

Interim Report on the Internal Investigation into Inappropriate Cost Management

As announced in the "Notice of Postponement of Announcement of Financial Results of FY2023 and Establishment of an Internal Investigation Committee" dated February 9, 2024 and the "Status of Internal Investigation into Inappropriate Cost Management" dated February 22, 2024, there was a report of inappropriate cost management, and an internal investigation committee was established to investigate.

We would like to inform you of the matters that have been identified so far regarding this investigation as follows.

1. Cases in which inappropriate cost management was reported

(1) Outline of the Case

According to the report, in one department of us (hereinafter referred to as the "Subject Department"), the cost was transferred to another business for the purpose of avoiding one consignment business (hereinafter referred to as the "Business") to be in the red from fiscal 2021 to fiscal 2023.

In addition, in the course of the investigation, a transfer of costs other than the declaration was discovered in the subject department.

(2) Method of replacement

In the Services, our employee who manages the budget for the Services (hereinafter referred to as "X") instructed the person in charge not to exceed the budget for personnel expenses for the Services. In addition, X transferred the expenses of the dispatched employees engaged in the Services to other services.

Regarding the transfer of costs that was newly discovered in the course of the investigation, the person in charge of the subject department / office had made the transfer of personnel expenses at his / her own judgment, not under the instruction of X, in operations other than the Services.

In either case, the transfer of other costs such as outsourcing expenses was not confirmed.

2. Investigation of similar deals

(1) Investigation method and subject of investigation

The Internal Investigation Committee conducted a questionnaire survey of 832 managers with budget management authority at us and its major consolidated Group companies (116 of whom were Group companies) in order to investigate whether or not costs were reallocated in other departments. The survey period was from January 2023 to January 2024.

In addition, we conducted an interview survey of those who answered that they "have implemented, instructed, and cooperated in cost reallocation" in the questionnaire survey.

(2) Results of the investigation

As a result of a questionnaire survey, etc., it was confirmed that 65 out of 832 employees (including two employees of group companies) had conducted, instructed or cooperated in cost reallocation, and the impact on our performance was determined.

3. Impact on our financial results

As a result of the above investigation, the impact on our performance is as follows.

The estimated impact on the current period profit attributable to net income attributable to owners of the parents is - 54 million yen (- 1.2%) in FY2021 and + 12 million yen (+ 0.2%) in FY2022. As the impact in each accounting period is minor, no retroactive adjustment is made. For FY2023, We will additionally record net sales of 74 million yen, while additionally recording cost of sales of 15 million yen and recording income taxes and deferred income taxes of 14 million yen in estimates and deducting them from net sales.

As a result of calculating the impact on performance based on these factors, We has decided to additionally record 44 million yen in profit attributable to net income attributable to owners of the parents for the current period operations. This additional amount is equivalent to 0.6% of the current period profit attributable to net income attributable to owners of the parents.

4. Announcement of Investigation Results

The results of the investigation by the Internal Investigation Committee, including the details of the incident, analysis of the cause, recurrence prevention measures, etc., excluding the impact on our performance, will be summarized and disclosed as a report in April.