

[Translation]



August 10, 2022

Company Name: ARTERIA Networks Corporation  
Representative: Koji Kabumoto, Representative Director,  
President & CEO  
(Code No.: 4423 Prime Market of the TSE)  
Inquiries: Takahiro Nakamura, Managing Executive Officer &  
CAO  
(TEL: 03-6823-0555)

**Receipt of the Report of the Investigation Committee  
and Policy for Future Course of Action**

We hereby announce that on August 10, 2022, we received the report from the Investigation Committee (Note).

We sincerely apologize for any inconvenience and concern caused to our shareholders, investors, business partners, and other stakeholders in relation to this matter.

(Note) Please refer to the "Notice of the Seventh Annual General Meeting of Shareholders, Adjourned Meeting and Establishment of an Investigation Committee " issued on June 13, 2022.

Description

1. Content of the Investigation Report and Outline of the Issues at Hand

An outline of the investigation report is attached at the end of this disclosure. The full text of the investigation report (in Japanese) was disclosed on August 10, 2022 and posted on our website (<https://www.arteria-net.com>). To protect the privacy of individuals, the Investigation Committee approved the disclosure of the outline of the investigation report partially redacting personal data, etc. We appreciate your understanding.

2. Impact on financial results

We will announce the impact on the financial results for the fiscal year ended March 2022 and future financial results resulting from this matter as soon as it becomes available.

3. Future Course of Action

We respectfully accept the findings of the investigation and the recommendations about preventive measures regarding this matter by the Investigation Committee. We will establish concrete preventive measures and take necessary steps, including taking disciplinary actions against related personnel.

August 10, 2022

ARTERIA Networks Corporation Special Investigation Committee

Committee Chairman Takeshi Motomura

Committee Member Yoshiyuki Wada

Committee Member Takahiro Nakamura

## **I. Summary of the Investigation by the Special Investigation Committee**

### **1. Background of the Establishment of the Special Investigation Committee**

On June 8, 2022, one (1) employee (hereinafter referred to as the “Employee”) of ARTERIA Networks Corporation (hereinafter referred to as the “Company”) was arrested by the police for fraudulently obtaining connection fees from a telephone company (hereinafter referred to as the “Telephone Company”) for violating the Act on Punishment of Organized Crimes and Control of Proceeds of Crime (organized fraud) etc. (hereinafter referred to as this “Case”). Some media organizations have reported that the alleged facts of this Case were that the Employee intentionally generated automatic outgoing calls abusing the mechanism of connection charges (Access Charges), which are paid according to the time of calls between telecommunication carriers, and made the Telephone Company pay connection charges for the incoming calls. They have also reported that in addition to the Employee, more than a dozen people, including an officer of an agency of the Company (hereinafter referred to as the “Agency”), were arrested. On the other hand, the Company had no knowledge of the facts of this Case.

In response to this situation, on June 10, 2022, the Board of Directors of the Company resolved to establish an “Investigation Committee” (hereinafter referred to as the “Committee”) with outside experts to confirm the facts and investigate the cause of this Case (hereinafter referred to as this “Investigation”).

The Employee was subsequently charged with the facts that he signed up for the fixed rate charge service while hiding his intention to make a series of automatic outgoing calls that were not covered by such service and profited from the difference between the fixed rate charge and the metered rate charge. This charge differs from the facts he was charged with at the time of his arrest being that he defrauded the Access Charges.

Nonetheless, even under such charged facts, the Committee proceeded with this Investigation as originally planned, based on its judgment that it was still necessary to clarify whether the Company was systematically involved in the illicit use of the Access Charge mechanism and other related matters.

## **2. Members of the Special Investigation Committee**

Committee Chairman: Takeshi Motomura (Outside Audit & Supervisory Board Member, Independent Director, lawyer), Attorney at Law, IWATA GODO)

Committee Member: Yoshiyuki Wada Representative of KIC Co., Ltd. / Certified Public Accountant)

Committee Member: Takahiro Nakamura (Managing Executive Officer & CAO of the Company)

## **3. Matters to be Commissioned**

- i. Investigation of the facts related to this Case
- ii. Investigation of whether or not there are any similar events to this Case
- iii. Investigation of the cause and background of this Case
- iv. Recommendation of measures to prevent a recurrence

## **4. Scope of this Investigation**

The Committee decided to investigate the existence of similar transactions, which it defined as events in which the Company increased its sales by increasing the volume of communications by itself or by a third party, regardless of whether it was calls or communications. As a result of the examination, the Committee decided to investigate transactions with one (1) other company in addition to the Agency (hereinafter referred to as the “Company Subject to Similar Investigation”).

## **5. Period of this Investigation**

The Committee conducted this Investigation from June 10, 2022, to August 4, 2022. During this period, the Committee held a total of thirteen (13) meetings.

## **6. Prerequisites**

This report is a summary of the Committee’s Investigation Report dated August 10, 2022. For a description of the methodology and other details of this Investigation, please refer to the Investigation Report. In addition, this Investigation has the following prerequisites and limitations.

The Committee does not intend for the results of this Investigation to be used for any purpose other than those described in I.1. above, and the Committee does not assume any responsibility to any third party in any sense other than the responsibility it assumes to the Company within the scope of the entrustment from the Company. Furthermore, the Committee does not intend to certify or pursue any civil or criminal liability in relation to the persons concerned.

This Investigation has certain limitations as it is a non-compulsory investigation and was conducted based on limited investigative methods under time constraints. Although the Committee believes that this Investigation has provided a reasonable basis for fulfilling the purpose of this Investigation, the Committee cannot guarantee that the results of this

Investigation are complete and comprehensive and cannot rule out the possibility that the results may differ from the results of this Investigation if the Committee could take more time for this Investigation or employed other investigation methods, or if it became clear at a later date that material information would be further disclosed or that material information was not provided. Nor can the Committee guarantee that the findings of this Investigation will be consistent with the results of future judgments by public agencies, including courts, in criminal proceedings and other procedures concerning this Case.

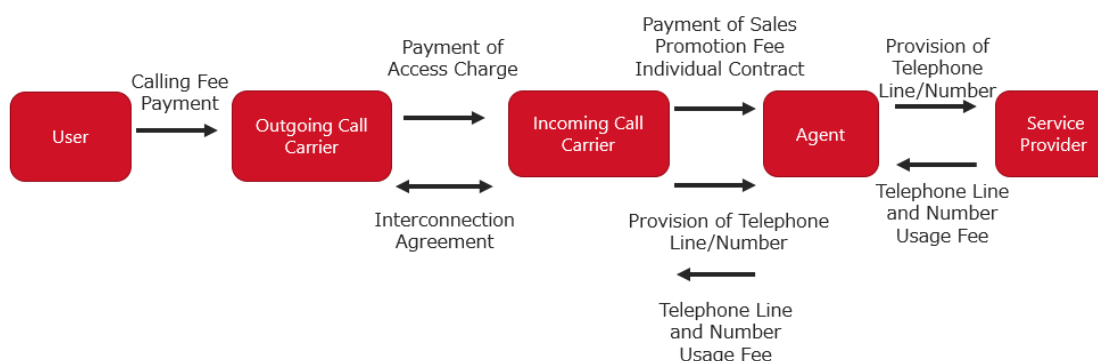
## II. Assumptions for this Investigation

### 1. Corporate Summary of the Company

Corporate Name	ARTERIA Networks Corporation
Representative	Representative Director, President and CEO Koji Kabumoto
Head Office	Sumitomo Fudosan Shimbashi Building, 6-9-8 Shimbashi, Minato-ku, Tokyo
The Foundation Date	November 4, 1997
Capital Stock	5,150 million Japanese Yen (As of March 31, 2022)
Employees	787 (as of March 31, 2022) *Group-wide *Not including temporary employees
Description of Business	<ul style="list-style-type: none"> <li>• Telecommunications business under the Telecommunications Business Law</li> <li>• Data communication service business</li> <li>• Data center business</li> <li>• Telecommunications construction business</li> </ul>

### 2. Overview of Transactions Related to Access Charges

#### (1) Overview of Access Charge Business



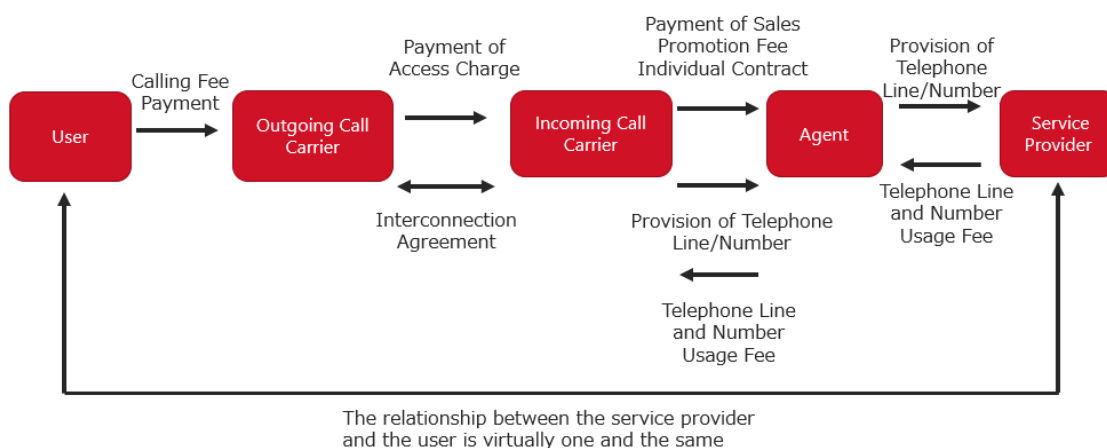
The Access Charge is a connection fee paid between telecommunications carriers that own telephone lines. Telecommunications carriers that own telephone lines have an interconnection agreement in which they mutually accept connections from telephone numbers connected to the other party's lines to telephone numbers connected to their own lines.

When a user calls an incoming call carrier's telephone number from an outgoing call carrier's telephone number, the outgoing call carrier receives payment for the call from the user while paying the Access Charge to the incoming call carrier for the duration of the call.

The incoming call carriers provide telephone numbers connected to their lines directly to service providers and other users and may also provide them to agencies (resellers). Under the contract between the incoming call carrier and the agency, the incoming call carrier may set a sales promotion fee to the agency, which is calculated based on the volume of incoming calls (time of calls) to the phone numbers provided. The sales promotion fee functions as an incentive for the agency to re-offer the number to a service provider that can collect incoming calls. Similar incentives may be established between agencies and secondary agencies, or between agencies and service providers.

In this Case, the Company is in the position of the incoming call carrier.

## (2) Overview of the Illicit Scheme of Access Charges



A service provider who receives a telephone number from an agency, works with a user who makes a call to such telephone number (the relationship between the service provider and the user is virtually one and the same), and after the user concludes a fixed rate charge service contract with the outgoing call carrier, the user makes a large number of outgoing calls (hereinafter referred to as "Illicit Calls") to the service provider's telephone number by using a machine or other means, without the actual occurrence of the calls. The user pays a fixed rate charge for the call, whereas the incentive paid by the incoming carrier to the agency and by the agency to the service provider is based on the time of the call. Thus, the more calls the service provider (= the user) makes, the more profit it gains.

### **III. Summary of the Results of this Investigation**

In November 2018, the Company entered into an “IP Communication Service Provision Agreement” with the Agency, which included the establishment of incentives, and began transactions in December 2018 (hereinafter referred to as the “Transactions”).

Shortly after the Transactions began, the engineering department reported suspected Illicit Calls to phone numbers provided to the Agency. The Company reported the suspected Illicit Calls made by the Company’s client to the Telephone Company. Later, the Company and the Agency concluded an agreement to the effect that the Agency would not use IP telecommunication services for the purpose of obtaining illegal or illicit profits as well as the Agency ensured that its clients and secondary agencies would also comply with the content of the agreement (hereinafter referred to as the “Agreement”).

The following is a summary of the results of the Committee’s Investigation regarding the Transactions.

#### **1. Recognition of Illicit Calls by Employees and Officers of the Company, Excluding the Employee**

As a result of this Investigation, it was not found that any of the employees or officers of the Company other than the Employee were aware that Illicit Calls were made to the numbers provided by the Company to the Agency or agent companies of the Agency. No evidence was found to indicate that the Company was systematically involved in this Case.

#### **2. Facts Found Regarding the Employee**

As a result of this Investigation, there was no evidence that the Employee had committed any special acts in connection with the Transactions that were beyond the scope of his business activities as an employee of the sales department of the Company.

In addition, according to the Employee’s defense counsel, the Employee did not engage in any act of complicity in Illicit Calls and was not aware that any Illicit Calls were made. In this regard, nothing in the Employee’s explanation on the Transactions was found to be in definite conflict with any of the evidence with which the Committee came into contact.

On the other hand, this Investigation revealed the fact the Employee had personally received economic benefits in connection with the Transactions, including the fact that the Agency’s representative had continuously provided cash to the Employee since the summer of 2019, and that in September 2020, a company substantially controlled by the Employee was established and money was paid to the company in the name of a business consignment fee by an agent company of the Agency.

The Employee recognizes that the provision of these economic benefits was not in compensation for complicity in Illicit Calls or hush money but rather as entertainment expenses

for the Access Charge business.

Given the limitations of this Investigation, the Committee is unable to make any objective and specific findings of contributory criminal conduct by the Employee as to why he received economic benefits from the Agency's representative and others. However, the Committee cannot accept the Employee's statement that it was nothing more than excessive entertainment and conclude that it was completely unrelated to the illicit scheme of Access Charges.

#### **IV. Investigation of Similar Cases**

The results of the Committee's investigation of similar cases are as follows: as a result of the Committee's analysis of the Illicit Calls, the Committee could not determine that the Illicit Calls were not made to the numbers that the Company provided to the Company Subject to Similar Investigation. On the other hand, the Committee could not determine that the Illicit Calls were made to the numbers the Company provided to the Company Subject to Similar Investigation considering that no problems were found in the process leading to the conclusion of the IP Communication Service Provision Agreement with the Company Subject to Similar Investigation, in the negotiation process leading to the conclusion of the agreement, or in the approval process, that there were no statements from the executives of the Company Subject to Similar Investigation acknowledging the existence of similar cases, and that the results of this Investigation did not indicate that any of the officers or employees of the Company were aware of the existence of Illicit Calls.

#### **V. Root-Cause Analysis**

Even with this Investigation, it remains unclear what the Employee's awareness of this Case was and in what way he was or was not involved in the illicit scheme of Access Charges, and we will have to wait for the outcome of the criminal proceedings to clarify this point.

However, although the specific involvement of the Employee in the criminal acts remains unclear at this point, this Investigation has revealed the fact that the Employee has received a large number of economic benefits from the Agency's representative and others. Assuming that the charged facts of this Case are true, there is no doubt that the abnormal collusion between the Employee and the Agency's representative is partly responsible for this Case. Therefore, the Committee has analyzed and examined the causes from this perspective.

##### **1. Lack of Personnel Rotation within the Sales Department**

One of the fundamental factors that led to the abnormal collusion between the Employee and the Agency's representative was the lack of personnel rotation within the sales department because IP phone service is a niche business in the Company, and the number of employees involved is small. The Employee had been consistently in charge of the Agency's sales from the



beginning of the contract, and there was no rotation of the person in charge for a long period of time, even with other business partners that the Employee was in charge of. Furthermore, there was no prospect of a rotation of personnel in charge of sales with the clients, including the Agency, in the near future. It is believed that this fixed staffing situation was an inducement for an improper motive in the Agency's representative to bring the Employee around.

## **2. Insufficient Enforcement of Internal Rules and Regulations Regarding Compliance**

Under its internal rules, the Company prohibits the giving or receiving of undue money or goods in connection with duties, the receiving of money, gifts, entertainment, or other economic benefits from persons related to business partners that exceed the scope of socially accepted norms, or any other conducts that may cause collusion with business partners. The Company also prohibits dual employment without prior approval.

However, as the Employee had received a large number of economic benefits in violation of the internal rules and regulations and even went so far as to establish a private company, it can be said that there was a lack of thorough compliance awareness within the Company, which may have been one of the factors in this Case.

## **3. The Sensitivity of the Risks Inherent in the Access Charge Business**

Even after the conclusion of the Agreement, suspicious incoming traffic of the Agency was frequently recognized by the engineering department, leading some members in the engineering department to suspect that the Agency or agent companies of the Agency might be involved in Illicit Calls. Nevertheless, the conclusion of the Agreement, solidified the recognition in the IP phone service sales department that there was no legal problem with the continuation of the Transactions, and the suspicions in the engineering department were, so to speak, suppressed.

Later, in July 2021, it was reported that fifteen (15) people, including the substantial managers of a company operating a telecommunications business, were arrested by Aichi Prefectural police on suspicion of violating the Act on Punishment of Organized Crimes and Control of Proceeds of Crime for repeatedly making outgoing communications by abusing the Telephone Company's free call plan for the purpose of obtaining Access Charges, which was the first time that the possibility of the illicit scheme of Access Charges constituting a crime was discussed in society. A possibility cannot be denied that the collusion between the Employee and the Agency's representative could have been eliminated if the sales department had taken the opportunity of this news report to take a closer look at the Transactions and strengthen its surveillance of the Employee.

From the perspectives above, it can be pointed out that even though the IP phone service is a side business of the Company with a small number of participants, the lack of sensitivity to risks inherent in the Access Charge business within the sales department may have been one of the background factors that allowed the collusion between the Employee and the Agency's representative.

## **VI. Measures to Prevent a Recurrence**

### **1. Implement Feasible and Effective Collusion Prevention Measures for Sales Representatives**

In this Case, the Employee had colluded with the Agency's representative, a company for which he was in charge of sales, for the purpose of personal gain and had received illicit economic benefits. Although there is a limit to how much the internal management system alone can prevent the occurrence of such types of illicit acts, the Committee believes it is important to introduce feasible and effective measures, including a regular rotation system of sales representatives, to prevent collusion between sales representatives and clients in order to reduce the possibility of similar illicit recurring in the future.

### **2. Implementation of Various Measures to Promote Compliance Awareness**

The Company has established various internal compliance rules and regulations, has a compliance committee, conducts regular compliance training for employees, and conducts compliance questionnaires and provides feedback as necessary. The Committee considers that there were no routine deficiencies in these systems and efforts.

However, there is no doubt that the Employee critically lacked an awareness of compliance in the business, and if this is the case, the Company shall consider concrete measures to expand compliance education, particularly in the sales department, which has many opportunities to come into contact with clients and agencies, in order to further promote compliance awareness. Specific measures shall be considered to implement company-wide periodic inspections and confirmation to check if the employees comply with compliance rules and compliance awareness is being instilled at business sites.

### **3. Improvement of Sensitivity to and Thorough Identification of Risks Inherent in Side Businesses**

The identification and analysis of business risks, as well as the necessity of continuing or reviewing policies based on the results of such analysis, shall be constantly updated, especially in the case of side businesses. To this end, it is essential to constantly raise one's antennae and improve sensitivity.

In this Case, it can be pointed out that the lack of sensitivity to the business risks inherent in the Access Charge business, that is, the risk of not being able to detect and eradicate the scheme of illicit use due to limited management and supervision of agencies, may have been one of the background factors that allowed the Employee to collude with the Agency's representative. The Company is once again required to identify compliance risks inherent in each business, especially in side businesses, and to constantly review its handling policies for these transactions.

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