

Notice of Measures to Prevent Recurrence of Inappropriate Cost Management

We received an "Investigation Report on Inappropriate Cost Management(the "Report")" dated April 16, 2024, compiled by Internal Investigation Committee.

We took seriously the causes of this case. The causes are like that there was pressure to avoid losses, the cost adjustment procedure was complicated, and the checkpoints to approve the monthly report were not clear, etc. Those cause were pointed out in the investigation report. And then we proceeded with consideration and partial implementation of the preventive measures proposed in the report.

Now we notice that we have decided on the details and implementation schedule of the primary measures to prevent recurrence as follows.

To ensure the effectiveness of these recurrence prevention measures, we will clarify them in regulations, guidelines, etc. as necessary, and confirm them through internal audit procedures, etc. in the future. This will be confirmed in the future through internal audit procedures.

Notes

1. Measures to prevent recurrence for Strengthening the approval process for the Monthly Report

(1) Thorough daily input of work hours for each job into the monthly report system

Appropriate cost management is based on accurate monthly time input by all employees. The Report points out the need to ensure accurate inputs. All employees should enter their work hours by each business into the monthly reporting system on a daily basis.

In response to this issue, we will take the following two preventive measures.

- (a) Issuance of a notice regarding thorough daily input of monthly report and continuous awareness

A notice from Director, the Chief of Administration Headquarters was issued on May 30, 2024 to all employees to ensure daily input into the monthly report system.

In the future, we plan to continue to raise awareness by explaining the importance of thoroughly daily entering monthly report in our compliance training.

(b) System improvement to ensure accurate input into the monthly report

We will be implementing system improvements to ensure daily inputs. The changes are that if the monthly report for the previous day has not been entered, after clocking in to start work, the system will transition to a screen that prompts the user to enter the monthly reports, and that in order to ensure the accuracy of the information entered, the system will restrict the advance entry of working hours for the following day and beyond. This system improvement is scheduled to be completed by this July.

(2) Clarification of checkpoints of approval of the monthly report

We prepared checklist to clarify what to be checked by the managers approving the monthly report.

The checklist shows whether the actual working conditions correspond to the records in the monthly report, and whether the records related to the actual work performed are recorded.

These measures to prevent recurrence were informed throughout the company in a notice issued by Director, the Chief of Administration Headquarters on May 30, 2024.

(3) Visualization of the process for approval and return of monthly report

The Report points out that we need to strengthen the approval process for the monthly report. For example, when a manager corrects the monthly report, he/she needs to confirm the General Affairs Division as an outsider.

We will improve the system to address this issue/ When a manager return a monthly report to a member, he/she must include the reason.

This allows the General Affairs Division to verify the revision process from a third-party perspective and to send back any applications that are in doubt.

This system improvement is scheduled to be completed by this July.

(4) Establishment of a system in which the manager can confirm the status of business execution of all members of the department

The Report points out that inappropriate cost management was carried out after employee prospect that the cost rate exceeded 100%, such as by shifting the costs of the business to other businesses with larger cost margins.

To prevent this, we will make modifications, by linking our internal systems, it becomes possible to confirm at the time of approval that the work entered in the monthly report is the work that the

person entering the work is engaged in. Specifically, we will be making improvements so that if a person enters and applies for work in a monthly report that differs from the work registered in the contract management system as the work they are engaged in, a warning message about the difference in work will be displayed when the monthly report approver approves it.

This system improvement is scheduled to be completed by this July.

(5) Thorough management of work hours of temporary employees for each business

The Report points out that work hours of temporary employees for each business are recorded inaccurately, while total work hours are accurate.

Therefore, we will record the actual work hours of temporary employee by business unit.

As a method of recording, we will begin recording in spreadsheets from this June,. At the same time, we will be modifying our monthly report system to record the working hours of temporary employees.

The system improvement is scheduled to be completed by this August.

2. Strengthening the Approval and Monitoring Process for the Execution Budget

(1) Monitoring of cost occurrence status for each business

The Report points out that we need to review the working budget in a timely and appropriate manner to carry out proper cost management, in response to events that could not have been anticipated at the time of the initial budget formulation stage or changes in the situation due to external factors.

In response to this criticism, we will establish criteria for when to review the working budget and will revise the system so that an alert is issued to encourage a review of the working budget depending on the degree of change in incurred costs.

When an alert is issued, the department manager will check and provide guidance on whether the working budget should be revised.

The system improvement is scheduled to be completed by this August.

(2) Improvement of the statement of reasons for exceeding the cost control standard

When a cost rate of a business exceeds our internal management standards, we have a rule to pick up the business through the system, and to make a statement of reasons for the cost excess.

The Report points out that we should ease the standards for submitting such statements and reduce the administrative burden on supervising engineers, since the effort required to prepare a statement of reasons can sometimes motivate cost transfer.

In response to this criticism, we will grasp the actual situation regarding the submission of reason statements. Considering the importance of reason statements, we will review some of the standards for submitting reason statements, such as relaxing the cost exceedance standards for small-value business.

This will reduce the need to submit excessive explanations and ease the administrative burden on managing engineers.

The system modifications to extract target business operations in response to this are scheduled to be completed by this June

(3) Visualizing the Status of Cost Generation in Operations

The Report points out that technical department managers and management divisions of each branch office need to strengthen their monitoring of the status of budget revisions by management engineers, and create tools that make it easy to understand the elapsed time and cost occurrence status of each business. We also need to create a system to check and provide guidance to management engineers if there are any problems.

In response to this criticism, we built a tool in this May and are currently conducting trial operation.

A system for checking and providing guidance to management engineers and others in the event of a problem is scheduled to be established by this June.

3. Reinforcing Compliance Education

The Report points out the need for thorough compliance education for all employees.

We conduct compliance education for all employees in September of each year.

In response to the occurrence of this incident, we have decided to implement it in June, three months earlier than usual, to foster appropriate cost management awareness at an early stage.

Compliance training is targeted at each base office and group company (9 companies), and for the past few years has mainly been conducted via the web.

However, starting this year, there is a concern that the training may lose a sense of reality because it is conducted through a screen, so to ensure that employees understand that the content of the compliance training applies to them personally, we will be conducting group training primarily face-to-face.

The same training content will be held multiple times to increase opportunities for face-to-face participation.

The instructor will emphasize the motivations, opportunities, and justifications that led to inappropriate cost management, and carefully repeat the reasons why cost transfer is not allowed so that participants can understand.

4. Fostering a Corporate Culture that Avoids Inappropriate Cost Management

The Report indicates that our corporate culture and atmosphere may have been a remote cause of inappropriate cost management. Specifically, it is pointed out that there is an atmosphere in which numerical targets such as management targets and execution budgets of departments are emphasized more than necessary.

Considering this, a notice was issued on April 16th of this year in the name of the CEO, informing employees of the following:

- In conducting business activities, it is inevitable that some individual operations will result in losses.
- Even if a loss-making operation occurs, it will not be treated as an immediate disadvantage.
- Appropriate cost management is important.

Additionally, the Director, Managing Executive Officer' Notice dated May 30th of this year also reiterated the importance of proper cost management. We will continue to monitor the situation and will continue to issue notifications and other announcements as necessary.

In addition, Chief, each Branch Office and General Manager will continuously inform them of the importance of cost management once a quarter to avoid inappropriate cost management.

5. Recurrence prevention schedule

Please refer to the attachment. The schedule is subject to change. It also notes about already completed measures.

Attached Recurrence Prevention Measures and Implementation Schedule

	Measures to prevent recurrence	Concrete measures	Method	Schedule											
				May	June			July			August				
				End	Beginning	Mid-	End	Beginning	Mid-	End	Beginning	Mid-	End		
(1) Strengthening Approval Process for Monthly Report	1	<ul style="list-style-type: none"> Thorough daily input of work hours for each job into the Monthly Report System 	<ul style="list-style-type: none"> Thorough daily input Compliance with the approval deadline for the first and second half monthly report 	Notice issued by the General Manager	Done										
			<ul style="list-style-type: none"> Guidance to monthly report input after the start of work Restrictions on entering schedules into the Monthly Report System 	Improvement of the Monthly Report System	-	System requirements definition			System improvement			Start of operation			
	2	Clarification of checkpoints of approval of the monthly report	<ul style="list-style-type: none"> Confirmation by checklist (Viewpoints of Labor Management, Cost Management, and Expense Management) 	Creation of a checklist	Start of operation	-			-			-			
	3	Visualization of the process for approval and return of monthly report	<ul style="list-style-type: none"> When a monthly report approver returns the monthly report to an employee, they shall return it with the reason, and establish a system to confirm the reason for the return from outside the General Affairs Department of the office, etc. 	Improvement of the Monthly Report System	-	System requirements definition			System improvement			Start of operation			
	4	Establishment of a system in which the General Manager, who is the secondary approver, can confirm the status of business execution by all members of the department	<ul style="list-style-type: none"> Check whether the business number entered by the approver in the monthly report is the business number registered as the person in charge (cooperation with the contract system) 	Improvement of the Monthly Report System	-	System requirements definition			System improvement			Start of operation			
	5	Thorough management of work hours for each job by temporary employees	<ul style="list-style-type: none"> Create a monthly Excel business report (Use and Storage of Invoices as Evidence) Examination of management by monthly report input system 	Improvement of the Monthly Report System (Preliminary implementation in Excel)	-	Preparation and implementation of Excel templates			System requirements definition			System improvement			Start of operation
(2) Strengthening the Approval and Monitoring Process for the Execution Budget	6	Monitoring of Cost Occurrence status for each Business (Improvement of accuracy of execution budget)	<ul style="list-style-type: none"> Issuance of alerts according to the status of cost occurrence (Excessive remaining cost for the period until the end of the construction period, etc.) 	Improvement of the Cost Information System	-	-	-	System requirements definition			System improvement			Start of operation	
	7	Improvement of the statement of reasons for exceeding the cost control standard (Relaxation of Submission Standards)	<ul style="list-style-type: none"> Review of the judgment criteria (threshold) in the statement of reasons for cost overrun 	Improvement of the Cost Information System	-	Systeme Requirements Definition		System modification		Start of operation					
	8	Visualizing the Status of Cost Generation in Operations (Strengthening of management in the management of the Engineering Department, executives of business establishments, and the General Affairs Department)	<ul style="list-style-type: none"> Released the "Cost and Budget View" created by the Engineering Division as a tool to visualize costs Establishment of a system for monitoring and guidance 	Construction of "Cost and Budget View"	Tool publishing • Trial	Review of monitoring and guidance systems			Start of operation						
(3) Reinforcing Compliance Education	9	Reinforce Compliance Education regarding cost management	<ul style="list-style-type: none"> Conduct multiple face-to-face training sessions (* To be held annually thereafter) 	Implementation of face-to-face lectures	To be implemented sequentially	-			-						
(4) Fostering a corporate culture that avoids Inappropriate Cost Management	10	Message from the CEO	<ul style="list-style-type: none"> Message from the Representative Director and President, CEO and notice from the General Manager Thorough communication within the office Communicate the importance of cost management to each business site once a quarter (* To be implemented annually thereafter) 	Issuance of Notice by the Representative Director and President, CEO and Representative Dissemination at business sites	Issued: Implemented Publicity: Continued implementation	-			-						