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April 15, 2021

NIHON KOHDEN CORPORATION (6849)

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Notice regarding Investigation Report from Investigation Committee

Nihon Kohden established an Investigation Committee (the Committee), which includes two independent outside directors of the Company and two outside lawyers, on January 7, 2021, after three employees of Nihon Kohden Chubu Branch Office, a sales branch office in Japan, were arrested on suspicion of bribery involving the procurement of patient monitors at Mie University Hospital on January 6, 2021, in order to clarify the facts of this matter and investigate the cause.

As the Company has received an investigation report from the Committee, the following matters are announced accordingly.

1. Contents of the Report (Appendix 1)

The Report, Appendix 1, is based on the investigation report which the Company received, and the parts of the contents are not disclosed from the viewpoint of protection of personal information and confidential information.

2. Future Actions based on the Investigation by the Committee

The Company will promptly establish and execute the specific recurrence prevention measures in accordance with the recommendations by the Committee. A committee for implementation and management of recurrence prevention measures will be set up as a subordinate organization of the Management Council for the purpose of managing the execution so that recurrence prevention measures can be implemented quickly and reliably.

3. Disciplinary Actions in Relation to the Persons Concerned

Nihon Kohden takes this matter very seriously and has decided on the following disciplinary actions after discussion at the Compliance Committee.

(1) The Company's directors

Hirokazu Ogino, Representative Director, President: 30% reduction of monthly compensation (3 months)

Takashi Tamura, Representative Director, Executive Operating Officer in charge of Domestic Operations: 30% reduction of monthly compensation (3 months)

Tadashi Hasegawa, Director, Senior Operating Officer, Chief Compliance Officer: 20% reduction of monthly compensation (3 months)

In addition, both employees who were involved in this matter and the managers who were responsible for supervision and management will be dealt with severely based on internal regulations.

Nihon Kohden sincerely apologizes to our customers, shareholders, and all related parties for any concern caused by this matter. The Company will make every effort to prevent recurrence and to rebuild trust with all stakeholders.

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Appendix 1

To Nihon Kohden Corporation

Investigation Report

April 15, 2021

Investigation Committee

Chairperson Kanako Muraoka

Member Kazuo Shimizu

Member Masaya Yamauchi

Member Fusae Kakishima

Member Tadashi Hasegawa

Member Kazuhiko Ikuta

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Part I. Investigation Committee

1. Background of Establishment

In January 6, 2021, three employees of Nihon Kohden Corporation (hereinafter referred to as the “Company”), namely Employee A who was the Senior Manager of the Sales Department, Chubu Branch, Employee B who was the Office Manager of the Mie Sales Office, Sales Department, Chubu Branch and Employee C who was the Assistant Manager of Section 1, Mie Sales Office, Sales Department, Chubu Branch (hereinafter these three persons are collectively referred to as the “Three Persons Concerned”), were arrested for the suspected bribery associated with business negotiation on patient monitors in Mie University Hospital.

On January 7, 2021 after this incident, the Company decided to establish the Investigation Committee (hereinafter referred to as the “Committee”) to perform investigation, and the Committee was established accordingly.

After detaining the Three Persons Concerned, the Tsu District Public Prosecutors Office prosecuted them on January 27, 2021 and the first trial date was held on April 14 of the same year.

2. Entrusted Matters

The Company entrusted the following matters to the Committee:

- (i) Investigation of the facts related to the bribery case (hereinafter referred to as the “Case”) in which the Three Persons Concerned paid two million yen (hereinafter referred to as “Providing Benefits”), through a dealer, to an organization established by Mr. O who was a public official serving as a professor and the Manager of the Clinical Anesthesia Department of Mie University Hospital (at that time) in return for advantageous and convenient treatment to ensure that the Company’s products would be delivered sequentially in connection with the patient monitors and other devices installed in the operating rooms and other places where the Clinical Anesthesia Department managed equipment;
- (ii) Investigation on the existence of any other bribery case (hereinafter referred to as “Similar Case”) and the facts thereof; and
- (iii) Analysis of the facts confirmed in (i) and (ii) above as well as proposals for recurrence prevention measures.

3. Investigation System

In consideration of the expertise required for investigation and for the purpose of ensuring fairness in investigation, a lawyer serving as an outside director and a certified public accountant and licensed tax accountant serving as an outside director are designated as main members of the Committee (they are independent officers as provided for in Article 436-2 of the Tokyo Stock Exchange Securities

Listing Regulations). In consideration of the nature of the Case and the effectiveness of investigation, a lawyer who previously served as an outside director and a lawyer of the law firm having an advisory agreement with the Company are added as members of the Committee.

Because the investigation by the police and the public prosecutor's office has not mentioned any possibility of involvement by the Company's officers, etc., it is highly probable that the Case does not fall under an unjust act performed by the organization. For this reason, it is judged that the participation of inside directors in the Committee is unlikely to interfere with fairness in investigation and the utilization of the opinions of inside directors who are familiar with the Company's business flow would rather contribute to speedy and complete investigation.

The Committee is not a so-called "third-party committee," but it has endeavored to perform investigation in compliance with the Guidelines for Third-Party Committees in Case of Scandals of Corporations, etc. prepared by the Japan Federation of Bar Associations, whenever possible, and from a fair and neutral viewpoint to recover the trust of all stakeholders of the Company.

The Committee consists of the following members:

Chairperson	Kanako Muraoka	Outside director and lawyer
Member	Kazuo Shimizu	Outside director (Audit & Supervisory Committee Member), certified public accountant and licensed tax accountant
Member	Masaya Yamauchi	Lawyer (Hibiki-sougou Law Office)
Member	Fusae Kakishima	Lawyer (Ohhara Law Office)
Member	Tadashi Hasegawa	Director (Chief Compliance Officer)
Member	Kazuhiko Ikuta	Director(Full-time Audit & Supervisory Committee Member)

In addition, the Committee appointed the following persons as investigation assistants and had them conduct investigation:

Lawyer	Kazuo Tanabe	Ohhara Law Office
Lawyer	Takehiko Ohhara	Ohhara Law Office
Lawyer	Heiichiro Kato	Ohhara Law Office

4. Investigation Period

The Committee investigated the Case (hereinafter referred to as the "Investigation") from January 7, 2021 to April 14, 2021. During this period, the Investigation Committee held a total of eight meetings.

5. Method of the Investigation

The Committee employed the following method in the Investigation.

(1) Investigation of objective materials

The Committee inspected objective materials such as an organizational chart, internal regulations, past transaction data in the basic system, past data in the order receipt approval application database, past written estimate data in the sales support system (JAYRO), business e-mails of the Three Persons Concerned and the Manager of the Chuo Branch (e-mail data provided by the Mie prefectural police; for the period from April 2018 to December 2020).

(2) Investigation of the business flow, approval authority and discount rate

With respect to the business flow, the Committee inspected the Operation Manual for Main Operation Process Concerning Domestic Distributors (in compliance with J-SOX), the Guidelines on Selling and Leasing Business, etc. and other materials.

With respect to the approval authority and discount rate, the Committee inspected the approval price reference file for sales that specifies the standard price, guideline price and sales cost of each product as well as the maximum amount that could be approved by a person based on his/her title, and investigated the discount rate applied to the business negotiation related to the Case, method of approval of written estimates by each branch.

In addition, the Committee conducted a hearing from the Sales Operation and the Internal Audit Office about the business flow, approval authority, discount rate, commercial practice, and other matters.

(3) Hearing from the persons concerned

The following list shows the main persons from whom a hearing was conducted. The Committee conducted hearings with 28 persons in total from Chubu Branch and the Sales Operation. They are listed below in the order of attending a hearing.

Subject person	Title (The title in parenthesis means the title held as of April 2018.)	Date of hearing
Hirokazu Ogino	Representative Director, President (Same as above)	February 15
Takashi Tamura	Representative Director, Executive Operating Officer (Same as above)	February 16
Employee B	Assigned to the Human Resource Department (Office Manager of the Mie Sales Office, Sales Department, Chubu	February 17

	Branch)	
Employee C	Assigned to the Human Resource Department (Assistant Manager of the Section 1, Mie Sales Office, Sales Department, Chubu Branch)	February 19
Employee A	Assigned to the Human Resource Department (Senior Manager of the Sales Department, Chubu Branch)	February 25
Employee F	Senior Manager of the Sales Department, Chugoku Branch (Senior Manager of the Hospital Sales Management Department 2, Chubu Branch until March 2018)	March 2
Employee D	Branch Manager of the Chubu Branch (Same as above)	March 10
Employee E	General Manager of the Hospital Sales Management Division, the Sales Operation (Same as above; President of Nihon Kohden Chubu Corporation until March 2017)	March 12

(4) Digital forensic investigation

With respect to the Three Persons Concerned and Employee D who is the Branch Manager of the Chubu Branch, the Committee preserved the e-mail data (copy) and attached files (copy) provided from the Mie prefectural police with the permission of the public prosecutor in charge of the Case, and in addition, it preserved, with respect to Employee D, the e-mail data and attached files stored in his local PC and the e-mail data and attached files stored in the server. With respect to Employee E who is the General Manager of the Hospital Sales Management Division, the Sales Operation, it preserved the e-mail data stored in his local PC as well as the e-mail data and attached files stored in the server. With respect to the sales department managers of branches (23 senior managers as of March 2021), the Committee preserved the e-mail data and attached files stored in the server.

The data preserved by the Committee are subject to the following restriction; with respect to the e-mail data stored in the server, the e-mail system adopted by the Company until January 2021 needed to delete the past e-mail data, because the storage of data in excess of the designated capacity would make it unable to transmit and receive e-mails, and therefore the e-mail data were stored in the server for an average period of about eight months. The Company did not have any system for retaining the deleted e-mail data for a designated period. In addition, the method of copying the e-mail data in the server to a local PC for storage was left to each individual. Furthermore, the PCs and cellular phones of the Three Persons Concerned with the Case were seized by the investigating authority, which has informed us

that it is difficult to disclose any data other than the aforementioned e-mail data (copy) and attached files (copy) provided, within the period of investigation by the Committee.

With respect to a total of 28 persons mentioned above, the Committee reviewed the e-mail data, attached data, etc. by entrusting it to Deloitte Tohmatsu Financial Advisory LLC (hereinafter referred to as “Deloitte”) and Digital Data Solution Inc. The review was conducted with regard to the entire period subject to the preservation of data.

This digital forensic investigation aims to confirm the facts related to the Case and other Similar Cases and investigate any bribery by the Three Concerned Persons and the Company’s officers and employees to persons concerned with public hospitals. For this reason, the Committee decided to review e-mails, which seemed to be the most frequently used means of communication, and the files attached thereto.

A total of 617,411 pieces of data during the period subject to the investigation were narrowed by search based on specific key words associated with the Case, Similar Cases and general unjust incidents, etc.

The search key words used for narrowing the data are mainly as follows:

Slush fund, bribe, entertainment, dinner, social gathering, golf, rebate, return, cash, money, money and goods, gift certificate, donation, contribution, receive, ask, desire, accommodate, request, research fund, joint research, entrusted research, development fund, cooperation, scholarship donation, fund, prospectus, lecture, gift, outsourcing agreement, joint research agreement, advisory agreement, replacement of another company’s products with the Company’s products, replacement of the Company’s products with the Company’s other products, exchange with competitors, amount of difference, sales commission, provision free of charge, cheap maintenance, gross profit, capital, discount, profit margin, small profit, selection of devices, fund raising, convenience, order receipt approval application, replace, hotline, compliance, etc.

After narrowing the data to be reviewed (60,103 pieces), we performed review by tagging the data with certain words (classification into categories such as “Hot,” “Relevant,” “Not Relevant” and “Critical”) in accordance with the review protocol specifying the criteria for extracting relevant data and other matters.

(5) Questionnaire answered by employees

The Company’s employees in Japan (a total of 3,994 employees) were asked to answer a web questionnaire on whether they were aware of any Similar Case to this Case, their

awareness of legal compliance and other matters (hereinafter referred to as the “Employee Questionnaire”) from February 15 to 22, 2021. The establishment of ASP necessary for investigation and calculation work were entrusted to Cross Marketing Inc. Ohhara Law Office served as the contact for inquiries from the employees subject to the Employee Questionnaire, who were notified that the names of answerers would only be managed by Ohhara Law Office and not be informed to the Company.

(6) Investigation on dealers

(i) Questionnaire answered by dealers having transactions with the Company

The Company basically does not have any sales agent system for domestic sales, and often have sales transactions with wide-area dealers and local dealers and other dealers. In the Case, a payment of donation to Mr. O through a dealer (donation from a dealer to the organization established by Mr. O) was found to be a problem.

Based on this fact, the Committee requested 879 dealers that had delivered products to public medical institutions from 2018 to 2019, among all dealers having transactions with the Company, answer a questionnaire on (i) whether they had ever sent money to a bank account held by any person other than the other party to the transaction or (ii) whether they had ever made a payment or given an expensive gift (a total of 100,000 yen or more) to public officials, deemed public officials or persons concerned with them under the pretext of donation or any other matter, upon a request from the Company’s employees in connection with business negotiation, transactions and other business affairs related to the public officials and deemed public officials for the past five years, and also on whether they had ever received such a request from the Company’s employees (hereinafter referred to as the “Dealer Questionnaire”).

The questionnaire was conducted from February 16 to March 5, 2021.

(ii) Hearing from the dealer involved in the Case

In the course of investigation of the facts of the Case, the Committee conducted a hearing from the dealer involved in the Case (hereinafter referred to as “Party X”) on April 5, 2021.

(7) Investigation on transactions

In the Case, a part of the difference between the wholesale price from the Company to the dealer and the tender price (delivery price) from the dealer to Mie University Hospital was used as the fund paid to Mr. O.

Based on this fact, the Committee extracted the data concerning a value or amount larger than a certain value or amount obtained by using the standard deviation of the average gross profit rate with regard to transactions performed through dealers, from the data of all regional offices and branches on the sales of the Company’s products for three years, and then

confirmed the records of approval of relevant transactions and conducted a hearing.

With respect to this investigation method, the Committee received advice from Deloitte and obtained confirmation from the Company's accounting auditor.

(8) Investigation on donation cases

On February 17, 2021 during the period of the Investigation, two employees of Company V were prosecuted by the Tsu District Public Prosecutors Office. According to news reports, they paid two million yen in cash in March 2018 under the pretext of scholarship donation into the bank account that was held in the name of Mie University Hospital and managed by the Clinical Anesthesia Department, in return for active use of the drugs manufactured by Company V by Mr. O who was the Deputy Manager of the Clinical Anesthesia Department, Mie University Hospital at that time (hereinafter referred to as the "Company V Donation Case").

The Case does not involve any act of donation from the Company, but the investigation by the Committee has discovered that the Three Persons Concerned considered making donation from the Company to Mie University Hospital, but did not make a formal application therefor. In consideration of this fact and the Company V Donation Case, the Committee performed investigation as follows.

(i) Cases where donation was only considered (no formal application was made) and cases where another company's products were replaced by the Company's products

When a branch of the Company considered making a donation, the donation application flow as of FY2018 required the branch to make a formal application only for the donations for which the prior consent of Employee E who served as the contact at the Sales Operation was obtained. Formal applications from branches were to be confirmed by the Sales Operation, the Business Management Division and the Accounting Division of the Head Office and basically approved by the President in accordance with the Standard for Proposals for Meeting Discussion and Approval Procedures.

The Committee extracted the cases in the past three years where donation was only considered (no formal application was made) and where another company's devices such as patient monitors in national university hospitals were replaced by the Company's products, and then investigated the status of business negotiation mainly with regard to the cases falling under both conditions.

(ii) Donation cases where a formal application was made

The Committee inspected the donation application ledger for the past five years and investigated the process of applying for donation with regard to the cases where donation was made continuously as well as its relevance to business negotiation. With respect to the public

hospitals to which donation was made, the Committee investigated and analyzed the correlation between the amount of donation and the annual sales.

6. Limitation on Investigation

The Committee has no authority to forcibly perform investigation and therefore merely performed investigation based on voluntary cooperation by the Company. For this reason, the investigation by the Committee and the results thereof are subject to certain limitations.

In “II. Facts Recognized by the Committee about the Case” below, the Committee recognizes as many facts as possible where the facts are supported by objective materials or, if they are not sufficiently supported by objective materials, supported by statements of multiple persons. However, the materials on which the Committee relies may not cover all the facts, and the trial of the Three Persons Concerned is still pending. Those matters impose certain restrictions, and therefore the truth and accuracy of the content is not guaranteed.

Part II. Facts Recognized by the Committee about the Case

1. Premises

(1) Status of the Chubu Branch

(i) Organization, etc.

On April 1, 2017, the Company merged by absorption with 11 sales subsidiaries in Japan. After this merger, Nihon Kohden Chubu Corporation in charge of the Tokai and Hokuriku regions became the Chubu Branch.

For several years before FY2017, the Chubu Branch (Nihon Kohden Chubu Corporation) could not achieve its sales targets. Employee D who was transferred as the Branch Manager of the Chubu Branch in April 2017 thought that it was necessary to take business improvement measures, and took measures such as the launch of the project mentioned below.

Meetings of the Chubu Branch included the operation meeting that was a meeting between sales department managers (held monthly) and the performance reporting meeting attended by all employees of the Sales Department (held quarterly), and those meetings were held to update information on business results and sales issues.

(ii) Sales targets

The Company adopted the method that assigned an annual sales target to each branch by consultation between the Sales Operation and each branch, and further assigned a sales target to each department of the relevant branch.

When assigning a sales target to each department, the opinion of each manager was taken into account, and the sales target was determined by consultation. When a manager was replaced, the manager to be replaced prepared a provisional sales target for the following year at the end of the fiscal year, and this sales target was formally determined in the following year in consideration of the opinion of the new manager (however, in many cases, the new manager was unable to immediately understand the status of the department and therefore seemed to approve the provisional sales target).

In the Chubu Branch, almost all managers were replaced in FY2018 and the figures prepared by the previous managers were set as sales targets. It may mean that the achievement of the set sales targets was difficult, particularly for the Sales Department. At least, Employee A had just been promoted to Senior Manager of the Sales Department in the year and seemed to be feeling a strong pressure about the sales target for FY2018 assigned to the Sales Department.

(2) Replacing another company's products with the Company's products in the facilities for critical care of Mie University Hospital

(i) Positioning by the Company of the facilities for critical care of Mie University Hospital

In the Company, the operating rooms and intensive care units (ICU, NICU, etc.) of a university hospital or any other institution serving as a core hospital for regional medical care were collectively referred to as "facilities for critical care," and an important theme of the Company from before was to replace another company's products with the Company's products and thereby renew market share in devices such as patient monitors installed in the facilities for critical care.

In the course of business improvement, the Chubu Branch launched the project (hereinafter referred to as the "PJ") in April 2017 to enable each sales office and the System Sales Department (Solution Sales Department) to perform sales activity in collaboration with each other, and a monthly meeting was held by each sales office. Particularly from FY2018, the Chubu Branch focused on measures to replace another company's products installed in core hospitals with the Company's products, and shared information and examined the method thereof from various viewpoints. Also for the PJ, the Chubu Branch considered that the facilities for critical care of Mie University Hospital was one of the targets to be focused on by the Mie Sales Office and discussed the relevant issues accordingly.

(ii) Selection of devices to be installed in the facilities for critical care of Mie University Hospital and status of market share

The Manager of the Clinical Anesthesia Department of Mie University Hospital (hereinafter referred to as the "Anesthesia Department") had the official authority to perform, when purchasing anesthesia machines and medical devices by means of a public tender, technical examination to confirm whether the equipment proposed by a tenderer satisfied necessary specification requirements.

In the central operating room of Mie University Hospital, the Company's patient monitors were installed in some of operating rooms in association with renovation in 2015, but the patient monitors installed in the remaining operating rooms were all manufactured by Company W, which was a competitor of the Company. In the angiography room, patient monitors manufactured by Company U were installed.

In April 2018, Mr. O who had served as an associate professor at the Anesthesia Department became a professor. In the same month, Mr. P who had worked at the Anesthesia Department, T University Hospital became a lecturer of the Anesthesia Department of Mie University Hospital. The main work of the Anesthesia Department was to manage the whole body of patients undergoing surgery. Because a patient monitor is one of very important devices used to monitor the vital signs of patients in the work, particularly Mr. O who was an

anesthesiologist actually using the device had great authority to select what patient monitor to use.

Mr. P held a position to assist the work of Mr. O, and was entrusted by Mr. O with the selection of devices.

(3) Demand for money from Mr. O

Around February 2018 when the promotion of Mr. O to professor was internally determined, he started to make a demand for research funds and donations not only to the Company but also to the manufacturers and distributors of medical devices and drugs that contacted the Anesthesia Department. He also expressed an unusual measure, which was to have no transaction nor meeting in future with a manufacturer or distributor not providing any research funds or donations.

Employee C reported the demand for money from Mr. O to Employee B and Employee F who was the Senior Manager of Hospital Sales Management Department 2 (at that time) and thereby shared the information with them. In addition, Employee B reported the above situation to, and shared the information with, Employee A who became the Senior Manager of the Sales Department in April 2018.

On April 16, 2018, when Employee C and Employee B had a meeting with Mr. O and Mr. P, Mr. O explained that the number of surgeries at Mie University Hospital was increasing year by year and capital investment was required to operate and manage the operating rooms safely and efficiently, and requested that the Company make proposals for improving the safety management of operating rooms in future. They also made a demand for research funds and donations.

2. Communication with Mr. O and Others from around May 2018

(1) Status of business negotiation

(i) Meeting on May 7, 2018

On May 7, 2018, Employee B and Employee C had a meeting with Mr. O and Mr. P again.

In the meeting, Employee B and Employee C introduced and proposed patient monitors by using the pictures of an anteroom for anesthesiologists in S University Hospital, which had been prepared in advance.

They also performed a demonstration of the integrated gateway server (commonly called ViTrac) (hereinafter referred to as “ViTrac”). The ViTrac had a function which enabled a person to confirm vital sign of patients (electrocardiogram, blood pressure, arterial oxygen saturation, etc.) displayed on a patient monitor installed in the operating room, from a remote place by using a tablet terminal.

Mr. O and Mr. P highly evaluated ViTrac. On the other hand, Mr. O stated that he was not interested in patient monitors and instructed Employee B and Employee C to negotiate mainly with Mr. P about future discussions and proposals related to monitors.

(ii) Proposals by the Mie Sales Office after the meeting mentioned in (i) above

After the meeting mentioned in (i) above, the Company decided to make the following proposals:

- a. Proposal for replacing the patient monitors manufactured by Company W in operating rooms with the Company's products;
- b. Proposal for installing a central monitor to enable a person to monitor, at an anteroom of the Anesthesia Department, the information displayed on patient monitors manufactured by the Company that were currently used at operating rooms of Mie University Hospital; and
- c. Proposal for ViTrac.

These proposals were prepared by Employee B and Employee C, and the information was later shared with the Solution Sales Department.

(iii) Response of the Mie Sales Office to a demand for money made in the meeting mentioned in (i) above

Mr. O made a demand for research funds and donations also at the meeting mentioned in (i) above.

Employee B and Employee C did not give any clear answer about the demand and ended the meeting by merely stating that the Company was considering the issue. However, they were forced to consider responding to the strong demand for money from Mr. O.

Employee B and Employee C planned to make a proposal for contract research in which the Company would pay research funds as a consideration for the provision to the Company of clinical data related to Product Q (the product used to maintain the body temperature of patients during surgery) that had been lent to the operating rooms of Mie University Hospital since March 2018 for trial use in clinical practice.

To make this proposal, Employee C had a meeting with the person in charge of Product Q at the Company's Import Business Operations, and shared the information with the Solution Sales Department.

(iv) Meeting on June 14, 2018

Employee B and Employee C visited the Anesthesia Department of Mie University Hospital again on June 14, 2018 and had a meeting with Mr. O and Mr. P.

In this meeting, they made a proposal to Mr. O and Mr. P for contract research in which the Company would pay research funds as a consideration for the provision of clinical data obtained by using Product Q and Product R that was the product used to measure the deep body

temperature of patients during surgery. Under this proposal, the amount of contract research fee per case would not be large, but considering the annual number of surgeries and cases handled by the operation rooms of Mie University Hospital, a certain number of cases would be secured and therefore the Company would pay a considerable amount as research funds, which would be about 300,000 yen to 400,000 yen in a year.

However, after hearing this proposal, Mr. O said, “Our research is not for Nihon Kohden. I am asking for donations to perform research that we, as the Anesthesia Department of Mie University Hospital, want to perform. I am asking for millions, not hundreds of thousands, of donations and research funds. If you can’t meet this request, there would be no place for Nihon Kohden.” Then Mr. O left there.

Although Mr. O left in the middle of the meeting, Employee B and Employee C presented a written estimate for the patient monitors and ViTrac to Mr. P who remained there. Mr. P appreciated monitoring with ViTrac and other matters to a certain extent.

After this meeting, Employee B reported to Employee A that they had made a proposal for the Company’s patient monitors by introducing the examples of other universities and by other means, and that Mr. O had made a strong demand for money as stated above. In response to this report, Employee A instructed Employee B to investigate the activity of other manufacturers and distributors, what Mr. O intended to research, and other matters.

(v) Reminder about research funds from Mr. P and response to the reminder

On June 20, 2018, a meeting on the PJ was held in a conference room of the Mie Sales Office.

After the meeting, Employee C received an e-mail from Mr. P, which stated, “Although the delivery price of products is important, the provision of research funds is a great factor to be taken into account after all and will make it easier for us to give our opinion to the top management of the hospital. The realization of the unified central monitor for all operating rooms and the angiography room will also be beneficial to Nihon Kohden.”

Employee C who received this e-mail forwarded it to Employee B and Employee A to share the information, by adding “I have received a threatening e-mail.” After receiving the above e-mail forwarded by Employee C, Employee B sent an e-mail to Employee A in the evening on the same day to report the content and background of business negotiation. In this e-mail, Employee B stated, “I can certainly say that we will not be allowed to start business negotiation unless we pay research funds.” As a future prospect, he stated, “we must succeed in business negotiation with the Anesthesia Department and replace the monitors in operating rooms with the Company’s products in the prospect of making a comprehensive proposal for patient monitors in operating rooms, ICU and OR monitors and hospital ward monitors.” As a matter of concern, he mentioned, “whether we can obtain orders for monitors in the Anesthesia

Department only by providing research funds, whether we will be demanded to provide research funds every year from the following year, and whether we can provide funds while securing compliance and transparency.”

In response to this e-mail, Employee A proposed the method of using a joint research agreement or advisory agreement, and instructed Employee B to continue to check the activity of other companies.

On June 21, 2018, Mr. P sent an e-mail to Employee C, stating that the deadline for submission of a written estimate was June 27, and should it be necessary to arrange a meeting with Mr. O before the deadline, June 25 or 26 would be convenient. After adjusting the schedule, a meeting between the Three Persons Concerned and Mr. O was scheduled on June 26.

On June 23, 2018, Employee A sent an e-mail to Branch Manager D by attaching the material describing the content and background of business negotiation about donations to the Anesthesia Department (hereinafter referred to as the “Material on Consideration of Donations (i)”), and thereby requested Branch Manager D to negotiate with the Sales Operation.

(vi) Meeting on June 26, 2018

On June 26, 2018, the Three Persons Concerned had a meeting with Mr. O. Employee A informed Mr. O that the Company was considering making a donation of one million yen. However, Mr. O was not satisfied with this information and demanded an increase in the amount of donation. Because Employee A was unable to answer it at that time, they agreed to have a meeting on July 2 for giving the final answer.

After this meeting, Employee A consulted with Employee D on donations to the Anesthesia Department, and then Employee D consulted with Employee E by telephone. However, Employee E answered that it was impossible to make a donation from the Company in consideration of that content. On June 27, Employee D communicated the answer of Employee E to Employee A, and on the other hand, he requested Employee E again by e-mail to consider making a donation, by attaching the Material on Consideration of Donations (i) and stating that letting Company W go ahead of the Company would make it difficult for them to replace another company’s products with the Company’s products in future. At that time, Employee D also told Employee E that he would inform the details of business negotiation, etc. later.

On June 28, Employee D sent the material describing the details of business negotiation, etc. prepared by Employee A and Employee B (hereinafter referred to as the “Material on Consideration of Donations (ii)”) to Employee E by e-mail, but Employee E did not respond to it.

(2) Proposal of a method of providing benefits other than donations by the Company

Upon receiving strong demands for money from Mr. O, Three Persons Concerned considered

proposing contract research. However, in a meeting dated June 14, 2018, it turned out that it would not satisfy Mr. O. They also considered the possibility of donations by the Company. However, since Employee E did not reply to the emails on and after June 27, they came to have an understanding toward the end of June 2018 that donations were not likely.

Therefore, after a meeting on June 26, 2018, in case the Company was not able to make donations, Employee A instructed Employee C to look for a dealer that would provide research funds or make donations on behalf of the Company. Upon receiving said instructions, Employee C started negotiating with an employee of Party X, thinking that Party X would be likely to cooperate.

Around January 2018, a doctor at the Emergency and Critical Care Center of Mie University Hospital asked for monetary contributions to a ventilator workshop. At that time, Party X paid one hundred thousand yen on behalf of the Company.

Prior to a meeting on July 2, 2018 as detailed below, Employee C came to a general agreement with Party X regarding the dealer making donations to Anesthesia Department of Mie University Hospital using as funds a portion of the difference between the wholesale price of the Company and the bid price (selling price) for Mie University Hospital. During that period, Employee C shared information with the employee of Party X that the Company was having internal considerations regarding donations.

(3) Meeting on July 2, 2018

As stated above, by this date, Employee C had already negotiated with Party X regarding donations. Therefore, Three Persons Concerned attended the meeting with Mr. O on July 2, 2018, keeping in view donations not only by the Company but also by the dealer.

At the beginning of the meeting, Mr. O urged a reply regarding donations, telling examples of another companies. Employee A indicated using his fingers that the Company would pay two to three million yen. To this, Mr. O replied, "I look forward to it every year."

After that, Three Persons Concerned presented a proposal of Company products to Mr. O. The proposal intended that equipment in the operating room provided by other company be renewed by Company's products: for 2018, only ViTrac and a central monitor would be ordered, and from 2019 and beyond, a few patient monitors would be renewed every year. Although it was mainly Employee C that explained the details of the proposal, during the explanations, Employee A suggested to Mr. O that patient monitor(s) be purchased in 2018.

Mr. O replied that the patient monitors in the angiography room would be renewed by Company's products (hereinafter, the transaction that was actually carried out based on the conclusion of these business negotiations is referred to as "Transaction").

After the afore-described exchange of words, Mr. O indicated that he would like the Company

to make a proposal of around 13 million yen in total for two patient monitors and one ViTrac.

On or around July 9, 2018, Mr. O notified Mie Sales Office that Company's products would be selected upon renewing patient monitors in the operating room.

(4) Second consideration of donations by the Company

On July 11, Employee A received from Employee B information about the company(ies) that were making donations to Mie University Hospital. Employee A then shared this information with Employee D via email and asked him to request Employee E again to make an application for donations by the Company. On the same day, Employee D forwarded to Employee E an email regarding the status of donations by other manufacturer(s) and requested Employee E to consider donations by the Company. Employee E made no reply to this email.

Again on July 25, Employee A emailed Employee E and, although he "fully understands it is very difficult for the Company to do so," requested Employee E to consider donations "for the future of the regional sales office and the regional university." Employee E made no special reply to this email either.

(5) Submission of price estimate to Mie University

During a period from the time it was unofficially decided that the hospital equipment would be renewed by Company's products to July 31, 2018, Employee C repeatedly negotiated with Mr. P regarding the contents of the proposal. They reached a final proposal where, in 2018, one ViTrac, and two patient monitors in the catheterization laboratory would be renewed, and thereafter, a few patient monitors in the operating room would be renewed on a continued basis every year.

Therefore, on July 31, Employee C emailed Party X a price estimate of a total of 14.04 million yen for a ViTrac and two patient monitors. Said price estimate was submitted by Party X to Mie University Hospital.

3. Execution of the Transaction

(1) From August 2018 to April 2019

Since Mr. O wanted to purchase the equipment for 13 million yen in total, on July 31, 2018, Employee C submitted the price estimate of 14.04 million yen in total (including tax) to Mie University Hospital via Party X. After that, price negotiations were conducted so that Party X could also profit.

In January 2019, through Mie University's open bidding process, Party X was awarded the right of contract for Company's ViTrac and two patient monitors.

After that, one more dealer came to be involved between the Company and Party X. Therefore, on March 22, 2019, Employee C submitted a final price estimate to said dealer, and the

Transaction was carried out. The gross profit for the dealer that intermediated between the Company and Party X in the Transaction was 100,000 yen.

(2) Finding the source of funds for Providing Benefits

In the Case, the Company made a discount on its wholesale price to Party X in order to come up with funds for Party X to make donations with. Depending on the products, a discount of more than 75% has been made: the average discount rate is more than 64%. It has been reported that Party X generated a gross profit of approximately 3.5 million yen from the Transaction. From this gross profit, two million yen was allocated as funds for Providing Benefits.

4. Providing Benefits

Around December 2018, Employee B and Employee C were instructed by Mr. O to deposit donations to a bank account of an organization to be established by Mr. O. Therefore, after the execution of the Transaction, they were basically waiting for the organization to be established.

Around January to February 2019, confirmation was made with Mr. O and Mr. N, a lecturer in Mie University Hospital (former), that the amount of donation would be two million yen. On July 1, 2019, Mr. N told Employee C “We have established the study association. Please proceed with the donations we discussed last year.” Employee C shared this information with Party X via email.

The organization established by Mr. O is called “General Incorporated Association BAM Encouragement” (hereinafter “BAM”). Party X made a donation (Providing Benefits) to BAM on August 30, 2019.

5. Subsequent Transactions

For FY2019, the contract was awarded to Party X for patient monitors in the operating room under the open bidding process of Mie University Hospital. The monitors were delivered in September 2019. The business flow for this transaction was as follows: the Company to dealer Y to dealer Z to Party X to Mie University Hospital. However, no facts were established that the dealers (including Party X) had provided benefits to Mr. O or parties related to him.

Since Mr. O demanded that donations be made every year, Employee B and Employee C thought they needed to come up with two million yen for the business negotiation for patient monitors at the end of FY2019. However, they were not able to close a deal this time.

For FY2020, the contract was awarded to Party X for a patient monitor in the operating room under the open bidding process of Mie University Hospital. The monitor was delivered in September 2020. The business flow for this transaction was as follows: the Company to Party X to Mie University Hospital. No facts were established that Party X had provided benefits to Mr. O or parties related to him.

6. Involvement of the Company's Officers or Employees Other Than Three Persons Concerned

The Investigation established no facts that support the fact that the Company's officers or employees, etc. other than Three Persons Concerned had been involved in the Provision of Benefits to BAM via Party X or the fact that Provision of Benefits had been misconduct carried out by the Company as an organization.

Part III. Investigation into Whether There Exist Similar Cases as Well as the Facts Thereof

1. Definition of “Similar Case”

The Case is not about a donation made through the Company’s official procedures. It was the provision of benefits by a method where the funds generated by Three Persons Concerned via a dealer were donated by the dealer not to Mie University Hospital but to an organization established by Mr. O (passing of bribes to a third party). However, it is commonly interpreted that in cases where benefits are provided to a public office in a form of donation, if such benefits are deemed to be in consideration of certain function of the relevant public official, such benefits are considered as bribes regardless of whether or not formal donation procedures were performed (See *Comprehensive Commentary on the Penal Code* (Third Edition) Volume 10, page 80). It is presumed that the prosecution will take this stance with respect to the Company V Donation Case as well. Therefore, under this Investigation, we investigated, as Similar Case, suspected acts of bribery where benefits were provided in relation to business negotiations with public medical institutions, regardless of whether donations were made through Company’s donation procedures, or whether the funds generated via a dealer were used, or whether benefits were provided in the name of donation.

2. Details of the Investigation

The Committee conducted investigations, as follows, of the existence of Similar Cases and the facts thereof using respective investigation methods listed in “5. Method of the Investigation” in Part I above:

(1) Digital forensics investigation

We extracted data relating to public medical institutions out of the narrowed-down data subject to review. We then sorted the data per project and conducted individual investigations of matters that needed to be checked.

As the result of the individual investigations, we found several cases where the status of business negotiations with public medical institutions was mentioned during the course of considering donations/monetary contributions to such public medical institutions. In some of such cases, it was hard to deny that donations had been made in anticipation of the recipient purchasing the Company’s products. However, the Committee was not able to find any objective documentation that supports the relationship between those donations and the functions of the relevant public officials or deemed public officials. Therefore, the Committee decided not to deem them as Similar Cases.

(2) Employee Questionnaire

We asked, without specifying a period, those employees who answered that they knew Similar Cases to the Case to describe the details of their knowledge in the questionnaire sheet. Ohhara Law Office conducted, via email, interviews of employees who gave description of their knowledge that needed to be verified. If deemed further necessary, the Committee conducted individual investigations of such knowledge through interviews, etc. For clarity, matters not related to public medical institutions, and matters difficult to verify due to the lapse of time (ten years or more) were excluded from the individual investigations.

Although we found the following cases, the individual investigations revealed no cases that are considered as Similar Cases: the cases where no specific details could be confirmed, and the cases where, in accordance with the implementation standards for the Fair Competition Code of the Medical Devices Industry in Japan, benefits provided are not considered as a means to solicit the selection or purchase of medical devices, or money, goods or benefits provided have a small monetary value.

The Committee entrusts the investigation of the cases recognized during the investigations that need to be examined, although these are not considered as Similar Cases, to the Company.

(3) Dealer Questionnaire

There were no replies to indicate that Similar Cases exist.

(4) Investigation of transactions

No facts were established that Similar Cases exist.

(5) Investigation of donations

No facts were established that Similar Cases exist.

3. Investigation Results

As the result of the investigation by the Committee, no facts were found that are considered as Similar Cases.

Part IV. Analysis of the Cause of the Case

1. An Environment in Which Provision of Benefits Is Induced, and a System in Which It Is Easy to Come up with the Funds Therefor (Opportunities)

(i) There are hundreds of thousands of medical devices that are used for different purposes in order to meet various needs of overall medical care by medical institutions. Likewise, there are various distribution systems for medical devices. Furthermore, in order to ensure the safety and security of medical care, incidental services (such as instructions on how to use products, loaning of products for trial prior to clinical use, and maintenance and checkups after purchase) are provided to medical institutions by manufacturers that manufacture or import the medical devices and by dealers. This distinctive characteristic of medical devices industry produces an environment where manufacturers and dealers end to solicit business improperly by providing medical institutions with benefits or advantages.

On the other hand, the Case stemmed from Mr. O's strong demands for money. By prioritizing a user's demands, the risk of manufacturers or dealers for providing the user with unjust benefits can be increased.

The Japan Fair Trade Council of the Medical Devices Industry, an industrial association for the medical devices industry, explains the background to its establishment as follows: "Business practices for medical devices have been established in a unique environment and are different from those for general products that are traded between a business operator and consumers. Therefore, there is a concern that the industry is prone to unfair transactions with provision of improper premiums beyond the scope of normal commercial practices. In fact, there have been frequent occurrences of such improper cases." Thus, in order to secure fair and free competition and to establish sound commercial practices, the Fair Trade Council maintains and enforces the Fair Competition Code of the Medical Devices Industry in Japan, as self-imposed rules. The fact that such self-imposed rules have been established for the industry shows that companies are required to exercise careful judgment in their daily operation in order to ensure the appropriateness of their business.

(ii) In the Case, the Provision of Benefits was carried out by Party X (which was a dealer involved in the sale to Mie University Hospital) by providing money in the name of donation. In order to come up with the funds for such donation, Three Persons Concerned expected the selling price for the end-user through business negotiations and made a discount on the wholesale price for Party X. "Discounts" are not uncommon in terms of business practices of the medical devices industry. However, in the Case, the procurement of funds and the Provision of Benefits were only possible because the Company's sales process allowed such discounts, revealing the fact that the "discounts" can be a hotbed of misconduct.

Every product of the Company has its standard price (regular price) and guideline price, and each post has a maximum price discount he/she can approve. However, partly because the Company's branches had been separate subsidiaries for a long time until they were absorbed by the Company by a merger in 2017, the method of approving price estimates and of managing documents in the regional branches were not completely unified, and there were incomplete points in the Company concerning standardization of operation and the use of IT systems. Therefore, the control and reviews by the Company could not be conducted smoothly.

(iii) In the Case, it was Party X that actually transferred the money to BAM instead of the donation by the Company. Generally, the Company does not have distributors for specific territories or fields designated and authorized by the Company in the domestic market and it often transacts with many dealers including wide-area dealers and local dealers. Although the existence of such dealers is not necessarily linked to misconduct, the Provision of Benefits was not possible without the existence of dealers. In response to the fact that Nihon Kohden Europe GmbH, a European subsidiary of the Company, made inappropriate payment relating to business in Romania funded by the World Bank, the Company has implemented a global compliance program, including the establishment of the Anti-Corruption Policy in 2017. However, in Japan, the rules for the relationships with dealers were not reviewed because of the unique business practices in Japan of conducting transactions through so many dealers.

2. Desire to Close Immediate Deals (Motives)

Although the Case is a case of Providing Benefits in response to obvious demands for money by the head of the department who had a tremendous influence on the selection of medical devices used in facilities for critical care of Mie University Hospital, the motive behind the acceptance of said demands for money was to gain an advantage in closing business deals in order to replace other company's products used in the facilities for critical care of the university hospital with the Company's products, which was an important strategy of the Company.

Another motive was to contribute to the achievement of yearly sales targets. However, the Company's sales from the Transaction in 2018 was merely a few million yen, which could not possibly make a huge contribution to the sales targets. With that being said, during the meetings of the sales department, employees were always only required to report sales performance and analyze the issues that needed to be solved for achieving targets: and compliance issues were not discussed frequently. In addition, the failure to achieve sales targets had a negative effect on year-end bonuses, and the employee performance evaluation did not include efforts for compliance. There's no denying that there existed an environment where the focus was on increasing sales (compliance issues or risk management perspectives did not sufficiently deter employees from giving up larger sales).

3. Defectiveness in the Compliance System, and Lack of Understanding of the True Nature of Issues (Justification)

(i) In the Case, no formal application for donations was made to the Company, and there is no evidence to suggest that anyone other than Three Persons Concerned were aware of the Provision of Benefits to BAM via Party X. However, as discussed above, it is commonly interpreted that in cases where benefits are provided to a public office in a form of donation, if such benefits are deemed to be in consideration of certain function of the relevant public official, such benefits can be considered as bribes regardless of whether or not formal donation procedures were performed. Therefore, the fact that Mr. O, who had the power to select medical devices, demanded donations in exchange for purchasing product entailed a risk of bribery regardless of whether benefits were provided as corporate donation or whether the recipient was Mie University Hospital or Mr. O himself.

In the Case, prior to Providing Benefits, Employee A inquired of Employee E via Employee D about the possibility of donations by the Company (under the Company's procedures for accepting donations via branches, it was customary to make inquiries about the possibility of donations before making a formal application and to make a formal application for approval after obtaining the consent of Employee E, who was the contact person at the Sales Operation). However, although negative replies were made to the inquiries at the initial stage, no replies were made when Employee D and Employee A made inquiries several times thereafter. The process of considering donations by the Company in response to these inquiries was hardly clarified even through interviews with persons involved due to the lack of objective documentation. There is no evidence either that indicates that a clear decision was made to prevent them from making an application for donations. Therefore, it appears that they ended up not making a formal application for donations in the end.

In view of closing a deal in order to act according to an important strategy of the Company (that is, to replace other company's products in the facilities for critical care of a university hospital with the Company's products), Three Persons Concerned were struggling to find a way to accommodate Mr. O's demands for money. The information about Mr. O's demands for money was shared in Chubu Branch, and the inquiries about the possibility of donations were forwarded to the Sales Operation. If, during those processes, instead of letting Three Persons Concerned handle Mr. O's demands for money, the Company, as an organization, had examined those demands and directed Three Persons Concerned to stop the transaction or made a clear decision not to make donations from the Company in light of the risk of accommodating demands for money in exchange for closing a business deal, Three Persons Concerned could have realized that their actions could result in a serious consequence, i.e., bribery. However, no such clear decisions

were made, and Three Persons Concerned, while awaiting a response from the Company regarding donations, promised Mr. O the Provision of Benefits.

What is more, nothing suggests that what happened after Mr. O's demands for money was investigated despite the facts that the information about the patient monitors in the Operating Room of Mie University Hospital having been renewed by Company's products was shared in Chubu Branch, and that the sales of patient monitors in the catheterization laboratory as of the end of FY2018 were made and the sales of patient monitors in the operating room were also made for FY2019 and FY2020, respectively.

The series of events show that the focus was only on the fact that the other company's products in the facilities for critical care of the university hospital were replaced by the Company's products and that all the issues that were given rise to in the course of the transaction were left to the employees at the forefront.

It should be said that the closing of a large-scale deal or the increase of sales is prioritized over compliance to the extent that persons who knew that the deal was closely tied with Mr. O's demands for money and were in a position to be able to stop the deal failed to or hesitated to stop Three Persons Concerned from proceeding with the deal in a clear manner, and it has to be said that there was defectiveness in the Company's compliance system.

(ii) Although the degree of justification varies, Three Persons Concerned were trying to justify their actions by intentionally separating the Transaction from the Provision of Benefits, thinking that "although the funds for the Provision of Benefits will be raised from the adjustment of prices through the Company's discounts, the donation will be made by Party X and the Company has nothing to do with it." It also appears that Three Persons Concerned did not have enough channels for consultation on how to handle Mr. O's demands for money or on compliance issues.

The Company has been implementing: (i) the annual employee compliance training conducted at each workplace for all the officers and employees in Japan and overseas, (ii) the risk management e-learning for all the officers and employees in Japan, (iii) the compliance training for each sales office for all branches in Japan and (iv) the twice-a-year compliance checks for all branches in Japan. However, according to the afore-mentioned statements made by Three Persons Concerned and interviews with relevant persons, the Company did not provide enough systematic education for managerial employees or enough practical training covering specific situations and examples which sales employees would have difficulty making decisions about.

Part V. Recommendation of Recurrence Prevention Measures

1. Strengthening of Governance

(1) Review of the organization

In order for all the domestic and overseas group members of the Company to make unified anti-corruption efforts and to enhance the Company's unified operational, promotional and managerial functions to ensure compliance, a department should be established to grasp, supervise and manage, in a centralized manner, compliance policies and rules, contents of compliance education, and means of such education.

In addition, a department should be established in the Sales Operation as well to actively help solve compliance issues for sales employees, etc.

Furthermore, the administration department of each branch should be enhanced. Additionally, the direct reporting line between the local compliance officers in branches and the Chief Compliance Officer should be clarified and the structure that keeps sales managers in check should be strengthened.

(2) Review of the procedures for considering donations

In order to normalize the trade practices formed in the unique environment of medical devices industry, when the Company intends to make donations, one or more of the following methods should be adopted: (i) scholarship donations will not be made in the future, (ii) applications are invited from the public for donations, and (iii) reviews and decisions are made by a review committee that is independent of sales divisions, with the majority of its members being external experts or well-informed individuals. Until the Company decides which method to adopt, donations (excluding donations to academic societies of a highly public nature) should be suspended.

In addition to the donations, the Company also needs to review the processes for contracts, etc. under which money is provided to doctors and medical institutions, such as contracts for advisory or consulting services, collaborative research agreements, contract research agreements and monetary contribution.

(3) Strengthening of internal control

Since one of the means of generating funds for Providing Benefits was "discounts," it is important to control sales processes. The Company uses the ERP system to manage processes from order acceptance to inventory management and from shipping and recording of sales to collection. Therefore, misconduct is not likely to occur during those post-order acceptance sales processes.

The issue here is order acceptance management before the order acceptance information is input to the ERP system. A system needs to be established where events leading up to order acceptance

as well as the person who approved the discount are recorded.

Thus, standardized procedures should be introduced, while utilizing IT, to manage transactions at the pre-order acceptance stage, such as flows for preparing and approving price estimates, and flows for pricing, certifying regular prices and discount. The Company should also establish a unified method of managing documents (which covers branches as well) and further enhance its internal audit system with verification and checking functions.

(4) Mutual check with the dealers

The Company should consider establishing a system through which the Company and its dealers keep each other in check, such as each party mutually submitting a pledge of compliance with laws and regulations, actively collecting information on compliance issues through periodic questionnaires for and interviews (as required) of the dealers, and establishing a whistle-blowing channel intended for parties outside the Company.

In addition, it is appropriate to conduct reasonable anti-corruption confirmation with the dealers that transact with public hospitals.

The Company should also consider reviewing the personnel reshuffle system in order to prevent collusive relationships with dealers.

There is a possibility that fair and free competition may be hindered if the Company adjusts its sales prices for dealers. However, in light of the following provisions of the Guidelines Concerning Distribution Systems and Business Practices under the Antimonopoly Act established by the Fair Trade Commission, we encourage the Company to consider conducting distribution research from the perspective of preventing misconduct: “When an enterprise carries out research on actual sales prices or customers of distributors handling the enterprise’s products (i.e., distribution research), such research itself is generally not illegal, unless the research is accompanied by restrictions on sales prices of such distributors such as imposing, or notifying or suggesting the imposition of, financial disadvantages (such as suspending the shipment of products to such distributors) in the event that the distributors do not sell the products at the enterprise’s indicated price.”

2. Review of the Employee Performance Evaluation System

Evaluation items for performance evaluation should clearly include compliance with respect to all the employees.

3. Thorough Compliance Education

In addition to existing training, the following training should be provided as systematic education for managerial employees and as practical training covering specific situations and examples which sales employees would have difficulty making decisions about. It is very

important to clarify the objectives when providing training.

- A. Education for branch managers, senior sales managers and sales office managers in Japan
 - Provision of education with external experts (lawyers, etc.) as lecturers.
 - Comprehension tests (including tests for existing training) are given to confirm whether a prescribed level of understanding was achieved. If not, education is provided again until it is achieved.
- B. Education for employees who are newly assigned to managerial positions
 - Face-to-face education utilizing case studies as part of training for employees who are newly assigned to managerial positions (office managers, section chiefs and above)
- C. Improvement of specific and practical training contents for domestic sales personnel (bidding/contracts, prohibited acts relating to donations/monetary contributions, the Public Officials Ethics Code, the Fair Competition Code, the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices, harassment, etc.)
 - Report of actual cases by officers in charge of sale and services at office managers' meetings in branches.
 - Holding of training sessions in branches by instructors who have participated in the training on the Fair Competition Code of the Medical Devices Industry.

4. Monitoring

The Company should consider adopting the following measures in order to monitor the establishment of anti-corruption/misconduct programs listed in 1 through 3 above as well as the implementation status of such programs:

- (i) To conduct and review periodic internal compliance awareness surveys;
- (ii) To familiarize employees with the internal whistle-blowing channel; and
- (iii) To establish a committee for implementation and management of recurrence prevention measures with its members including working-level employees of sales, technical and management divisions as well as external experts and well-informed individuals.

End