



(TRANSLATION FOR REFERENCE ONLY)

December 20, 2024

To Our Shareholders:

Corporate Name: PROTO CORPORATION

Representative: Kenji Kamiya, President

Securities Code: 4298

(TSE Prime, NSE Premier )

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## **Notification on the formulation of measures for preventing recurrence in response to the results of the investigation by the special investigation committee**

As mentioned in “Notification on the receipt of an investigative report of the special investigation committee” dated December 10, 2024, we received an investigative report from the special investigation committee. Sincerely accepting the suggestions from the special investigation committee for preventing recurrence and discussing concrete measures for preventing recurrence, we have decided to take the following measures for preventing recurrence.

Our company will make efforts to regain trust, by steadily implementing the following measures for preventing recurrence.

### **(1) Measures for improving the defects in the selling process**

#### **① A transaction with a large client will be dealt with by more than one employee (improvement in the process for posting sales)**

Every six months, Accounting & Finance Division will extract clients for which transaction amount is not less than a certain amount in the past six months, define said clients as large clients, and assign the existing sales representative and another employee (assistant sales representative) to transactions with the large clients in each division, except some cases, such as the cancellation of the transactions. We will allow the assistant sales representative to grasp the details and situations of contracts for transactions with said clients, and establish an internal check system for the sales representative who directly communicates with clients.

At the time of internal audits, we will interview the sales representative and the assistant sales representative about large clients that have been extracted according to the records and situation of transactions, etc. and check whether they make transactions in a proper manner.

#### **② Internal Audit Department will regularly check self-approved transactions**

Accounting & Finance Division will list self-approved transactions (applied for and approved by a sales manager) in each quarter (excluding the product categories in which the actualness of service provision is separately secured, such as products managed by a service provision management system and pay-per-use sales) at the end of said quarter, and Corporate Governance Department, which is in charge of internal audits, will narrow down the transactions in said list according to risk from the viewpoints of transaction periods, continuity, profit margin, charging conditions, and payment status, and then check whether services have been actually offered for the transactions and the appropriateness of the transactions from the aspects of both sales and costs of sales.

#### **③ 【Additional measure】 Development and application of rules for handover of duties at the time of replacement**

We will specify and clearly state the rules for handover of duties at the time of replacement, and make them known to all employees. At the time of internal audits, we will check whether a sales manager has taken over duties from the former sales manager in accordance with the rules. The subjects of internal audits are the former and new sales managers, and we will interview

all of the new sales managers who have taken over duties, to check the situation, within 3 months after the date of replacement.

- (2) Measure for improving the defects in the purchase process—Separation of the authority to select an outsourcee and place an order in transactions for printed matter, etc. from the division (improvement in the process for recording procurement)

We will transfer the authority to select an outsourcee and place an order in transactions for printed matter, etc. from the division to Management Division. Management Division will conduct a series of tasks, including selecting an outsourcee, requesting a price estimation, placing an order, confirming delivery, and checking invoices, based on applications from the division, from a standpoint independent from the division. Like this, we will develop a system for internal check for the division. We will also prohibit the sales representative from delivering products to clients directly.

In addition, Management Division will collect and store vouchers for transactions, etc., which prove the provision of services, without fail, in purchase transactions, so that said vouchers will be checked at the time of internal audits.

- (3) Measure for improving the defects in the processes of settling accounts and reporting financial results (sophistication of processes for collecting and analyzing information on risks)

We will train management-level employees to deepen their understanding of the processes of settling accounts and reporting financial results, and cement the cooperation with respective departments, to establish a system in which Accounting & Finance Division will be able to swiftly collect every piece of information that would affect financial reports. If a serious extraordinary event is found, Accounting & Finance Division or the like will consult external experts and others immediately, to establish a system for implementing necessary measures timely and appropriately.

- (4) Enhancement of the checking system of Accounting & Finance Division

- ① Enhancement of the use of an invoice checklist (monthly inspection)

Accounting & Finance Division will check whether there is no insufficiency in information on costs related to sales at the time of production of an invoice checklist, and contact the division to check the situation if there are any money-losing transactions. After collecting the information for an invoice checklist and listing the pieces of information, Accounting & Finance Division will check whether there are any transactions that need to be corrected from the aspect of profitability. When inputting costs that are not related to sales, the sales manager shall write that said costs are not related to sales and the reason for it. In addition, Accounting & Finance Division will examine the accuracy of the invoice checklist in an ex-post facto manner every month.

In internal audits, we will check the situations of transactions whose profitability is extremely low, money-losing transactions, and unclear expenses not related to sales individually, based on the collected and listed pieces of information of invoice checklists and individual invoice checklists.

- ② Check of the appropriateness of payers at the time of collection of accounts receivable (conducted every quarter)

Accounting & Finance Division will collect information on payments by wire transfer from clients every quarter, and if there is a suspicious payment, they will check the situation with the client.

- (5) Strengthening of the internal audit system

Corporate Governance Department, which is in charge of internal audits, increased the number of staff members versed in marketing by 1 to 2 on December 1, 2024, to establish a system for conducting internal audits in a more multifaceted and comprehensive manner. As mentioned in (1), (2), and (4) above, we will add new auditing procedures. Furthermore, we will continuously check the sufficiency of resources and knowledge in Corporate Governance Department.

- (6) To continue initiatives for improving our organizational climate

In order to prevent the recurrence of such misconduct thoroughly, we will distribute the message from the top executive to all employees, and continue the already started initiatives, including quarterly sessions for educating management-level employees at the meetings of sales managers and other managers, self-learning sessions about compliance with laws and regulations for all employees (the next session is scheduled to be held from Jan. to Mar. 2025), and risk management training for group companies (the next training is scheduled to be held on Jan. 29, 2025).