March 8th, 2013

To whom it may concern:

Company: Net One Systems Co., Ltd.
President & CEO: Takayuki Yoshino
(Code: 7518 First Section, Tokyo Stock Exchange)
Reference: Norihisa Katayama, Director
For further information on this release, please contact:
Tomoaki Masuda, General Manager of Investor Relations
Tel: 81-3-5462-0803

Announcement of the results of the investigation into our employee’s wrongdoing

The company commissioned to the special investigating committee formed on February 4th, 2013 and headed by lawyer Tadashi Kunihiro an investigation into our employee’s wrongdoing following the “Announcement of uncovered employee wrongdoing, delay in submitting third quarterly securities report for March, 2013 and prospect of being designated as “Securities Under Supervision (Examination)” on February 12th, 2013.

The committee submitted the report on the investigation on March 7th, the full-length of which can be found in the attached “Investigative Report on the Wrongdoing by Net One Employee.”

We would like to extend our sincere apologies for raising concern among our shareholders over the issues arising from this announcement.

1. Brief summary of the wrongdoing

The investigation revealed that one of our employee conspired with third party subcontractors to embezzle monies from the company by illicitly charging the company under the name of fictitious outsourcing cost. The employee in question was punitively dismissed, effective February 28, 2013. In addition, one subordinate of this employee will be severely punished after having been confirmed its involvement in the wrongdoing by the special investigating committee.

The aggregate amount of illicit payment amounted to 789.1 million yen over seven years from the year of 2005 to 2012.

The detail of the wrongdoing can be found in the "Investigative Report on the Wrongdoing by Net One Employee."

2. Impact on the past consolidated financial statement, non-consolidated financial
The past consolidated financial statement, non-consolidated financial statement and quarterly consolidated financial statement should be restated as all of the payments arising from the wrongdoing were recorded as expense in each fiscal year. And if the monies paid by the company cannot be recovered, the company is obliged to recognize an additional tax expense. However, the company has decided not to restate the past financial statements and restate only the Q3 quarterly statement for the reason that the impact of such adjustments on the past financial statements is substantially negligible.

3. Submission of Q3 quarterly securities report for March 2013 and restatement of Q3 quarterly earnings summary for March 2013

The company submitted the Q3 quarterly securities report for March 2013 on March 8th, 2013. In addition, the company restated the Q3 quarterly earnings summary announced on January 30, 2013 on the same day.

4. Range of preventive actions implemented

The company, effective March 1, 2013, revamped its operational process and procedures of purchasing and selling products and services and subcontracting services such as receiving and submitting a quotation, accepting an order from customers, placing an order with vendors and subcontractors and accepting the products and services by the company and the customer, and specified the responsibility and liability of the person authorized to proceed with each transaction in the way that serves as a deterrence over any wrongdoing. The company will promptly carry out the recommendations proposed by the special investigative committee to prevent future wrongdoing.

5. Legal actions against the former employee

The company will pursue criminal and civil charges against the former employee implicated in the wrongdoing.

6. Giving up executive pay

The company takes this incident seriously and the following directors will give up their salaries as follows to take managerial responsibility for the wrongdoing.

Takayuki Yoshino, CEO & President: 30% reduction in monthly remuneration for one month
Shingo Saito, Director: 10% reduction in monthly remuneration for one month
Norihisa Katayama, Director: 30% reduction in monthly remuneration for one month
Tsuyoshi Suzuki, Executive Managing Officer: 30% reduction in monthly remuneration for one month

The company’s management will work together with our employee to meet our shareholder’s expectation and appreciates your continued support.

Attachment: Investigative Report on the Wrongdoing by Net One Employee
Any name of person or company in the report remains anonymous for privacy purpose.
The Investigative Report on the Wrongdoing by Net One Employee

March 7th, 2013

Net One Systems Co., Ltd.

Special Investigating Committee
To Net One Systems Co., Ltd.

The Special Investigating Committee hereby submits the Investigative Report on the wrongdoing by your employee.

March 7th, 2013

Net One Systems Co., Ltd. Special Investigating Committee

Chairman Commissioner Tadashi Kunihiro
Commissioner Yuko Gomi
Commissioner Katsumi Nakamura
Commissioner Teruhisa Tajima
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(1) Scope of Investigation

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(1) The Number of Investigations conducted

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</tr>
</thead>
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<td>X Bank: Net One’s customer and the project owner, which project contributed to the wrongdoing</td>
</tr>
<tr>
<td>Y Company: A system integrator company who had business relationship with Net One and X Bank</td>
</tr>
<tr>
<td>Z Company: Net One’s subcontractor and one of the perpetrators of the wrongdoing</td>
</tr>
<tr>
<td>W Company: One of the prime contractors of X Bank project, who subcontracted to Net One</td>
</tr>
<tr>
<td>A: Former employee of Net One, who acted as one of the main offender of the wrongdoing</td>
</tr>
<tr>
<td>B: Former employee of X Bank, who acted as one of the main offender of the wrongdoing</td>
</tr>
<tr>
<td>C: Former employee of Y Company, who acted as one of the main offender of the wrongdoing</td>
</tr>
<tr>
<td>D: President of Z Company</td>
</tr>
<tr>
<td>E: One of A’s subordinate in Chubu branch office of Net One</td>
</tr>
<tr>
<td>F: One of A’s subordinate in Chubu branch office of Net One, who was E’s predecessor</td>
</tr>
<tr>
<td>G: The superior of E and F in Chubu branch office of Net One</td>
</tr>
</tbody>
</table>
1. The Special Investigative Committee

Part 1 The background of the formation of the Special Investigative Committee

In February 2012, the Taxation Bureau launched on a tax inquiry against Net One Systems Co., Ltd. (hereinafter referred to as “Net One”). What motivated the Taxation Bureau to the inquiry derived from its suspicion that the subcontracting payment over the “OA Platform Environment Renewal by Virtualization Project” and the “Banking Network Renewal Project” by Net One to Z Company was made under a fictitious transaction.

The long running inquiry by the Taxation Bureau impelled Net One to ascertain objective facts through third parties, which led to the commencement of internal investigation by investigating team comprised of outside lawyers (Lawyer Tadashi Kunihiro, Lawyer Yuko Gomi and Koji Ikeda Lawyer) (hereinafter referred to as the “Investigating Team”).

Following scores of hearings conducted by Investigating Team with Net One’s employees using such information as retrieved from digital surveys into mail servers and examination of transaction records, the results of the hearings strongly suggested that a wrongdoing was done by A, B and C in conspiracy.

However, the involvement in the wrongdoing of persons with different companies prevented further investigations by the Investigative Team and the Investigative Team made an offer to X Bank to make a concerted effort to deal with this wrongdoing. X Bank accepted the Investigative Team’s offer and started its own investigation with its outside lawyers from the end of December.

On January 31 2013, the Investigative Team questioned A about the wrongdoing and X Bank questioned B about the wrongdoing. The Taxation Bureau seemed to question C about the wrongdoing at the same time.

At first, the three persons denied any allegation of the wrongdoing, but eventually admitted some of the wrongdoing later.

Taking this situation seriously and for the purpose of uncovering the details of the wrongdoing, finding any similar acts, if any, and assessing the current internal control, Net One formed the Special Investigative Committee on February 4th.

At this point, the internal investigation revealed that the amount of payment made under the wrongdoing exceeded 700 million Japanese Yen. However, a thorough investigation needed to determine the exact amount in damage (including investigation into finding of any similar acts) made it virtually difficult for Net One to submit the third
quarterly securities report for March, 2013 by February 14, 2013, which was the
deadline stipulated in Section 1 of the Article 24-4-7 of the Japanese Financial
Instruments and Exchange Act. For this reason, the Tokyo Exchange designated the
stock of Net One as a “Security Under Supervision (Examination)” pursuant to rule 605
paragraph 1 item 13 sub-item a. of Enforcement Rules for Securities Listing Regulations
following Net One’s report to the Tokyo Exchange of the delay in submitting the third
quarterly securities report.

Part 2 The Special Investigative Committee

1. The members of the Special Investigative Committee
   (1) Commissioners
      Chairperson Commissioner: Lawyer Tadashi Kunihiro
      Commissioner: Lawyer Yuko Gomi
      Commissioner: Lawyer Katsumi Nakamura
      Commissioner: Certified Public Accountant Teruhisa Tajima

   (2) Investigation Assistant
      Lawyer Satoshi Niikuma
      Lawyer Koji Ikeda

2. The investigation pursuant to Third Party Committee Guideline
   Both Commissioners, Lawyer Tadashi Kuniyoshi and Lawyer Yuko Gomi, of the
   Special Investigative Committee have been acting as external contact point for Net
   One’s Whistle-Blowing System from July, 2012, and, as mentioned above,
   participating in the investigation as outside lawyers of the Investigative Team from
   November, 2012. In this regard, the Special Investigative Committee may not be
   regarded as a “Third Party Committee” defined in the “Guideline on Third Party
   Committee dealing with company scandal” authored by Japan Federation of Bar
   Associations (hereinafter referred to as “Third Party Committee Guideline”) in a strict
   sense.

   However, to ensure independence of the investigation, the Special Investigative
   Committee entered into an agreement with Net One confirming that the investigation
   into the wrongdoing would be conducted pursuant to the Third Party Committee
   Guideline before conducting the investigation and finally submitting this Investigative
   Report.
Part 3 Report to Public Institutions and Board of Auditors on the Progress of the investigation

The Special Investigative Committee reported on the progress of the investigation to Tokyo Exchange and Self-Regulation Organization, Kanto Finance Bureau and Taxation Bureau to the extent appropriate during the investigation.

In addition, the Special Investigative Committee reported to Net One’s Board of Auditors as well².

Part 4 Outline of the Investigation

The Special Investigative Committee examined the evidenced documents of transaction records stored in Net One, conducted hearings with parties concerned and conducted various investigations into digital documents.

Of which, the outline of the hearings with parties concerned and outcome of the digital investigations are as follows (including the hearings and investigations by the Investigative Team during the period from November 15 to February 3.)

1. Hearings with the parties concerned

The Special Investigative Committee conducted a total of about 55 hours of hearings with 14 employees of Net One in the investigations stated in Parts 1, 3 and 4 of Section 2.

In addition, The Special Investigative Committee conducted a total of about 30 hours of hearings with 32 employees of Net One in the investigations stated in Part 2 of Section 2.

2. Digital Investigation

(1) Devices subjected to the Investigation

Net One’s mail servers, PCs used for work by the parties concerned and mobile phones used for work were subjected to the investigation.

(2) The Way of the Investigation

About 7.5 million of mails on the X Bank project sent or received by people within and outside Net One, including those mails likely to have bearing on the project and including certain key words, were subjected to the investigation.

Of which, a certain number of mails were extracted by using search refinement and filtering and were examined along with the files attached to those mails.
Code of Kansayaku Auditing Standards by Japan Corporate Auditors Association stipulates that “the kansayaku or the auditor shall be briefed by the third party investigation committee on the background of the formation of the third party investigation committee and the progress on the investigation, and may require the third party investigation committee to attend the board of auditors to the extent necessary (Paragraph 3 of Article 24).”
2. The Investigative Report

Net One is a company whose business includes designing and overseeing corporate networks, installing and building networking equipments, providing network consulting, selling networking equipments and providing assistance on network operation, and whose stock is listed on the First Section of the Tokyo Stock Exchange. Its consolidated net sales for the fiscal year ending March 2012 was 157.633 billion Japanese Yen (145.427 billion Japanese Yen for non-consolidated), and the number of employees is 2,023 on consolidated basis and 1,840 on non-consolidated basis as of March 2012.

The investigations conducted by the Special Investigative Committee are comprised of as follows:

(1) The investigation into the crimes committed at Net One’s Chubu branch (as detailed in Part 1)
(2) The investigation into finding of any similar wrongdoing on a company-wide level (as detailed in Part 2)
(3) Investigations into and assessment of any deficiencies in the current internal control in place (as detailed in Part 3)
(4) Investigations into and assessment of any deficiencies in governance and compliance (as detailed in Part 4)

Part 1 The Crimes identified by the Special Investigative Committee

1. Summary of the Crimes committed

A³ conspired with B⁴ and C⁵ to defraud Net One of total of amount of 780,101,250 Japanese Yen by illicitly billing Net One under the name of fictitious subcontracting cost by Z Company (or D).

The fraud took place 52 times during the period from April 2005 to August 2012 using the same methodology (see “List of payment made to Z Company” on next page).

The fraud methodology is explained in detail in Section 2 (Background of the Crime) and Section 3 (Projects H and I⁶) where the two largest frauds (a total of 350 million Japanese Yen under two projects) were committed.

³ punitively dismissed effective February 28, 2013.
4 punitively dismissed effective February 28, 2013.
5 punitively dismissed effective March 5, 2013.
6 These projects correspond to No. 43 through 45 in the “List of payment made to Z Company” on next page.
<table>
<thead>
<tr>
<th>No.</th>
<th>Items ordered to Z Company</th>
<th>Amount of payment made to Z Company (exclusive of consumption tax)</th>
<th>The date on which payment was made to Z Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Personal information protection consulting fee</td>
<td>53,100,000</td>
<td>April 28 2005</td>
</tr>
<tr>
<td>2</td>
<td>Security policy consulting fee</td>
<td>2,000,000</td>
<td>May 1 2005</td>
</tr>
<tr>
<td>3</td>
<td>Relocation fee</td>
<td>800,000</td>
<td>July 29 2005</td>
</tr>
<tr>
<td>4</td>
<td>NW maintenance services</td>
<td>1,268,000</td>
<td>August 31 2005</td>
</tr>
<tr>
<td>5</td>
<td>Mail server installation support fee</td>
<td>2,300,000</td>
<td>August 31 2005</td>
</tr>
<tr>
<td>6</td>
<td>NW maintenance services</td>
<td>1,928,000</td>
<td>November 30 2005</td>
</tr>
<tr>
<td>7</td>
<td>Fee for validation of switch test</td>
<td>6,360,000</td>
<td>January 31 2006</td>
</tr>
<tr>
<td>8</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>February 28 2006</td>
</tr>
<tr>
<td>9</td>
<td>Server policy design and development fee</td>
<td>1,550,000</td>
<td>March 31 2006</td>
</tr>
<tr>
<td>10</td>
<td>Security consultation fee on network encryption</td>
<td>200,000,000</td>
<td>March 31 2006</td>
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<td>11</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>May 31 2006</td>
</tr>
<tr>
<td>12</td>
<td>Server relocation fee</td>
<td>4,000,000</td>
<td>June 30 2006</td>
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<tr>
<td>13</td>
<td>Server relocation fee</td>
<td>800,000</td>
<td>June 30 2006</td>
</tr>
<tr>
<td>14</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>August 31 2006</td>
</tr>
<tr>
<td>15</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>October 31 2006</td>
</tr>
<tr>
<td>16</td>
<td>Supplement to security consultation fee on network encryption</td>
<td>45,000,000</td>
<td>January 31 2007</td>
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<tr>
<td>17</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>January 31 2007</td>
</tr>
<tr>
<td>18</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>April 27 2007</td>
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<td>19</td>
<td>Server relocation fee</td>
<td>800,000</td>
<td>May 31 2007</td>
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<td>20</td>
<td>NW maintenance services</td>
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<td>July 31 2007</td>
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<td>21</td>
<td>NW maintenance services</td>
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<tr>
<td>22</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>January 31 2008</td>
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<tr>
<td>23</td>
<td>NW maintenance services</td>
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<td>April 30 2008</td>
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<td>24</td>
<td>Server update fee</td>
<td>800,000</td>
<td>July 30 2008</td>
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<td></td>
<td>Service Description</td>
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<td>26</td>
<td>Internet security consulting service fee</td>
<td>20,000,000</td>
<td>August 29 2008</td>
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<td>27</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>October 30 2008</td>
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<td>28</td>
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<td>29</td>
<td>NW maintenance services</td>
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<td>May 29 2009</td>
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<tr>
<td>30</td>
<td>Internet operation support service</td>
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<tr>
<td>31</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>July 31 2009</td>
</tr>
<tr>
<td>32</td>
<td>NET operation support service</td>
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<tr>
<td>33</td>
<td>Internet operation support service</td>
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<td>October 30 2009</td>
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<tr>
<td>34</td>
<td>NW maintenance services</td>
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<td>35</td>
<td>NW maintenance services</td>
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<td>36</td>
<td>NW maintenance services</td>
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<td>37</td>
<td>NW maintenance services</td>
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<tr>
<td>38</td>
<td>Internet operation support service</td>
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<td>September 30 2010</td>
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<td>Internet operation support service</td>
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<td>October 29 2010</td>
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<td>40</td>
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<tr>
<td>41</td>
<td>NW maintenance services</td>
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<td>January 31 2011</td>
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<tr>
<td>42</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>April 28 2011</td>
</tr>
<tr>
<td>43</td>
<td>Network environment renewal consulting (H project)</td>
<td>200,000,000</td>
<td>May 31 2011</td>
</tr>
<tr>
<td>44</td>
<td>System environment platform consulting (H project)</td>
<td>50,000,000</td>
<td>May 31 2011</td>
</tr>
<tr>
<td>45</td>
<td>OA platform environment consulting (I project)</td>
<td>100,000,000</td>
<td>May 31 2011</td>
</tr>
<tr>
<td>46</td>
<td>NW maintenance services</td>
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<td>July 29 2011</td>
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<tr>
<td>47</td>
<td>Internet operation support service</td>
<td>1,000,000</td>
<td>September 30 2011</td>
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<td>48</td>
<td>Internet operation support service</td>
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<td>49</td>
<td>NW maintenance services</td>
<td>1,906,500</td>
<td>October 31 2011</td>
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<tr>
<td>51</td>
<td>NW maintenance services</td>
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<td>April 27 2012</td>
</tr>
<tr>
<td>52</td>
<td>Operation skill support services</td>
<td>1,500,000</td>
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</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>751,525,000</strong></td>
<td><strong>789,101,250</strong> (inclusive of consumption tax)</td>
</tr>
</tbody>
</table>
2. Background of the Crime

A joined X Bank in 1984 and was later assigned to its information system department engaging in system construction among others.

B joined X Bank in 1987 and was later assigned to its information system department engaging in system construction with A.

X Bank had been embarking on the introduction of IT to its banking system and it counted Y Company as one of its vendors. The person in charge of Y Company was C, who was working at its Nagoya branch and has nurtured close relationship with A and B through business.

C entertained A and B many times culminating in taking both to two overseas trips (First trip was to a computer trade show in Las Vegas. The second one was to the same computer trade show in Las Vegas but only A was invited. In either case, the business trips were not officially approved by X Bank. At the time, C provided 2 million Japanese Yen in cash to both A and B.

Beginning at this time around, A, B and C made plans to illicitly gain profits from a chain of transaction and seemed to conduct wrongdoings in projects where X Bank directly or indirectly placed orders with Y Company (hereinafter referred to as “X Bank and Y Company scheme”).

Even after leaving X Bank and joining Net One in October 2000, A, in all probability, had been receiving monies under the X Bank and Y Company scheme.

A was promoted to general manager in April 2004 and executive general manager in April 2006, incrementally expanding his clout in Net One.

Under this positive situation for A and taking advantage of the flaw in Net One’s internal control (as detailed later in this report), A, B and C started charging Net One with fictitious bills by involving Z Company in projects where X Bank directly or indirectly places orders with Net One from around April 2005 (hereinafter referred to as “X Bank and NOS scheme”). In this way, the wrongdoing against X Bank and Y Company scheme shifted from X Bank and Y Company scheme to X Bank and NOS scheme.

A, B and C meticulously set the amount of monies that would flow from Net One to Z Company for each projects in the X Bank and NOS scheme. Each role played by these three persons and Z Company is as follows:

[C]
To have Z Company charge Net One with fictitious bills. To cash in the defrauded amount and to make sure that it was distributed to A and B.

[A]
To give orders to its subordinate on the internal procedures where orders from Net One
were placed with Z Company and payments were made to Z Company.

[B]
To make all out efforts to make certain that X Bank and NOS scheme would not only be approved within X Bank but also would be put into execution.

[Z]
This a company founded by D, former employee of Y Company, whose role was to follow C’s order to charge Net One with fictitious bills for subcontracting fees and was to receive the payment of such fees.

7 The Special Investigative Committee does not have a clear grasp of the detail of the wrongdoing under the X Bank and Y Company scheme, including the methodology used in fictitious billing by Z Company.

3. Projects H and I

(1) The defrauding


Under this conspiracy, Net One under the instructions by A placed the following orders with Z Company, who actually did not do any work.

- 100 million Japanese Yen for “Consulting Services for OA Platform Environment” in Project I on April 21, 2011.

Without doing any work above, Z Company submitted a statement of delivery and invoice to Net One on April 28, and the payment of 350 million Japanese Yen was made by Net One to Z Company on May 31.

In this way, A, B and C embezzled amount of 350 million Japanese Yen from Net One.

(2) The Detail of the Defrauding (See relationship diagram No.1 “Background of the
(a) The Determination of the Monies to be defrauded (Conspiracy)

Projects H and I had been underway in X Bank, and at the end of 2010, there was a likely prospect of Net One being awarded the order from X Bank. Amid this situation and seeing an opportunity for earning a considerable amount of monies from sales through this two projects, A, B and C planned to defraud Net One of the amount equal to the amount in the fictitious billing by Z Company, who would be the subcontractor of Net One in this project.

Project H and I were proceeding in parallel, and the framework and budget of the projects were mostly drawn up around February and March, 2011. Learning such information, A, B and C agreed on the amount of fees to be ordered by Net One for these two ongoing projects to be 350 million Japanese Yen that would be defrauded from Net One by Z Company’s fictitious billing. This amount was not determined at an official meeting, but likely to be determined gradually at casual conversations during playing golf or on the phones.

X Bank decided the total amount of budget for each project at the end of March following the authorization given by the board of directors of X Bank to the investment into each project.

A, B and C estimated the amount that they could defraud Net One to a total of 350 million Japanese Yen by sizing up the scale of both projects, which had two distinct schemes where Net One directly would receive order from X Bank in Project I and Net One would receive order from X Bank through multiple players including W Company in project H.
(b) The Mails indicating the Conspiracy of defrauding 350 million Japanese Yen

E was the sales representative of Net One and the person in charge of X Bank project, who made proposals relating to Projects H and I. There were mails sent and received among A, B, C and E as below.

We found from these mails that A, B and C were planning to defraud Net One of 350 million Japanese Yen collectively from both projects.

[The mail at 9:58 pm on March 15, 2011]
B sent to E the following mail (① of Relationship Diagram 1) from his personal mobile phone at 9:58 pm on March 15, 2011.
“My understanding is that the amount of purchase order placed with Z Company for NW\(^6\) and Virtualization are 200M and 150M\(^{10}\) respectively. When will the order be placed? And please do the math on NW maintenance that can be set aside. I’ll do my best at tomorrow’s IT committee\(^{11}\).”

No wrongdoings were found in the transactions of X Bank and W Company, and W Company and Net One respectively under Project H.

“NW” means “Banking Network Renewal (Project H).”

“200M” and “150M” mean 200 million Japanese Yen and 150 million Japanese Yen respectively.

The committee, who was responsible for deliberating on IT related projects in X Bank.

[The mail at 2:54 pm on March 29, 2011]
C sent to E (and copied A) the following mail (② of Relationship Diagram 1)
from his company's mobile phone at 2:54 pm on March 29, 2011.

“This C from Y Company. Thank you for your support. I heard that Net One will place orders with Z Company for the following two projects of X Bank.
- Networking renewal
- Server integration (Virtualization)
  I am sending this mail to ask you for the details of the order at this point assuming there are some specs to be tweaked.
- The ordered items and breakdowns
- The scheduled date for invoicing
- The scheduled due date for payment
  Thank you for your prompt response.”

[The mail at 8:49 pm on March 29, 2011]

In response to the email above (② of Relationship Diagram 1), E sent to C (and copied A) the following mail at 8:49 pm on March 29, 2011.

“Thank you for your support. This E from Net One Systems. Thank you for your email. Please allow me to reply inline.
  >The ordering items and breakdowns
  The following two consulting services are to be ordered.
- Consulting services for banking network environment rebuilding
- Consulting services for OA platform environment
  Please allow me to notify separately of the official name and the amount of monies to be ordered in the project.
  >The scheduled date for invoicing
  It is expected to be in or after May\textsuperscript{12}.
  >The scheduled due date for payment
  It is expected to be in November\textsuperscript{13} (expected to be invoiced by the end of the first half and paid by two months following the end of the first half). When it is finalized, I will contact you. Thank you in advance.”

\textsuperscript{12} Actually, the order was placed with Z Company on April 21 under A’s instruction.
\textsuperscript{13} Actually, the payment was made to Z Company on May 31 under A’s instruction.
(c) The Execution of the Defrauding

Although E understood that Projects H and I were larger projects than usual, he was reluctant to proceed with the internal procedures on the assumption that the payment to Z Company would be fixed to 350 million Japanese Yen for fear that Net One’s SE services fee would possibly increase incrementally given the long period of these projects.

Without paying attention to E’s reluctance, A, on April 5, 2011, summoned E and gave instructions to proceed with the internal procedures that would allow the payment to Z Company and to draw up and report to A the profit calculation sheet for Projects H and I (③ of Relationship Diagram 1).

However, E disobeyed A’s instruction and submitted to A by mail a profit calculation sheet made on the assumption that payment to Z Company would be 300 million Japanese Yen.

In response, A tried to convince E that adding extra 50 million Japanese Yen on the original 300 million Japanese Yen is not implausible by making calculations by himself and showing that considerable gross margin rates are secured in each project, and he reinstructed E to proceed with the internal procedures that would allow the payment to Z Company. E finally accepted A’s instruction.

Subsequently, E initiated the approval procedures (quotation approval procedures) within the sales department to which he belonged for the quotation (for internal procedure purpose) to X Bank for Projects H and I on the assumption that payment to Z Company would be 350 million Japanese Yen (④ of Relationship Diagram 1). In parallel, E sent to a personal email address for mobile phone, likely to be C’s, (and copied A’s office mail address) the following mail (⑤ of Relationship Diagram 1) to cause Z Company to submit Net One a quotation at 10:10 am on April 14, 2011.

“Could you please send me a quotation that includes the following:
- Consulting services for system platform environment → ¥50,000,000
- Consulting services for networking environment renewal → ¥200,000,000
- Consulting services for OA platform environment → ¥100,000,000

In addition, please kindly send the invoice with invoice date of April 26 and notify our purchase department of the completion of the consulting services.”

In response to the email from C (⑥ of Relationship Diagram 1), D of Z Company sent to E’s company email the following mail attached with three quotations at
2:43 pm on April 14, 2011 (⑦ of Relationship Diagram 1). These three quotations are shown below, each of them affixed with Z Company’s seal.

- Data of quotation: April 1, 2011
  Item: A bundle of system consulting
  Breakdown: Consulting services for system platform environment
  Quoted price: ¥52,500,000 (inclusive of consumption tax)

- Data of quotation: April 1, 2011
  Item: A bundle of networking consulting
  Breakdown: Consulting services for networking environment renewal
  Quoted price: ¥210,000,000 (inclusive of consumption tax)

- Data of quotation: April 1, 2011
  Item: A bundle of OA consulting
  Breakdown: Consulting services for OA platform environment
  Quoted price: ¥105,000,000 (inclusive of consumption tax)

On April 18, E filled out the Order Entry Form¹⁴ and the Special Item Ordering Request Form¹⁵ for the purpose of placing orders with Z Company, of which E sent the Special Item Ordering Request Form along with the three quotations to the Procurement Department (⑧ of Relationship Diagram 1)¹⁷.

On April 21, the Procurement Department placed the order with Z Company (⑨ of Relationship Diagram 1), and, on April 28, Z Company sent to Net One the statement of delivery and the invoice (⑩ of Relationship Diagram 1).

After receiving the statement of delivery and the invoice, the Procurement Department checked with E whether the deliverables supposedly delivered from Z Company had been accepted by Net One. And following oral confirmation with E that the deliverables were accepted, the Procurement Department submitted the Receipt Form to Z Company on the same day (⑪ of Relationship Diagram 1).

The documents gathered from the above procedures technically allowed the Finance and Accounting Department to pay to Z Company 350 million Japanese Yen and such amount was actually paid on May 31 (⑫ of Relationship Diagram 1).

In this way, the defrauding by the three people was consummated¹⁸.
However, it was only after the payment to Z (⑬ of Relationship Diagram 1) that the contract on Project I was entered into between Net One and X Bank and official order was placed by X Bank, which was on July 11.

14 The Order Entry Form is issued based on customer’s order in writing or such other document as would be regarded as an order in practice for use as order processing within Net One’s Sales Department. In this case, the Order Entry Form was issued under the name of B based on X Bank’s unofficial form created by E with the approval from B.

15 The Special Item Ordering Request Form is needed to request the Procurement Department to purchase equipments and services.

16 The actual work was done by a sales support staff (clerical work staff) under the instruction by E.

17 The Procurement Department asked E for the breakdown of the quotation from Z Company since the quotation vaguely stated “a bundle of system consulting.” In response, E, after consulting with A, made up the breakdowns consistent with the order from X Bank and sent the breakdowns to the Procurement Department.

18 The quotation to X Bank approved internally stated that the services would be subcontracted to Z Company, which quotation was issued following some internal procedures was processed within Net One such as recognition of subcontracting cost to Z Company. However, this wording, “subcontracted to Z Company,” was replaced with “system installation service”, meaning that the services would be rendered by Net One, in the quotation to X Bank because the fact of subcontracting to Z Company had to be concealed from X Bank.
4. The distributed Amount and the Way it was distributed (Overall)
   (1) The distributed Amount

   Of the monies defrauded (A total of 789,101,250 Japanese Yen in 52 cases), A received 150 to 160 million Japanese Yen, which accounted for 20% of the total amount.
   
   A and B told us that they heard from C that A, B and C each received 20% of the total amount and the rest went to Z Company as commission.
   
   We did not take this statement at face value, but we could not find any document or hard proof that indicated otherwise (the receipt of more than 20% of the total amount).
   
   (2) The Way of Distribution

   The monies defrauded from Net One were cashed in by C through Z Company and C distributed such cash to A and B.

   A commented on that arrangement as follows in the hearing with the Special
Investigative Committee:

“The number of distributions reached 20 to 30 times over seven years. Sometimes B and I received together and sometimes we received by ourselves.”

“We received the monies at the lobby of hotels in Tokyo or at golf courses. We received the monies in envelopes when the amount of monies was small (200 to 300 thousand Japanese Yen), and in paper bags when large.”

“The monies involved in Projects H and I was received in three times around June 2011 because the amount was huge. Each time we took the Shinkansen line from Nagaya to Tokyo and immediately returned by Shinkansen line after receiving the monies in a rental conference room near Tokyo station. I received a total of 70 million Japanese Yen, 30 million Japanese Yen at the first time and 20 million Japanese Yen each at the second and the third time. Sometimes B and I received at the same time and sometimes we received separately depending on the schedules of the three.”

5. How A concealed the Monies and how He used them (Overall)

According to A’s statement, part of the monies received was deposited in his bank account and the rest of it was kept in the closet of his house. But he became anxious after seeing the news on the great Higashi Nihon earthquake, which urged him to remove the monies from the closet to a bank lockbox.20

He used the monies on purchases of house, a new car and golf course membership, card loan repayment and entertainment at exclusive clubs among others.

19 The Special Investigative Committee does not know the exact process of cashing in by Z Company because it is not authorized to investigate Z Company.

20 A voluntarily surrendered part of defrauded monies and Net One recovered 29 million Japanese Yen kept in the bank lockbox on February 4, 2013.

6. Involvement of other Employee of Net One

(1) E

(a) Awareness of Wrongdoing and Contribution to the Defrauding

E became a subordinate of A and took over the order processing job from the predecessor in April 2006.

Although unfamiliar with the actual business of Z Company and felt uncomfortable with the routine where the quoted price from Z Company to Net One was shared with C of Y Company, E did not particularly harbor any
reservation over the transactions given there were small projects such as maintenance services in the beginning.

However, E gradually began to cast doubt over the credibility of the business with Z Company learning that people from Z Company never shown up since the start of the project and not a little maintenance services was being rendered. It was when he received a call from B of X Bank asking him how much Net One would pay to Z Company under the “Internet Environment Renewal Project” from X Bank where a considerable amount of 20 million Japanese Yen would be paid to Z Company that he became assured that some monies were flowing from Z Company to B or A.

Despite his awareness of this wrongdoing and without taking any actions to address the matter, E continued to place orders with Z Company under A’s instruction and got deeply involved in this wrongdoing. However, his awareness of the wrongdoing was limited to the fictitious billing and did not extend to distribution of monies among A, B and C.

(b) Motivation

① Motivation for financial Gain

A paid the bills for dining and drinking and bought golf clubs for E (although partially paid by E). However, no facts were found that leads to any receipt by E of the monies from the defrauding.

We reached to the conclusion that financial gain did not constitute a critical factor in his contributing to the defrauding.

② Motivation other than financial Gain

We believe that the following reasons motivated E to take no actions against the defrauding:

- Owed a debt to A on his promotion to the then current position
- Highly respected A as a professional sales person
- Out of fear of getting low marks and losing his chance for further promotion if disobeyed A’s instruction
- To improve his business performance through financial institution business, which is considered a tough business customer in Net One, by leveraging A’s influence in financial institution business
- Also enjoyed B’s favor, which would probably improve his business performance
(2) F

F was E's predecessor and processed about 10 orders to Z Company under A's instruction from March 2005 to March 2006.

The Special Investigative Committee conducted investigations including hearings with F and other people concerned to find nothing that will suggest F's contribution to the defrauding by A and the others.

(3) G

G was the superior of E and F at Chubu branch office and supervised the actual ordering process with respect to Z Company from 2005 to 2012.

The Special Investigative Committee conducted investigations including hearings with G and other people concerned to find nothing that will suggest G's contribution to the defrauding by A and the others.

However, G, in a management position, had been approving and justifying, under the excuse of "A's project," the payment of several 100 million Japanese Yen without meeting with Z Company's person for a long time. G defended himself as saying "I didn't know the fact of defrauding", but it is quite obvious that his no action over this long period is a tantamount to a complete abdication of responsibility and shall be construed as gross negligence as a manager.

(4) Other employees concerned

The Special Investigative Committee conducted investigations including examining mails and hearings with other employees concerned only to find nothing that will suggest these employee's contribution to the defrauding by A and the others.

(5) Statements of other Employees concerned

Statements of other employees concerned in the hearing were as follows:

"In processing the ordering procedure time after time, I felt awkward. When I looked up Z Company's homepage to check up some things, it was an enigmatic company and I thought something irregular is going on. Nobody from Z Company engaged in an actual maintenance service. I also thought that the "Consulting" was name only. Even though many things surrounding Z Company raised my suspicion, I had to do my clerical job and processed the ordering procedures on Z Company."

"It is all because of A that I could not point out that the transactions with Z Company were irregular. I never upset A, but I saw him get furious and got scared as if he were intimidating. And without A's help in sales activity and his personal connection within
the banking circles not just X Bank, we would have lost all customers in the financial industry including X Bank. If that had happened, it would have had a huge negative impact on my business performance, so naturally I thought that it was better off to keep to things as they were and to get A's cooperation and assistance.”

“A is a superbly professional salesman and had a good relations with B of X Bank. A told me that he would do the “X Bank project” by himself. So even after he went to a position where I did not need his approval, I gave approval to each quotation because it was “A's project.” I had no intention to find out what kind of company Z Company was.”

“I had an impression that the business with Z Company was a pet project for A and E for a long time, and thought it was stable business as we received constant orders from X Bank. Anyone would get cold feet to opine or point out against such projects. That’s why nobody said anything about it.”

“I do not remember from when, but E and I discussed something like this “There is something strange going on in the transactions with Z Company, I suspect some foul play in the flow of money.” But, there was no evidence that the money landed on A, and it just a speculation, so if A put a bold face, there was no use in confronting him. A was my superior and a former executive general manager, who could easily fire me if I offended him. So there was a kind of untouchable elements over projects that involved A.”

“I could not act against the will of A because a branch office is like a small family and all of its members working on the same floor, isolated physically and psychologically from the head office.”

7. Chance for Discovery of Wrongdoing by Internal Audit

(1) Learning of irregular Transactions with Z Company by Internal Audit Office

The Internal Audit Office learned from an ordinary data audit that Net One placed an order of 350 million Japanese Yen with Z Corporation under X Bank project and started to conduct an audit on this transaction.

First, as preliminary investigation, the Internal Audit Office examined the purchase orders, expense sheets and quotations among others in the beginning of July, 2011.

The preliminary investigation revealed, by August 2011, some irregularities such as the payment to Z Company largely accounted for the amount received from X Bank in an abnormal sense, and the period from quotation to payment was mere two months, which was unthinkably short term for a project that involved 35 persons a month over about 10 months among others.
At this point, the questions raised by the Internal Audit Office were as follows:

- Did Net One decided to subcontract Z Company by itself? Or Did X Bank instructed Net One to subcontract Z Company? Who are the people deeply involved in this project?
- Why did Net One’s sales representative choose Z Company?
- Why was the payment made to Z Company at the time when only an unofficial order was placed by X Bank? Was it not possible to just place an order with Z Company instead?

A credit investigation of Z Company commissioned by the Internal Audit Office found that “the head office is located at a room in an apartment in a shopping mall and no employee other than one representative was doing business” and “Sales revenue earned in fiscal year 2011 was about 50 million Japanese Yen,” which further deepen the Internal Audit Office’s suspicion.

(2) Hearing with A conducted on August 30, 2011
(a) Response from A
On August 3 2011, the Internal Audit Office notified G of Chubu branch of the internal audit on the transactions with Z by email.
G reported to A that an internal audit would be conducted.
On August 4, A told by phone the Internal Audit Office that he would meet with the member of the Internal Audit Office and thereafter he became responsible for answering the questions in the hearing with the Internal Audit Office.
On August 30, the Internal Audit Office conducted the hearing with A in Tokyo for about two hours. E accompanied A under his instructions, but most of the talk was done by A.

(b) Examination of the DVD so called the “Deliverable” from Z Company
A brought two DVDs purporting to be the “Deliverable” delivered by Z Company. These DVDs were apparently not delivered by Z Company, but created by A by copying various files (the deliverables created by Net One’s SE and delivered to X Bank) in the servers at Net One’s Chubu branch for the purpose of the audit. For ten minutes or so, A showed some files in the DVD on the screen of the PC prepared by the Internal Audit Office. The Internal Audit Office could not identify whether the files in the DVD were the Deliverables from Z Company nor they were worth 350 million Japanese Yen.
The Internal Audit Office could have examined the details of the DVD, but A declined their request to borrow or copy the DVD asserting that “the DVD includes customer’s important information so it’s not copyable, just look at it.” The Internal Audit Office’s
examination of DVD ended there.

(c) A’s Statement in the Hearing
The Internal Audit Office asked about the role of Z Company and A answered as follows:

“Net One has a technological edge in networking, but when it comes to upper process (as defined below), especially in setting up and building server and network, Net One is not good enough to do them. I requested to Z Company for cooperation over the meeting on this upper process. Z Company’s role was to be in charge of this upper process that involved discussion with X Bank, information gathering, organizing such information, analysis of such information, proposing and finally laying groundwork for the RFP. My decision was to ask for assistance from outside to overcome this difficult situation in the Chubu branch where actual dearth of suitable resource among Net One’s SE members was profound.”

“The work at customer’s site required a duration of some three months. During that three month period, 5 to 6 people from Z Company were dispatched to work with customer’s person in charge (not a management level).

According to A’s explanation, members of Z Company did have a meeting with people of X Bank, and actually did work at X Bank (customer site).

Although many questions remained unclear, the Internal Audit Office accepted A’s explanation and without further hearing, the internal audit finished.

In this way, Net One missed an opportunity to discover a serious wrongdoing.

21 This DVD is different from the one submitted to the Taxation Bureau on May 1, 2012 (See 8. (3) below). E said it was a sloppy work.

8. Taxation Bureau’s investigation
(1) A running the show
The Taxation Bureau started its investigation from February 2012. The main issue was the absence of revenue that matched the subcontracting cost (cannot be recognized as expense).

Net One’s Finance and Accounting Department was responsible for cooperating with Taxation Bureau’s investigation, but X Bank project was A’s project and for the reason that only A knew Z Company, A also joined members subjected to the investigation.
A had control over the Sales Department of Chubu branch and the Finance and Accounting department in the way as follows, and practically took control of the situation with the Taxation Bureau.

(a) Control over the Sales Department

Around March 2012, A gathered all sales persons involved in the X Bank project including G and E of Chubu branch into a conference room. And after handing out two A4 size papers to the sales persons, he instructed them as saying "There may be a hearing conducted by the Taxation Bureau. If any hearing is conducted, answer those questions in the way written on this paper. If asked any question not written on this paper, tell them you don't know."

All of the answers that should be addressed to the Taxation Bureau were written on the paper such as "Z Company and Net One have a long history of relationship" or "Z Company has this kind of know-how and is familiar with this business." A told to all sales persons to destroy the papers after this meeting, and all the participants did so as instructed.

(b) Pressure on the Finance and Accounting Department

The Finance and Accounting Department was also in the loop of the investigation, but also under control of A.

Around March, one of the members of the Finance and Accounting Department made an answer to the Taxation Bureau that deviated from the scenario made by A. As soon as learning of this, A got mad and vehemently reprimanded the member saying "You are exaggerating a problem-free matter as if it were a serious problem and breaking ranks."

In addition, getting frustrated at the Finance and Accounting Department, who did not necessarily responded as he intended, A sent an inquiry to the Finance and Accounting Department stating:

"Did (the Finance and Accounting Department) suspect the whole organization of Chubu branch?"

"Did (the Finance and Accounting Department) have any intention to protect Chubu branch?"

"Was the Finance and Accounting Department aware that the Taxation Bureau tried to blame an ungrounded crime on Net One with a bluff based on speculation or not?"

22 The statements are based on the audit record named “Sales interview (8_30) internal memo” created by Internal Audit Office as of September 6 2011.
“Don’t you, as an accountant, feel ashamed with the fact that we were investigated?”

“From the perspective of the employee on the front, the Finance and Accounting Department is not on our side, but we see you as Taxation Bureau’s puppet. Do you really intend to protect the employees from them?”

A intimidated the Finance and Accounting Department and threatened them as saying “I feel nothing about killing you. I will do anything to protect my family. Nobody knows even if anything happens on the station platform.”

(2) Submission of Internal Audit Record to the Taxation Bureau and request by A to correct such Record

The Taxation Bureau conducted a hearing with A at Net One’s Chubu branch on March 12 2012. In this hearing, expecting that the Taxation Bureau had already conducted investigation into the parties concerned, he explained to the Taxation Bureau that “Z Company’s services were provided only to Net One and it did not contact with X Bank (see diagram (B) below),” contrary to the explanation given to the Internal Audit Office to which he said “members of the Z Company rendered services at X Bank (see diagram (A) below).”

However, on the same day, the Taxation Bureau learned that an internal audit on subcontracting to Z Company was conducted and required Net One through Chubu branch to submit the audit record of the internal audit office in Tokyo. The Internal Audit Office immediately faxed the copy of it to Chubu branch and person in charge of the Finance and Accounting department visiting the branch presented it to the investigator of the Taxation Bureau.

Getting anxious about learning this development, A requested the Internal Audit Office by phone to show him the audit record submitted to the Taxation Bureau after the end of the investigation by the Taxation Bureau. The Internal Audit Office accepted his request and promptly sent it by email to A.

After reading the audit record, A noticed the inconsistency between the explanation given to the Taxation Bureau and the audit record (the explanation given to the Internal Audit Office on August 30 2011).
(A) Explanation given to the internal audit office on August 30 2011

![Diagram: X Bank → Net One ← Z Company; services rendered]

(B) Explanation given to the taxation bureau on March 12 2012

![Diagram: X Bank ← Net One → Z Company; services rendered]

In return, A sent the following mail to the Internal Audit Office asking for the correction of the audit record at 18:41 March 12.

"Please understand that the fact was “meeting with Net One’s SE in charge of X Bank” whereas the record says otherwise in the section of “Z Company’s role,” and please tell the Taxation Bureau as such in the hearing. Thus, Z Company never talked directly with X Bank and Net One was in-between every time."

The Internal Audit Office accepted A’s correction request and corrected as follows by hand so as to match with diagram (B):  

“Z Company’s role was to be in charge of this upper process that involved meeting with X Bank, information gathering, organizing such information, analysis of such information, proposing and finally laying groundwork for the RFP”

“Z Company’s role was to be in charge of this upper process that involved meeting with Net One’s SE in charge of X Bank, information gathering, organizing such information, analysis of such information, proposing and finally laying groundwork for the RFP”

23 However, the Internal Audit Office told the Special Investigative Committee that “it
did not accept A's correction request, but recorded only the fact of A's request for correction."

(3) On the DVD

A was questioned by the Taxation Bureau over the DVD purporting to be the "Deliverables" from Z Company. The Taxation Bureau examined the images recorded on the two DVDs during A's explanation (and only copied the media of the DVDs) on March 12 2012. However, in April, the Taxation Bureau ordered Net One to submit the DVDs to examine in detail. These two DVDs were ones submitted to the Internal Audit Office whose quality was very poor, and if they were subjected to a thorough examination, it was instantly noticeable that they were counterfeit.

Being aware of that development would be likely to occur, A and E worked to craft new DVDs (the same in appearance as the ones shown on March 12) for submission to the Taxation Bureau at the Chubu branch on April 21 (Sat) and 22 (Sun) when other employees did not come to the office.

The actual work was that they copied to the two DVDs a massive amount of files saved in the servers that were created by Net One's SE for X Bank. In doing so, they overwritten the properties (the creator, created date etc.) of the files using a conversion software as if they were the Deliverables delivered by Z Company. In order to make those DVDs look the same as the ones shown to the Taxation Bureau on March 12, he finished off the forgery by affixing stickers printed "The whole consulting document April 30 2012 Z Company" and "The whole consulting document July 30 2012 Z Company."26

On May 1, A submitted to the Taxation Bureau these two DVDs and its content printed on papers filed as "the Deliverables from Z Company."

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24 The Special Investigative Committee examined these DVDs and confirmed that the files on the DVDs were crafted by Net One’s SE for the deliverables for X Bank. And also discovered traces of overwriting of the properties (the creator, created date etc.) of the files by a conversion software.

25 In the hearing with the Special Investigative Committee, A said that "he received these two stickers from C at the Shikansen concourse of Nagoya station in the evening of either April 21 or 22. These stickers were made by D of Z Company and delivered by C to the Nagoya station."

26 The sticker on one of the two DVDs shown to the Taxation Bureau on March 12 was printed "The whole consulting document July 31 2012 Z Company." However,
he mistakenly affixed a sticker printed “The whole consulting document July 30 2012 Z Company” on one of the DVD that was submitted to the Taxation Bureau.

(4) Document submitted by G to the Taxation Bureau

G of Chubu branch submitted to the Taxation Bureau a document stating a false claim that Z Company’s consulting services was real. It went like this “I think it was because Z Company had been producing high quality deliverables, had done business flexibly and had been able to provide upper process that we landed the X Bank business on Z Company.”

G’s statements on this false claim in the hearing with the Special Investigative Committee were as follows:

“After the start of the Taxation Bureau’s investigation, I began to suspect that there were no real transactions with Z Company.”

“I consulted with A on the phone after the Taxation Bureau required me to answer some questions as a superior of E and F in November 2012. A told me to tell them that there was a real transactions with Z Company. And I crafted and submitted to the Taxation Bureau a written response based on the example sentences sent by A to my company’s email address for mobile phone.”

“What I wrote in the document submitted to the Taxation Bureau was different from my understanding of the transaction because I had suspicions that there were no actual transactions with Z Company. If you say that the submission of this document is akin to a cover-up, I would have to admit that.”

“Howeover, I trusted him and owed him a lot. And if he was in trouble, I wanted to help him. So I submitted the document in the way as he instructed. I did not realize any implication for the company or understand the gravity of situation.”

(5) Formation of the Investigation Team and discovery of the full breath of the incident

Being alarmed by the fact that A was practically leading the Net One members in the Taxation Bureau’s investigation, a member of the Operation Management Group (not a member included in the investigation by the Taxation Bureau) reported to the director in charge. Net One finally apprehended the gravity of the situation and formed the Investigation Team with outside lawyers as members.

The Investigation Team conducted a covert investigation together with X Bank. The team interviewed A and B on January 31 2013 and finally discovered the full breath of the incident."
9. Passing on the Defrauded Monies to X Bank

A, B and C defrauded Net One of a considerable amount of monies via fictitious orders to Z Company where B was the person in charge of X Bank (the ordering party) and A was the person in charge of Net One (the ordered party). This fact raises the question whether part of or the whole defrauded monies were passed on to X Bank.

In order to dispel our concerns, the Special Investigative Committee examined the contracts, quotations and ordering forms etc. which was retained in Net One’s office, analyzed man-hour of Net One’s SE, conducted hearing with the persons concerned and examined the emails among others. However we could not find any documents that indicated part of or the whole defrauded monies were passed on to X Bank\(^{28}\).

\(^{27}\) In addition, the Special Investigation Committee, headed by the CEO with outside lawyers in the committee, was formed by Y Company and is conducting an investigation.

\(^{28}\) Given the fact that most of the X Bank projects involved one or more companies and X Bank did not directly placed orders to Net One, it is quite difficult to pass on to X Bank in general. Another reason that made it difficult for A to pass on to X Bank was X Bank’s strict cost control over every project including those where X Bank directly placed orders to Net One.

Part 2 Company-wide Investigation into the Findings of Similar Wrongdoing

1. Scope of Investigation

(1) Scope of Investigation

As detailed in Part 1 above, the wrongdoing committed by A went like this: A and other members defrauded Net One of monies by placing orders for fictitious consulting services\(^{29}\) for X Bank, a financial institution, with a subcontractor, Z Company, who did not provide actual services nor capable to provide ones, at Net One’s Chubu branch.

<table>
<thead>
<tr>
<th>Expense item for fictitious order</th>
<th>Consulting services fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Chubu branch</td>
</tr>
<tr>
<td>Delivered to</td>
<td>X Bank (or financial institution)</td>
</tr>
</tbody>
</table>

The Special Investigative Committee defined the scope of the investigation into the findings of similar wrongdoing based on three constituent elements in the table above as follows:
- Projects involving orders placed by Net One for consulting services by subcontractor where more than a certain amount of monies was paid (hereinafter referred to as “Type 1”).
- Projects involving orders where any products or services were delivered to financial institutions having business with Chubu branch and more than a certain amount of monies was received (hereinafter referred to as “Type 2”).
- Of the projects involving orders where any products or services were delivered to financial institutions having business with Net One, those projects where a sales person in charge could possibly choose third party vendors including but not limited to subcontractors at his or her discretion (hereinafter referred to as “Type 3”).

We narrowed down the period subjected to the investigation to transactions executed in or after 2005 as Net One retains major accounting documents for seven years and other business documents for 5 years according to its policy on document retention.

29 Of the amount of subcontracting fee of 790 million Japanese Yen with respect to the wrongdoing, 750 million Japanese Yen fell under “consulting services fee”

(2) How to extract data

(a) Type 1

In Net One, a product code\(^{30}\) is assigned to every product and service when purchasing such product and/or service. In order to extract orders where product codes corresponded to consulting services and to refine the search as well, we extracted all orders that included keyword “consul (an abbreviation of consulting)” in the name of a product or service and where the purchase price was more than 5 million Japanese Yen per order (the threshold was decided by taking into account the impact of amount of monies on Net One’s financial statement).

\(^{30}\) In Net One, before submitting a quotation to a customer, all sales persons are required to obtain an internal approval in the procedure, during which a product code is assigned to each product and service whether they are sold to a customer or they are purchased from a vendor. All of the payments made to the vendors are processed through the Procurement Department, who makes the payments to vendors only after confirming that a product code assigned to a product or service is consistent with a certain transaction.
(b) Type 2
We extracted all orders where a customer was financial institutions having business with Chubu branch and the sales price was more than 5 million Japanese Yen per order (the threshold was decided by taking into account the impact of amount of monies in a project).

(c) Type 3
Of the orders where customers were financial institutions nationwide, we extracted all orders other than those where the vendors of a product and/or service are predetermined by Net One (where a sales person had no discretion in choosing the vendor) and the sales price was more than 5 million Japanese Yen per order (the threshold was decided by taking into account the impact of amount of monies in a project).

2. How we investigated
We examined all of the Types 1, 2 and 3 in ways as follows:

(1) Type 1
What made the wrongdoing possible was that it is usually difficult to determine whether a rendered consulting service is commensurate with the monies paid, which is not the case in purchasing a tangible item. Thus, there is a high probability that consulting services could be a hotbed for wrongdoing. Therefore, the Special Investigation Committee carefully examined Type 1.

First, of the projects extracted, we examined the evidenced documents retained in Net One. Then, excluding the projects verified by those documents, (i) we verified the consulting services if they were actually rendered by checking the deliverables delivered after such services, (ii) we conducted hearings with the persons in charge at the time of the transaction (if such person already left the company, the superior or colleagues familiar with such transaction were inquired) and (iii) we obtained survey reports from credit survey institutions to verify if the subcontracted firm was capable to render the services ordered by Net One and if it was possible that the persons in charge of the subcontracted firm and Net One could conspire to commit similar wrongdoing as the wrongdoing in this case was executable by using Z Company as a "defrauding tool."
(2) Type 2
Of the extracted projects, we examined all of the vouchers obtained and related to the projects of which E was in charge, and held a hearing with E. Our examination of the vouchers and the deliverables focused on projects involving works and maintenance services where a sales person could have committed wrongdoing.
Further, we conducted a careful examination of the transactions with X Bank and held a hearing as well.
We examined the vouchers of all other projects, and of the projects involving works and maintenance services we held a hearing with the person in charge where the revenue were more than 1 million Japanese Yen.

(3) Type 3
To investigate Type 3, we mainly conducted a fact-finding survey on Net One’s vendors given that the wrongdoing was committed through Z Company, a dummy company.
First, we examined the vouchers and documents retained in Net One. Then, (i) we duly reviewed the survey report on the vendors (excluding companies having high credibility such as public firms and overseas large companies) from credit research companies, and (ii) we corroborated that the subject vendor was a real company and was capable to perform the works in the projects.

3. The Number of Investigations conducted
(1) The Number of Investigations

<table>
<thead>
<tr>
<th>Type</th>
<th>Number of investigations</th>
<th>Total revenue of the project subjected to the investigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type 1</td>
<td>46</td>
<td>1,463,617,661 JPY</td>
</tr>
<tr>
<td>Type 2</td>
<td>38</td>
<td>1,011,593,319 JPY</td>
</tr>
<tr>
<td>Type 3</td>
<td>65</td>
<td>1,829,895,654 JPY</td>
</tr>
<tr>
<td>Total</td>
<td>149</td>
<td>4,305,106,634 JPY</td>
</tr>
</tbody>
</table>

(2) Results of Hearing
We conducted hearings with 32 employees of Net One (a total of 37) via face-to-face or by phone.

4. Result of the Investigation
The investigation revealed no suspicious transactions that indicated wrongdoings similar to the one committed in X Bank project.

Part 3 Issues in the Internal Control
1. The Internal Procedure at the time of the Wrongdoing was committed
   (1) Vendors selected by Sales Department
   Net One allows its Sales Department to select a vendor who provides products and/or renders services on construction, other works and so on \(^3\) (hereinafter referred to as “Selected Vendors”) and Sales Department can directly request the Procurement Department to place orders with the Selected Vendor (hereinafter referred to as “Orders to Selected Vendors”).
   Before requesting the Procurement Department, first an approval of Orders to Selected Vendors within the Sales Department must be obtained in accordance with Decision-making Authority Rule in Net One. A project including multiple items such as products, construction, works/products from Selected Vendors and services (excluding maintenance services) is called “Integrated Project” and works/products from Selected Vendors in an Integrated Project are collectively authorized during the process of approval of quotation to customers (according to Net One’s Decision-making Authority Standard Table).
   A’s wrongdoing took advantage of this “Orders to Selected Vendors” process. Lax estimation of the cost at the time of approval of the quotation and lack of internal check system made Net One vulnerable to the wrongdoing and delayed the detection of it.

   (2) “Orders to Selected Vendors” process
   Sales persons F and E obtained approval to place orders with Z Company as a part of the Integrated Project through the quotation process for X Bank Project. Here, we will go through the “Orders to Selected Vendors” process for Integrated Projects.

   - Sales persons input into the Quotation System the quotation to be submitted to a customer to create (i) Quotation Approval Form, (ii) Quotation (hereinafter referred to as “Quotation to Customer”) and (iii) Estimated Cost Calculation Sheet (hereinafter collectively referred to as “Quotation Related Documents”). And such Quotation Related Documents attached with quotation from Selected Vendors is circulated within the sales department for approval (called “Quotation Approval Procedure.” See Relationship diagram 2③). The authorizer in this process must review the project according to the Decision-making Authority Rule. The authorizer is determined based on the combination of amount of revenue of the project and gross margin rate of the project (Decision-making Authority Rule and Decision-making
- When an order for a project is received, a sales person instructs a Sales Support (person who does clerical works) to input into the Sales Management Systems the order after the Sales Support confirms that the order (including unofficial orders) received matched the Quotation Related Documents (See Relationship diagram 2⑬). And Sales Support requests the Procurement Department for placing the order with the Selected Vendors by sending the Special Works Order Form and the quotation from Selected Vendor (See Relationship diagram 2⑭).

- The Procurement Department issues the purchase order and send it to the Selected Vendor after confirming that the Selected Vendor is registered as Net One’s business partner in the system (See Relationship diagram 2⑮) and the Special Works Order Form and the quotation from Selected Vendor are consistent (See Relationship diagram 2⑯).

- When an invoice is sent from the Selected Vendor, the Procurement Department makes payments in accordance with payment terms with the Selected Vendor (See Relationship diagram 3⑯) after confirming from the Sales Department that works/products from Selected Vendor is accepted by the sales person (See Relationship diagram 3⑰)

31 At Net One, this is called “Irregularly handled products” and is distinct from “Regularly handled products”, which is authorized by the company and assigned a code number to each of them.
The orders placed with Z Company were processed as above in general. It went like this:
- The sales persons (F and E) obtained approval within the sales department of (i) the Quotation to customer that included the services rendered by Z Company and the fee for it and (ii) the Estimated Cost Calculation Sheet attached with the Quotation from Z Company under the internal Quotation Approval Procedure for Quotation to X Bank.
- The sales persons instructed the Sales Support to input the order based on an unofficial order from X Bank and to send the Procurement Department Special Works Order Request Form and the Quotation from Z Company for purchase from Z Company.
- The Procurement Department placed the order with X Company after confirming the Special Works Order Request Form and the Quotation from Z Company.
- Upon receipt of the statement of delivery and invoice from Z Company, the Procurement Department made payment to Z Company after confirming the sales person accepted the works.

2. Deficiencies in Cost Control
(1) Estimation of Cost at the time of Quotation Approval
Net One’s Quotation System automatically sets the estimated cost of some of the services to be a certain percentage of the total quoted price.

This system can always ensure gross margin at the time of Quotation Approval even if a project was below break-even point at the end due to deep discount by sale person or increase in SE man hour. A exploited this flaw in the system.

In this regard, A stated as follows as to the reason why the wrongdoing was viable in the hearing with the Special Investigative Committee:

“The system automatically sets the cost of installation and maintenance services rendered by Net One’s SE to be a certain percentage of the total quoted price at the time of Quotation Approval, so you are always guaranteed a gross margin. You can extract money from the gross margin without any internal check and get away with murder if you can show decent gross margin rate at the end.”

As stated above, A fully understood the design of the system that automatically sets an certain rate of estimated cost at the Quotation Approval stage and how a quotation was actually approved within the sales department; that is, he committed the wrongdoing because he knew that if a certain amount of gross margin rate can be kept in the whole project, nobody would comb through item by item and finally the quotation would be approved.

Actually, A instructed E to draw up the profit calculation report for Projects H and I, who was reluctant to proceed with a quotation that stated a payment of 350 million Japanese Yen to Z Company on these projects. This Profit Calculation Report included item by item quoted prices, estimated costs (clearly specifying purchase price to Z Company), gross margin rate and gross margin rate for the whole project. A convinced E to go with the 350 million Japanese Yen quotation by having him craft the document showing the gross margin rate for the whole project was above the internal standard figure even if 350 million Japanese Yen was paid to Z Company. In this way, E proceeded with the Quotation to the customer and Estimated Cost Calculation Sheet that included the payment of 350 million Japanese Yen to Z Company. Later, he obtained the approval within the Sales Department and requested the Procurement Department to place orders with Z Company.

This was how A repeatedly committed the wrongdoing by exploiting the flaw of the system with full knowledge of the structure of Net One’s Internal Control.

32 Records on some projects that did not go through the Quotation Approval Procedure were not found.

33 E did not stated the order to Z Company in the Quotation to the customer and he included the amount equal to service fee to Z Company in the fees for works done by Net One’s SE
under the name of “system installation service” lest the customer knew the fact of order to Z Company.

(2) Income and Expenditure Management System

Net One’s Income and Expenditure Management System is a system that manages the balance of each project in terms of outsourcing cost (sales cost), internal SE cost (sales administrative expense) reflecting actual man-hour, and allows users to check up the project’s balance, amount of profit and profit rate. However, it is difficult to verify if the original quoted item and price was adequate later as the actual man-hour cannot be compared with the original estimated man-hour.

If it had been possible to systemically examine the adequacy of the original quoted item and price for the internal SE man-hour and outsourcing after the end of a project, the wrongdoing of fictitious order to a subcontractor could have been prevented. However, Net One’s system was not made that way.

3. The Deficiency in the Internal Control over the Orders to Selected Vendors

(1) Approval within the Sales Department

The persons who authorized the projects only took attention to factors that would contribute to their business such as the estimated sales revenue, revenue and gross margin rate, and lacked the oversight over the orders to vendors even though they were responsible to review the projects at the Quotation Approval Procedure.

G had a chance to learn that the purchase price for Z Company’s service accounted for about 30 percent of the quoted price to the customer at the Quotation Approval Procedure or by the confirmation of the order form at the latest. G should have reviewed the rationale for outsourcing, the choice of vendor and adequacy of the order/price, but he did not do so and left the job up to sales persons.

In this way, there was little or no internal control in place in the Sales Department, where the superiors and the authorizers put business performance above anything else, regarding gross margin of the whole project as the only bellwether.

(2) Order placement by Procurement Department

What the Procurement Department did in this case was to see whether the vendor matched with any of the preregistered firm in Net One’s system and to compare the Special Work Order Request with each items of the Quotation from the vendor for any inconsistency, which procedure was entirely perfunctory and not tight enough to curb any irregularity of a sales person.
The information about Z Company registered in “New Business Partner Registered” section says “19 million Japanese Yen in annual sales and a small business with 5 employees” in the first registration in September 2000, but it was downgraded to “have the risk of loss if purchased considerably” or “incomplete credit histories” in February 2009 when the registration was renewed due to change of address. However, any member of the Procurement Department can place an order only if he or she sees that the vendor in question is registered on the system and there was neither procedure nor rule in place that required to take into consideration information and risk on the vendor in question.

In addition, there was neither procedure nor rule in place that required suspending an order based on the registered information even if the department found a murky transaction or any irregularity such as “a bundle of equipment and services” in a quotation.

For example, in this case, the Procurement Department asked E for the breakdown of the quotation because there was only an unclear item “a bundle of consulting etc.” in the three quotations for the Projects H and I. In response, after consulting with A, E drew up the detailed breakdowns based on the project and consistent with customer’s order and sent it to the Procurement Department as if it had been made by Z Company. And without doubt the Procurement Department proceeded with the order placement after receiving such breakdown.

The wrongdoing could have been detected at early stage, had the Procurement Department cautiously referred to the risk information in the registration system before placing the order given that an irregularity was spotted on the quotation from Z Company.

(3) Verification by Technical Department

The Technical Department works with the Sales Department in a project. The SE in charge of a project can validate and examine the necessity of Orders to Selected Vendors, the choice of the Selected Vendors and services and price because he/she has the full understanding of technology side during the process of proposal to the customer with the sale person.

However, there was no procedure or rule in place that could have required them to verify or confirm the Orders to Selected Vendors by the Technical Department at the time of the wrongdoing.

The SE in charge of the project did not know at all the order to Z Company until the investigation by the Taxation Bureau because the sale persons (E and F) did not inform the Technical Department of the order to Z Company.

The Technical Department was in an environment where it could have virtually never detected or curbed the wrongdoing.
(4) Vendor Management

① Enforcement of Vendor Management Rule

The purpose of the Vendor Management Rule is to define the processing procedure for basic contract with outsourced vendors, outsourced vendor management and outsourcing. “Outsourcing” is defined as “outsourcing the company’s operation to an outside firm for construction, installation, maintenance and engineering services. Therefore, this rule applies to the orders to Z Company.

This rule set forth (i) the prerequisite for outsourcing (① to complement or supplement the lack of technical equipment or labor in Net One ② to observe the delivery date to the customer ③ to reduce cost ④ have other special reason), and (ii) criterion for the outsourced vendor (① character of top executive and managerial capability ② number of technicians and their ability ③ its main customers ④ financial condition and bank credit line ⑤ production capability and performance record ⑥ facility, type of machines and number of machines installed ⑦ area of specialty ⑧ location). The Operating Department must survey and deliberate before selecting the outsourced vendor.

Further the rule set forth the items and rules on outsourcing management such as quality control/guidance, survey/registration of outsourced vendor and inspection of the delivered product or service (eg. Deliverables must be accepted based on predetermined inspection standard, acceptance certificate must be issued), and responsibility of which must be shared between the Sales department and Operating Department.

Therefore, if the order to Z Company had been managed based on this Outsourcing Management Rule, a certain level of deterrence could have been possible.

However, the order to Z Company was not managed based on this Outsourcing Management Rule.

The Rule is in name only as it has not been revised after 2001.

② Issues in enforcing the Credit Management Rule

Under the Credit Management System, credit line is assigned to all of our customers based on Credit Management Rule and it is constantly renewed and managed properly by verifying the adequacy of the transaction amount of a certain customer time after time. However, it is dysfunctional when it comes to the verification of the transaction amount with each outsourced vendor.

③ New Vendor Registration System

No transaction with a new vendor can start without being registered as accredited vendor
in Net One only after the Procurement Department conducted a credit survey and the head of the department approved it ("New Vendor Registration").

However, this registration system lacks the criterion for approval to register and is not renewed constantly. Accordingly, once registered, the vendors are not managed at all.

In addition, the Procurement Department only sees whether a vendor is registered in the system and does not put the registered information to practical use for vendor management.

In case of Z Company, as mentioned above, the Procurement Department did not only renew the credit information on a regular basis, but also did not utilize the risk information of the first registration.

In this way, the New Vendor Registration system did not adequately function as vendor management tool.

(5) Deficiency in Acceptance Procedure for Deliverable from Vendors (Issues in Quality Control over Vendors)

The acceptance of a deliverable from vendors should be performed in consistent with the acceptance condition (order, specification etc.) set forth at the time of the order. In the Vendor Management Rule, it says “The delivered product/work is accepted only if it meets or exceeds the predetermined inspection standard.”

However, there is no clear rule on the acceptance procedure for Orders to Selected Vendors. Actually, if a sales person just said “accepted,” then the Procurement Department would make payments to the Selected Vendors without confirming if the Technical Department verified or checked the work.

The order to Z Company was not real and no deliverable existed. However, the payment was made by the Procurement Department only by counting on E’s word of “acceptance completed.”

This deficiency in the acceptance procedure aggravates the problems in preventing the wrongdoing and maintaining quality control of vendors.

(6) Quotation Related Document Retention Rule

Quotation Related Document Retention Rule requires the Sales Department to retain the final version of the documents, but does not requires it to retain all of the Quotation related documents. Thus, it was quite difficult to check and verify the change history of the quotation and customer’s order other than the sales person in charge. This contributed to the delay in discovering the wrongdoing.
Part 4 Deficiencies in Governance and Compliance

1. “Sanctuary in Net One”, “B of X Bank” and “Z Company to C”

A enhanced his reputation as “highly capable sales person,” who is well versed in financial institution’s networking business after joining Net One. In particular in Chubu branch, the idea of “X Bank project is A’s project” became entrenched as he won success in financial institution business by tapping his business network earned during the old days at X Bank.

On April 2004, A transferred to Tokyo Head Office. But, he still contributed to expand the business with X Bank as before by participating in the negotiations with X Bank in Nagoya. The expansion was attributed to the cozy ties with B and his gifted presentation skill not only against his clients but also to people in Net One especially.

One person in concerned portrayed this relationship as “A was stuck in X Bank.”

The whole group in charge in Chubu Branch became leaning heavily on A and A became to reign over the branch as he brought in big revenue and profit. Consequently, A managed everything on X Bank project, which nobody was against it, and it became “common sense” that “X Bank project is A’s project” in Chubu branch.

E undertook all the works at the working level as A's resourceful subordinate even after he became aware of the fictitious billing, which he did not only show any resistance but rather he deeply gotten involved.

The authorizers in the Chubu branch left all decision-making to A and threw themselves into the role of “seal stamper” as he brought in revenue and profit from X Bank, who was an important customer of the branch.

Other sales persons more or less harbored suspicions over the business with Z Company. However, they drifted into a “brain freeze” status as saying “I had an impression that the business with Z Company was a pet project for A and E for a long time, and it was a stable business as we received constant orders from X Bank. It takes guts to opine or point out against such projects. That’s why nobody said anything about it.”

This was how X Bank project became extraterritorial sanctuary over Net One’s governance.

However, A could not have accomplished the fraud by himself without the help of accomplices of B and C.

B maintained strong connections with A as the representative of X Bank.

C provided A with “a tool” to defraud (Z Company) to seize the defrauded monies.

In this way they perfected the defrauding system, which made them possible to defraud a total of 789, 101,250 Japanese Yen over about 7 years.

2. Deficiencies in the firm’s culture toward internal control begot “Net One’s sanctuary”
(1) "Vision Book"

Net One published "Net One Group Vision Book" on October 2009 under the auspices of CEO & President Takayuki Yoshino after he became president in June 2008 and discussions with the employees, which serves as behavioral guideline in the group.

It is declared in the book as "Our Goal" "to become an Admired Company ~ to become a company respected and supported by every stakeholder" and "7 missions to be accomplished within the group" and "Net One Group behavioral guideline for each employee to observe" are stated in the book.

The compilation of the book was to bring reform to Net One’s business culture under the leadership of President Yoshino, who was aware of the danger having such old business structure as "private shop thinking (a business culture dependent on individual skills)" and overly reliance on sales activities.

However, the “extraterritorial sanctuary” was out of scope of these principles.

(2) Old business structure was intact

Every people concerned surrounding A said “A was an excellent sales person and everybody counted on him" without exception. However, from a different perspective, this may as well narrate “weakness of Net One’s sales force as an organization” depending on A, and it may show proof that private shop thinking (a business culture dependent on individual skills) has not been rooted out to this day.

Many people concerned cited the improvement in his/her business performance (or for the group to which he/she belonged) as the reason for no action of whistle-blowing even though they had suspicion over A’s business. This thinking shows that short term benefit outweighs the benefit of compliance.

Compliance is not incompatible with a firm seeking profit; rather it is the foundation of sustainable growth and improvement in company value. Sales activities which downplay compliance eventually bring in big loss to the company and its employees.

In this regard, this Vision Book states in the section of “2. Integrity & Trust” as follows:

“Do not get involved in any wrongdoing”

“Integrity shall not be led down with primrose path. In the end of this path, all of the things accrued would not only come to nothing, but would come home to roost”

“Looking the other way on a wrongdoing is tantamount to our wrongdoing”

“Finding out a wrongdoing and rectifying it is the noblest act to do when it comes to sound integrity. Because rectifying a wrongdoing entails a short term pain. However, short term disadvantage eventually returns long term benefit”

These principals were mere slogans for the people surrounding A.
(3) Attach more weight to the Sales Department and less to Technical and Operational Departments

Strong sales force is achieved not by only a sales person, but also with an equal cooperation from Technical and Operational Departments.

However, we have to say that this was not the case in Net One.

(4) The Deficiencies are not contained to Chubu branch

It was a well-known fact that A was in control of X Bank’s projects as his project as he went back and forth between Tokyo and Chubu branch. And we have to conclude that a business culture dependent on individual skills was not unique to Chubu branch given the response by Internal Audit Office (see Part 1 Section 7) and how A ruled the roost over the investigation by the Taxation Bureau, which should have been led by the Head Office.

And these deficiencies prevented Net One from the detection and correction of the wrongdoing as stated below.

3. The deficiencies in the structure to detect and correct the wrongdoing

A’s act is a fraud (willful crime) and it cannot be entirely prevented as an adage says “Internal control can be breached by a person with an evil intent.”

Even if there is "a person with an evil intent", an effective detection and correction system in place would deter such "evil person" from committing a wrongdoing. Even if a wrongdoing was committed, the system would limit damage to a short term and curb a considerable amount of damage.

However, the internal whistle-blowing system and the internal audit, which should have played the role of such deterrence, did not fulfill their function to do so. We will make deliberations on that as below.

(1) The deficiencies in the Whistle-blowing System

Net One instituted an internal whistle-blowing system called “whistle-blowing/counseling contact (hotto line)”\textsuperscript{34}. The number of whistle-blowing/counseling reached 20 in 2006, 20 in 2007, 23 in 2008, 12 in 2009, 24 in 2010 and 16 in 2011, from which it could be said that it has been fulfilling its function to some extent.

However, nobody concerned in this wrongdoing dared to contact the system.

On this point, a person concerned told the Special Investigative Committee during a hearing that:
“I knew the internal whistle-blowing system, but I had not a slightest idea to use it. First of all, I did not know where to contact and even if I have had time to try to find, I rather did my urgent work instead. I think it will be easy to take counsel if it were announced properly like saying “here is the items you can hold counsel with the counselors, here are the people who will give advices to you” and if I thought that there was a place to take counsel in the company. But instead they are just hanging out a shingle. If you do not know whether the people you are going to take advices are trustworthy, you will not contact him. The fact that the regional branches are far from the head offices adds to that factor too.”

In addition, there were following comments on “the CSR fact-finding and awareness survey (compliance questionnaire) (Some comments are truncated without changing the spirit of the original meaning).

“I am really concerned about the disadvantageous position I may take after blowing a whistle given that we work under the same roof. It may be kept under wraps, but there will be an absolutely a negative impact on me. There exists such a culture in Net One.”

“I would think twice before using the system unless there is a tight maintaining of confidentiality and anonymity. I was told by a manager one day “if you try to blow a whistle, it will hurt your career. I will even balk at the idea to consult with my superior let alone blow a whistle.”

“I cannot cast away the fear that, eventually, the identifying information will be known within the company, and get retribution for it.”

“I haven’t used the system yet. But I am worried if the human rights of the whistle-blower will be protected even after the compliance issue is addressed. My understanding is that such protection of human right is explained at the time of the whistle-blowing, but you should do more to gain awareness among the employees.”

“I am glad about the results after I took a counsel. But, I had hard time wondering if my working place would be protected after the whistle-blowing. So I would like you to announce that whistle-blowing will not be detrimental to the person who did it.”

“I think our understanding will improve if you provide a real case that covers the consultation with the hotto line and the solution provided by the hotto line (not disclosing the information that may identify the person blown the whistle).”

“The reason we don’t blow a whistle is because we don’t know the track record of the hotto line. The more the cases properly handled, the more you get trusted. It is easy to picture what people have sought consultation by showing the real cases.”

“We should solicit from the employee cases which you need to improve corporate governance.”
From January 2006 Net One instituted outside contact (a firm specializing in whistle-blowing) and from July 2012 the work of outside contact was assigned to a law firm.

(2) Deficiencies in Internal Audit

The Internal Audit’s action was appropriate in detecting the irregular transaction, understanding the problem and start investigations into the wrongdoing (see 2. Part 1 subsection 7. (1)).

There was a huge flaw in the way they ended the investigation; (i) the examination of the DVD was not enough, (ii) they did not deeply inquire into the dubious points they pointed out before the investigation and blindly accepted whatever A said.

In addition, revising the audit record without no careful consideration upon A’s request during the Taxation Bureau’s investigation run counter to the independence to the Internal Audit Office. On this point, A said “Internal Audit Office accepted my request to change,” while Internal Audit Office countered that “Only recorded the fact that A requested to revise.” Therefore, the Special Investigative Committee cannot say with certainty that Internal Audit Office accepted A’s request to revise the record. However, the fact that Internal Audit Office showed A, who was subjected to investigation, clearly lacks rudimentary ability as an auditor.

However, of the projects subjected to the Special Investigative Committee’s investigation into finding of any similar acts (2. Part 2.), there were some cases where the Internal Audit Office understood the issues thoroughly and conducted an audit (as a consequence, there were no wrongdoing in those projects). It is regretful that the investigation was incomplete even having such capability.

4. Conclusions

(1) The triangle of wrongdoing

Generally, there are three causes that contribute to the development of a wrongdoing; (i) motivation (or pressure), (ii) opportunity and (iii) justification (the triangle of wrongdoing).

A wrongdoing can be committed only if these three causes exist.

The following shows that these three causes existed in the case.

(a) Motivation

A had a high income as Net One’s senior sales person, but he thought that was not enough to cover the monies for dining at exclusive clubs, acquiring a big house, luxury cars and golf course membership. And A aggressively committed
defrauding with strong will along with B and C.

(b) Opportunity

Net One’s Internal Control System and vulnerability of governance provided A, B and C with not only an opportunity for crime for a long period, but also a continued opportunity to enable them to commit an audacious crime.

(c) Justification

The fact that other people stopped examining credibility of A’s business with X Bank in Net One’s business culture dependent on individual skills where he was praised as an capable sales person and other people counted on A for X Bank project continuously gave A a justification that “I can receive part of the profit because I am making a contribution to Net One’s revenue and profit.”

In the hearing with the Special Investigative Committee, he appealed for clemency saying “Please take into consideration the achievement I made in Net One when deciding the punishment on me. I have made a lot of money in terms of orders, revenue and profit for Net One.”

(2) Net One’s culpability

This case did not involve any wrongdoing by Net One’s management or is not organized crime. Net One is nothing more or less than a victim of a fraud and A deserves no room for leniency.

However, Net One also bears a responsibility for continuously providing the “opportunity” and “justification” for the crime to A as a consequence.

35 A’s statement during the hearing with the Special Investigative Committee.
3. Proposals on Preventive Measures

The Special Investigative Committee will make a proposal on the fundamental thinking in crafting the preventive measures Net One should implement and carry out, which is based on the facts and issues on the internal control identified by us.

Part 1 Improvement of the Internal Control System
1. Improvement plan on preventive measures implemented as of today (deterrence to Orders to Selected Vendors)
   In response to the discovery of the wrongdoing, Net One formed a working group comprised of members from Internal Audit Office and Corporate Planning Office on February 15, 2013. The working group crafted the following improvement plans on Orders to Selected Vendors and such plans were put into practice from March 1.

   ① Improvements (or New rules) on sales operation process
      - All documents related to quotation must be retained for later examination of the adequacy of an order to Selected Vendor.
      - No orders will be accepted using the item name “a bundle of system.”
      - Improvement of system applying to orders accepted with unofficial documents.
      - An additional section(s) other than sales department will serve as deterrence during the process of Orders to Selected request.
      - The new acceptance rules on purchased product and/or services will support the appropriateness of a payment.

   ② To strengthen the deterrence by sales operation department and technical department during the process of Orders to Selected Vendors
      - The sales operation department and technical department will confirm the order and its appropriateness if Order to Selected Vendors is included in a proposal to a customer.
      - The sales operation department and technical department will confirm the deliverables from the Selected Vendors among other things when a project including Orders to Selected Vendors is completed.

   If these measures and rules are thoroughly implemented, we can regard this preventive measure as effective in addressing the issues in internal control as pointed out above.

2. Proposals on preventive measures for internal control
   (1) Improvements on Determining Estimated Cost
      Net One should review and improve the current way to determine the estimated cost in order to properly manage the comparison of budget and actual amounts and the income and expenditure in a project.
For example, introducing cost calculation by manpower loading or determining the cost in the form of internal transaction with the Service Business Group is recommended.

(2) Improvements on Income and Expenditure Management System in a Project

Net One should improve the system that enables post-project examination of the income and expenditure.

The current Project Income and Expenditure Management System allows to separately examine (i) the gross profit rate at the time of quotation approval/order accepted and (ii) the income and expenditure by actual values, but disallows comparative review. And lacking the understanding and management of estimated man-hour and the breakdown of vendor quotation relating to (i) and actual man-hour relating to (ii) poses a problem. Therefore, Net One should review and improve the system to the point where (i) and (ii) can be linked together for comparative review and the details and breakdown of (i) and (ii) can be precisely understood.

(3) Upgrading and Improvement of Outsourced Vendor Management Rule

Net One should review the scope of application, management standard and management method in the outsourced Vendor Management Rule, which has not been modified since 2001. And it should manage the orders to vendors properly based on such rule.

In addition, management of outsourced vendor is extremely important in that it will not only make the employee observe compliance of prevention of wrongdoing, but it will also make possible quality control and information management of a vendor, and quality control over the deliverables to Net One’s customer. In order to achieve this, Net One should deliberate the introduction of conducting inspection (or audit) against a vendor by a third party other than a person from sales department and assess and accredit vendors from time to time as a method to manage outsourced vendors.

(4) The deterrence by the procurement department

To some extent, the procurement department should bear a function to determine whether a vendor transaction is appropriate.

And in order to determine, it will be effective to link Outsourced Vendor Management System and Vendor Registration System, which requires overhaul of the internal rules that should be contemplated by Net One.
Part 2 Permeation of the “common sense” that sustainable growth is predicated on compliance

1. Permeation of the philosophy in the Vision Book
   As mentioned above, the philosophy in the Vision Book, which serves as Net One employee’s behavior guidance, is here to stay especially among young people to an appreciable extent.
   However, it came to light that for people surrounding A, especially the managers, the Vision Book was a mere slogan.
   Taking into account of this, Net One should have its employee repetitively think the meaning of the philosophy in the Vision Book (Behavior Guide 4.2.3) and transform such philosophy into “true feelings” through daily discussion at work.

2. Unifying Compliance and corporate philosophy
   Disregarding compliance prejudices corporate value. Net One must have realized this adage painfully.
   However, compliance is not something that only prevents wrongdoing, but also is synonymous with “Integrity & Trust” and “Professionalism & Honor” and it is a foundation for firm’s sustainable growth and improvement of corporate value.
   Net One still has some employees who see compliance as shackles in the way of seeking profit and choose between “compliance and profit.”
   All employees of Net One must learn again that compliance aligns with Net One’s corporate philosophy.

Part 3 Strengthening Governance Function

1. Equal Partnership among Sales Department/Technical Department/Administration Department
   It became clear that Net One retained such old business structure as “private shop thinking (a business culture dependent on individual skills)” and excessive reliance on sales activities.
   However, it is essential to overcome this legacy and exercise sound governance and deterrence functions for the company to grow sustainably.
   Net One should raise awareness that equal partnership among sales department/technical department/administration department and sound deterrence function would be a basis for high corporate value and accordingly should review its internal rules from this perspective.
2. Strengthening Internal Audit

(1) Strengthening Wrongdoing Detection Function and Deterrence Function

Net One should deploy independent persons with high sense of professionalism to enhance the detection and deterrence of wrongdoing in the Internal Audit Office.

In addition, rules that obligates persons subjected to audit to cooperate with the Internal Audit Office and prohibits challenges against audits should be implemented and enforced against violators along with penalty.

(2) Strengthening Monitoring Function by Internal Audit

An internal audit’s purpose is not limited to detection and deterrence of wrongdoing. It should improve internal operation by extensively monitoring how broadly the rule is observed and how broadly the corporate philosophy reached within the company and giving feedbacks on them to the board of members.

Therefore, Net One should not see the Internal Audit Office as a “wrongdoing buster,” but position it as a leading contributor to the permeation of the corporate philosophy and deploy capable persons having sense of mission.

(3) Coordination with Board of Auditors

Intense coordination between Board of Auditors and the Internal Audit Office and shoring up company-wide audit function would enhance corporate governance.

Part 4 Improvement on Whistle-Blowing System

1. Thorough Protection of the Whistle-blower and bringing it to the knowledge of the employees

Net One has a whistle-blowing system in place that is functioning to some extent and the whistle blower is protected under that system.

However, as mentioned in the “CSR fact-finding and awareness survey (compliance questionnaire),” the Whistle-Blowing System has yet won the confidence of the whole employees and there are some managers who says “if you try to blow a whistle, it will hurt your career.”

2. Whistle-Blowing System should come to the fore

Net One should put more emphasis on the Whistle-Blowing System. A message from the president like “Whistle-blowing saves the company” will serve the purpose to put in practice the words of “if you look away from the wrongdoing, that itself becomes a wrongdoing” and to make available a climate intolerant of “turning a blind eye.”
3. Disclosure of the Track Record

“I don’t know the number of whistle-blowing calls,” “I don’t know the types of whistle-blowing calls,” “I don’t know how they respond to the whistle-blowing.” These are the concerns that make the employees hesitate. Net One should aggressively disclose track record of the whistle-blowing to allay these concerns.

However, in disclosing the track record, any information that would identify a personal must be erased.

Part 5 This Investigative Report should be a practical text book

Net One was designated as “Securities Under Supervision (Examination)” after the disclosure of this incident, and undermined the whole society’s confidence including investors and customers.

Net One must overcome the issues in light of the lessons learned from this incident and build up business structure invulnerable to any wrongdoing to restore investor’s confidence and enhance corporate value.

To achieve this goal, our proposal is that all employees and board members to pore over this report as a practical text book, place yourself in the position of persons concerned in this report, and engage in an honest debate in your workplace.

The Special Investigative Committee conducted hearings with many frontline employees over the investigation into finding of similar wrongdoing. While aggressively cooperating in the investigation, many showed strong resentment toward the wrongdoing by A and others. Further they pressed for thorough investigation into the case and its disclosure.

At the end of our report, we would like to add that large majority of Net One’s employee are serious and sincere.