



May 15, 2015

Susumu Fujita
Representative Director, CEO, and
President

CyberAgent, Inc.

TSE Prime: 4751

[Delayed] Notice on Material Deficiencies in Internal Control Over Financial Reporting Should be Disclosed and Submission of Correction Reports of Past Internal Control Report

CyberAgent, Inc. announces that it has submitted a correction report of past annual securities reports to the Kanto Local Finance Bureau as of today and has also corrected past financial statements, as mentioned in the “Notice on Submission of Correction Reports of Past Annual Securities Reports and Amendments of Financial Statements for Past Fiscal Years,” released on May 15, 2025.

In line with the above, the Company also submitted a correction report on the internal control report to the Kanto Local Finance Bureau in accordance with Article 24-4-5, Paragraph 1 of the Financial Instruments and Exchange Act, as follows.

1. Internal Control Report subject to correction

The 23rd term (From October 1, 2019, to September 30, 2020)

The 24th term (From October 1, 2020, to September 30, 2021)

The 25th term (From October 1, 2021, to September 30, 2022)

The 26th term (From October 1, 2022, to September 30, 2023)

The 27th term (From October 1, 2023, to September 30, 2024)

2. Details of the correction

The Company has made the following corrections to Section 3 [Matters Related to Evaluation Results] of the above Internal Control Report.

3. [Matters Related to Evaluation Results]

(1) The 23rd term (From October 1, 2019, to September 30, 2020)

(Before Correction)

As a result of the above assessment, we concluded that the Group's internal control over financial reporting was effective as of the end of the current fiscal year.

(After Correction)

The deficiencies in internal control over financial reporting described below would have a material effect on financial reporting and thus constitute a significant deficiency that should be disclosed. We therefore concluded that, as of the end of the current fiscal year, the Group's internal control over financial reporting was not effective.



I. Reasons for revisions to the results of the internal control over financial reporting assessment

As we announced in the Notice on Establishing an Internal Investigation Committee on March 26, 2025, CyberAgent proceeded with an investigation by the Internal Investigation Committee, including external experts due to the discovery of inappropriate accounting treatment in the past fiscal years at CyberOwl, INC., a wholly owned subsidiary.

On April 16, 2025, we received an investigation report from the Internal Investigation Committee, which confirmed the improper recording of a certain amount of sales at CyberOwl over several fiscal years (the Case).

CyberOwl offers affiliate marketing with a performance-based commission, and its sales include a finalized amount as well as an estimated amount based on projected performance. The Case revealed that one individual, the director in charge of the business, had been falsifying coefficients used as the basis for the estimated sales amount for a long time, since 2020. We recognize that the Case, in which the individual director of CyberOwl, who was responsible for this business, falsified the basis for recording and reporting, was due in part to the fact that the director in charge of the operation and the director in charge of business administration were concurrently served by the same individual, and that our management and auditing systems were inadequate.

The details of the findings of the Internal Investigation Committee are described in the “Investigation Report (Public Version)” attached to the “[UPDATED] Notice on Receiving Investigation Report from Internal Investigation Committee Regarding Inappropriate Accounting Treatments at the Consolidated Subsidiary and Expected Submission of Correction Report to Past Securities Reports,” released on April 18, 2025.

Based on the above, we have reassessed the Group's company-wide internal controls and CyberOwl's sales procedures related to sales and accounts receivable and found deficiencies in those areas described in “II. Details of significant deficiencies that should be disclosed”. Since these deficiencies would have a material impact on financial statements, we have determined that they constitute significant deficiencies that should be disclosed.

II. Details of significant deficiencies that should be disclosed

(Significant deficiencies in the Group's company-wide internal controls that should be disclosed)

- Inadequate operation of company-wide controls that failed to assess and respond to risks based on the characteristics of CyberOwl's affiliate business.
- Inadequate maintenance of company-wide controls, specifically the lack of clear rules prohibiting concurrent positions at CyberOwl, led to the prolonged concurrent holding of positions by the business manager and the manager in charge of business administration.

(Significant deficiencies in CyberOwl's sales operations that should be disclosed)

- Given the characteristics of affiliate commissions, there was an inadequacy in the development of sales operations. In particular, the insufficient establishment of procedures for accounting personnel to verify the evidence, such as coefficients, that serve as the basis for the validity of sales figures recorded at the time of the transaction, based on accounting estimates.

III. Reasons for the lack of material deficiencies that should have been disclosed in the subject internal control report

In the initial internal control report, the scope of the evaluation of internal control over financial reporting, as described in "2. Matters Regarding Scope, Reference Date and Evaluation Procedures," includes a comprehensive evaluation of internal controls for CyberAgent and its 79 consolidated subsidiaries, including CyberOwl.

However, regarding the company-wide internal controls related to CyberOwl, we believe that the confirmation procedures necessary to address the risk of accounting errors due to fraud or mistakes, given the uniqueness of its business model, were insufficient.



In addition, the scope of internal control for operations is based on criteria such as the operating profit of each business. We believe that these assumptions remain appropriate at this time without changes. Nevertheless, as a result of these criteria, the sales operations related to CyberOwl's revenue and accounts receivable were not included in the scope. Considering the qualitative significance, such as the risk of accounting errors due to fraud or mistakes arising from the uniqueness of its business model, we believe that CyberOwl's sales operations should have been included.

IV. Actions taken to address material deficiencies and the status of corrective actions required to be disclosed

Since the significant deficiencies that should be disclosed, as described in item II, were identified after the end of the current consolidated fiscal year, we were unable to correct them by the end of the fiscal year. As we fully recognize the importance of internal controls related to financial reporting, we will establish and implement the following measures to prevent recurrence and ensure the proper development and operation of internal controls based on the recommendations in the investigation report.

1. Risk assessment and response tailored to business characteristics
 - Changed the recording method of CyberOwl's affiliate commission to only record confirmed sales revenue approved by advertisers (Changed in April 2025).
 - Revised CyberOwl's accounting regulations based on the above change.
2. Separation of authority and strengthening checks and balances for subsidiary executives, subsidiary accounting and management, and head office accounting
 - Changed CyberOwl's governance structure to a company with a board of directors (Changed in April 2025).
 - Appointed CyberAgent's executive officers and other executives as directors and auditors of CyberOwl (Appointed in April 2025).
3. Strengthening of accounting and internal audit functions
 - Implementation of fraud detection tools related to accounting processes and figures.
 - Strengthening internal audit functions by assigning personnel with certain accounting knowledge to the internal audit office.
4. Disseminate the whistleblower system for CyberOwl and conduct compliance training
 - Dissemination of the whistleblower system for CyberOwl.
 - Conducting compliance training for CyberOwl's executives and employees.

(2) The 24th term (From October 1, 2020, to September 30, 2021)

(Before Correction)

As a result of the above assessment, we concluded that the Group's internal control over financial reporting was effective as of the end of the current fiscal year.

(After Correction)

The deficiencies in internal control over financial reporting described below would have a material effect on financial reporting and thus constitute a significant deficiency that should be disclosed. We therefore concluded that, as of the end of the current fiscal year, the Group's internal control over financial reporting was not effective.



I. Reasons for revisions to the results of the internal control over financial reporting assessment

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On April 16, 2025, we received an investigation report from the Internal Investigation Committee, which confirmed the improper recording of a certain amount of sales at CyberOwl over several fiscal years (the Case).

CyberOwl offers affiliate marketing with a performance-based commission, and its sales include a finalized amount as well as an estimated amount based on projected performance. The Case revealed that one individual, the director in charge of the business, had been falsifying coefficients used as the basis for the estimated sales amount for a long time, since 2020. We recognize that the Case, in which the individual director of CyberOwl, who was responsible for this business, falsified the basis for recording and reporting, was due in part to the fact that the director in charge of the operation and the director in charge of business administration were concurrently served by the same individual, and that our management and auditing systems were inadequate.

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Based on the above, we have reassessed the Group's company-wide internal controls and CyberOwl's sales procedures related to sales and accounts receivable and found deficiencies in those areas described in “II. Details of significant deficiencies that should be disclosed”. Since these deficiencies would have a material impact on financial statements, we have determined that they constitute significant deficiencies that should be disclosed.

II. Details of significant deficiencies that should be disclosed

(Significant deficiencies in the Group's company-wide internal controls that should be disclosed)

- Inadequate operation of company-wide controls that failed to assess and respond to risks based on the characteristics of CyberOwl's affiliate business.
- Inadequate maintenance of company-wide controls, specifically the lack of clear rules prohibiting concurrent positions at CyberOwl, led to the prolonged concurrent holding of positions by the business manager and the manager in charge of business administration.

(Significant deficiencies in CyberOwl's sales operations that should be disclosed)

- Given the characteristics of affiliate commissions, there was an inadequacy in the development of sales operations. In particular, the insufficient establishment of procedures for accounting personnel to verify the evidence, such as coefficients, that serve as the basis for the validity of sales figures recorded at the time of the transaction, based on accounting estimates.

III. Reasons for the lack of material deficiencies that should have been disclosed in the subject internal control report

In the initial internal control report, the scope of internal control over financial reporting, as described in “2. Matters Regarding Scope, Reference Date and Evaluation Procedures,” includes a comprehensive evaluation of internal controls for CyberAgent and its 74 consolidated subsidiaries, including CyberOwl.

However, regarding the company-wide internal controls related to CyberOwl, we believe that the confirmation procedures necessary to address the risk of accounting errors due to fraud or mistakes, given the uniqueness of its business model, were insufficient.



In addition, the scope of internal control for operations is based on criteria such as the operating profit of each business. We believe that these assumptions remain appropriate at this time without changes. Nevertheless, as a result of these criteria, the sales operations related to CyberOwl's revenue and accounts receivable were not included in the scope. Considering the qualitative significance, such as the risk of accounting errors due to fraud or mistakes arising from the uniqueness of its business model, we believe that CyberOwl's sales operations should have been included.

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 - Changed the recording method of CyberOwl's affiliate commission to only record confirmed sales revenue approved by advertisers (Changed in April 2025).
 - Revised CyberOwl's accounting regulations based on the above change.
2. Separation of authority and strengthening checks and balances for subsidiary executives, subsidiary accounting and management, and head office accounting
 - Changed CyberOwl's governance structure to a company with a board of directors (Changed in April 2025).
 - Appointed CyberAgent's executive officers and other executives as directors and auditors of CyberOwl (Appointed in April 2025).
3. Strengthening of accounting and internal audit functions
 - Implementation of fraud detection tools related to accounting processes and figures.
 - Strengthening internal audit functions by assigning personnel with certain accounting knowledge to the internal audit office.
4. Disseminate the whistleblower system for CyberOwl and conduct compliance training
 - Dissemination of the whistleblower system for CyberOwl.
 - Conducting compliance training for CyberOwl's executives and employees.

(3) The 25th term (From October 1, 2021, to September 30, 2022)

(Before Correction)

As a result of the above assessment, we concluded that the Group's internal control over financial reporting was effective as of the end of the current fiscal year.

(After Correction)

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In the initial internal control report, the scope of internal control over financial reporting, as described in “2. Matters Regarding Scope, Reference Date and Evaluation Procedures,” includes a comprehensive evaluation of internal controls for CyberAgent and its 80 consolidated subsidiaries, including CyberOwl.

However, regarding the company-wide internal controls related to CyberOwl, we believe that the confirmation procedures necessary to address the risk of accounting errors due to fraud or mistakes, given the uniqueness of its business model, were insufficient.

In addition, the scope of internal control for operations is based on criteria such as the operating profit of each



business. We believe that these assumptions remain appropriate at this time without changes. Nevertheless, as a result of these criteria, the sales operations related to CyberOwl's revenue and accounts receivable were not included in the scope. Considering the qualitative significance, such as the risk of accounting errors due to fraud or mistakes arising from the uniqueness of its business model, we believe that CyberOwl's sales operations should have been included.

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4. Disseminate the whistleblower system for CyberOwl and conduct compliance training
 - Dissemination of the whistleblower system for CyberOwl.
 - Conducting compliance training for CyberOwl's executives and employees.

(4) The 26th term (From October 1, 2022, to September 30, 2023)

(Before Correction)

As a result of the above assessment, we concluded that the Group's internal control over financial reporting was effective as of the end of the current fiscal year.

(After Correction)

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- Given the characteristics of affiliate commissions, there was an inadequacy in the development of sales operations. In particular, the insufficient establishment of procedures for accounting personnel to verify the evidence, such as coefficients, that serve as the basis for the validity of sales figures recorded at the time of the transaction, based on accounting estimates.

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 - Dissemination of the whistleblower system for CyberOwl.
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(5) The 27th term (From October 1, 2023, to September 30, 2024)

(Before Correction)

As a result of the above assessment, we concluded that the Group's internal control over financial reporting was effective as of the end of the current fiscal year.

(After Correction)

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In the initial internal control report, the scope of internal control over financial reporting, as described in “2. Matters Regarding Scope, Reference Date and Evaluation Procedures,” includes a comprehensive evaluation of internal controls for CyberAgent and its 65 consolidated subsidiaries, including CyberOwl.

However, regarding the company-wide internal controls related to CyberOwl, we believe that the confirmation procedures necessary to address the risk of accounting errors due to fraud or mistakes, given the uniqueness of its business model, were insufficient.

In addition, the scope of internal control for operations is based on criteria such as the operating profit of each business. We believe that these assumptions remain appropriate at this time without changes. Since CyberOwl's sales and accounts receivable are significant accounts closely related to its business objectives, the scope of the internal control was focused on the sales operations associated with these accounts. However, the significant deficiencies that need to be disclosed arose from this focus. We believe that the verification procedures, which should have been performed considering the risk of accounting errors due to fraud or mistakes, given the uniqueness of the business model, were insufficient.

IV. Actions taken to address material deficiencies and the status of corrective actions required to be disclosed



Since the significant deficiencies that should be disclosed, as described in item II, were identified after the end of the current consolidated fiscal year, we were unable to correct them by the end of the fiscal year. As we fully recognize the importance of internal controls related to financial reporting, we will establish and implement the following measures to prevent recurrence and ensure the proper development and operation of internal controls based on the recommendations in the investigation report.

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