



December 23, 2007

To whom it may concern,

Company: The Goodwill Group, Inc.  
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Representative Director, Chairman and CEO  
(Code No. 4,723 TSE 1st Section)  
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## **Notice of Scheduled Adverse Disposition against Subsidiary Goodwill, Inc.**

On December 19, 2007, subsidiary Goodwill, Inc. (“Goodwill” hereinafter) was notified that it had been granted an opportunity to furnish an explanation pursuant to the provisions of Article 13:1:2 of the Administrative Procedures Law regarding a scheduled adverse disposition from the Tokyo Labour Bureau.

The scheduled adverse disposition is for violations of the “Law to Ensure Appropriate Administration of Worker Referral Services and Enhance etc. the Terms of Labor for Referred Workers” (“Worker Referral Law” hereinafter) and will consist of a worker referral services suspension order and a worker referral service improvement order pursuant to Article 14:2 and Article 49:1 of the Worker Referral Law.

The deadline for submission of explanatory documents is January 8, 2008, and the adverse disposition will be finalized after Goodwill submits its explanation.

We wish to deeply apologize for the inconvenience and concern that this incident has caused for our customers, registered staff, all other related parties, and our shareholders.

Goodwill intends to enact the following measures with respect to the content of the scheduled adverse disposition. We take this adverse disposition with the utmost of gravity and will work to identify the problems that led to it and prevent the recurrence, making a companywide effort to achieve more rigorous compliance.

## *Details*

### **1. Content of the scheduled adverse disposition**

- Worker referral services suspension order pursuant to Article 14:2 and Article 49:1 of the Worker Referral Law
  - (i) 2-month suspension of labor referral services for all Goodwill locations (entering into new and renewing existing referral agreements)
  - (ii) 4-month suspension of labor referral services (entering into new and renewing existing referral agreements) for the Hamamatsu North Branch Office and 88 other offices (out of a total of 737 locations) found to have committed violations
- Worker referral service improvement order

The schedule for the suspension of labor referral services is as yet undetermined.

Note that while the suspension order requires the suspension of all operational and sales activities with respect to labor referral services (labor referrals, entering into labor referral agreements, and all other operational and sales activities etc.), labor referral agreements entered into prior to the suspension order commencement date (specifically and clearly stipulating all matters and staffing numbers for the combinations in the subparagraphs to Article 26:1 of the Worker Referral Law) for which referral services have already commenced will not be subject to suspension.

The scheduled suspension order will cover general labor referral services of Goodwill; other labor referral companies in the group will not be subject to the scheduled adverse disposition.

### **2. Causes of and events leading up to the scheduled adverse disposition**

The descriptions below include the perspectives and viewpoints of Goodwill.

- (i) In entering into referral agreements, the matters stipulated in Article 26:1 of Worker Referral Law were not appropriately noted on the documentation.
- (ii) Referred workers' terms of employment were not stated in an explicit and appropriate manner as specified in Article 34 of the Law.
- (iii) Notifications to assignee locations were not provided in an appropriate manner as stipulated in Article 35 of the Law.
- (iv) Labor referral agreements were entered into without receiving from assignee locations notice of assignable period contravention dates as stipulated in Article 26:6 of the Law.
- (v) Workers continued to be referred beyond the assignable period contravention date as stipulated in Article 35-2 of the Law.
- (vi) Workers were referred to port transportation services, which is prohibited under Article 4:1:1 of the Worker Referral Law.
- (vii) Workers were referred to construction operations, which is prohibited under Article 4:1:2 of the Worker Referral Law.
- (viii) Labor referral services continued in a state in which in the assignee locations supplied staff referred by Goodwill to other assignments (double referral), which ultimately abetted assignee locations in committing double referrals in violation of Article 44 of the Employment Security Law.

- (ix) Some offices failed to nominate a referral manager satisfying the requirements stipulated in Article 36 of the Worker Referral Law.

(1)

(i) Relevant location(s): Goodwill EV (events) Shinjuku Office and 4 others

(ii) Period: From October 1, 2004 to June 28, 2007

(iii) Facts providing grounds for a scheduled adverse disposition (1)

- In entering into referral agreements, the matters stipulated in Article 26:1 of Worker Referral Law were not appropriately noted on the documentation.
- Paragraph 6 of said article: Failure to receive notice of assignable period contravention dates
- Article 34 of the Law: Failure to appropriately specify the terms of employment of referred workers
- Article 35 of the Law: Failure to furnish appropriate notification to assignee locations
- Article 35-2 of the Law: Continuous referral of workers for a period of 1 year and 9 months after the assignable period contravention date
- Relevant workers: 2,015 referred workers (total of 18,824)

(iv) Facts providing grounds for a scheduled adverse disposition (2)

- Continuing to refer workers to assignee locations when they were assigned to port transportation services, which is prohibited under Article 4:1:1 of the Worker Referral Law
  - \* Location(s) of assignment(s): Aomi Pier in Koto-ku, Tokyo and Oi Pier in Ota-ku, Tokyo
  - \* Description of services: Port warehouse freight delivery and acceptance
- Labor referral services continued without ascertaining that the assignee location(s) supplied staff referred by Goodwill to other assignments (double referral) and to port transportation services, which ultimately abetted assignee locations in committing double referrals in violation of Article 44 of the Employment Security Law.
  - \* Location(s) of assignment(s): Ships docked at Ariake Jugochi Pier, Koto-ku, Tokyo
  - \* Description of services: Loading and unloading within ships and cleaning of holds
- Relevant workers: 52 referred workers (total of 1,240)

(v) Course of events

Goodwill merged in January 2002. This assignee location began transactions with the merger counterparty in 1996 and was taken over by Goodwill at the time of merger.

When a worker accident occurred in a warehouse at Aomi Pier, Koto-ku, Tokyo on February 9, 2007, the company confirmed the site of the worker's accident and found that the worker was not assigned to a superstructure warehouse, but to an operating warehouse, which led to the determination that the services did not constitute port transportation services. Work or referrals therefore continued.

In June 2007, information was obtained from outside sources indicating that the assignee location was engaged in port transportation services and double referrals. Goodwill reconfirmed the facts with the assignee location and obtained from the assignee location a signed and sealed statement attesting that there were no problems in the assignment. Subsequently, in confirming the facts, the company deemed the situation to be inappropriate and suspended referrals to the location on June 28, 2007.

As the assigning company, Goodwill incurs an obligation to take measures to encourage full understanding at assignee locations of the intentions of the Worker Referral Law and the provisions regarding excluded services and double referrals, and also to confirm the appropriateness of the assigned duties and workplace.

In this incident, there were inadequacies in the referral agreements and other required documentation and the worker referral continued without adequate preventative measures in place.

(2)

(i) Relevant location(s): Goodwill Hamamatsu North Office and 23 other locations

(ii) Period: From November 1, 2004 to August 28, 2007

(iii) Facts providing grounds for a scheduled adverse disposition

- In entering into referral agreements, the matters stipulated in Article 26:1 of Worker Referral Law were not appropriately noted on the documentation.
- Paragraph 6 of said article: Failure to receive notice of assignable period contravention dates
- Article 34 of the Law: Failure to appropriately specify the terms of employment of referred workers
- Article 35-2 of the Law: Continuous referral of workers for a period of 1 year and 10 months after the assignable period contravention date
- Labor referral services continued in a state in which in the assignee locations supplied staff referred by Goodwill to other assignments (double referral), which ultimately abetted assignee locations in committing double referrals in violation of Article 44 of the Employment Security Law.
- Location(s) of assignment(s): Warehouse(s) located in Hamamatsu, Shizuoka
- Description of services: Sorting of merchandise etc.
- Relevant workers: 1,994 referred workers (total of 11,404)

(iv) Course of events

Dealings with this assignee location began in November 1, 2004, but beginning around November 2006, the Hamamatsu North Branch Office of Goodwill was aware that the assignee location did not have an assignee company manager on duty and that double referrals were taking place under orders from the primary contractor. The assignee location was requested to make improvements and assigned an assignee company manager, so worker referrals continued.

From the middle of July 2007 until the end of August, Goodwill conducted a nationwide check of all long-term assignment locations, but was refused when it requested permission to check this assignee location. It therefore suspended referrals on August 28, 2007.

As the assigning company, Goodwill incurs an obligation to take measures to encourage full understanding at assignee locations of the intentions of the Worker Referral Law and the provisions regarding excluded services and double referrals, and also to confirm the appropriateness of the assigned duties and workplace.

In this incident, there were inadequacies in the referral agreements and other required documentation and the worker referral continued without adequate preventative measures in place.

The Hamamatsu North Branch Office was directly involved, but received staffing assistance from neighboring offices, so the adverse disposition is scheduled to cover a total 24 offices.

3.

- (i) Relevant location(s): Goodwill Kashiwa Office and 57 other locations
- (ii) Period: From December 3 to 10, 2005 and from May 2, 2006 to July 12, 2007
- (iii) Facts providing grounds for a scheduled adverse disposition
  - In entering into referral agreements, the matters stipulated in Article 26:1 of Worker Referral Law were not appropriately noted on the documentation.
  - Paragraph 6 of said article: Failure to receive notice of assignable period contravention dates
  - Article 34 of the Law: Failure to appropriately specify the terms of employment of referred workers
  - Article 35 of the Law: Failure to furnish appropriate notification to assignee locations
  - Article 35-2 of the Law: Continuous referral of workers for a period of 2 months after the assignable period contravention date
  - Though recognizing the potential for workers referred by Goodwill to the assignee location to be under the command structure of the assignee location's client (double referral), Goodwill continued to engage in labor referral services without ascertaining the status of work and therefore ultimately abetted the assignee location in supplying workers in violation of Article 44 of the Employment Security Law
  - Location(s) of assignment(s): Warehouse in Ichikawa, Chiba
  - Description of services: Sorting and inspection etc.
  - Relevant workers: 452 referred workers (total of 708)
- (iv) Course of events

Dealings with the assignee location began in December 2005, and Goodwill staff confirmed with the assignee location multiple times that referrals did not constitute double referrals, each time being told by the assignee location that the referrals were appropriate.

Having confirmed the contracting agreement between the assignee location and the primary contractor, Goodwill continued to provide worker referrals.

From the middle of July 2007 until the end of August, Goodwill conducted a nationwide check of all long-term assignment locations, but was refused when it requested permission to check this assignee location. It therefore suspended referrals on July 12, 2007.

As the assigning company, Goodwill incurs an obligation to take measures to encourage full understanding at assignee locations of the intentions of the Worker Referral Law and the provisions regarding excluded services and double referrals, and also to confirm the appropriateness of the assigned duties and workplace.

In this incident, there were inadequacies in the referral agreements and other required documentation and the worker referral continued without adequate preventative measures in place.

The Kashiwa Office was directly involved, but received staffing assistance from neighboring offices, so the adverse disposition is scheduled to cover a total 58 offices.

(2)

- (i) Relevant location(s): Goodwill Fukuoka Nishijin Branch Office and 1 other location

(ii) Period: August 12-16, 2007

(iii) Facts providing grounds for a scheduled adverse disposition

- In entering into referral agreements, the matters stipulated in Article 26:1 of Worker Referral Law were not appropriately noted on the documentation.
- Workers were referred to construction operations, which is prohibited under Article 4:1:2 of the Worker Referral Law.
- Location(s) of assignment(s): Factory located in Nagasu, Tamana-Gun, Kumamoto
- Description of services: Installation of automated rack-type warehousing system
- Relevant workers: 3 referred workers (total of 10)

(iv) Course of events

A referral agreement was entered into with the assignee location for a period of 5 days beginning August 12, 2007, and the Goodwill Fukuoka Nishijin Branch Office, understanding that the nature of the work would be “assembly of steel shelves,” requested the assignee location not to cause workers to be involved in processes that required the assembled shelves to be affixed to walls, floors or building frames because doing so would constitute construction services.

Nonetheless, staff referred to the assignee location reported to outside agencies that they had been caused to work in dangerously high locations, prompting Goodwill to confirm the status of the employees’ workplace on August 15, 2007, where it was found that they were involved in the installation of an automated, rack-type warehousing system in contravention of the agreement. Determining this to be construction services, the company immediately suspended referrals.

As the assigning company, Goodwill incurs an obligation to take measures to encourage full understanding at assignee locations of the intentions of the Worker Referral Law and the provisions regarding excluded services and double referrals, and also to confirm the appropriateness of the assigned duties and workplace.

In this case, the company engaged in worker referrals without preventing referrals to construction services, which are prohibited under the Worker Referral Law.

(3)

(i) Facts providing grounds for a scheduled adverse disposition

- Article 36 of the Worker Referral Law: Inappropriate nomination of referral manager.
- The Katsutadai Branch Office failed to nominate a referral manager until June 24, 2007 after the resignation of the referral manager on March 27, 2007.
- The Ogaki Branch Office and 10 other locations had failed to nominate a worker in their employment as referral manager as at June 28, 2007.
- The Yamato Branch Office and 105 other locations fail to nominate as referral manager persons sufficiently capable of acting as full-time referral manager in the workplaces of the assigning company during the period June 1-25, 2007 (of this number, the Yao Branch Office and 17 other locations nominated as referral managers people working as referred staff; the Tenroku Branch Office and 33 other locations nominated as referral managers people working at other locations of the company) and engaged in labor referral services without nominating appropriate referral managers.

(ii) Course of events

The Katsutadai Branch Office failed to take resignation procedures in spite of the resignation of the referral manager, resulting in the Goodwill personnel management system showing the position to be filled, which delayed necessary corrective measures.

Likewise, the Ogaki Branch Office and 10 other locations were slow to comply with resignation procedures for their referral managers, resulting in delays in nomination procedures for the next managers.

The Yamato Branch Office and 105 other locations fail to nominate appropriate referral managers but continued to engage in labor referral services. In some cases, the persons nominated as referral managers lacked sufficient working days, or worked as referred staff after nomination as referral manager, or there was a failure to take procedures to change managers after the persons nominated were transferred to other locations.

(4)

On June 30, 2005, Goodwill received a business improvement order from the Tokyo Labour Bureau alleging that it had engaged in labor referral services to construction services, which is prohibited under the Worker Referral Law. It was required to submit an improvement report indicating that it would engage in appropriate labor referral services by a deadline of August 25, 2005. Nonetheless, as noted above, it engaged in labor referral services in violation of the Worker Referral Law.

#### **4. Measures to prevent recurrence**

After receiving the business improvement order on June 30, 2005, Goodwill took measures to prevent recurrence, but in light of the scheduled adverse disposition, will also take the following additional measures to prevent recurrence and enhance its compliance systems.

Measures taken to date (since July 2005)

(1) Reinforcement of compliance system

- Establishment of Compliance Promotion Office
- Meetings of Compliance Committee

(2) Reinforcement of internal operational auditing functions

- Implementation of regular operational audits
- Checking of referral agreement content by core operating systems

(3) Ongoing compliance training

- Education on the Worker Referral Law in monthly Executive Council meetings and Branch Office Meetings
- Educational programs for employees

(4) Use of proprietary checklist to prevent recurrence

- Checklist to prevent referral to excluded services and double referral

Measures currently under implementation (since July 2007)

(1) Inspections at assignee locations

- Inspections of long-term assignment locations

- Visual inspections of workplaces, interviews with assignee location and interviews with referred staff conducted by relevant employees
- (2) Enhancement of internal auditing systems
    - Assignment of 30 full-time employees nationwide to internal auditing
    - Increase in staffing of Compliance Promotion Office
  - (3) Freeze on new location openings until such time as internal controls are strengthened and appropriate referral services can be vouchsafed
  - (4) Closure and consolidation of locations so as to strengthen internal controls and vouchsafe appropriate referral services
  - (5) Compliance and Worker Referral Law training programs
  - (6) Establishment of internal whistleblower system for referred staff

#### Newly implemented measures

- (1) Establishment of Booking Confirmation Center
  - In addition to branch office-level inspections, all referral agreements will be subject to pre-confirmation by the Booking Confirmation Center, providing for doublechecking.
  - Establishment of 40-member team under the direct control of the head office Compliance Promotion Office
- (2) Regular interviews with referred staff
  - Branch offices and the Compliance Promotion Office will conduct regular interviews with referred staff to ascertain circumstances at assignments and prevent compliance problems.
- (3) Segregation of matching services and client recruitment
- (4) Closure and consolidation of locations so as to further strengthen internal controls and vouchsafe appropriate referral services

### **5. Directions for the Future**

- (1) For registered staff

There will be no suspension of worker referrals already in progress prior to the implementation date of the scheduled suspension order. During the suspension period, we will be unable to refer staff to new assignments, but we will exert maximum efforts to ensure employment opportunities for registered staff by referring them to group companies or other companies.

- (2) For clients

There will be no suspension of worker referrals already in progress prior to the implementation date of the scheduled suspension order. We will, however, be unable to accept requests for new referrals during the suspension period.

### **6. Internal measures**

Goodwill takes the scheduled adverse disposition extremely seriously, and will enact the following internal measures in January 2008. We will also launch a companywide effort to reinforce compliance systems and awareness so as to prevent recurrence of violations.

President		Akifumi Jinno	Return of 50% of monthly executive wages for a period of 6 months
Managing Director	General Manager for Management Planning Office	Kazuaki Nakamoto	Return of 30% of monthly executive wages for a period of 6 months
Managing Director	General Manager, Business Division	Tsuyoshi Hirai	Return of 30% of monthly executive wages for a period of 6 months
Managing Director	General Manager, BIZ Business Division	Tadanobu Shimada	Return of 30% of monthly executive wages for a period of 6 months
Director	General Manager, Administration Division	Michikazu Kurokawa	Return of 20% of monthly executive wages for a period of 6 months
Director	Vice General Manager, Business Division	Koji Sakairi	Return of 20% of monthly executive wages for a period of 6 months
Executive Officer	Vice General Manager, Business Division	Yasuo Igarashi	Docking of 10% of monthly wages for a period of 6 months
Executive Officer	Vice General Manager, Business Division	Nobuyuki Kobe	Docking of 10% of monthly wages for a period of 6 months
Executive Officer	Vice General Manager, Business Division	Naoki Taguchi	Docking of 10% of monthly wages for a period of 6 months
Executive Officer	General Manager in Charge of Business Development	Masayuki Morimoto	Docking of 10% of monthly wages for a period of 6 months
Executive Officer	General Manager in Charge of Kita Nihon Area	Koichiro Nakagawa	Docking of 10% of monthly wages for a period of 6 months

Note that Representative Director, Chairman and CEO Masahiro Origuchi is scheduled to relinquish representative rights in the company effective the end of December.

## 7. Forecast

We will notify you of the impact on the full-year results forecast for FYE June 2008 as soon as it is known.

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