

May 9, 2024

AIN HOLDINGS INC.

President and Representative Director, Kiichi Otani

(Stock code 9627: Tokyo Prime Market, Sapporo Securities Exchange)

## Notice Regarding the Receipt of the Investigation Report by the External Investigation Team

As we announced in “Notice Regarding the Judgment against Former Directors of the Company and its Subsidiary” dated April 18, 2024, in connection with the arrest and indictment of former directors of AIN HOLDINGS INC. (the “Company”) and its subsidiary (the “Subsidiary”) while they were in office, and subsequent conviction, the Company began considering external investigation immediately following the arrest on August 31, 2023, established an investigation team (the “External Investigation Team”) comprised of five external lawyers on October 5 of the same year, and has been working to investigate the facts, including the existence of similar cases, determine the cause, and formulate measures to prevent recurrence.

We received the investigation report from the External Investigation Team today, and hereby announce as follows.

### 1. Results of the investigation

Please refer to the attached “Investigation Report” for the results of the investigation by the External Investigation Team.

Please note that measures of partial non-disclosure have been taken in part for such report from the viewpoint of protecting personal information and confidential information.

### 2. Policy on future response following the results of the investigation

The Company takes the results of the investigation and recommendations for measures to prevent recurrence by the External Investigation Team seriously, and will promptly formulate and implement specific measures to prevent recurrence. We plan to announce specific measures to prevent recurrence in the near future.

We sincerely apologize to our customers, business partners, shareholders, investors, and other related stakeholders for causing great concern and inconvenience. We will strive to regain the trust of our stakeholders at an early stage by working together as a company to implement measures to prevent recurrence in the future.

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May 9, 2024

To Ain Holdings Inc.

## **Investigation Report**

### Investigation Team

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Chief Examiner: Daisuke Yuki

Chief Examiner: Yasuo Daito

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### List of Abbreviations of Main Terms

Abbreviation	Meaning
The Investigation	Investigation conducted by the Investigation Team retained by AHD.
The Investigation Team	The investigation team established as of October 5, 2023, to conduct the Investigation.
On-site Pharmacy	Insurance pharmacies established on the premises of insured medical institutions.
Off-site Pharmacy	Insurance pharmacies opened off-site and in the vicinity of insured medical institutions.
The KKR Sapporo Matter	The public solicitation matter conducted by KKR Sapporo Medical Center in November 2020 through a planning competition for an operating company to develop and operate a pharmacy on the premise or a series of the facts concerning the matter.
The Criminal Case	The criminal case where two AP directors were arrested and indicted on suspicion of obstructing bids in a public contract auction in connection with the KKR Sapporo Matter.
Matter X	The general competitive bidding for an operating company to implement the on-site pharmacy business conducted by Hospital X in [REDACTED] using the general evaluation bidding method (and the general competitive bidding for the fixed-term building lease for the on-site pharmacy), or a series of the facts concerning the matter.
Matter Y	The public solicitation matter conducted by Hospital Y in [REDACTED] through a competitive planning process for an operating company, or a series of the facts concerning the matter.
Matter P	The competitive planning matter conducted by Hospital P in [REDACTED] for an operating company of the comprehensive facility including pharmacy, or a series of the facts concerning the matter.
The Replacement	The replacement of the proposals, involving changes made after the deadline for the submission outlined in the public solicitation guidelines, as identified in the Investigation.



**List of Abbreviations of Names of Companies and Hospitals**

Abbreviations and Notations	Official Company Name
AHD	Ain Holdings Inc.
AP	Ain Pharmaciez Inc.
Ain Group	Entire corporate group with AHD as the holding company
KKR	Federation of National Public Service Personnel Mutual Aid Associations

## **I. Overview of the Investigation**

### **1. Background of the Establishment of the Investigation Team**

AHD participated in the public solicitation conducted by KKR in November 2020 (public solicitation proposal method) through a planning competition for the operating company of an insured dispensing pharmacy on the premise of KKR Sapporo Medical Center. AHD obtained the preferential negotiation right, was subsequently selected as the operating company, and AP, a group company of AHD, opened an On-site Pharmacy on the premises of KKR Sapporo Medical Center in December 2021 (the KKR Sapporo Matter).

However, on August 31, 2023, two AP directors (one of whom also served as the director of AHD) were arrested on charges of Obstruction of Auctions Related to Public Contracts (Article 96-6, Paragraph 1 of the Penal Code), for resubmitting a revised proposal for the KKR Sapporo Matter after the deadline for submission of proposals in the planning competition, following a suggestion by an individual associated with the KKR Sapporo Medical Center. On September 21, 2023, the above two directors were indicted on the same charge (the Criminal Case). In the Criminal Case, the two directors argued that the Article of the Penal Code did not apply to this case on grounds including the argument that the planning competition for the KKR Sapporo Matter did not constitute "public bidding," and the person who concurrently served as the director of AHD argued that there was insufficient proof of his intent to commit the crime, and both sought a judgment of acquittal.

In response to the Criminal Case, AHD sincerely acknowledged the fact that Ain Group's business activities had raised suspicions of violations of the law. To thoroughly investigate these issues, analyze their causes, and implement preventive measures for robust compliance management and accountability to their stakeholders, AHD established the Investigation Team composed of independent experts with no vested interests in AIN Group, to investigate the specific facts concerning the KKR Sapporo Matter and any similar matters if any (in case such similar matters exist, facts concerning those matters), to the extent necessary to meet such objectives above.

### **2. Matters Assigned to the Investigation Team and the Scope of the Investigation**

AHD has outlined the following assignments for the Investigation Team:

- 1) To clarify facts regarding the KKR Sapporo Matter;
- 2) To clarify the existence of matters similar to the KKR Sapporo Matter and if such matters exist, provide the relevant facts regarding such matters;
- 3) To analyze the root causes of the Criminal Case and any similar matters if any, and provide recommendations for measures to prevent their recurrence; and
- 4) Any other matters that the Investigation Team considers necessary to fulfill the Investigation's objectives.

Considering these assignments and the backgrounds that led to the establishment of the Investigation Team, the Investigation Team has set, as the scope of the Investigation, 40 cases where the contractors were National and/or Public Hospitals etc. (which means, in addition to hospitals established by KKR as in the KKR Sapporo Matter, hospitals such as national university corporations, public university corporations, local public entities and local independent administrative institutions.), given their public nature, out of the bidding cases for On-site Pharmacies, including those involving the public solicitation proposal method, for which AHD or its group companies obtained preferential negotiation rights by October 5, 2023 - the date when the Investigation Team was established.

Also, with regard to the assignment 1) above, in light of the backgrounds that led to the establishment of the Investigation Team, the Investigation was conducted not from the perspective whether the charge of the Obstruction of Auctions Related to Public Contracts would be admitted or not, but from the perspective of fulfilling the objectives of the Investigation as stated in 1. above.

**3. Composition of the Investigation Team**

The composition of the Investigation Team is as follows:

Title	Name	Qualifications and Organizations
Chief examiner (Head)	Hironobu Yasuda	Attorney at Law (Hirakawacho Law Office)
Chief examiner	Daisuke Yuki	Attorney at Law, also admitted in New York, Certified Fraud Examiner (Nozomi Sogo Attorneys at Law)
Chief examiner	Yasuo Daito	Attorney at Law, Certified Fraud Examiner (Nozomi Sogo Attorneys at Law)
	Fumiyuki Sato	Attorney at Law (Nozomi Sogo Attorneys at Law)
	Sae-Byok Yu	Attorney at Law (Nozomi Sogo Attorneys at Law)
	Motoki Yoshida	Attorney at Law (Nozomi Sogo Attorneys at Law)
	Hiroki Shirozu	Attorney at Law (Nozomi Sogo Attorneys at Law)

None of the organizations to which the members of the Investigation Team belong has any advisory engagement contracts or other interests with AHD or its group companies.

Also, from the viewpoint of effectiveness and feasibility of the Investigation, foxcale Inc. was selected to conduct the digital forensic investigation because of its professional knowledge and experience, as well as its independence and neutrality from AHD and its group companies.

#### **4. Summary of the Investigation**

##### **(1) Period During Which the Investigation was Conducted**

The period during which the Investigation was conducted was from October 5, 2023, the date the Investigation Team was established, to May 1, 2024.

As described below, however, there were significant restrictions on conducting the Investigation in relation to the Criminal Case; the criminal defense counsel insisted that the interviews by the Investigation Team with the defendant should not be conducted until the examinations in the criminal trial would be completed and all possibilities of additional proceedings by the prosecutors would also be fully cleared. Consequently, interviews involving other relevant persons, dependent on the defendant's interviews, were delayed significantly.

Throughout this period, the Investigation Team held meetings 44 times in total, with additional meetings or discussions as necessary among the members of the Investigation Team.

##### **(2) Period Covered by the Investigation**

The period covered by the Investigation is from September 27, 2017, which is the earliest date of the public solicitation among the matters under the Investigation, to May 1, 2024.

##### **(3) Method of the Investigation**

###### **(a) Review of Relevant Documents**

The Investigation Team analyzed and reviewed the materials provided by Ain Group, as well as materials collected by the Investigation Team. The major materials analyzed and reviewed by the Investigation Team are as follows:

- Documents such as internal regulations, organizational charts, minutes of various meeting bodies, approval documents, and a list of On-site Pharmacy matters in which AHD and/or its group companies have participated in the public solicitation to date;
- Documents related to the matters to be investigated (including public solicitation guidelines, development investment plans, proposals, presentation materials, and agreements); and
- Data from internal communication tools (Teams, Salesforce, Garoon), past internal training materials, etc.

###### **(b) Interviews with Executives and Employees**

The investigation team conducted one or more interviews with 31 executives and employees of Ain Group, using both in-person meetings and web conferencing. The details of these interviews are referred to in Exhibit 1 (omitted). Interviews with the persons in charge of the hospitals in the On-site Pharmacy matters were not conducted since it was possible to

investigate the facts concerning the Criminal Case and similar matters through the review of relevant documents described in section (a) and such interviews were not considered indispensable to establish facts or analyze the causes of the issues.

**(c) Digital Forensic Investigation**

To analyze the communication and document data from the executives and employees of AHD and its group companies, the Investigation Team preserved email data (from Garoon and Microsoft 365) and Teams chat data of 31 executives and employees. A total of 682,620 pieces of data were extracted. These data were indexed in a review environment, which allows for pre-processing for full-text searches. Subsequently, they were searched using keywords relevant to the Investigation covering period. Out of these, 18,490 data were considered relevant and selected for further review, analysis, and examination. Additionally, the Investigation Team exported a summary of the Teams chat data to Excel and organized it by bidding matters for more detailed analysis and review. Furthermore, the Investigation Team obtained Salesforce backup data in CSV file format and analyzed and reviewed them, especially Event data (detailed in Exhibit 2 <omitted>).

**(4) Scope of the Investigation**

The scope of the Investigation encompasses the 40 cases in which contractors were National and/or Public Hospitals etc., among the bidding cases for On-site Pharmacies, including those involving the public solicitation proposal method, where AHD or its group companies obtained preferential negotiation rights by October 5, 2023 - the date when the Investigation Team was established.

**5. Assumptions and Limitations of the Investigation**

**(1) Use of this Report and the Investigation Results**

This Report was compiled for Ain Group to clarify the facts concerning the Criminal Case and similar cases, investigate the causes of these cases, and formulate measures to prevent recurrence. This Report is submitted to Ain Group as the report as of now, in consideration of the fact that, as described below, an appeal has been filed against the first instance judgment in the Criminal Case and additional time will be required before the judgment is finalized. The Investigation Team does not intend for the results of the Investigation, including this Report, to be used for any purpose other than those stated above.

**(2) Voluntary Investigation**

The Investigation conducted by the Investigation Team is different in nature from investigations by investigative agencies and was conducted based on the voluntary cooperation

of the parties concerned. Therefore, coercive measures, such as search or seizure were not allowed to be used. The effectiveness of the Investigation is inevitably influenced by the degree of cooperation from the parties concerned, and the means of confirming the truth of the contents of the interviews with the parties concerned are also limited.

### **(3) Restrictions Due to the Criminal Case**

Throughout the Investigation, the criminal trial of the Criminal Case was pending, imposing significant constraints and influence on the Investigation schedule, such as difficulties in promptly conducting interviews with certain involved parties and in pursuing investigations based on these interviews.

Additionally, the Investigation was carried out by a limited number of members in the Investigation, as previously mentioned in section 3 above, with specific roles allocated based on the priority of each investigation matter. The Investigation was conducted while the trial proceedings related to the Criminal Case were pending, and there were personnel limitations on the scope and depth of the Investigation.

It should be noted that, although the Investigation covers the facts concerning the Criminal Case to the extent necessary to achieve the objectives of the Investigation mentioned above, the responsibility for fact-finding and legal evaluation of the Criminal Case lies with the criminal justice system and is not within the remit of the Investigation Team. Therefore, these aspects are not covered by the scope of the Investigation.

Moreover, it should also be noted that the findings of the Investigation Team are based on the information available under these constraints. These findings may change if new facts emerge or if additional materials not collected by the Investigation Team are later discovered.

## **6. Notation of this Report**

Unless otherwise described, this Report has been prepared in accordance with the following rules:

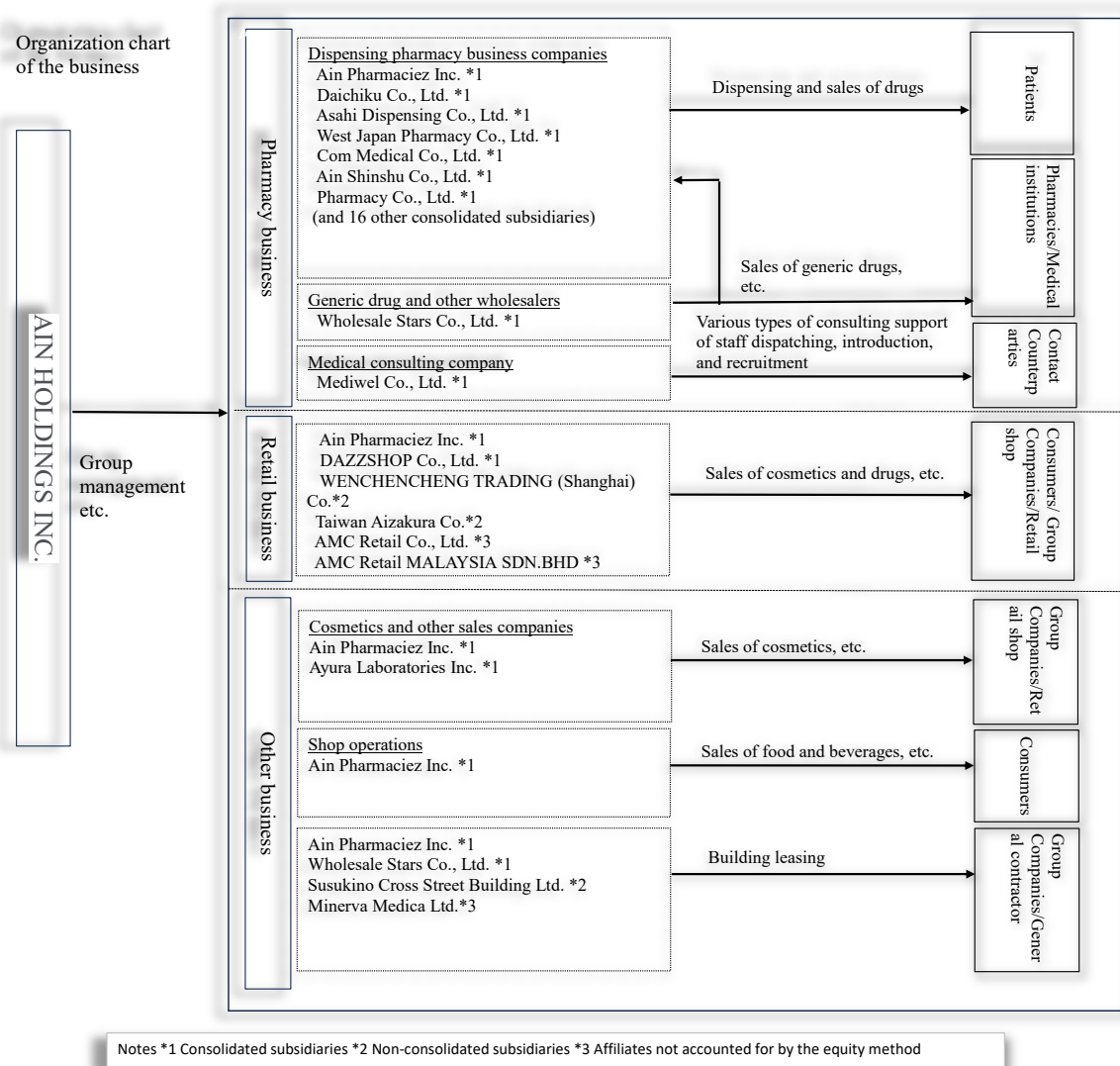
- (1) Abbreviations and acronyms listed in the table at the beginning of this document are used without any particular definition or explanation in the text.
- (2) Unless otherwise indicated, amounts exclusive of tax shall be used and fractions shall be rounded to the nearest whole number.

## II. Overview of Ain Group

### 1. Overview, History and Business Operations of Ain Group

Ain Group is a corporate conglomerate, which operates dispensing pharmacies primarily under the brand “Ain Pharmacy” throughout Japan, and additionally, runs cosmetics and drugstores named "AINZ & TULPE," with a presence mainly in the Sapporo and Tokyo metropolitan areas.

AHD serves as the holding company for Ain Group. Under AHD, there are group companies shown in the chart below, of which the primary operational entity is AP. AP manages the existing pharmacy operations and oversees the sales activities for the expansion of new pharmacy stores across the nation through its extensive network of branches.



(AHD Annual Securities Report for the 54th Fiscal Year Ended April 30, 2023 ("54th Annual Securities Report") Page 7)

The history of AHD is as follows:

August 1969	Established Daiichi Clinical Laboratory Center for contract clinical testing.
March 1988	Merged with Asahikawa Daiichi Clinical Laboratory Center (established in November 1981), with Daiichi Clinical Laboratory Center as the surviving company.
May 1989	Acquired Otani Co., Ltd. (established in July 1980), taking over six drugstores and reorganizing them as the Retail Division.
May 1993	Opened Prescription insurance dispensing pharmacy "Daiichi Pharmacy" (currently Ain Pharmacy Toyooka Branch) in Asahikawa City.
March 1994	The company makes an over-the-counter public offering of its shares on the Japan Securities Dealers Association (now the Tokyo Stock Exchange).
May 1994	Unified the name of the dispensing pharmacies to "Ain Pharmacy".
May 1995	Newly established Pharmaceutical Business Division.
October 1998	Clinical Laboratory Division is transferred to "BML Inc. "
November 1998	Changed the company name from "Daiichi Clinical Laboratory Center" to "Ain Pharmaciez Inc" .
February 2000	Opened Osaka branch.
October 2001	Established a wholly owned subsidiary, Miyako Ain Co., Ltd.
June 2002	Formed a business alliance with Nice Drug Co., Ltd.
April 2006	Established a wholly owned subsidiary Wholesale Stars, Co., Ltd., and began wholesaling pharmaceuticals, focusing on generic drugs.
January 2007	Acquired shares of Daichiku Co., Ltd. and made it a subsidiary.
June 2007	Acquired shares of Asahi Dispensing Co., Ltd. and made it a subsidiary.
August 2008	Formed capital and business alliance with Seven & i Holdings Co., Ltd.
April 2009	Listed on the Second Section of the Tokyo Stock Exchange.
June 2009	Seven Health Care Co., Ltd. was established as a joint venture with Seven & i Holdings, Ito-Yokado, and Seven-Eleven Japan.
April 2010	Stock was listed on the First Section of the Tokyo Stock Exchange.
May 2010	Listed on the Sapporo Securities Exchange Main Market.
February 2015	Acquired shares of Medio Pharmacy Co., Ltd. and made it a subsidiary.
September 2015	Acquired shares of Ayura Laboratories, Inc. and made it a subsidiary.
November 2015	Changed the company name from "Ain Pharmaciez, Inc." to "Ain Holdings, Inc." Established a 100% subsidiary company "Ain Pharmaciez, Inc.," which succeeded the business.
November 2015	Acquired shares of NP Holdings Co., Ltd. (currently Nishinippon Pharmacy Co., Ltd.) and made it a subsidiary.
December 2016	Acquired shares of Aoi Dispensing Co., Ltd. and made it a subsidiary.
September 2018	Acquired shares of Com Medical Co., Ltd. and made it a subsidiary.
March 2019	Acquired controlling shares of Tsuchiya Yakuhin (currently Ain Shinshu Co., Ltd.).
November 2019	Acquired the business of makeup cosmetics brand "DAZZSHOP".
March 2020	Acquired shares of SHIDAX-AI Co., Ltd. and made it a subsidiary.
April 2022	Moved to the "Prime Market," a new market segment of the Tokyo Stock Exchange.
May 2022	Acquired shares of Pharmacy Holdings, Inc. (currently Pharmacy Co., Ltd.) and made it a subsidiary.

## 2. State of AHD's Corporate Governance

### (1) Basic Policy on Corporate Governance

According to the 54th Annual Securities Report, AHD "has as its core business the



development of a chain of dispensing pharmacies and cosmetic & drugstores, and recognizes that it is essential to maintain sound and transparent business activities with the utmost emphasis on compliance due to the nature of its business, which is responsible for people's health," and "has adopted a corporate auditor system as a system to achieve these goals. This auditor system enables it to make important management decisions, execute business operations, and supervise overall management. "

## **(2) Overview of Corporate Governance Structure**

According to the 54th Annual Securities Report, AHD's corporate governance structure is outlined as follows:

### **(a) Board of Directors**

AHD's Board of Directors consists of 12 members, including four outside directors<sup>[1]</sup>. The board meets 11 times a year. At the board meetings, resolutions are made, or reports are made on the executive compensation system, personnel and organizational changes, business plan progress, store openings and closings, internal audits, sustainability management, corporate governance, and other issues.

### **(b) Board of Corporate Auditors**

AHD's Board of Auditors consists of three corporate auditors including one full-time and two outside corporate auditors and meets 12 times a year. The Board of Auditors determines audit policies and plans, prepares audit reports, evaluates of and agrees on compensation for the accounting auditor, and confirms the state of the development and operation of internal control systems, and other issues.

### **(c) Nomination and Compensation Advisory Committee**

At AHD, the Nomination and Compensation Advisory Committee is responsible for selecting and dismissing directors and setting executive compensation. The majority of members of the committee are independent outside directors to ensure that these critical processes are conducted with the stronger levels of fairness, transparency, and objectivity.

### **(d) Adoption of the Executive Officer System**

AHD has implemented an executive officer system to enhance organizational effectiveness. This system distinctly separates the roles involved in management decision-making and supervision from those related to business execution. This structure aims to

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<sup>1</sup> Due to the resignation of one director on November 13, 2023, AHD's Board of Directors consists of 11 members at the time of this report, which includes 4 outside directors.

energize the Board of Directors and enhance the efficiency and agility of business operations.

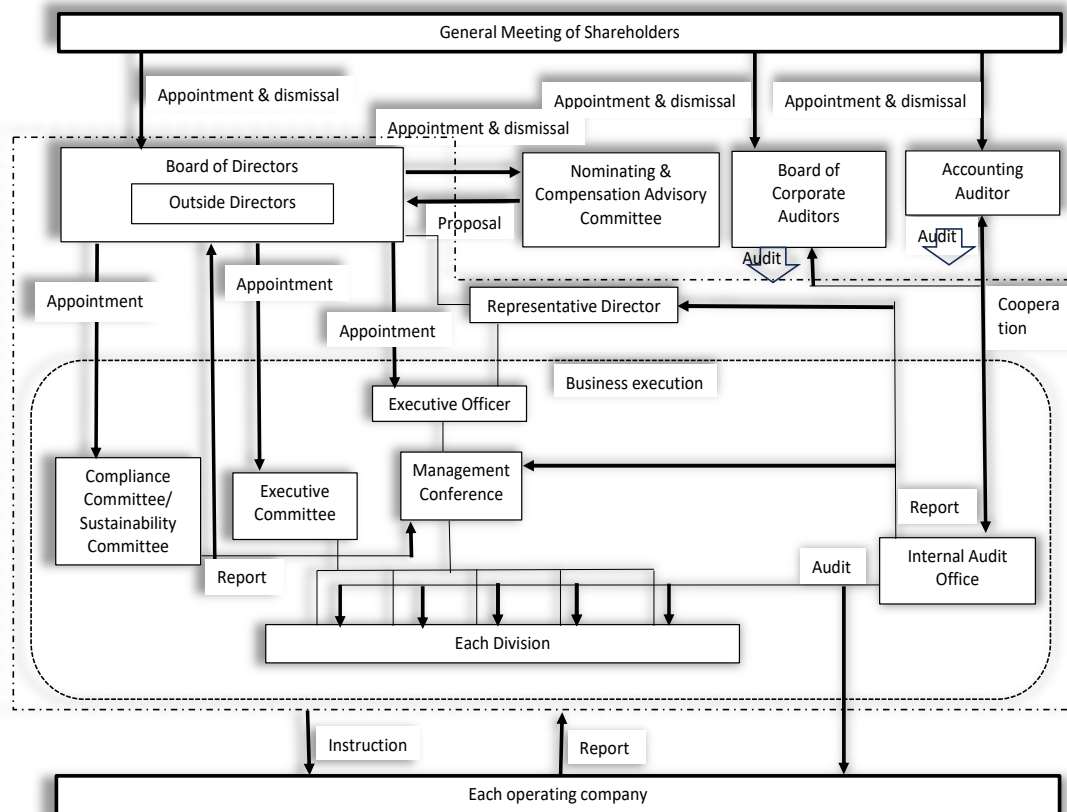
**(e) Internal Control by the Internal Audit Office**

AHD's 12-member Internal Audit Office conducts operational audits of headquarters and stores at least once a year in principle, audits subsidiaries, and checks the state of internal audits of subsidiaries, and prepares an internal audit report after the completion of operational audits, which is submitted to the Representative Director.

**(f) Other Systems**

In addition to the above, the Company has established a Safety Office to analyze and take measures to prevent dispensing errors in the pharmacy business. In addition, a Compliance Committee consisting of all directors, corporate auditors, and legal counsel has been established to ensure that corporate ethics and legal compliance systems are widely disseminated and established. In addition, a Sustainability Committee has been established to further strengthen CSR and ESG activities and enhance corporate governance.

The following is a schematic representation of this structure (Excerpt from the 54th Annual Securities Report, p. 33.)



### **3. Ain Group's Compliance Regulations and Related Matters**

On December 22, 2005, Ain Group established the "Ain Group Code of Conduct" as the basic compliance principles for all executives and employees of Ain Group. The Code of Conduct was revised on October 1, 2017.

The "Ain Group Code of Conduct" includes the following items as relevant to the Investigation:

"We always recognize that we are engaged in the business of people's health, and we are committed to conducting our business activities in a sensible and ethical manner."

"We will correctly understand and comply with all laws, regulations, and rules related to our business."

"If we discover any violation of internal rules or other acts that violate or may lead to violations of laws and regulations, we shall report it, propose it, or consult with our superiors or the Compliance Reporting Desk, regardless of our position or affiliation within the company."

"We will deal with our business partners in a fair and reasonable manner, with common sense and integrity."

In addition, on September 1, 2022, Ain Group established the "Ain Group Anti-Bribery and Anti-Corruption Policy" as an internal rule regarding the prevention of bribery, which prohibits all corrupt acts, including bribery, and stipulates that no officer, employee, agent, consultant or other business agent of Ain Group shall improperly provide money, goods, or benefits, etc. to a public official or other person that may be a bribe, in order to gain or secure business benefits.

On the other hand, no internal rules were established that individually or specifically referred to conduct that might impair the fairness of bidding, etc.

### **III. On-site Pharmacy System**

#### **1. Overview**

Insured pharmacies are regulated under Article 2-3 of the "Regulations on Insured Pharmacies and Insured Pharmacists in Charge of Medical Treatment" (Ministry of Health and Welfare Ordinance No. 16, 1957), which prohibits them from having an integrated structure or doing an integrated business, with insured medical institutions.

With regard to the "integrated structure," in the past, this was construed to mean that patients would be able to move directly between an insured medical institution and an insured pharmacy without passing through "a public road or equivalent road etc.,"<sup>[2]</sup> therefore, On-site Pharmacies

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<sup>2</sup> In the "Matters to be Considered in Implementation in Accordance with Partial Amendment of the Regulations

that were located on the premise of an insured medical institution and could be accessed without going through a public road were not permitted.

However, based on the comment that this restriction posed undue difficulties for patients using wheelchairs or the elderly<sup>[3]</sup>, the interpretation of the "integrated structure" was revised under the "Partial Amendment of 'Matters to be Considered in Implementation in Accordance with Partial Amendment of the Regulations Concerning Insured Medical Institutions and Insured Doctors in Charge of Medical Treatment'", issued on March 31, 2016 (Insurance-Medical-Issue 0331 No.6). Effective on October 1, 2016, the requirement for a public road etc. between the insured medical institution and insured pharmacy was eliminated, allowing for the establishment of On-site Pharmacies directly within the premises of insured medical institutions from October 1, 2016.<sup>[4]</sup>

Furthermore, the amendment of the National University Corporation Act, which took effect on April 1, 2017, have encouraged national universities to more actively utilize their lands and other assets. This amendment has also facilitated the opening of On-site Pharmacies within national university hospitals.

## **2. Ordering and Contracting Methods for On-site Pharmacy Matters**

The hospital's choice of the operating company for the On-site Pharmacy typically involved one of several methods, such as a public solicitation proposal method and a negotiated contract method.

Among these, the public solicitation proposal method involves a process where the contractor publicly solicits planning proposals, and the contractor selects the preferred bidder from the bidders which submitted the planning proposals based on the contents of their proposal. Following this selection, the contractor negotiates with the preferred bidder to finalize and execute a contract.

Private hospitals often used negotiated contract methods, while National and/or Public Hospitals etc. were more inclined to use the public solicitation proposal method from the viewpoint of ensuring fairness in the public solicitation process.

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Concerning Insured Medical Institutions and Insured Doctors in charge of Medical Treatment" (Insurance-Issue No. 22, March 8, 1996), "An integrated structure with an insured medical institution means that the land or building of an insured pharmacy is not separated from the land or building of an insured medical institution, where it is possible for patients to come and go through a dedicated passageway, etc. without going through a public road or equivalent road".

<sup>3</sup> The "Regulatory Reform Implementation Plan" endorsed by the Cabinet in June 2015 stipulated, "in taking measures to promote the main purpose of the separation of pharmaceutical and medical services, from the perspective of ensuring patients' freedom of choice in pharmacies and taking patient convenience into consideration, revise the current structural regulations that require patients to come and go between insured pharmacies and insured medical institutions through public roads and that result in fences being installed. Take effective measures to ensure operational independence between insured pharmacies and insured medical institutions."

<sup>4</sup> On March 5, 2024, during the period of the Investigation, the "Partial Amendment of 'Matters to be Considered in Implementation in Accordance with Partial Amendment of the Regulations Concerning Insured Medical Institutions and Insured Doctors in Charge of Medical Treatment'"(Insurance-Medical-Issue 0305 No.15) was issued to change and clarify the interpretation regarding the "integrated management" and went into on effect April 1, 2024.

In the actual procurement of On-site Pharmacy matters through the public solicitation proposal method, the typical sequence was as follows: First, a public solicitation proposal was issued, and interested operating companies were required to submit a declaration of participation by a specified deadline. For some On-site Pharmacy matters, participating companies were required to make presentations on their proposals in addition to submitting them in writing, and in other cases, a question-and-answer session from the participants to the contractor, after the declaration of participation and before the proposal submission deadline.

Once a preferred bidder was selected based on their proposals and/or presentations, then the contractor and the preferred bidder negotiated the terms and conditions for the conclusion of the contract based on the contents of the proposal. Depending on the matter, during the negotiation process, the final contract terms may change from those at the time of the planning proposal or in some cases, the contract may not be concluded at all.

#### **IV. Facts Found by the Investigation Conducted by the Investigation Team**

##### **1. Ain Group's Approach to the On-site Pharmacy Business**

Following the approval of On-site Pharmacies on October 1, 2016, as described in III.1, Ain Group has chosen to focus on launching On-site Pharmacies in addition to Off-site Pharmacies.

To support this initiative, AHD formed a project team within the Corporate Planning Office in 2018. In May 2020, this project team merged with the Group Sales Department, to form the new Sales Planning Department. This Department is tasked with developing a database for On-site Pharmacy projects and other projects, and making the Sale Planning Section to assist AP's branch offices in their efforts to open On-site Pharmacies.

##### **2. Initiation of On-site Pharmacy Sales Endeavors**

###### **(1) Initiation of Sales Activities**

Since the approval of On-site Pharmacies, Ain Group has initiated sales activities targeting hospitals that are potential sites for new On-site Pharmacies.

###### **(2) Reporting and Approval Process for On-site Pharmacy Projects within Ain Group**

Ain Group employs a reporting and approval process regarding public solicitation cases for On-site Pharmacy matters as follows:

###### **(a) Provisions in Internal Manuals and Related Documents**

The AHD's Sales Planning Department manual for the sales representatives, which was in use during the period of public solicitations for the KKR Sapporo Matter, Matter X, and Matter Y, outlines the following internal approval procedures:

###### **a. Information Sharing Meeting**

Prior to the public solicitation, information is shared by the sales representatives once a medical institution expresses interest in hosting an On-site Pharmacy. If the director responsible determines it necessary, an information sharing meeting will be scheduled and such information will be shared.

###### **b. Kick-off Meeting**

This meeting is convened once the public solicitation call is announced, and the public solicitation guidelines are made available. Its purpose is to clarify the details of the solicitation and confirm the work items, schedule and other things.

###### **c. Directors Approval Meeting**

After the closure of the public solicitation and once the preferential negotiation right is obtained, an directors approval meeting is held to approve the project outline, contract scheme, and development investment plan, and related matters. This meeting takes place when the terms and conditions of the agreement or contract with the medical institution are generally finalized.

Since some AHD directors pointed out that reversing the decision to open an On-site Pharmacy, after gaining preferential negotiation rights, is challenging and that this meeting actually functions as a debrief by the sales representatives, it was renamed to "Directors Report Meeting" around November 2022.

**(b) Actual Situation in AHD and AP**

However, the Investigation revealed that the actual sales activities of the On-site Pharmacy matters do not perfectly match with the procedures outlined in the sales representatives' manual above and other internal rules governing procedures of opening and closing pharmacies. At least during the periods of the public solicitation for the KKR Sapporo Matter, Matter X, and Matter Y, the general workflow is acknowledged as follows:

**a. Information Sharing Meeting**

In general, this meeting mirrored the information sharing meeting specified in the sales representatives' manual. At these gatherings, the AP sales representatives presented and discussed the overview and progress of the pharmacy matters, such as On-site Pharmacy matters, with the attendees, including some directors of AHD and AP, and personnel from related departments.

**b. Pre-proposal Discussions**

In the period between the start and end of the public solicitation, in addition to kick-off meetings, discussions attended by the AP directors, including Mr. Awaji and Mr. Sakai, were held to discuss proposed amounts based on development investment plans.

Although some interviewees referred to these meetings as a "store strategy meeting," the sales representatives' manual does not schedule a store strategy meeting for On-site Pharmacy matters that are subject to public solicitation. Thus, this meeting is considered a separate discussion forum from the store strategy meeting set forth in the sales representatives' manual.

Therefore, for clarity in this Report, the discussion opportunities involving the AP directors, including Mr. Awaji and Mr. Sakai, which occur after the public solicitation and before the proposal submission, to discuss proposed amounts based on development investment plans, are hereby referred to as the "pre-proposal discussions."

**c. Representative Confirmation**

When presenting or disclosing certain materials or advertisements to external parties, Ain Group has a custom to require confirmation of their contents by Mr. Otani. Similarly, for some On-site Pharmacy projects, proposals were subject to Mr. Otani's confirmation (the "Representative Confirmation") after pre-proposal discussions and prior to submission to the contractors. In some cases, Mr. Sakai, along with the branch manager of the On-site Pharmacy matter, was also present during this Representative Confirmation.

**d. Directors Report Meeting**

This meeting is similar to the Directors Report Meeting as set forth in the sales representatives' manual.

**(3) Reporting and Communication Tools Related to On-site Pharmacy Matters in Ain Group**

The followings are the reporting and communication tools used in Ain Group regarding the On-site Pharmacy matter.

**1. Garoon**

Until September 2022, Ain Group used Garoon, an in-house groupware provided by Cybozu, as an internal reporting, communication, and consultation tool for each business project, including On-site Pharmacy matters. For On-site Pharmacy matters that had a high possibility of public solicitation, or for On-site Pharmacy matters that were publicly solicited, threads were started on Garoon for the relevant On-site Pharmacy matter. Each thread was individually authorized for viewing and posting by AP branch sales representatives, AHD Sales Planning Department personnel, AP directors and other high-ranking personnel, and via chats and file attachments, the personnel in charge of the On-site Pharmacy matter shared progress and exchanged information regarding the preparation of documents.

For publicly solicited On-site Pharmacy matters, the entire schedule, including the period of the public solicitation, the deadline for the declaration of intent, the deadline for the submission of proposals, the date of presentation, and the date of determination of the preferred bidder, was listed at the beginning of the threads on Garoon, and persons authorized to view and post on the threads could view the beginning of the threads to obtain the overall schedule of the On-site Pharmacy matter. In addition, Ain Group initiated multiple threads on Garoon, each dedicated to specific aspects of one On-site Pharmacy matter, such as preparing proposals and negotiating contracts after obtaining preferential negotiation rights. However, even those who were authorized to view and post on the threads, especially the supervisors and other high-ranking personnel, did not always check the threads of individual



matters, but only checked matter threads in which they were directly involved when they received specific requests from the sales representatives. In some matters, they were not aware of the contents of threads which they had not been requested to review, or threads of On-site Pharmacy matters in which they were not directly involved in the first place.

## **2. Teams**

Since September 2022 and up to the present, Ain Group has been using Microsoft Teams as a reporting, communication, and consultation tool within the group. Access to threads on Teams is selectively granted, allowing sales representatives from AP's branch offices, personnel from AHD's Sales Planning Department, general managers, and other senior staff to view and post. Progress is shared through chats that include file attachments, and documents are prepared among those involved in the On-site Pharmacy matter. The process for obtaining confirmations from the general manager and other high-ranking personnel mirrors the procedures established in Garoon.

## **3. Salesforce**

Since at least 2016 and up to the present, Ain Group has been using Salesforce, a customer management and sales support system provided by the U.S. company Salesforce, Inc. This system complements Garoon and Teams for managing the progress of On-site Pharmacy matters. In Salesforce, posts can be viewed and made by some directors of AHD and AP, and members of the Sales Planning Department. Sales representatives assigned to each On-site Pharmacy matter update their matter threads with progress reports whenever there are developments. However, the frequency and detail of these updates vary: some representatives post detailed information on the same day when an action occurs, while others may summarize multiple events after a significant delay. Additionally, some posts only provide summaries of events for matters whose public solicitation has already concluded. There were also threads for some matters that received public solicitation but have scant postings covering the events before and after the public solicitation period. Unlike Garoon, Salesforce functions more as a record-keeping tool rather than a platform for real-time internal communication. Directors of AHD and AP, who have access to Salesforce, do not consistently review the posts.

## **4. Phone calls, E-mails, and Other Communications**

Within Ain Group, in addition to reporting, communicating, and consulting through the above tools 1 through 3, executives and employees also frequently engage in reporting, communication, and consultation via phone calls or through face-to-face interactions. Conversely, e-mail communication among executives and employees is relatively

uncommon, and is typically restricted to specific scenarios such as forwarding e-mails from outside parties.

#### **(4) Communication with the Contractors (Hospitals) to Establish On-site Pharmacies**

The primary mode of communication between sales representatives of AP's branch offices and hospital representatives during the sales process of On-site Pharmacy matters was when sales representatives of AP's branch offices visited the hospital and met face-to-face with office managers, while phone calls, SMS (short message service), or e-mails were used for communication between remote locations.

Given that many of the On-site Pharmacy matters at National and/or Public Hospitals etc. are awarded through the public solicitation proposal method, sales representatives at AP's branch offices generally focused on gathering various pieces of information from the hospital side so that they could make a better proposal than the competitors when the public solicitation for On-site Pharmacy matters were published. However, the level of information they obtained varied depending on the personality of the hospital representative and the relationship with the sales representative at the AP branch. While some hospitals provided minimal information, others disclosed details such as competitor names, their consideration status, and other needs not specified in the public solicitation guidelines. Despite this, many AP branch sales representatives believed that such information, even when obtained, did not necessarily provide a decisive advantage over competitors in the proposal process, because they perceived that hospital personnel likely shared similar information with competitors and the hospitals themselves stated that they did not think obtaining such information would be a decisive factor in outperforming the competitors in the matter proposal. In addition, the existence of competitors and their company names were sometimes inferred through hospital visitor logs or through interactions with other businesses which frequented the hospital.

Additionally, Ain Group also provided explanations and consultation services to hospitals regarding the On-site Pharmacy system. Upon request, Ain Group also provided hospitals with reference materials, such as public solicitation guidelines from past On-site Pharmacy matters.

### **3. Proposal Process for On-site Pharmacies Using the Public Solicitation Proposal Method**

When a public solicitation proposal method for an On-site Pharmacy matter was anticipated or officially announced, Ain Group initiated the proposal development process at the AP branch office responsible for the On-site Pharmacy matter sales and AHD Sales Planning Department.

The branch office in charge of the On-site Pharmacy matter first prepared a development investment plan, which outlined expected customer unit prices, prescription volumes, sales, costs, the project duration and so on. When a public solicitation was made for the On-site Pharmacy project on the site, the amount of the proposal was determined based on the contents of the

development investment plan at a pre-proposal discussion. However, the pre-proposal discussion was not stipulated in the internal rules of Ain Group as the meeting to officially decide the proposal content, including the bid amount. In instances where the bid amount was to be decided within a certain range, the AP branch sales representative in charge of the On-site Pharmacy matter would make the final decision within that range. There was no formalized decision-making process established for adjusting the bid amount beyond this pre-determined range.

Also, as described above, following the pre-proposal discussions, it was customary in Ain Group for proposals to undergo the Representative Confirmation; provided, however, that there were no cases found where Mr. Otani, through the Representative Confirmation, requested a revision of the proposed amount.

In some On-site Pharmacy matters involving the public solicitation proposal method, after submitting a proposal, the submitting company was required to give a presentation session. Mr. Sakai acted as the presenter at many of the On-site Pharmacy matters. However, the sales representatives of the On-site Pharmacies assumed that Mr. Sakai was aware of the details of each On-site Pharmacy matter through communication in Garoon, and the sales representatives did not explain or convey again the explanation of the sales process or the specific contractor's requests to Mr. Sakai before the presentation.

#### **4. The Criminal Case**

On May 20, 2023, Hokkaido Prefectural Police conducted searches at multiple locations on the charges of obstruction of auctions related to public contracts concerning the KKR Sapporo Matter. Subsequently, voluntary interrogations were conducted on Mr. Niiyama and Mr. A, who oversaw the KKR Sapporo Matter at AP's Hokkaido Branch. Both individuals cooperated with the authorities.

On August 31, 2023, the Hokkaido Prefectural Police arrested Mr. K, Mr. Sakai, and Mr. Niiyama on the charges of obstruction of auctions related to public contracts. On September 21, 2023, the public prosecutor of the Sapporo District Public Prosecutor's Office formally indicted the three individuals on the charge of obstruction of auctions related to public contracts. The specific allegation was that, although KKR Sapporo Medical Center was going to decide who would obtain the preferential negotiation right for the contract of the On-site Pharmacy development and operation business through planning competition, they conspired and resubmitted a planning proposal after the submission deadline had passed, in order to have AHD obtain the preferential negotiation right, which had impeded the integrity of the planning competition.

During the trial in the Criminal Case, Mr. Sakai and Mr. Niiyama in general admitted the external existence of the actions as described by the facts of the indictment, in other words, the fact that they resubmitted (or replaced) the planning proposal after the submission deadline in

response to the suggestion from Mr. K of KKR Sapporo Medical Center. However, their defense counsel contested the charges on two grounds: (i) the planning competition does not constitute the "public bidding" process, and (ii) the resubmission of the planning proposal does not constitute an "act detrimental to fairness" since the submission of the proposal is merely a part of a selection process for a preferred bidder and whether the final contract is executed or not is not determined until negotiations with the contractor after selection and obtaining the preferential negotiation rights. In addition to the above, Mr. Sakai denied the facts of the indictment, arguing that he did not recognize or admit that the submission of the proposal with the revised amount was a "resubmission" and that there was insufficient proof of his intent to obstruct a public contract-related auction bid.

On April 18, 2024, the Sapporo District Court sentenced Mr. K to one year in prison with a three-year suspended sentence. Mr. Sakai and Mr. Niiyama were sentenced six months in prison with a two-year suspension. According to Ain Group, Mr. Sakai and Mr. Niiyama filed appeals against their sentences on May 1, 2024.

## **5. Facts concerning Matters Where Replacement of the Proposals with the Change of the Proposal Contents were Acknowledged**

There was a total of 40 bidding cases involving On-site Pharmacies (including public solicitation proposals method) for which AHD or its group companies obtained preferential negotiation rights and for which National and/or Public Hospitals etc. were the contractors. Of these, the following three matters (1) through (3), including the KKR Sapporo Matter, are the matters where the facts of the replacement of the proposals with changes in proposal content were acknowledged. The facts found for each matter are as follows:

### **(1) KKR Sapporo Medical Center**

#### **(a) Background of Sales Activities Related to the KKR Sapporo Matter**

Around April 2020, when Mr. K was transferred from KKR Donan Hospital to KKR Sapporo Medical Center, Mr. K told Mr. Niiyama, who had been acquainted with Mr. K from before, that KKR Sapporo Medical Center was considering opening an On-site Pharmacy to secure a stable revenue source. AP began marketing to KKR Sapporo Medical Center to encourage them to open for an On-site Pharmacy.

On June 18, 2020, prior to the public solicitation announcement, Mr. A started a thread on Garoon for the preparation of documents for the KKR Sapporo Matter, approving Mr. Shudo, Mr. Awaji, Mr. Sakai, and Mr. Niiyama among others as authorized viewers and posters. They began preparing a plan and perspective drawing of the pharmacy even before the specific scheme for the On-site Pharmacy was finalized by KKR Sapporo Medical Center, using these detailed documents to conduct sales activities.

As the consideration progressed, KKR Sapporo Medical Center's intentions and requests regarding the establishment of an On-site Pharmacy gradually became more concrete. By around August 2020, KKR Sapporo Medical Center's specific intentions had been finalized, and Ain Group was fully informed of these intentions.

**(b) Background from the Public Solicitation to the Replacement of Proposals**

On November 11, 2020, KKR Sapporo Medical Center publicly announced the solicitation for an On-site Pharmacy and began issuing public solicitation guidelines. According to these public solicitation guidelines, the hospital planned to lease a plot of land to a pharmacy operating company, who would construct a building on the land and operate an On-site Pharmacy in the building.

On the 12th of the same month, a new Garoon thread on the KKR Sapporo Matter was started by Ms. B, [REDACTED], AHD, including Mr. Shudo, Mr. Awaji, Mr. Sakai, Mr. Niiyama, and Mr. A as authorized viewers and posters, and the thread started with the overall schedule, including the date of proposal submission and the date of presentation. At the same time, the thread on the preparation of materials was updated to include the overall schedule, including the dates for proposal submission and presentation. According to the public solicitation guidelines, the deadline for proposal submittal was set for December 18, 2020, at noon, and the date and time for the presentation was set for December 24, 2020, at 3:00 p.m.

Ain Group held a kick-off meeting on November 17, 2020, followed by the preparation of pertinent documents and the Representative Confirmation by Mr. Otani. On the morning of December 18, 2020, Mr. A submitted a proposal to KKR Sapporo Medical Center. This proposal included a monthly rent of 4.5 million yen for the land; provided, however, that the second floor of the building, which houses the On-site Pharmacy, would be leased back to KKR Sapporo Medical Center at a monthly rent of 500,000 yen, effectively reducing the net monthly rent to 4 million yen. After Mr. K learned of the contents of the Ain Group's proposal, he immediately called Mr. Niiyama and told him to come to KKR Sapporo Medical Center, and Mr. Niiyama visited KKR Sapporo Medical Center on the same day. Upon his arrival, Mr. K told Mr. Niiyama that there was a competitor who proposed a higher monthly rent than AP, and that AP might not be selected as the preferred bidder under the current terms and told that Mr. K would like AP to replace the proposal.

Mr. Niiyama then informed the personnel of AHD and AP including Mr. A that their proposal needed to be replaced with a proposal whose amount was revised, and at 16:04 on the same day, Mr. C, [REDACTED], started a new thread on Garoon, separate from the previous document creation thread, regarding the proposal revision for the KKR Sapporo Matter. This thread included Mr. Shudo, Mr. Awaji, Mr. Sakai, Mr. Niiyama, Mr. A,

and some other employees of the AHD Sales Planning Department authorized to view and post the documents. Through the thread, the preparation proceeded to replace the proposal with a revised amount. In the Investigation, at least as far as the exchanges in this new thread are concerned, none of the persons with viewing and posting rights, including Mr. Shudo, Mr. Awaji, and Mr. Sakai, raised any questions about the replacement of the proposal after the submission deadline had passed, nor did any of them inquire about the circumstances surrounding the replacement of the proposal. The work and communication to replace the proposal proceeded openly and without any apparent reservation among the persons with viewing and posting rights.

On December 21, 2020, Ain Group replaced its original proposal to KKR Sapporo Medical Center with a proposal for a monthly rent of 7.5 million yen for the land, with the second floor of the building including the On-site Pharmacy leased back to KKR Sapporo Medical Center at a monthly rent of 500,000 yen, making a total proposal of 7 million yen per month (the first replacement). According to the exchange in the new Garoon thread regarding the revision of the proposal, at that time Mr. K made a further request to Mr. A, "include the proposal in the presentation slides so that it is clear at a glance that the amount proposed exceeds that of Company AAA and Company BBB".

In response to Mr. K's request, Ain Group revised the portion concerning the monthly rent and clarified the free proposal's content. They made corresponding changes to the proposal and made a replacement again on December 23, 2020 (the second replacement). Following these revisions, AHD obtained the preferential negotiation right for the KKR Sapporo Matter, and on February 1, 2021, under the name of AP, AHD executed an agreement with KKR Sapporo Medical Center for the project to develop and operate an insured On-site dispensing Pharmacy. As per the terms of the agreement resulting from the negotiations, AP will not make a lump-sum payment for the rights fee. Instead, AP agreed to pay KKR Sapporo Medical Center a monthly rent of 7.5 million yen, along with 240 installments covering the planned rights fee of 520 million yen.

### **(c) Awareness of AHD Officers at the Time of the Proposal Replacement**

As detailed above, as far as the discussions in the new thread on Garoon regarding the revision of documents, no one with viewing or posting rights, including Mr. Shudo, Mr. Awaji, and Mr. Sakai, raised any questions about the replacement of the proposal after the deadline for submission had passed. The process of revising the monthly amount from 4 million yen to 7 million yen was carried out openly and without any apparent reservation. Also, it was not acknowledged that another Representative Confirmation with Mr. Otani was conducted to approve the amount increase.

## **(2) Hospital X**

### **(a) Background of Sales Activities Related to Matter X**

#### **a. Commencement of sales activities**

Around [REDACTED], Mr. D, [REDACTED] AP's Branch  $\alpha$ , launched a thread on Garoon to share information regarding Matter X, marking the start of full-scale sales activities. Mr. E, [REDACTED] AP's Branch  $\alpha$ , was working under Mr. D, and Mr. E was assigned to work with Mr. D on sales related to Matter X as Mr. D's subordinate.

From that time, Mr. D and Mr. E engaged in ongoing meetings and discussions with Mr. L and Mr. M, [REDACTED] Hospital X. Their sales activities were focused on confirming the Hospital's intentions regarding the establishment of an On-site Pharmacy and understanding the anticipated timeline for public solicitation, as well as discussion with the branch of the Regional Office of Health and Welfare regarding the necessary insured pharmacy designation required to open an On-site Pharmacy and sharing of the ongoing discussions with the Hospital X side, and so on. During these discussions, Mr. M and Mr. L emphasized the importance of the amount of rent AHD would pay to Hospital X to obtain the preferential negotiation right.

#### **b. Understanding the Preliminary Offers of Competitors**

During their sales activities by Mr. D and others, in a meeting between Mr. D, Mr. E, and Mr. M on [REDACTED] Mr. M mentioned the rent amount which Hospital X had been previously offered by a competitor who was likely to participate in the upcoming public solicitation.

Mr. D noted that Mr. M's mention of the rent amount was somewhat vague, indicating only that it was higher than the rent AP was paying for an On-site Pharmacy at another hospital, and it was not necessarily clear how precisely Mr. M had noted the exact figures offered by the competitor. However, according to a post regarding the meeting on the same day made by Mr. E on Salesforce, it is acknowledged that at least Mr. D and Mr. E recognized on the same day that the competitor's monthly rent offer to Hospital X has exceeded [REDACTED] yen, based on Mr. M's comments.

#### **c. Meeting with Hospital X Immediately Prior to the Start of the Public Solicitation**

In the lead up to the public solicitation, Mr. D and Mr. E, along with Ms. F, [REDACTED] [REDACTED] AP's Branch  $\alpha$ , visited Hospital X on [REDACTED], to have an introductory meeting with Mr. L and Mr. M before the start of the public solicitation process. During the meeting, Mr. L emphasized multiple times to Mr. D and others that, although the selection would be based on the overall evaluation, the bid price was crucial and this would be a

contest about the rent.

And on the same day, after Mr. L left the room, Mr. D, Mr. E, and Ms. F were told by Mr. M, such as the specific timeline of the public solicitation, the number of evaluation committee members and their maximum scores, the strong emphasis of the director of Hospital X on contribution to the community, and the scheduled presentation time. He also mentioned a competitor that had indicated their intention to apply for the On-site Pharmacy public solicitation. Further, Mr. M also informed them that Hospital X had set the minimum bid price at [REDACTED] yen, although it was not clear whether he explicitly used the term "[REDACTED]".

**d. Status of Consideration of the Proposal Contents within AHD and AP**

On [REDACTED], a public tender announcement was posted on Hospital X's website announcing a bid for the On-site Pharmacy matter based on the general evaluation bidding method. Following this announcement, Mr. D and Mr. E, while sharing information from time to time in the aforementioned Garoon thread, worked with the AHD Sales Planning Department to prepare a proposal and other documents to be submitted to Hospital X, and proceeded to consider specific details of the proposal, including the rent amount. In addition, the deadline for submission of proposals was added to the top of the thread by Mr. D as a schedule for preparation of documents.

According to the descriptions of the proposed monthly rent in the documents prepared by AHD and AP, as of [REDACTED], the monthly rent in consideration was [REDACTED] yen. On that same day, the Representative Confirmation was conducted on these documents, including the rent amounts above. (No evidence was found to indicate that Mr. Otani made any comment on the amount of rent or other conditions of the proposal during the Representative Confirmation.)

Based on the documents and statements of Mr. D, it is acknowledged that AHD and AP were considering proposing a monthly rent of [REDACTED] yen or more to Hospital X.

Also, in addition to the employees of the AHD Sales Planning Division and AP's Branch α, the above-mentioned persons with viewing and posting rights (at least as of [REDACTED] or later) included Mr. Shudo, Mr. Awaji, and Mr. Sakai. The documents mentioned were posted in the same thread and were accessible to all who had viewing and posting rights.

**e. Determination of the Amount Stated in the Proposal**

On [REDACTED], the deadline for submitting an application for participation, Mr. D and Mr. E visited Hospital X and submitted the declaration of participation. During this visit, Mr. M indicated to them that Company BBB, a competitor, had already submitted a proposal and that Company BBB's proposed rent was [REDACTED] yen or close to that amount.



Although neither specific company name nor amount was clearly stated, they were implied in a way that Mr. D and Mr. E could understand.

In response to Mr. M's comments, Mr. D, after consulting with Mr. Sakai, decided to set the monthly rent in the proposal at [REDACTED] yen, so that AHD would remain competitive and not far from other competitors in terms of the amount of rent. Additionally, Mr. D was advised by Mr. Sakai that, if considered necessary by Mr. D or Mr. E, they could increase the rent an additional [REDACTED] yen and submit that proposal. The decision was made to prepare two versions of the proposals, one with a rent amount of [REDACTED] yen and the other with a rent amount of [REDACTED] yen and to submit either one version at the time of proposal submission scheduled for the next day.

In response to this, these versions of the proposal, one with a rent amount of [REDACTED] yen and the other with a rent amount of [REDACTED] yen, were prepared within AHD and AP on [REDACTED], at 7:55 p.m.

**f. Decision to Replace the Proposal**

On [REDACTED], the deadline for submitting proposals, Mr. D and Mr. E brought to Hospital X both proposals with the monthly rent as [REDACTED] yen and as [REDACTED] yen, reserving which proposal they would ultimately submit. To understand the situation of competitors, they inquired with Mr. M about which company seemed most enthusiastic about securing the contract. According to Mr. M, it was Company BBB, but each company was in a close race. Mr. D had initially thought that the other company's offer would not reach [REDACTED] yen, but, after discussing with Mr. M, Mr. D revised his assessment, realizing that the competitor's bid could indeed reach that amount. And to obtain the preferential negotiation right, he concluded that it would be better to increase the rent to the upper limit of the range to which it had agreed. Consequently, Mr. D made a call to Mr. Sakai from the parking lot of Hospital X to report the decision to set the monthly rent at [REDACTED] yen. Then Mr. D returned to Mr. M and told him he would like to replace their original proposal. Mr. M expressed no objections to the proposal's replacement nor that it was made after the deadline for submissions had passed. Therefore, Mr. D decided to submit the proposal they had initially brought, which proposed a monthly rent of [REDACTED] yen, and then to replace it with a revised proposal reflecting the increased rent of [REDACTED] yen. This revised proposal was planned to be submitted prior to the bidding and the presentation scheduled for the next day, [REDACTED].

As described above, Mr. D informed Mr. Sakai of this action, and Mr. E, who returned to the Branch  $\alpha$  on the same day, informed Ms. F. However, neither Mr. Sakai nor Ms. F, nor any other employees of Branch  $\alpha$  raised any questions about the replacement of the proposal after the original deadline.

**g. Replacement of the Proposal and Subsequent Events**

At around 8:00 a.m. on [REDACTED], Mr. E delivered to Hospital X a proposal that included the revised monthly rent of [REDACTED] yen, effectively replacing the previously submitted proposal. As the bidding was scheduled to begin at 8:45 a.m. and the presentation at 9:30 a.m. on the same day, Mr. E was accompanied by Mr. D and Ms. F. Mr. Sakai, who was in charge of the bid submission and presentation, also went together with them, and after the proposal's replacement, Mr. Sakai completed the bidding procedures and the presentation without any issues (It was not acknowledged that the replacement of the bid submission itself had not been conducted). Also, regarding the fact of the replacement, at 8:14 a.m. on [REDACTED], which was after the deadline for submission of proposals, Mr. E posted on the Garoon thread above, "I hereby report that I have just submitted the proposal."

Then, on [REDACTED], AHD was selected as the preferred bidder with the highest evaluation score among the three companies whose bid price for rent exceeded the lowest bid price. On the same day, Mr. E was informed by Mr. M that AHD's proposal was the highest among the bidders in both the amount of rent bid and the non-rent proposals.

Subsequently, on [REDACTED], AHD executed a fixed-term building lease agreement with Hospital X, under AP's name, for the On-site Pharmacy. This agreement stipulated a monthly rent of [REDACTED] yen. Following this, on [REDACTED], AHD also entered into a separate agreement regarding the operations of the On-site Pharmacy business.

**(b) Replacement in Matter X**

As mentioned above, in Matter X, after initially submitting a proposal with a monthly rent of [REDACTED] yen, AHD replaced it with a revised proposal with a monthly rent of [REDACTED] yen, although the original deadline for submission had passed, which is like the KKR Sapporo Matter. It is also acknowledged that the reason for such a replacement was that Mr. D and others had recognized Hospital X's intention that they considered rent important during a series of sales activities, and that Hospital X implied the amount of rent submitted by a competitor in a manner that could be inferred.

Mr. D and Mr. E stated that they thought replacing the proposal would not be a problem because the method of selecting the operator of the On-site Pharmacy in Matter X was not the general public solicitation proposal method, but a two-step method involving bidding for the fixed-term lease of the On-site Pharmacy building and general competitive bidding using the comprehensive evaluation bidding method for the operator of the On-site Pharmacy.

In other words, while [REDACTED] was the deadline for submitting proposals for Matter X, the bidding process for the fixed-term lease of the building designated for use as an On-site Pharmacy was scheduled for the next day [REDACTED]. According to Mr. D and Mr. E, Mr.

M told them that the official rent amount in the bid was only the rent amount of the fixed-term building lease in the bidding procedure conducted on the 28<sup>th</sup>, and consequently, any discrepancies between the monthly rent stated in the proposal submitted the day before the bidding and the bid price were not considered problematic. Based on this understanding, Mr. D and Mr. E thought that submitting an initial proposal on [REDACTED] and subsequently replacing it with a revised proposal—where the only change was an adjustment to the monthly rent to align with the bid price—was not problematic, because they thought this adjustment was seen merely a means to avoid discrepancies between the bid price and the presentation based on it, and the details in the proposal, and they expected that it would not cause any issues.

However, as stated above in (a), in Matter X, after receiving information from Hospital X about the rent proposed by a competitor, AHD initially submitted a proposal with a monthly rent of [REDACTED] yen, and subsequently, even though the original deadline for submissions had passed, AHD replaced their proposal with a revised version that specified a monthly rent of [REDACTED] yen, aiming to offer a rent higher than that of the competitor.

**(c) Recognition of AHD Officers Regarding the Replacement of the Proposal**

As mentioned above, even though Mr. Sakai, Mr. F, or other employees of Branch  $\alpha$  were aware in advance that the proposal would be replaced after the original submission deadline, they did not raise any questions about this action. It was not acknowledged that Mr. Otani went through another round of the Representative Confirmation regarding the increase in the amount.

**(3) Hospital Y**

**(a) Background of Sales Activities Related to Matter Y**

In [REDACTED], after Mr. N was transferred from a local hospital to Hospital Y, Mr. N made an inquiry to Mr. G, whom he had known from his previous workplace, regarding an On-site Pharmacy matter. After the same month above, Hospital Y began to consider the establishment of a pharmacy on its premises, and Ain Group began to make concrete proposals to Hospital Y. The sales representative for Matter Y at Ain Group was Mr. H, who belonged to AP's Branch  $\beta$ . However, due to the above circumstances, Mr. G sometimes attended meetings with Mr. N, and Mr. G sometimes directly communicated with Mr. N over the phone to obtain information regarding the public solicitation.

Hospital Y, after thorough consideration, decided to proceed with preparations for public solicitation under the condition that the existing store on the premise would be closed and a new store would be opened, and that an On-site Pharmacy could also be opened as a related facility to that new store.

On [REDACTED], Mr. H started a thread on Garoon regarding the preparation of documents for Matter Y, giving viewing or posting rights to Mr. Shudo, Mr. Awaji, Mr. Sakai,

and Mr. G. Since that date, information sharing and document preparation regarding Hospital Y were conducted in the thread.

**(b) Background from the Public Solicitation to the Replacement of Proposals**

On [REDACTED], Hospital Y issued a public notice seeking an operating company for a facility. According to the implementation guidelines for the public notice, "insured dispensing pharmacy" and "convenience store" were required as "essential functions" among the facility's functions. The deadline for submission was noon on [REDACTED], with the presentation date set for [REDACTED].

On [REDACTED], another Garoon thread was started by Mr. I, an employee of the AHD [REDACTED], granting viewing and posting rights to Mr. Shudo, Mr. Awaji, Mr. Sakai, Mr. G, Mr. H, and others. The thread started with the overall schedule, including the dates for submission of proposals and presentations. Concurrently, the existing Garoon thread regarding the preparation of the aforementioned documents was also updated to include the overall schedule, including the date of proposal submission and the date of presentation, and the exchange of documents for the submission began.

Salesforce had a record of a meeting that took place on [REDACTED], during the public solicitation period, between Mr. H and Mr. N. In this meeting, Mr. N informally agreed to inform Mr. H if any competitor offered a higher rent than AHD.

After preparing various documents, Mr. H from Ain Group submitted a proposal to Hospital Y in the morning of [REDACTED]. The proposal included a monthly rent of [REDACTED] yen. Additionally, Ain Group planned to present an extra condition: if selected as the preferred bidder, they would maintain the lease contract for the building of the existing Off-site Pharmacy, which was currently paying [REDACTED] yen per month, and would [REDACTED] the building to Hospital Y [REDACTED].

According to Salesforce records posted by Mr. H, Mr. N made a phone call around 10:20 on the same day, immediately after the proposal was submitted, stating, "it was to confirm whether the proposal was correct; he noted that the content was different from what the hospital had coordinated internally; when I told him that there was no mistake, he got a little upset and hung up the phone."

Upon receiving this phone call, Mr. H thought that there was a possibility that AHD would not be selected as the preferred bidder with its proposal as it was, and he revised it to increase the monthly rent from [REDACTED] yen to [REDACTED] yen, in exchange for dropping the additional condition that the building with the existing Off-site Pharmacy [REDACTED] to Hospital Y [REDACTED]. At the presentation on the following day, [REDACTED], the pharmacy businesses were supposed to print out and bring approximately 10 copies of the previously submitted proposal and distribute them to the attendees, but AHD printed out and brought a proposal that

revised the monthly rent to [REDACTED] yen, instead of the previously submitted proposal that included a monthly rent of [REDACTED] yen. This revised proposal was presented at the presentation.

Subsequently, AHD obtained the preferential negotiation right for Matter Y and executed a fixed-term building lease agreement with Hospital Y for two buildings, dated [REDACTED], and [REDACTED], respectively, under the name of AP.

**(c) Awareness of AHD Officers and Others Regarding Proposal Replacement**

Regarding the replacement of the proposal, Mr. H stated that he consulted with Mr. Sakai but that he was unaware of any specific confirmation Mr. Sakai might have sought from other AHD directors. Mr. Sakai had no clear recollection of Hospital Y discussions other than noting that the store would be inside the hospital building. Although it is unclear who ultimately made the final decision to replace the proposal, it is unlikely that Mr. H, merely a sales representative of one of AP's branches, would have done so on his own initiative, and it is acknowledged that this was conducted with the explicit or implicit approval of AHD's senior personnel.

**6. Facts Found for Other Matters**

During the Investigation, it was discovered that, in addition to the above-mentioned matters similar to KKR Sapporo Matter, there were other matters, at one of which modifications to the format of the proposal occurred after the submission deadline.

**(1) Hospital P**

**(a) Overview**

Hospital P issued a public solicitation for proposals on [REDACTED], seeking an operating company for a comprehensive facility, including a pharmacy, on its premise.

AHD, as a part of corporate group represented by Company CCC, decided to apply and finalized the proposal by the submission date of [REDACTED], the deadline for proposal submission. (The application was submitted under the name of Company CCC, the representative company of the corporate group, rather than AHD or AP.) However, on [REDACTED], the next business day after the following weekend, Hospital P notified Mr. J that the descriptions in the submitted proposal might cause the selection committee to identify AHD and some of the partner companies during the review process, Hospital P therefore requested revisions to specific parts of the proposal to prevent such identification. Mr. J was given detailed instructions on which parts of the proposal needed to be altered. In response, Mr. J revised the proposal to ensure that the specific company names would not be identifiable in the designated sections, without altering the terms and conditions of the proposal, including the land rent. Only the specified parts were amended as per Hospital P's request. The revised

proposal was then brought and resubmitted to Hospital P on [REDACTED].

**(b) Format Correction in Matter P**

Like above, Matter P differs from the KKR Sapporo Matter because the modifications made were specifically to prevent the identification of the company names involved in the submission, rather than changes to substantive content such as the rent terms. However, externally, the revised proposal for Hospital P was resubmitted after the original deadline for proposal submissions.

**(2) Others**

While Ain Group ultimately did not proceed with the revision of the proposal in some cases because it did not align with the investment plan, it was acknowledged that there were other On-site Pharmacy matters on the premises of National and/or Public Hospitals etc. where the contractor requested proposal revisions. This occurred in addition to the matters already mentioned in section 5 above.

**7. Internal Control, Corporate Governance, Compliance, and Risk Management**

**(1) State of Internal Control and Corporate Governance over On-site Pharmacy Business**

AHD has established both the Board of Directors and the Board of Corporate Auditors as part of its internal control and corporate governance system. Additionally, it has instituted the Compliance Committee under the Board of Directors and the Internal Audit Office under the Board of Corporate Auditors, which is directly supervised by the Representative Director and works in cooperation with the Board of Corporate Auditors. The framework of internal control and corporate governance is: first, the Board of Directors establishes, manages, and supervises a system to execute business operations while ensuring compliance; and the Board of Corporate Auditors audits this system to establish a compliance structure; furthermore, under these structures, the executive officers and other senior management manage, supervise, and guide business operations, while branches (sites), stores, and other workplaces execute their duties under the direction and supervision of their respective superiors. It is possible to understand that through such structure, internal control is achieved and thereby compliance is ensured.

However, as detailed below, aside from the presence of general provisions in some regulations and guidelines, it is acknowledged that there was minimal specific consideration, management, or supervision of legal and compliance risks related to sales activities for the opening of new pharmacies in the On-site Pharmacy business, which was the main subject of the Investigation. It is also acknowledged that there was a lack of systematic management, supervision, guidance, or execution of business operations from the perspective of such risks by the executive officers and other senior management, as well as by the upper management at the site.

According to AHD's 54th Annual Securities Report, Ain Group has sought to enhance its internal audit system. The General Manager of the Internal Audit Office is tasked with overseeing internal controls and audits. Additionally, by adopting an executive officer system, AHD aims to strengthen the supervisory functions of the Board of Directors and enhance the agility of business execution by the executive officers. Furthermore, the internal directors and the full-time corporate auditor regularly participate in management meetings with general managers and above, to discuss operational execution across departments, enhancing practical monitoring and mutual surveillance.

However, it is acknowledged that the internal control and internal audit functions of Ain Group are concentrated on risk management, efficiency, compliance, etc. of operations at each store related to the core business of Ain Group, i.e., the pharmaceutical and product sales businesses, and on audits of those operations. It is also acknowledged that the management division, which functions as the head office, has not been able to ensure the effectiveness of management and supervision of sales activities for opening new pharmacies in the On-site Pharmacy business, nor has it been able to conduct audits of these activities.

For example, the Internal Audit Office consists of 12 members, 11 of whom conduct cash (sales) audits, merchandise control, and operational control through store audits. Each Audit Office member is responsible for auditing up to 190 stores annually (including audits conducted with other members). Dispensing errors are considered a critical risk in the pharmacy business, including On-site Pharmacy business, and to avoid the error, a system involving both the Internal Audit Office and the Safety Office is in place to ensure compliance with basic pharmacy rules and to implement measures that prevent dispensing errors. One of the 12 members in the Internal Audit Office is solely dedicated to internal control audits for the J-SOX compliance.

On the other hand, in contrast to these efforts, there have been almost no substantial or systematic measures specifically addressing risk management related to sales activities for opening new stores in the On-site Pharmacy business, beyond the general provisions outlined in the "Ain Group Action Guidelines" and "Ain Group Anti-Bribery and Corruption Policy" mentioned earlier, as well as the "Risk Management Rules" and "Risk Management Guidelines" described below.

In other words, within the decision-making workflow—including confirmation, consultation, and checking in the process of proposals or bids for preferential negotiation right (at level of the first line of the so-called "three-line model")—there has not been even a clear alignment of responsibilities or division of roles between AHD and AP. Additionally, in terms of risk management by the management department (at the level of the second line of the "three-line model"), despite the On-site Pharmacy business being a new and material area of operation and considered a significant risk, there have been insufficient risk management efforts by this sector. Moreover, the Internal Audit Office (at the level of the third line in the "three-line model") should

have audited these processes, highlighted the lack of organized workflow, responsibilities, and division of roles between AHD and AP, and recommended improvements, but the Internal Audit Office has neither conducted such audits nor addressed these issues.

What is distinctive is that, as detailed in Section 4.5 (1) above, within the KKR Sapporo Matter's Garoon thread concerning document revisions, which included some internal directors of AHD and AP as well as employees of the AHD Sales Planning Department with viewing and posting rights, there was explicit communication about replacing the proposal after the submission deadline, as described in (2) c. below, and that, despite the potential for this action to be viewed as an illegal act or unfair or inappropriate act entailing a high risk of social criticism, no one involved in the thread raised concerns about or questioned this practice. Similarly, in Matter X, the revision of the proposal was communicated within the company and noted in a Garoon thread, which included some internal directors of AHD and AP, but no concerns or questions were raised by anyone involved. In light of these situations, it is acknowledged that the employee side of AHD and AP appear to be conscious that the directors of AHD and AP, who were part of these Garoon threads, were confirming decision-making and business execution in individual matters, including the replacement of proposals, and gave their de facto or implicit approval to these actions. On the other hand, it is also acknowledged that the directors' side were not explicitly requested to confirm, approve, or provide directions in the context of numerous ongoing projects, and there was a lack of clear awareness that failing to respond to these threads could be interpreted as giving confirmation or approval. Consequently, it is considered that the responsibility for these decisions remained ambiguous.

## **(2) State of Compliance Efforts for On-site Pharmacy Business**

### **(a) Status of Establishment of the Rules, Policies and Regulations**

With regard to the basic rules, policies and regulations concerning the On-site Pharmacy business, Ain Group has established general provisions for compliance and maintaining fair relationships with business partners, as outlined in the "Ain Group Conduct Guidelines." However, these are not more than somewhat abstract, and the specifics are primarily limited to the rule-making of anti-bribery and anti-corruption measures detailed in the "Ain Group Anti-Bribery and Anti-Corruption Policy". Notably, these provisions do not address risks associated with actions that could compromise the fairness of bids in the process of making proposals or bidding for the preferential negotiation right to open new pharmacies in the On-site Pharmacy business. Moreover, the "Ain Group Anti-Bribery and Anti-Corruption Policy" lacks specific examples or detailed explanations about the concept of public officials, which often requires a complex determination in practice. This omission makes it challenging for these guidelines to be effectively operational in the front-line sales environment.

On the other hand, although not explicitly stated, it is considered that Mr. Otani's basic



philosophy of "no tolerance for crookedness" seems to have taken root within Ain Group, reflecting an awareness that goes beyond mere the level of compliance and reaches the level of avoiding words and actions that might raise doubts or questions. This philosophy is also evident in the fact that Mr. Otani has not allowed any of his relatives, not a few of whom engage in the medical industry, to work for Ain Group or to be appointed as directors or officers. Additionally, it is acknowledged that the anti-bribery and anti-corruption efforts clearly stipulated in the "Ain Group Anti-Bribery and Anti-Corruption Policy" are taken seriously by Ain Group and adherence to these policies is strictly enforced, in connection with the Ain Group businesses which frequently interacts with public officials such as doctors of National and/or Public Hospitals etc.

**(b) Compliance Committee**

Meanwhile, Ain Group has established the Compliance Committee, as outlined in the Compliance Committee Rules, consisting of all directors, corporate auditors, and legal counsel. The aim is "to ensure that corporate ethics and compliance systems are permeated and established not only among management but also among all employees" (AHD Corporate Governance Report dated November 28, 2023, "1. Basic Approach"). However, matters such as the investigation of the KKR Sapporo Matter, which should have been discussed and examined by the committee, were not included in the agenda, and instead the committee focused solely on examining and addressing regarding the whistleblowing system (compliance hotline).

**(c) Insufficient Awareness and Misperception among Executives and Managers**

Reviewing the proposal processes for each of the hospital matters mentioned in (1) above, in some particular matters like the KKR Sapporo Matter and Matter X, it is acknowledged that the replacement of proposals after the submission deadline (the "Replacement") was not treated confidentially and was discussed in Garoon threads that included several directors. This Replacement process was not conducted secretly within the company. Under these circumstances, it is acknowledged that it appears that no concerns or questions were raised by any of the executives, managers, or other employees regarding the appropriateness of the Replacement.

In this regard, if there had been an awareness of the following, it appears that some concerns or questions could arguably have arisen from looking at communications about these activities on Garoon - even when dealing with a hospital established by KKR, which is neither a national nor a public hospital, the sales approach to secure preferential negotiation rights such as contacting the hospital and replacing proposals after the submission deadline set in the public solicitation guidelines, without competitor's knowledge, may be seen, if made public, as

potentially illegal in some situations, or at the very least, it would be viewed as sales approach pertaining significant reputational risk as unethical or inappropriate and carry significant reputational risk, potentially leading to criticism not only from competitors but from the society, in terms of the obtaining preferential negotiation rights through secretive maneuvers that violate public solicitation guidelines (and the sales approach for that gaining). It is strongly inferred that executives and supervisors, who should have been able to be aware of such communications, had a sense that it should be no problem to replace proposals after the deadline set by the public solicitation guidelines for On-site Pharmacies, without competitor's knowledge, since the contractor hospital had rather encouraged such actions, or it would be even evaluated positively since their enhanced relationship with the contractor through sales efforts outweighed competitors and benefitted the progress for bidding. (If there had been at least any sense of problematic implications of these actions, it is considered that any comments or questions should have been raised.) It should be pointed out that there may have been a lack of sufficient awareness or a misperception among executives or supervisors.

**(d) Lack of Required Awareness Efforts and Training**

Regarding awareness efforts and training from the perspective of carrying out compliance, when Ain Group established a framework for sustainability management in fiscal 2020, it re-positioned the "practice of professional ethics and compliance" as one of the major tasks of the "sound management foundation," one of the six materially issues. Since fiscal 2021, the Sustainability Promotion Office of AHD's Business Support Division has conducted an annual "Sustainability Training/Understanding Check Test" for all officers and employees of Ain Group, addressing compliance in the training. Additionally, a study session for sales representatives, which included legal points to be noted regarding quasi-public officials, was held at the sales meeting on November 7, 2022.

However, for example in the context of bribery prevention, no efforts have been made to prepare or distribute documents or to hold training and study sessions aimed at raising awareness of situations that could lead to illegal activities if not clearly communicated and understood at the sales frontlines, other than the cases which constitute obviously criminal acts, such as providing entertainment or gifts to public officials, including professors at national and public hospitals, to secure undue advantages, there should have also been subtler scenarios, such as when a public official encourages such entertainment or gifts.

Regarding the awareness efforts and trainings for the front sales staff, it began to formally document the basic stance of the sales staff from the beginning of 2023. Following the initiation of the investigations into the Criminal Case etc., a nation-wide sales meeting was held on June 17, 2023, where the AP director, who is also an attorney, prepared a document titled "Legal Points to Keep in Mind in Sales Activities" and provided an explanation and

notice to the staff, addressing issues such as bid obstruction and other competitive impediments. On July 10 of the same year, a manual was prepared and distributed, titled "Pocket Manual v1.0: Dealing with Public Medical Institutions etc. in Sales Activities." This manual, designed to be easily understandable for front sales department employees, both in length and expressions, is part of ongoing efforts to ensure that all employees be aware of and thoroughly familiar with the content, including the following part:

In sales activities, especially when dealing with public officials and public medical institutions #1, always never fail to avoid actions that could raise suspicions of bribery, bid obstruction, or actions which could raise suspicions about economic independence #2. To ensure fair and sincere sales activities, each employee should refer to the following manual, which includes examples of potentially suspicious actions and prohibited activities:

- #1. Including quasi-public officials and the cases governed by special laws.
- #2. As an independent organization, we must maintain our autonomy and not be dependent.

It is acknowledged that the Ain Group has already begun and is continuing to make such efforts and ensure thorough understanding.

### **(3) State of Risk Management Efforts Related to On-site Pharmacy Business**

From the perspective of fulfilling social responsibility through proper risk management, especially as the social responsibility of a company in a sector impacting human health, Ain Group has established the "Risk Management Regulations" (implemented in May 2006) and the "Risk Management Guidelines" (first published in May 2013). Article 2 of the Risk Management Regulations defines "risk" as "all possibilities that may cause physical, economic, and reputational losses or disadvantages to the company", encompassing aspects of sales activities. However, Article 3, Paragraph 1 and the Appendix, which list the risks in each department and mandate that each general manager oversees them, failed to include risks related to sales activities for opening new stores in the On-site Pharmacy business.

#### Appendix: Risks in Each Department

Administration Division	Pharmaceuticals Division	Product Sales Division
<ul style="list-style-type: none"> <li>• Risks related to compliance system with laws and regulations</li> <li>• Risks related to information management</li> <li>• Risks related to financial conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Risks related to dispensing errors</li> <li>• Risks related to the management of pharmaceuticals</li> <li>• Risks related to procurement of pharmaceutical products</li> </ul>	<ul style="list-style-type: none"> <li>• Risks related to the sale of defective products</li> <li>• Risks related to rapid market changes, such as the emergence of competing stores</li> <li>• Risks related to changes in laws and regulations</li> </ul>

<ul style="list-style-type: none"> <li>• Risks related to corporate acquisitions</li> <li>• Risks related to labor-employment relations</li> <li>• Risks related to system trouble</li> <li>• Risks arising from natural disasters</li> </ul>	<ul style="list-style-type: none"> <li>• Risks related to the provision of pharmaceutical product information</li> <li>• Risks related to storage of patient information</li> <li>• Risks related to revenue structural changes, such as pharmaceutical product price and medical service fee revisions</li> <li>• Risks related to system trouble</li> <li>• Risks related to theft, shoplifting, etc.</li> <li>• Risks arising from natural disasters</li> </ul>	<ul style="list-style-type: none"> <li>• Risks related to procurement of products</li> <li>• Risks related to inventory of products</li> <li>• Risks related to system trouble</li> <li>• Risks related to theft, shoplifting, etc.</li> <li>• Risks arising from natural disasters</li> </ul>
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As mentioned above, regarding the operation of each store, in addition to being managed by the Pharmaceutical Business Department and the Product Sales Business Department, extensive store audits are also conducted by the Internal Audit Office. On the other hand, however, the Audit Office has not yet performed the audit on the risk management function, for which the Administration Division is originally responsible, related to sales activities for opening new stores in the On-site Pharmacy business - including aspects of new store development.

Additionally, the Risk Management Guidelines classify 1.7. "Emergency Situations" under "Level III," which refers to "situations that require special media response (newspapers, TV) due to particularly significant damage or impact on the group accompanied with an emergency. A unified company-wide response as the whole Ain Group is required." For instance, it mentions as its example, "officers' and employees' misconduct (embezzlement, receiving and providing bribery)" as a scenario that would necessitate forming a "task force (Level III system)," with the president of AHD heading this task force. When the Criminal Case occurred, such a task force should have been formed immediately, or at the very least, its formation should have been taken into consideration. In reality, Ain Group, including Mr. Otani, were stuck in the thought that the investigation had been conducted inappropriately and Ain Group should face no issues, as the investigation was initiated on bribery charge, that were ultimately not indicted. It is acknowledged that they failed to fully acknowledge the risks these events posed to the company, regardless of the investigation's legitimacy. Ain Group took certain measures, including consultation with legal counsel and retention of a risk consultant, as well as retaining the Investigation Team to conduct the Investigation later, but it is considered that Ain Group should have established a task force in line with the Risk Management Guidelines to address the necessary measures to mitigate serious repercussions (reputational risk), including from potentially inaccurate media coverage, especially if the government investigation was considered unjustified.

As previously noted, internal audits specifically focused on risk management regarding sales activities for opening new stores in the On-site Pharmacy business have not been conducted to date, despite Article 7 of the Risk Management Regulations stipulating, "the Internal Audit Office shall inspect the operational status of risk management during on-site audits."

## **V. Cause Analysis**

### **1. Introduction**

In this Chapter V, as a result of the Investigation into the matters outlined in Chapter I.2. across all 40 cases where the contractors included National and/or Public Hospitals etc., out of the bidding cases for On-site Pharmacies, including cases involving the public solicitation proposal method, and where AHD or its group companies obtained preferential negotiation rights, it was found that, as described in Chapter IV, replacements were made of the proposals, including the change of the contents of the proposals, after the submission deadline stipulated in the public solicitation guidelines, in multiple cases such as the KKR Sapporo Matter which is the subject of the Criminal Case, Matter X and Matter Y (the Replacement). In response to this, the Investigation Team has analyzed and summarize the causes that led to the Replacement.

It should be noted that, regarding the KKR Sapporo Matter, the Criminal Case is still ongoing and pending, where the charge of obstructing a public contract-related auction bid itself has been contested from the perspective of the formation of the crime itself, and therefore, before a judgment is rendered by the court and finalized, it is considered difficult and also should not be conducted for the Investigation Team to further analyze, or go beyond what was stated in Chapter IV above and examine whether the crime was formulated - including the objective facts of decision-making etc. within Ain Group, the subjective perceptions of those involved, and the interpretation of the Penal Code. The Investigation Team refrain from such analysis.

### **2. Insufficient Awareness among Executives and Managers of Risks Regarding Sales Activities for Opening New Stores in the On-site Pharmacy Business (Cause Related to "Awareness")**

First, it should be pointed out that the following is considered the largest and most fundamental causes for the occurrence of multiple cases of the Replacement: at Ain Group, both executives and managers lacked an understanding and awareness of the risks associated with sales activities to open a new On-site Pharmacy, such as the possibility of suspicion of committing crimes such as obstructing bids for public contract-related auctions through too aggressive sales activities for opening On-site Pharmacies for National and/or Public Hospitals etc., or at least the possibility of criminal or illegal activities to impede fair competition such as auctions and bribery to public officials among other illegal activities.

Particularly, since AHD is one of Japan's leading companies in the dispensing pharmacy and drugstore chain store business, listed on both the Tokyo Stock Exchange Prime Market and the Sapporo Securities Exchange, with consolidated sales exceeding 300 billion yen, the directors, branch managers, and other managers of AHD and the Ain Group companies should be aware of at least the existence of crimes such as obstructing an auction, even if they do not have detailed or precise legal knowledge of such crimes. Or it should not be missed to point out at least that directors or managers of such listed company as above or its group companies did not possess

sufficient awareness, considering the fact no one had raised a question, even although some internal directors or managers are considered to have been able to become aware of the Replacement through the Garoon communication, even for hospitals not classified as national or public hospitals such as those established by KKR - without having any awareness whether it may be an unfair or inappropriate practice, having potential risk of social criticism in case of being known to the public, to replace proposals after the submission deadline set forth in the public solicitation guidelines, without disclosing to competitors the communication with hospitals and thereby to obtain preferential negotiating rights.

### **3. Malfunction in Internal Controls and Risk Management System for Risks Related to Sales Activities for Opening New Stores in the On-site Pharmacy Business (Cause concerning "System")**

As mentioned in the previous section, awareness among both executives and managers at Ain Group regarding the risks associated with the sales activities for opening new pharmacies in the On-site Pharmacy business was insufficient in the first place. Therefore, Ain Group's "system" of internal control and risk management efforts, which serve as mechanisms to prohibit or monitor actions that could be suspected of being criminal or illegal—or at the very least, unfair or inappropriate actions that could lead to social criticism—were also dysfunctional.

Reviewing the reporting and approval system for sales activities related to opening new stores in the On-site Pharmacy business, as outlined in Chapter IV.7 (1), it is found that in the workflow of decision-making, confirmation, consultation, and checking for making proposals or bidding for preferential negotiation right, the division of responsibilities and roles between AHD and AP was not clearly aligned. This ambiguity was evident not only at the level of employees directly responsible for sales, but also among AP's and AHD's internal directors related to the On-site Pharmacy business. Additionally, the roles they played within reporting and communication tools such as Garoon, Teams, and Salesforce were not sufficiently defined. Furthermore, as noted in Chapter IV.7 (1), in both the pharmaceutical business and the product sales business, while the Safety Office and the Internal Audit Office have concentrated on cash (sales) audits, product management, and operational management at the time of post-store opening, particularly in addressing dispensing errors, compliance with laws and regulations pertaining to sales activities for opening a new store in the On-site Pharmacy business was largely overlooked. The risk management function of AHD's administrative department, representing the "second line" in the so-called three-line model, and the audit function of the Internal Audit Office, the "third line," were either virtually nonexistent or ineffective.

Moreover, from the perspective of risk management and compliance, although risk management regulations and guidelines are in place as detailed in Chapter IV.7 (3), the risk management function by the management department and the internal audit function for

overseeing the risk management of sales activities for opening new pharmacies in the On-site Pharmacy business have been largely inactive. For instance, had there been comprehensive company-wide identification and evaluation of legal and compliance risks and countermeasures discussed by the management department and the Compliance Committee, coupled with internal audits on these matters, it could be considered possible that the company would have implemented specific actions and alerted employees regarding the issues related to the Replacement.

#### **4. Other**

In addition to the causes related to "awareness" and "system," the following two points are also analyzed as possible causes of the multiple occurrences of the Replacement.

Firstly, the industry's nature and practices are sometimes pointed out as the cause of fraud and misconduct. For instance, in the KKR Sapporo Matter, it is difficult to deny that the suggestion from Mr. K of KKR, the contractor, was the direct cause of the Replacement. However, although admitting it, it would be incorrect to attribute the Replacement in the KKR Sapporo Matter solely to the contractor side or to the nature of the industry which may often encourages such actions. In the area of sales activities for opening a new store in the On-site Pharmacy business, even if bribery or acts that may harm the fairness of the bidding process were triggered by illegal acts or lack of compliance awareness on the part of the government, directors and employees who are approached by the government side in such a way are required, to take into consideration whether such an approach is an act which is doubtful under laws and regulations or social norms, and if it is doubtful, to take appropriate measures such as rejecting such an approach, and it is necessary to analyze the reasons why such appropriate measures could not be taken. From this perspective, it is considered that the problem of the contractor side's approach can also be traced back to the causes related to "awareness" and "system" mentioned above. Similarly, even if, for example, a contractor such as KKR was to request not only Ain Group but also its competitors to replace the proposal to increase rents in the same way, it would mean to overlook the root cause within Ain Group if Ain Group analyzed it by reasoning "all companies in this industry have the same sales approach and all companies replace their proposals," thereby attributing it to the nature of the industry.

Additionally, when fraud or misconduct occurs in a company, not in a few cases, it is pointed out that the malfunction and/or insufficient efforts regarding the whistleblowing system was the cause of the failure to detect or prevent the fraud or misconduct at an early stage. However, it is considered that this point is not necessarily correct as a causal analysis of this case. As stated in 2 above, the insufficient awareness among the executives and managers of Ain Group of the risks associated with sales activities for opening new pharmacies in the On-site Pharmacy business was the root cause of the Replacement in this case. Therefore, it is difficult to expect effective



responses from the executives, who are the ultimate decision-makers and responders after receiving the whistleblowing report. Even if such a whistleblowing report was not made, it is considered that it is not because of a problem with the whistleblowing system but because of a problem of insufficient awareness among the executives and managers. (In fact, the number of cases of whistleblowing reports in the compliance hotline system at Ain Group has increased in recent years, and it is acknowledged that certain effective measures have been taken.)

## **VI. Recommendations of Measures to Prevent Recurrence**

### **1. Introduction**

The Investigation Team investigated 40 cases in which AHD or its group companies obtained preferential negotiation rights for On-site Pharmacies for national and public hospitals, including cases where the public solicitation proposal method was used. In this section, we summarize the measures necessary for Ain Group to prevent a recurrence of similar problems in the future and ensure appropriate corporate management and business execution.

Certainly, it is crucial to emphasize that the primary responsibility for considering and implementing measures to prevent recurrence lies with each executive, manager, and employee of Ain Group. The recommendations provided by this Investigation Team serve merely as reference information for Ain Group. However, it is important to note that these recommendations are based on the findings and opinions of the investigation team members, derived from the extensive six-month investigation and experience in handling various cases of fraud and misconduct.

The Investigation Team encourages Ain Group to carefully consider these recommendations and internally examine the most effective measures suitable for their specific circumstances. It is imperative for Ain Group to formulate and implement specific plans and measures for the future based on this examination. By doing so, Ain Group can strengthen its preventive measures and ensure appropriate corporate management and business execution moving forward.

As we reiterate, the criminal case is currently pending and ongoing, it is considered that underscoring the importance of reassessing whether additional verification and consolidation should be conducted once the case is finalized. The specific method for this reassessment could naturally be reconsidered by this investigation team at that time. Alternatively, it is considered that other methods could include selecting and appointing an outside expert as an advisor for the formulation and implementation of future measures to prevent recurrence and conducting periodic monitoring.

### **2. Efforts to Raise Awareness Among Executives and Managers (Measures Related to "Awareness")**

Firstly, it is essential for executives to shift their mindset and continuously demonstrate this to the entire company. The key to such efforts at Ain Group lies with top management. It is necessary for top management to accurately recognize the risks related to sales activities for opening new pharmacies in the On-site Pharmacy business, as well as the issues surrounding this Replacement, and to convey a clear message acknowledging these risks and expressing determination to address them in the future. To achieve such recognition and information dissemination, it is crucial to continue raising awareness, including through professional and

objective perspectives, such as by facilitating closer exchange of opinions and fostering regular and in-depth cooperation with outside experts.

However, raising awareness cannot be solely the responsibility of top management; it must be promoted as a company-wide effort involving other members of the executives and the managers who oversee operations. For instance, from the viewpoint of employees at the AP or branch office responsible for sales in the On-site Pharmacy business, if their immediate supervisor or higher-level manager comprehends the seriousness of the issue and actively works to change work practices, then employees are more likely to grasp the gravity of the situation. These efforts to reform "awareness" should not be temporary measures in response to the criminal case but rather part of a medium- to long-term plan that is developed and implemented continuously.

### **3. Enhancement of the Effectiveness of Internal Control and Risk Management Initiatives (Measures Related to "System")**

In addition to measures related to "awareness," initiatives related to the "mechanisms" themselves in a more organizational and systemic sense involve the effective implementation of internal control and risk management measures. To prevent the recurrence of the Replacement, the following concrete measures may be considered:

#### **(1) Enhancement of Rules, Policies, and Manuals Related to Compliance and Risk Management**

Initially, as a direct measure, it is considered that the company should establish internal rules, policies, and manuals concerning compliance and risk management for sales activities in the On-site Pharmacy business. These should be revised or newly established if they lack specificity. For example, it is considered that enhancing the "Ain Group Anti-Bribery and Corruption Policy" to define the concept of public officials and provide relevant examples could be beneficial. Additionally, it is also considered that policies for handling situations where decisions are practically challenging, such as when a contractor offers entertainment, should be organized.

Currently, Ain Group lacks clear internal rules regarding the prohibition of unfair competition, auctions, bidding, and other activities that may compromise fairness. Therefore, it is considered that it is essential to develop such regulations.

When developing these rules, it is crucial not only to comply with laws and regulations but also to recognize that from a risk management perspective, "anything acceptable as long as it is not illegal," and any action betraying societal demands and trust poses a significant risk. Furthermore, it is vital to clearly state as a basic policy the fundamental notion of "zero tolerance for misconduct," as emphasized.

In this context, in cases like the KKR Sapporo Matter and Matter Y, where it is considered

that personal relationships may have influenced inappropriate interactions with contractors, it is essential to note that using such relationships in sales activities is generally acceptable. However, it is important to ensure that these relationships do not lead to a relaxation of business discipline inadvertently. It is considered that practical manuals and additions to existing rules can help sales personnel maintain professionalism and avoid actions contrary to legal and societal expectations.

**(2) Establishment of Workflow Related to the Business (Clarification of Responsibilities)**

As previously emphasized, while Ain Group has well-developed workflows and monitoring systems for its store operations in the pharmaceutical and direct sales businesses, the workflow for decision-making, approval, and communication regarding sales activities for opening new pharmacies in the On-site Pharmacy business is currently unclear and inadequately organized. To prevent the recurrence of inappropriate actions like the Replacement after the deadline, it is considered that it is crucial to first clarify the workflow and the roles of each person involved.

**(3) Undertakings in Awareness Efforts and Training**

Once rules, policies, and manuals, along with clarified workflows, are in place, continuous efforts are needed to inform and train all relevant directors and employees in various positions. It is considered that a variety of methods such as e-learning, online and face-to-face training, study sessions, material circulation, and questionnaires can be adopted depending on the position, frequency, level of understanding, and number of people to attend.

**(4) Strengthening of the Risk Management Function for Sales Activities Related to Opening New Pharmacies in the On-site Pharmacy Business by the Administrative Division**

Given the insufficient implementation of risk management by the Administrative Division for sales activities in the On-site Pharmacy business, it will be crucial to ensure effective risk management in the future, based on establishment and revision of rules and regulations of compliance and risk management, as described in (1) above.

**(5) Strengthening Internal Audits on Sales Activities for Opening New Pharmacies in the On-site Pharmacy Business**

It is considered that internal audits by the Internal Audit Office, which currently focuses considerably on store audits, should also audit the risk management functions by the Administrative Division and continuously verify efforts to prevent the recurrence of the Replacement.

In this regard, if the current Internal Audit Office lacks sufficient resources due to the ongoing importance of store audits, it would be effective to consider implementing an appropriate

structure, including securing a budget and utilizing external resources.

#### **(6) Governance by Outside Directors and Corporate Auditors**

In promoting these initiatives mentioned above, the role of outside directors and corporate auditors, who play essential roles in legal affairs, risk management, and other important functions in Ain Group's corporate governance, is crucial. AHD is blessed with a diverse group of individuals who each possess excellent skills and experience as outside directors, including experience in retail business and sustainable management at other companies. It is considered that, by explicitly incorporating their roles into ongoing plans above to prevent recurrence, effective governance by outside directors and corporate auditors can be achieved. For instance, one of the outside directors or corporate auditors emphasized to the Investigation Team the importance of sufficient information communication to them, which is considered the key for each initiative mentioned above (1) to (5) and governance by outside directors and corporate auditors ((6)) to have an effective impact.

#### **(7) Through All Efforts**

The internal control, compliance, and risk management initiatives outlined above may all sound familiar, as they imply "of course you can do it" or "there is no applause for doing what is expected."

However, it is also true that it cannot be easy to work on something that seems self-evident, earnestly and continuously. Human nature is weak, and "easy come, easy go" is common attitude. People sometimes become bored or tired, and tend to blame others only when something goes wrong.

What is important is to maintain the steady compliance efforts – such continuous undertakings should not rely on surprise, and ongoing planning and role-based checks are crucial. To genuinely commit to preventing recurrence, it is imperative for top management to spearhead the development and implementation of a serious, ongoing plan.