

October 30, 2017

Attention: All concerned parties

Toyo Tanso Co., Ltd.

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(Stock Exchange Code: 5310; 1st Section, Tokyo Stock Exchange)

(Update on Previous Disclosure) Notice Regarding Results of Investigation into Fraudulent Actions at Overseas Subsidiary

As announced in the “Notice Regarding Detection of Fraudulent Actions at Overseas Subsidiary,” dated July 13, 2017, an internal investigation committee, comprised of outside directors and an outside auditor, was formed to examine the fraudulent actions on the part of a former employee at TOYO TANSO FRANCE S.A. (located in France), a consolidated subsidiary (hereafter, “TTF”) of Toyo Tanso Co., Ltd. (hereafter, “the Company”). With the cooperation of our legal advisors, local lawyers, and an external professional organization, the team carried out a full-scale review to clarify the full picture and established measures to prevent a repeat occurrence.

Following the internal investigation committee’s incident report, given at the Board of Directors Meeting held on October 20, we are providing an overview of the investigation results, the preventive measures that have been devised, and the disciplinary action for those involved that has been decided today.

Particulars

1. Overview

We sincerely apologize for causing great concern and inconvenience to our shareholders, investors, business partners, and market participants.

In the “(Update on Previous Disclosure) Notice Regarding Posting of Non-operating Expenses (Loss on Misappropriation of Funds) Related to Fraudulent Actions at Overseas Subsidiary,” dated August 7, 2017, concerning the impact on Company earnings, the Company reported that it had posted a 228 million yen loss on misappropriation of funds as a non-operating expense in the second quarter. However, on September 28, France’s tax authorities notified the Company that it had decided not to charge a penalty (additional tax on non-payment). Given this, the loss on misappropriation of funds was determined to be 182 million yen. The third-quarter consolidated earnings will be revised accordingly.

The internal investigation committee’s investigation showed that the former employee of the subsidiary carried out this fraudulent act alone and there was no organizational involvement. Moreover, no similar fraud has been discovered at other major subsidiaries in Europe and elsewhere, where value-added tax (VAT) procedures are similar. However, the committee pointed out that there are various issues with the Company’s management system for the subsidiaries.

The Company has taken the preventative measures recommended by the internal investigation committee very seriously, and will steadily implement these measures to prevent a reoccurrence. In addition, the Group’s governance functions will be thoroughly strengthened.

2. Investigation results

(1) Overview of investigation

(a) Investigation system

After this incident was discovered, an investigation team was immediately formed internally, and the investigation began with the help of a local accounting firm and local lawyers. Relevant evidence that had been obtained was evaluated and the former employee who had committed the fraud was questioned. Subsequently, based on the results of the investigation, an internal investigation committee was formed on July 7, comprised of two outside directors (Yasuo Yamagata and Mune Iwamoto) and one outside auditor (Koichiro Tanaka), and a thorough investigation began with the cooperation of legal advisors, local lawyers, and an external professional organization (PwC France).

(b) Investigation method

The committee members conducted a local investigation and interviewed those involved, PwC France analyzed local accounting transactions and the bank transaction record, data on the mail servers, etc., was examined, and other related organizations were interviewed. In addition, the committee compiled the information that the French tax authorities had obtained in interviews.

(2) Findings of investigation

(a) Description of fraudulent actions

This fraud consisted of the misappropriation of refunds for VAT (value-added tax, equivalent to Japan's consumption tax). The VAT process requires that provisional VAT payments (called "input VAT") be made when inventory is purchased, and received from customers when they purchase the stock (called "output VAT"). However, when the input VAT amount exceeds the output VAT amount, a business files for a refund of the difference from the tax authorities. A former employee of TTF posted input VAT (value-added tax) from fictitious import transactions. Next, the former employee fabricated remittance slips for the input VAT amount and transferred it to the bank, then had the amount in question fraudulently transferred from Company deposits to a personal account, or to an account in the name of a legal entity that had been set up (hereafter, "former employee's account"). When sending the money, the former employee switched the destination account from the legitimate account to the former employee's account, and used documents that faked the signature of the supervisor needed for the remittance. Subsequently, the former employee would request a refund from the tax authorities for the fraudulent input VAT transaction posted, and then add the refund to the Company deposit account, thus concealing the fraudulent transfer. This fraudulent transfer was made 135 times in the period from July 2011 to April 2017, and about 200 million yen in Company funds were deducted fraudulently. Moreover, the transaction trail, including the data on the fraudulent transfers, was completely deleted by the former employee.

The investigation committee carefully examined the possibility of organized involvement and/or a co-conspirator in these fraudulent acts, but discovered no evidence of either.

(b) Circumstances behind detection

The above fraudulent action was detected in a tax audit of fiscal years 2014 and 2015 carried out by French tax authorities in April 2017. The tax inspector indicated that the taxes were inconsistent with the French subsidiary's VAT report, and they could not find the documentary evidence for the accounting, such as invoices from the customs brokers, that

would explain the input VAT. As such, the authorities pointed out that there was a possibility that the VAT refunds had been fraudulently inflated.

(c) Amount of damages

Taking together the taxes paid back to the French tax authorities, interest on arrears, and the reversal of the balance of undeclared input VAT that the subsidiary had posted, the Company calculated that the aforementioned fraudulent action resulted in damages of 182 million yen.

(3) Analysis of cause of incident

Interviews with the former employee indicated that the cause of the fraud was his desire for personal pecuniary benefit, but the incident can also be attributed to problems with the subsidiary's management system and the Company's management system for the subsidiary, which failed to prevent this fraud. Specifically, authority over finances and accounting were concentrated in the hands of this former employee, so that checks within the organization did not function well; oversight by the subsidiary's president and directors focused on managing earnings and efforts to ensure appropriate governance were insufficient; the Company's systems for monitoring the subsidiary, such as governance and internal audits, and their operations were not appropriate, including restrictions on personal resources.

3. Preventative measures

In light of the serious nature of this fraudulent action, the following preventative measures will be taken as an important issue for the Group's overall management.

(1) Emergency measures to improve management at French subsidiary

The former employee responsible for the fraud was dismissed on June 16 and accounting operations were entrusted to an outside accounting firm. In addition, bank withdrawal procedures and VAT declaration procedures were entrusted to an outside accounting firm to bring them into line with standard practice, and a system for monitoring bank accounts was introduced to the Company to redress the problem, noted in 2. (3) above, whereby the French subsidiary failed to ascertain withdrawals.

(2) Permanent preventative measures

Based on the recommendations made by the internal investigation committee, the following measures will be taken.

(a) Improvements at subsidiaries

- Clarify the roles and responsibilities of directors at subsidiaries as well as disciplinary standards

(b) Improvements to Companies' management of subsidiaries

- Establish a concentrated management system at the Company for withdrawals at subsidiaries
- Reaffirm the withdrawal process at subsidiaries and provide instruction on improvements
- Reinforce process for confirming validity of subsidiaries' closing statements and accounting procedures
- Education and guidance for local supervisors and accounting managers at subsidiaries, and clarification and reinforcement of HR evaluations and rewards and punishments
- Strengthen compliance education at subsidiaries and set regulations related to compliance
- Organize divisions responsible for each function at the subsidiaries, strengthen the system, clarify the roles and responsibilities of directors in charge, and strengthen the

- cooperative relationships with subsidiaries
- Strengthen internal audits of subsidiaries
 - Reinforce monitoring system for subsidiaries' risk compliance

4. Disciplinary measures for those involved

The Company takes very seriously its failure to prevent or detect the fraudulent actions, which were carried out over a long period. In order to clarify responsibility for the management and supervision of operations, those involved will be penalized as follows.

Person concerned	Description	Titles (only those relevant to this case)
Takashi Konishi, Representative director, President	10% reduction of monthly compensation (three months)	
Naruhito Ishihata, Director	10% reduction of monthly compensation (three months)	Executive officer In charge of Finance and in charge of Planning Dept.
Hiroki Tsutsumi, Director	10% reduction of monthly compensation (three months)	Executive Officer Director of General Administration Division
Arno Cloos, Executive Officer	10% reduction of monthly compensation (three months)	Executive officer In charge of European region and President of Toyo Tanso France S.A.

Please direct inquiries regarding the current situation to:

<p>Toyo Tanso Co., Ltd. Publicity & Investor Relations E-mail: info@toyotanso.co.jp</p>
