

# TSE Urgent Notice



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May 9, 2019  
Listing Department  
Tokyo Stock Exchange, Inc.

## Public Announcement Measure and Request for Improvement Report

TSE has taken the Public Announcement Measure and requested an Improvement Report as follows.

\*This decision is based on the results of the examination by Japan Exchange Regulation.

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| Company Name | Kurogane Kosakusho Ltd.<br>(Code: 7997, Market Division: 2nd Section) |
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| Date of Public Announcement Measure | May 9, 2019 (Thu.)   |
| Provision                           | Securities Listing Regulations, Rule 508, Paragraph 1, Item 1<br>(Due to disclosed information containing false statements and public announcement being deemed necessary) |
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| Improvement Report Submission Deadline | May 23, 2019 (Thu.)  |
| Provision                              | Securities Listing Regulations, Rule 502, Paragraph 1, Item 1<br>(Due to disclosed information containing false statements and improvements being deemed highly necessary) |
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| Reason | <p>Kurogane Kosakusho Ltd. (hereinafter "the Company") disclosed an investigation report of the third-party committee on Mar. 4, 2019 concerning inappropriate accounting treatment by the Company in past fiscal years, and corrections to past earnings reports, etc. on Mar. 15, 2019.</p> <p>The Company has previously, in 2009, been served a Request for Improvement Report related to corrections to past earnings reports, etc. stemming from inappropriate accounting treatment. They accordingly submitted this report containing the background of the issue and improvement measures, along with an Improvement Status Report containing information on the implementation and operational status of said measures.</p> <p>However, it has become clear that since at least the fiscal year ended Nov. 2014,</p> |
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the Company's Sales Department along with their responsible executive has been carrying out systematic fraudulent accounting, using a range of methods to deceive the Sales Management Department, which the Company set up in 2009 as the pillar of their improvement plan. These methods included front-load posting of sales through falsification of work completion certificates and purchase orders, and cost transfer through falsification of invoices.

As a result, it has been identified that the Company disclosed earnings reports, etc. that are deemed to contain falsehoods from the fiscal year ended Nov. 2014 through to the third quarter of the fiscal year ended Nov. 2018.

It was deemed that the following points contributed to the occurrence of these disclosures:

- Despite the regular compliance training, etc. that the Company has carried out since the previous Request for Improvement Report was served in 2009, levels of understanding of the importance of compliance among the Sales Department ultimately did not improve. Moreover, the executive responsible for the Sales Department put pressure on the sales staff to achieve unrealistic sales targets, and then deliberately overlooked the fraudulence which was being used towards achieving said targets, among other things. Consequently they systematically carried out inappropriate accounting treatment that gave priority to achieving sales targets.
- Although the improvement measures included in the Company's 2009 Improvement Report and Improvement Status Report were carried out on an ongoing basis, and did demonstrate a certain amount of effectiveness in preventing a repeat of the failures, the newly established Sales Management Department, the pillar of those measures, had defects such as in the running of its surveillance functions and in its personnel structure.

Based on the above, this case is in violation of the listing rules due to the disclosure containing false statements, has a considerably serious background and cause of the violation, and is deemed to require public announcement. Thus, TSE has determined that the public announcement measure is appropriate.

Furthermore, this is a case of inappropriate disclosure arising from deficiencies in the Company's organizational structure for conducting appropriate timely disclosure, and improvements to the organizational structure are deemed to remain highly necessary. As such, TSE has determined that it is appropriate to require the Company to submit a report containing the background of the issue and improvement measures.

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