinary General Meeting of Shareholders that will be held on March 29, 2022, and of the Board of Directors Meeting and the Audit and Supervisory Committee Meeting that will be held following the conclusion of the shareholder meeting.

III. Establishment of the Recurrence Prevention Committee

To effectively implement the recurrence prevention measures, we will establish as of today the Recurrence Prevention Committee chaired by the CEO.

The Board of Directors, the majority of which is comprised by independent external directors, will monitor the Recurrence Prevention Committee to guarantee that it is appropriately effective. For this purpose, as stated in II. Director Candidates, we have decided to appoint three new independent external directors, on the condition that their appointment is approved at the general meeting of shareholders on March 29, 2022, to strengthen the supervisory function of the Board of Directors. Through this change, we will ensure that the Recurrence Prevention Committee can more firmly carry out the preventive measures and will further enhance its effectiveness.

Duration of establishment

February 18, 2022, to December 31, 2022 (planned)