



March 12, 2020

To whom it may concern:

Net One Systems Co., Ltd.
(Stock Code: 7518, TSE1)

Notice regarding investigation results of special investigative committee and future response

As indicated in the "Notice regarding the establishment of a special investigative committee" dated December 13, 2019, the National Tax Agency informed Net One Systems Co., Ltd. ("Net One Systems") of its doubts concerning a delivery of goods associated with one of its transactions ("the incident"), which were uncovered through a tax inquiry. In response, Net One Systems set up an internal investigation team while working to determine the facts surrounding the incident through interviews with concerned parties within Net One Systems and other means. Despite these efforts, we reached the conclusion that an internal investigation was not enough, and that we would need to appoint external experts with specialized knowledge to conduct a more extensive and thorough investigation covering the customers in question to obtain an accurate understanding of the facts of the incident. Accordingly, Net One Systems established a special investigative committee consisting of external lawyers and a certified public accountant who do not have any conflict of interest with Net One Systems, and conducted an investigation. The committee's establishment ensured a swift, seamless, flexible, and appropriate investigation with a fair and objective perspective and position centered on gaining an accurate understanding of relevant facts and developments while utilizing documents and other data collected by the Company's internal investigation team.

As stated in the "Notice regarding receipt of interim report by special investigative committee" released on February 13, 2020, we hereby announce that we have received the final report from the special investigative committee today, as summarized below.

1. Results of investigation by the special investigative committee

We received the following recommendations from the special investigative committee to prevent a recurrence.

Recommendations of the special investigative committee (summary)

- (1) Management and executives to have clear understanding of business transactions at actual workplace
 - Management and executives to gain proper understanding of business transactions at actual workplace across all divisions and build arrangements for effective reporting, communications, and consultation
 - Fundamental reappraisal of commercial transactions in government projects
- (2) Review of risk management approach

- Rebuild systems responsible for promoting risk management activities around Chief Risk Officer (CRO), who will spearhead aggressive and proactive measures
- Examine and consider the appropriate form of the Management Committee and Risk & Compliance Committee from the ground up
- Clarify responsible divisions and mission regarding risk management overall and management of fraud risk
- Identify and assess significant risks in each division, with such significant risks to be examined and investigated by other divisions
- Enhance sensitivity of officers and employees to risk and ensure effectiveness of rules and other measures
- Strengthen Internal Audit Office and other monitoring departments

(3) Review internal controls

- Investigate and implement measures to prevent collusion between salespeople and suppliers and contractors
- Review drop ship transaction flows and investigate and implement acceptance confirmation policies
- Redefine role of purchasing department
- Enhance authority to investigate contractors

(4) Review compliance activities

- Aggressive and proactive commitment by management and executives in each division regarding undertaking compliance
- Employees to undertake compliance activities they think of themselves
- Examine organizational culture and create better culture

2. Future response

(1) Measures to prevent recurrence

Net One Systems has taken the findings of the special investigative committee seriously and will implement the following measures to prevent recurrence.

A. Basic policy on business transactions

- We will only deal with projects where our Group's added value (our unique services and solutions) is recognized.

B. Strengthening risk management systems

- We plan to establish a sales management office under the direct control of the president on April 1, 2020 to promote company-wide changes in business rules to prevent recurrence.
- At the start of each fiscal year, each division will conduct risk analysis of its own division, and produce a risk survey sheet which it will submit to the risk management office. The risk management office will examine the sheet and make judgments from an objective viewpoint.
- We will undertake a radical review of policies to promote risk management activities and associated systems. It will also reconsider the functions and composition of the Risk & Compliance Committee.
- We will conduct training to increase awareness of compliance among all personnel, including management and executives.

C. Review and enhancement of business controls

- We will review the business role of the sales divisions and clarify their roles and authority. We will remove the authority to place orders and manage acceptances from the sales divisions.
- We will make the purchasing function independent as of April 1, 2020 (currently performed by the group purchasing and logistics department) and enhance its role.
- Competitive quotes will be mandatory when purchasing from a supplier other than one where we have a procurement purchasing contract and regularly conducts procurement transactions. The purchasing department will confirm the appropriateness of the supplier.
- Drop ship transactions from suppliers shall be prohibited as a rule. If direct shipping is necessary due to circumstances such as deadlines, prior confirmation from the purchasing department that it is not a commercial transaction shall be necessary, and acceptance confirmation from the customer shall be mandatory.
- We shall thoroughly implement personnel rotation and share responsibilities among personnel within divisions (to prevent over reliance on certain individuals).

D. Review of compliance activities

- The officer in charge and relevant executives should state their commitment to compliance activities in the compliance action plan that each division creates at the start of the fiscal year. Depending on their position, the Board of Directors or Management Committee shall review this on a quarterly basis.
- We plan to update its vision book, which contains the Group's goals, mission, and guidelines for our personnel conduct. In updating the book, we will select members from across the Company to create and bring about a new corporate culture and redouble efforts to inculcate this throughout the Company.

(2) Clarifying responsibilities of people involved

A. Clarifying management responsibility

Taking their management responsibility seriously in the incident, the following executive directors who should take supervisory responsibility have agreed to repay 10% of their salaries.

Takayuki Yoshino, Chairman & CEO	10% of salary for one month
Toru Arai, President & COO	10% of salary for one month
Shinji Hirakawa, Executive Director, Senior Vice President, in charge of Eastern Japan Business Division 1	10% of salary for one month

B. Disciplinary action taken against those involved

Strict disciplinary action has been taken against employees of Net One Systems who were involved in the incident.

We deeply apologize for any inconveniences or hardships this decision may place upon all affiliated parties, including our shareholders, investors, and business partners.

The Net One Systems Group is committed to working together to restore trust and enhance corporate value. We ask for your continued support.