Results for Q2 FY22
Ended September 30, 2022

Net One Systems Co., Ltd.

November 2, 2022 (Stock Code 7518: JP)

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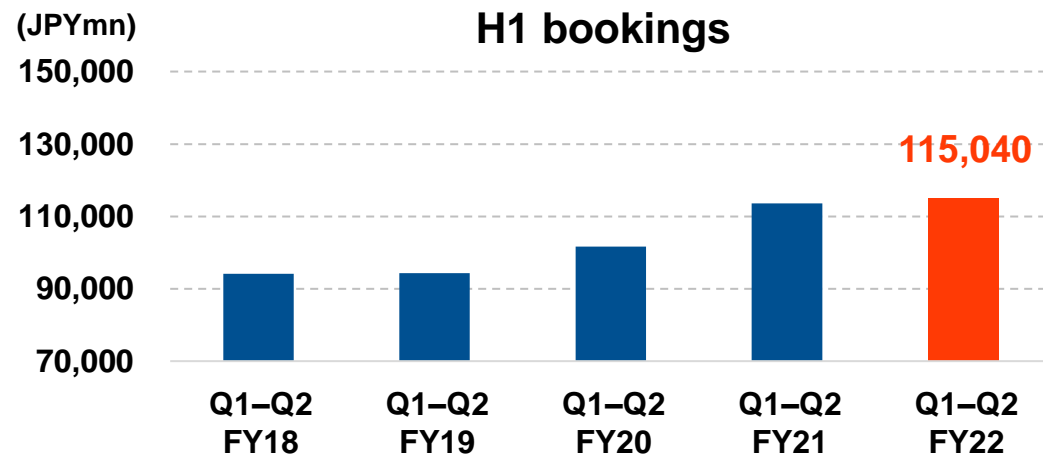# 1. H1 results overview and full-year outlook

H1 overview

Bookings
Reported record-high order bookings thanks to demand for network enhancement and security reinforcement associated with digitalization

Revenue and profit
Rebounded from slow performance in Q1, generating YoY increases in both revenue and operating income

Full-year outlook

Bookings
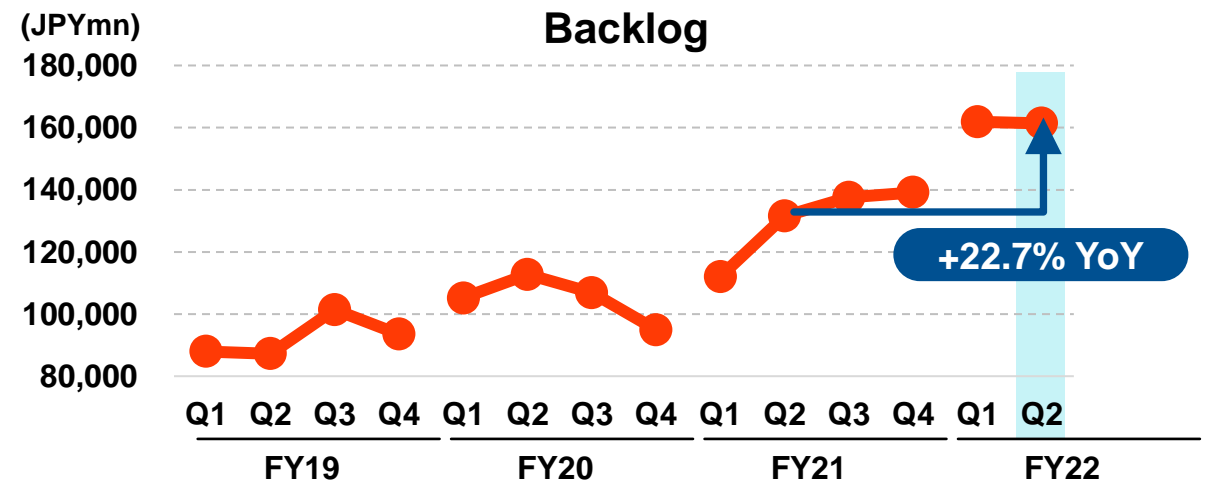Ongoing strong growth expected amid demand related to digitalization

Revenue and profit
Revenue and profit projected to be commensurate with corresponding forecasts thanks to an abundant backlog of orders

H1 bookings chart (JPYmn): Q1–Q2 FY18, Q1–Q2 FY19, Q1–Q2 FY20, Q1–Q2 FY21, Q1–Q2 FY22 = 115,040

Backlog chart (JPYmn): FY19 Q1–Q4, FY20 Q1–Q4, FY21 Q1–Q4, FY22 Q1–Q2; +22.7% YoY

2. Status of product delivery delays and future projections

Impact

Revenue delayed to FY22: Recorded JPY8.3bn of the JPY8.7bn in revenue projected for Q2

Projected timing of revenue bookings (as of end-Q1)

FY22		
Q2	Q3	Q4
JPY8.7bn	JPY3.5bn	JPY0.4bn

Projected timing of revenue bookings (as of end-Q2)
(Note) Figures enclosed within parentheses represent expected revenue that remained unbooked as of end-Q2

FY22	
Q3	Q4
JPY3.9bn (+JPY0.4bn)	JPY0.4bn

Causes

- **We continue to see extended delivery times from all vendors.**
- **A portion of delayed products are gradually being received.**

Future projections

- **We will continue to carry out business operations based on assumptions of long delivery times.**
- **We expect to record JPY4.3bn in delayed revenue (that is anticipated to be booked sometime after the start of Q3) before the end of FY22.**

3 **Q1-2 FY22(Apr.-Sep. 6 months) results**

[Reference] Change in accounting policy (Accounting for engineering department expenses)

We consolidated and reorganized our engineering department and redefined their roles during Q1 FY22 to expand customer contact points and accelerate the shift to services by integrating technology functions, and to strengthen profitability management.

As a result, a portion of the labor costs and other expenses attributed to the engineering department responsible for providing services, which were previously recorded in SG&A expenses, are now recorded as cost of sales.

Figures for previous fiscal years cannot be accurately tallied using our newly adopted accounting policy, rendering the retroactive application of this policy impractical. Accordingly, this accounting policy will apply to figures recorded in Q1 FY22 and all subsequent accounting periods.

This change decreased SG&A expenses by ¥2,710 million and the decline resulted in the increase of cost of sales by ¥1,749 million in Q1-2 and costs of uncompleted construction contracts by ¥960 million at the end of Q2. As a result, operating income, ordinary income, and profit before income taxes each increased ¥960 million in Q1-2. Furthermore, net assets per share and earnings per share both rose ¥8.11.

Summary of Q1-2 FY22(Apr.-Sep. 6 months) results

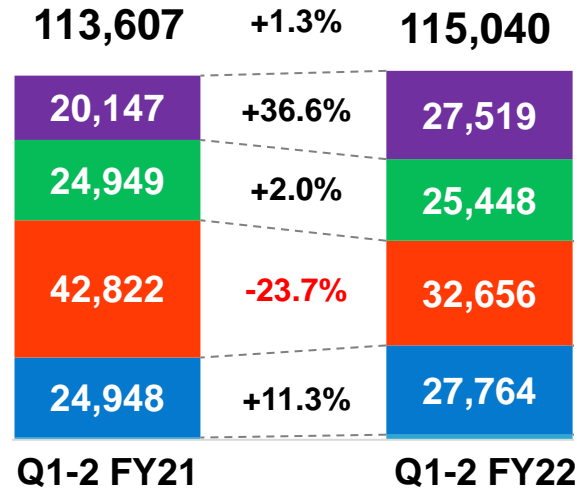| (JPYmn, % to revenue)	Q1-2 FY21 Results (A)		Q1-2 FY22 Results (B)		YoY (B-A)		Q1-2 FY22 Forecast (C)		Compare to Forecast (B-C)	
					Amount	%			Amount	%
Bookings	113,607		115,040		+1,433	+1.3%	106,000		+9,040	+8.5%
Revenue	77,887	100.0%	92,765	100.0%	+14,878	+19.1%	96,000	100.0%	(3,234)	-3.4%
Cost of sales	55,815	71.7%	69,802	75.2%	+13,986	+25.1%	69,500	72.4%	+302	+0.4%
Gross profit	22,071	28.3%	22,963	24.8%	+892	+4.0%	26,500	27.6%	(3,536)	-13.3%
SG&A	17,552	22.5%	14,644	15.8%	(2,908)	-16.6%	18,300	19.1%	(3,655)	-20.0%
Operating Income	4,518	5.8%	8,319	9.0%	+3,800	+84.1%	8,200	8.5%	+119	+1.5%
Ordinary Income	4,876	6.3%	8,683	9.4%	+3,806	+78.1%	7,700	8.0%	+983	+12.8%
Profit attributable to owners of parent	3,390	4.4%	5,175	5.6%	+1,784	+52.6%	5,200	5.4%	(24)	-0.5%
Backlog	131,557		161,435		+29,878	+22.7%	-		-	-

Bookings were strong, mainly in the Enterprise and Partner sectors, and reached a record high in the first half.
Revenue and operating income rebounded from slow performance in Q1 and generated YoY increase, while delivery times of products continued to lengthen.

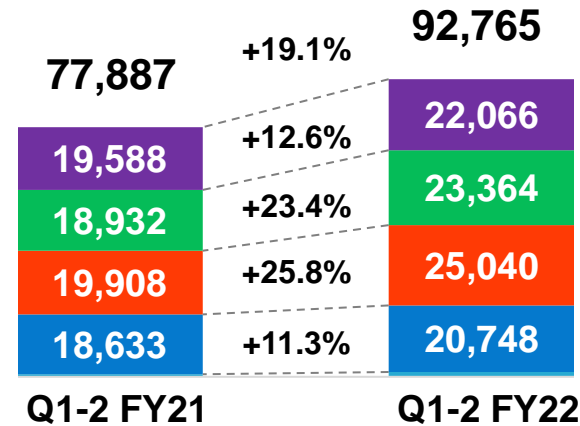# [Reference] Results under the previous accounting policy

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(JPYmn, % to revenue)	Q1-2 FY21 Results (A)		Q1-2 FY22 Results (B)		YoY (B-A)		Q1-2 FY22 Forecast (C)		Compare to Forecast (B-C)	
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Revenue	77,887	100.0%	92,765	100.0%	+14,878	+19.1%	96,000	100.0%	(3,234)	-3.4%
Cost of sales	55,815	71.7%	68,052	73.4%	+12,237	+21.9%	69,500	72.4%	(1,447)	-2.1%
Gross profit	22,071	28.3%	24,713	26.6%	+2,641	+12.0%	26,500	27.6%	(1,786)	-6.7%
SG&A	17,552	22.5%	17,354	18.7%	(197)	-1.1%	18,300	19.1%	(945)	-5.2%
Operating Income	4,518	5.8%	7,358	7.9%	+2,839	+62.8%	8,200	8.5%	(841)	-10.3%
Ordinary Income	4,876	6.3%	7,722	8.3%	+2,846	+58.4%	7,700	8.0%	+22	+0.3%
Profit attributable to owners of parent	3,390	4.4%	4,508	4.9%	+1,118	+33.0%	5,200	5.4%	(691)	-13.3%
Backlog	131,557		161,435		+29,878	+22.7%	-		-	-

Bookings, revenue, and order backlog by sector

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Bookings

(JPYmn)

113,607 +1.3% **115,040**

	Q1-2 FY21		Q1-2 FY22
Enterprise	20,147	+36.6%	27,519
Telecom Carrier	24,949	+2.0%	25,448
Public	42,822	-23.7%	32,656
Partner	24,948	+11.3%	27,764

Revenue

77,887 +19.1% **92,765**

	Q1-2 FY21		Q1-2 FY22
Enterprise	19,588	+12.6%	22,066
Telecom Carrier	18,932	+23.4%	23,364
Public	19,908	+25.8%	25,040
Partner	18,633	+11.3%	20,748

Backlog

131,557 +22.7% **161,435**

	End of Q2 FY21		End of Q2 FY22
Enterprise	26,254	+40.0%	36,756
Telecom Carrier	27,866	+6.3%	29,614
Public	62,696	+13.4%	71,076
Partner	14,613	+62.7%	23,773

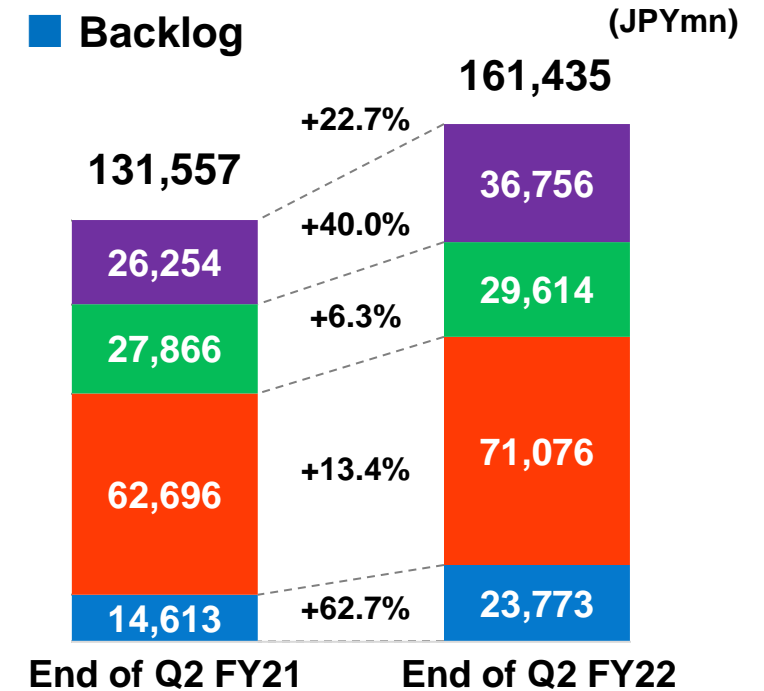| Sector	Description
Enterprise	Performance in the manufacturing industry was strong due to a rebound in investment from automakers and ongoing spending from semiconductor manufacturers. In non-manufacturing industries, business operations associated with service platform and security enhancement (Zero Trust/SASE) remained favorable. In the financial industry, we observed growth in performance generated through the construction of next-generation network systems.
Telecom Carrier	Investment in network enhancement remained robust amid growth in telecommunication volume. In the ISP business, investment in service platform enhancement and digital transformation (carried out through the joint creation of new businesses) grew.
Public	Performance generated through local governments' security cloud and security enhancement projects remained strong despite some decline from the peak achieved during FY21 and some orders recorded ahead of schedule. In terms of universities and research centers, we achieved favorable outcomes through infrastructure renewal projects for universities.
Partner	Results from the network enhancement and security reinforcement business for key partners and the Wi-Fi service business for MSPs were strong.

(Note) The internet service provider (ISP) business has been reclassified from the Enterprise sector to the Telecom Carrier sector, effective from the beginning of FY22. Results for FY21 shown in the graphs above have been adjusted to reflect this change.
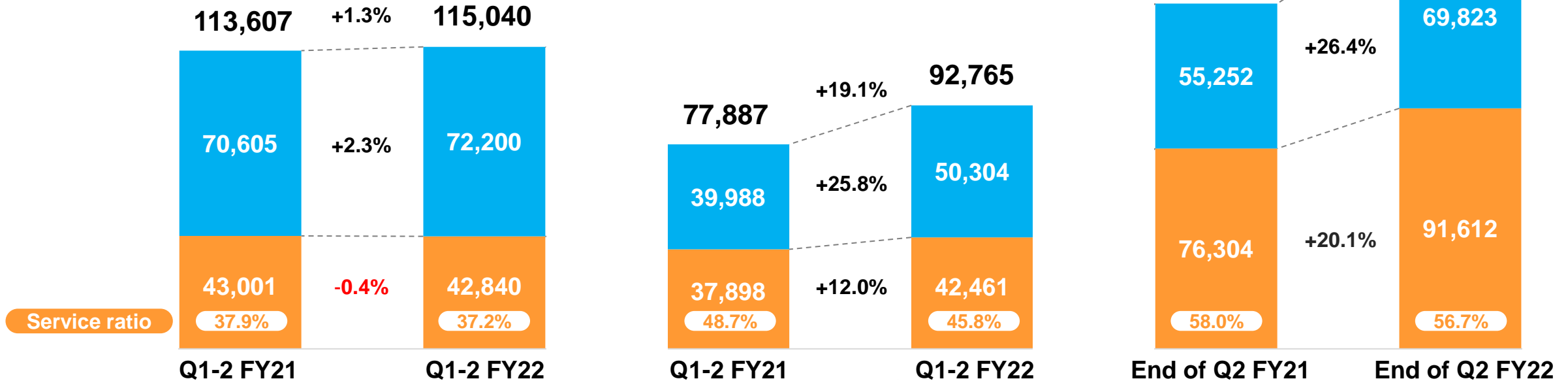
Performance by product category

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■ **Bookings**　　　　　■ **Revenue**　　　　　■ **Backlog**　(JPYmn)

Bookings

113,607	+1.3%	115,040
70,605	+2.3%	72,200
43,001	-0.4%	42,840

Service ratio: 37.9% → 37.2%

Q1-2 FY21　　Q1-2 FY22

Revenue

77,887	+19.1%	92,765
39,988	+25.8%	50,304
37,898	+12.0%	42,461

48.7% → 45.8%

Q1-2 FY21　　Q1-2 FY22

Backlog

131,557	+22.7%	161,435
55,252	+26.4%	69,823
76,304	+20.1%	91,612

58.0% → 56.7%

End of Q2 FY21　　End of Q2 FY22

Product	Bookings increased YoY mainly due to concentrated investment in network enhancement in the Telecom Carrier sector and strong Partner sector. Although some of the effects of longer product delivery times remain, revenue increased YoY due to steady buildup of sales delayed by prolonged delivery time of products.
Service	Bookings increased YoY mainly due to security cloud for local governments in the Public sector and strong Enterprise sector. Revenue increased YoY due to the expansion of each service.

(Note) SaaS (cloud services) was reclassified from product to service from FY22.
In the Q1-2 FY21, SaaS included bookings of JPY2,816mn, revenue of JPY2,081mn, and backlog of JPY1,067mn in the product group.

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Revenue and P/L by reportable segment

(JPYmn)	Reportable segment					Other	Total	Adjustment	Amount recorded in consolidated income statements
	Enterprise	Telecom Carrier	Public	Partner	Sub-total				
Q1-2 FY22 【Result】 Revenue	22,066	23,364	25,040	20,754	91,225	1,624	92,850	(84)	92,765
Segment income	1,773	2,092	1,692	3,187	8,745	41	8,787	(468)	8,319
Segment income margin	8.0%	9.0%	6.8%	15.4%					9.0%
[Reference: the results under the previous accounting policy]									
Revenue	22,066	23,364	25,040	20,754	91,225	1,624	92,850	(84)	92,765
Segment income	1,435	1,938	1,223	3,187	7,785	41	7,826	(468)	7,358
Segment income margin	6.5%	8.3%	4.9%	15.4%					7.9%
Q1-2 FY21 【Previous】 Revenue	19,588	18,932	19,908	18,643	77,072	887	77,959	(72)	77,887
Segment income	1,559	1,482	129	1,753	4,925	(70)	4,855	(336)	4,518
Segment income margin	8.0%	7.8%	0.7%	9.4%					5.8%

(Notes)
1. As described on page 5, the accounting policy has been changed from the FY22. For comparison purposes, the results under the previous accounting policy are shown on the table.
2. The Internet Service Provider (ISP) business was reclassified from the Enterprise sector to the Telecom Carrier sector from FY22. The results for FY21 shown in the table reflected this reclassification.
3. The "Other" segment is not included as a reportable segment. It contains the global business.
4. The adjustment in segment income included corporate expenses not attributable to any reportable segment. Corporate expenses are mainly related to general administrative expenses not attributable to reportable segment.

Consolidated balance sheets

(JPYmn)	Mar. 31, 2022 Results	Sep. 30, 2022 Results	Change	
			Amount	%
Total assets	**161,713**	**170,148**	**+8,434**	**+5.2%**
Current assets	149,334	156,414	+7,079	+4.7%
Cash and deposits + CD·CP	20,281	26,824	+6,543	+32.3%
Notes and accounts receivable-trade	51,362	45,120	(6,242)	-12.2%
Inventory assets	43,928	46,659	+2,730	+6.2%
Other	33,762	37,810	+4,047	+12.0%
Noncurrent assets	12,378	13,733	+1,354	+10.9%
Property, plant and equipment	4,728	5,674	+945	+20.0%
Intangible assets	1,070	1,205	+135	+12.7%
Investment etc.	6,579	6,853	+273	+4.2%
Total liabilities	**93,165**	**96,087**	**+2,921**	**+3.1%**
Current liabilities	77,918	80,929	+3,011	+3.9%
Non-current liabilities	15,247	15,157	(90)	-0.6%
Total net assets	**68,547**	**74,060**	**+5,513**	**+8.0%**
Shareholders' equity	67,406	69,786	+2,379	+3.5%
Accumulated other comprehensive income	956	4,049	+3,093	+323.6%
Subscription rights to shares	168	143	(24)	-14.7%
Non-controlling interests	15	80	+64	+410.7%
Total liabilities and net assets	**161,019**	**170,148**	**+9,128**	**+5.7%**

Exchange rate, EPS, Employees

	Q1-2 FY21	Q1-2 FY22	YoY Amount	%
Exchange rate ($JPY)	109.11	120.99	+11.88	+10.9%
Earnings per share (JPY)	39.98	62.99	+23.01	+57.6%
Dividends per share (JPY)	36.00	37.00	+1.00	+2.8%

(Note) As described on page 5, the accounting policy has been changed from the FY22.
Compared with the previous accounting policy, earnings per share increased by JPY8.11.

	End of Q2 FY21	End of Q2 FY22	YoY Amount	%
Number of employees	2,708	2,759	+51	+1.9%

4 **FY22 Forecast**

FY22 forecast （※no change from the previous forecast）

(JPYmn, % to revenue)	H1		H2		Annual		YoY	
							Amount	%
Bookings	106,000		109,000		215,000		(16,844)	-7.3%
Revenue	96,000	100.0%	114,000	100.0%	210,000	100.0%	+21,479	+11.4%
Operating income	8,200	8.5%	13,800	12.1%	22,000	10.5%	+5,209	+31.0%
Ordinary income	7,700	8.0%	13,300	11.7%	21,000	10.0%	+4,167	+24.8%
Profit attributable to owners of parent	5,200	5.4%	8,800	7.7%	14,000	6.7%	+2,774	+24.7%

FY22 forecast by market sector

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■ **Bookings**　　　　■ **Revenue**　　　　(JPYmn)
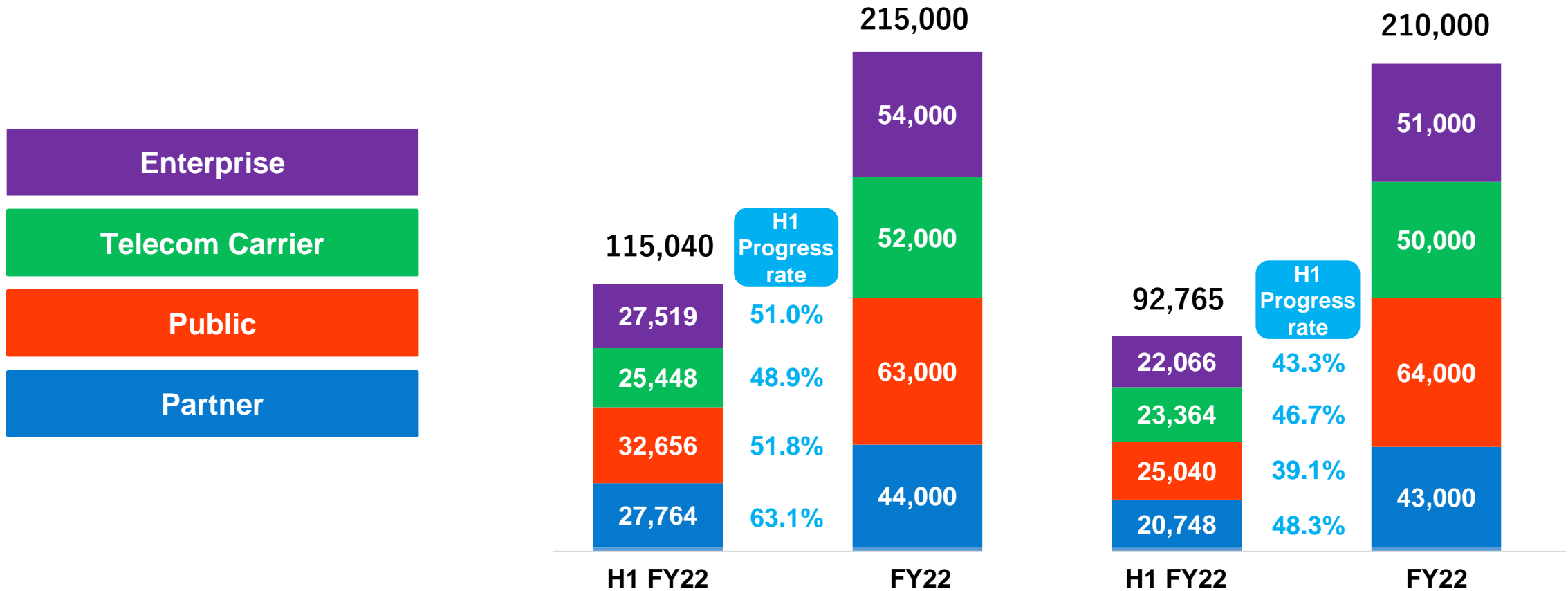
Legend:
- Enterprise (purple)
- Telecom Carrier (green)
- Public (red)
- Partner (blue)

Bookings

215,000

	H1 FY22	H1 Progress rate	FY22
Enterprise	27,519	51.0%	54,000
Telecom Carrier	25,448	48.9%	52,000
Public	32,656	51.8%	63,000
Partner	27,764	63.1%	44,000

H1 FY22 total: **115,040**

Revenue

210,000

	H1 FY22	H1 Progress rate	FY22
Enterprise	22,066	43.3%	51,000
Telecom Carrier	23,364	46.7%	50,000
Public	25,040	39.1%	64,000
Partner	20,748	48.3%	43,000

H1 FY22 total: **92,765**

(Note) The Internet Service Provider (ISP) business was reclassified from the Enterprise sector to the Telecom Carrier sector from FY22. The results for FY21 shown in the figure reflected this reclassification.

5   Progress of medium-term business plan

Medium-term business plan targets

	FY21 results	FY24 target
Revenue	¥188.5 billion	¥226.0 billion
Operating income	¥16.7 billion	¥27.1 billion
Operating margin	8.9%	12.0%
Service ratio	44.5%	55.0%
ROE	15.8%	20.0%

Business model transformation

Sustained growth (Cloud and security)

Transformation for the next era (Integrated service business)

DX and solving social challenges (Accelerating shift to services)

Establish new business areas centered on network technology

Support overall life cycle

Capture new demand and achieve stable growth

Revenue (JPYbn)

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Revenue	142.4	141.5	140.1	153.1	153.3	174.8	186.3	202.1	188.5	210.0	220.0	226.0
Operating margin (%)	2.2	2.7	1.2	3.5	4.5	6.8	8.9	9.7	8.9	10.5	11.2	12.0
Operating income (JPYbn)	3.1	3.7	1.6	5.3	6.9	11.8	16.4	19.6	16.7	22.0	24.6	27.1

Bookings and revenue of focus areas

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Aim for revenue growth of JPY30bn (compared to the FY21) in the three focus areas of high DX demand

Smart manufacturing		Social infrastructure to realize Society 5.0		Digital government	
H1 FY22		**H1 FY22**		**H1 FY22**	
Bookings	Revenue	Bookings	Revenue	Bookings	Revenue
JPY1,500mn	**JPY200mn**	**JPY600mn**	**JPY100mn**	**JPY7,700mn**	**JPY50mn**

H1 bookings results

- Projects for automotive & semiconductor manufacturers
- Proof of concept project for the visualization of power consumption
- Collaborative projects with telecom carriers

- Multi-access edge computing (MEC) hub construction projects for telecom carriers

- Large project of security cloud for local governments (five-year service type)
- VDI projects facilitating the development of telework environments

Activity topics

- Support from the grand design phase
- Smart Glasses
- Use of wireless, enhanced security
- Global expansion

- Edge-computing (MEC)
- Smart building
- Group ICT governance
- Integration of IT services for the entire group

- DX services for local governments
- Strengthen collaboration with cooperative partners
- Activities related to data integration platforms (urban OS, etc.)

Forecast of H2 bookings

- Continue to grow steadily

- Expect to concentrate in Q4

- Slow down but will continue to build up bookings

Sustainability

Material sustainability issues		KPIs		Progress
Achievement of a safe and secure advanced information society	**Providing solutions and services for specific issues and fields**	Revenue from solutions for social issues	2024 target: JPY30.0bn	**(H1 FY22) Revenue of JPY350mn**
	Expanding and promoting service-based businesses	Service ratio	2024 target: 55%	**(H1 FY22) 45.8%**
Success of professional personnel	**Developing human resources for the next generation**	Security personnel	CISSP certification holders 2030 target: 80	**(H1 FY22) 19 (FY22 target: 24)**
			Registered information security specialists 2030 target: 100	**(H1 FY22) 47 (FY22 target: 46)**
		Cloud personnel	Front office departments 2030 target: 50% increase in cloud personnel (232 at end-FY21)	**(H1 FY22) 278 (FY22 target: 239)**
		DX personnel (with certifications in data analysis)	Corporate divisions 2030 target: Increase of 150 employees	**(H1 FY22) 13 (FY22 target: 13)**
			100 operational improvement proposals (target cumulative total over 2022–2030)	**In progress (FY22 results to be disclosed)**
		Development of next-generation ICT personnel	Expansion of next-generation IT personnel development programs through academic–industrial collaboration	**In progress (FY22 results to be disclosed)**
	Promoting diversity and inclusion	Ratio of female executives	2030 target: 15%	**In progress (FY22 results to be disclosed)**
		Percentage of freshly recruited new graduates who are women	2030 target: 50%	**(FY22) 29.4% (FY22 target: 35.5%)**
		Growth in the rate of male employees taking childcare leave and special leave at the time of childbirth	2030 target: 90%	**(H1 FY22) 65.5%**

Sustainability

Material sustainability issues		KPIs		Progress
Contributing to the achievement of a decarbonized society	**Reducing greenhouse gas emissions generated through our business activities**	**Expansion of green solutions**	Development and expansion of solutions and services that assist both customers and society with greenhouse gas emission reduction	**In progress (FY22 results to be disclosed)**
	Reducing emissions stemming from internal operational processes	**Growth in sales of products and services that require less energy consumption**	Reduction of the ratio of CO_2 emissions generated through the procurement and sale of products and services (which account for the majority of CO_2 emissions) to the total monetary values paid or received for the same products and services	**Established emission reduction targets Scope 3 emissions intensity (per unit of revenue): FY22 target: Reduction of 3.5% FY24 target: Reduction of 9.8%**
Maintaining and strengthening a governance system that facilitates sustainable growth	**Fostering an appropriate corporate culture and bolstering internal controls**	**Distribution of annual employee awareness surveys in an effort to foster an appropriate corporate culture**	(*Survey results to be disclosed in the future)	**Conducted for all employees at end-September**
		Progress reports on recurrence prevention measures	Semiannual reports on the Company's website regarding the operational status of recurrence prevention measures	**Operational status details for H1 FY22 disclosed through the Company's website**
	Achieving Health Management®	**Accreditation as a Certified Health & Productivity Management Outstanding Organization**	2024 target: Accreditation as a Certified Health & Productivity Management Outstanding Organization	**In progress (FY22 results to be disclosed)**

Activity topics

Project involvement

Received order for system integration associated with the Kanagawa Security Cloud project

Supported network construction and operation and network security installation while providing functional services focused on scalability and flexibility; used jointly by a total of 34 organizations, including the Kanagawa Prefectural Government and local municipalities
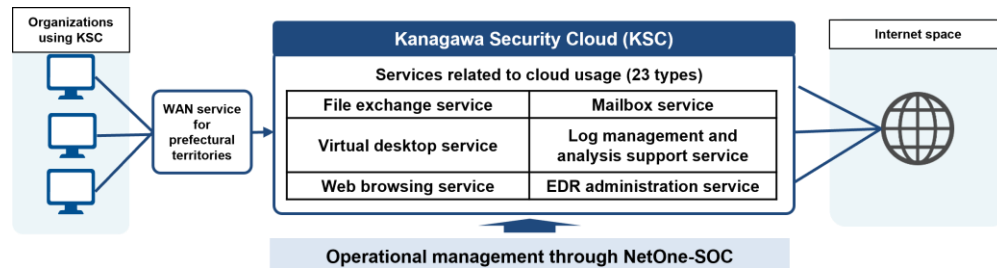

Example of services rendered

Cloud phone system proof-of-concept experiments in furtherance of the Shiojiri City Digital Transformation Strategy

By combining Webex Calling, a cloud-based PBX, and PHONE APPLI PEOPLE, a cloud-based online phone book, we have verified a new form of voice communication that is free from the constraints typically associated with physical working locations. We provided support for the Shiojiri City Digital Transformation Strategy by decreasing reliance on fixed-line telephone systems, which are a major obstacle facing work-style innovation.

Activity topics
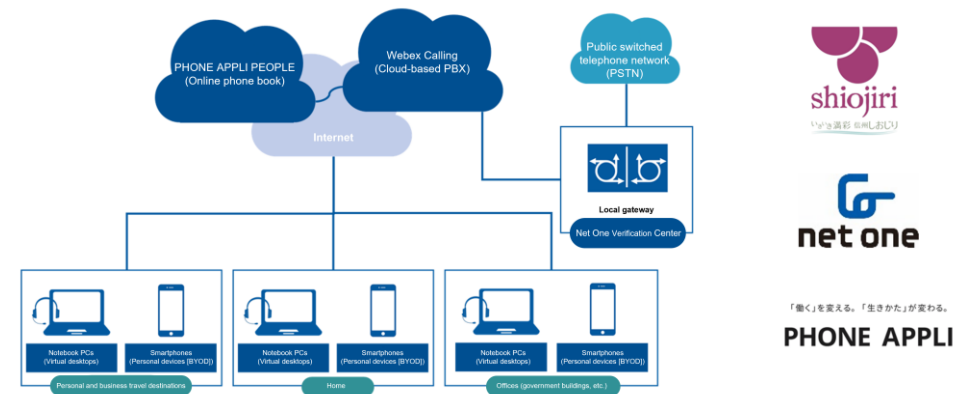
Social contribution

Established the "Net One Systems Study Support Program," thereby helping to provide opportunities for active contribution to society

In support of social contribution programs and SDG No. 4 (Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all), we established a study support system in FY2022 to ensure the stable medium- to long-term development of ICT human resources. Meanwhile, we began providing support to national and public universities that have historically been involved in academic–industrial partnerships.

Net One Systems signed a memorandum of understanding with Hiroshima City University and received letters of appreciation from Kagawa University and Hirosaki University.

Academic–industrial collaboration

Fostered the development of security professionals through classes conducted at Osaka Institute of Technology by representatives from both industrial and academic sectors

NetOne-SOC employees served as lecturers, teaching students about security and associated technologies. Net One Systems is addressing security personnel shortages and helping to shape the career models of students with developmental training for security professionals.

Class content

1. <u>Introduction of operations performed by security analysts</u>
   Introduced duties performed by security analysts, described how they work, and discussed the qualifications they hold

2. <u>Hands-on security training</u>
   Participants acquired the means to prevent, respond to, and analyze server attacks through hands-on exercises.

6 Progress of measures to prevent recurrence

Activities in Q2 FY22
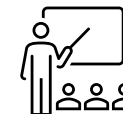
1. Governance reform and promotion	*All measures fully in place or under observation*
2. Enhancement of risk management system	*All measures fully in place or under observation*
3. Strengthening of business execution systems and other internal systems	*All measures fully in place or under observation*
4. Radical revisions to our auditing system	*All measures fully in place or under observation*
5. System for collecting employee feedback	*All measures fully in place or under observation*
6. Reform and creation of organizational culture	*All measures fully in place or under observation*
7. Accounting literacy education and training and instruction based on prior examples of misconduct	*All measures fully in place or under observation*
8. Ongoing monitoring	*All measures fully in place or under observation*

(Note) Please refer to our release entitled "Additional Measures to Prevent Recurrence" dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures.
All measures have been completed in Q1 FY22, but we will continue to work on improvement activities through ongoing monitoring.

Progress of measures to prevent recurrence (July 2022)

Progress

1. Governance reform and promotion	• Held more effective opinion exchange forums to strengthen communication in addition to the existing compliance training **(1.(1)-b, 1.(4)-b)** • Continued to disseminate messages to employees with enhanced frequency and quality, including distribution of messages from top management **(1.(3)-a)**
2. Enhancement of risk management system	• Continued internal sharing of risks that have emerged through the portal dedicated to risk information **(2.(2)-d)** • Continued collaboration with the Governance and Corporate Culture Advisory Committee, which was created in April 2022 after reorganizing the Internal Control Enhancement Council **(2.(2)-e)**
3. Strengthening of business execution systems and other internal systems	• Continued holding various periodic joint meeting with the first, 1.5th, and second lines of defense to share information across divisions and strengthen the business execution system **(3.(1)-a, 3.(2)-a)**
4. Radical revisions to our auditing system	• The Internal Audit Office reviewed internal audit items based on risk identification and evaluation results, and started internal audits for each organization **(4.(1)-b)**
5. System for collecting employee feedback	• Introduced a whistleblower platform that enables anonymous two-way communication through a common point of contact for all Group companies, and provided awareness and training to communicate the purpose and necessity of the platform **(5.(1)-a)** • Currently promoting improvement activities based on feedback gained through the feedback system utilizing third-party points of contact **(5.(2)-a)**
6. Reform and creation of organizational culture	• Recruited and confirmed planning and management members for activities to promote corporate philosophy in FY22 to reform organizational culture, and members are currently reviewing plans for promotion activities **(6.(2)-b/c/d)**
7. Accounting literacy education and training and instruction based on prior examples of misconduct	• Currently promoting more advanced accounting literacy and accounting knowledge training that builds on the training provided in FY21 **(7.(1)-a)** • Held business rule briefings and workshops on learning from previous mistakes or failures, and shared examples of mistakes or failures **(7.(3)-a)**
8. Ongoing monitoring	• The Governance and Corporate Culture Advisory Committee continuously monitored and provided guidance on internal improvement activities to prevent recurrence, strengthen internal controls, and reform corporate culture **(8.(1)-a)**

(Note) Please refer to our release entitled "Additional Measures to Prevent Recurrence" dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures (in blue).

Progress of measures to prevent recurrence (August 2022)

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Progress

1. Governance reform and promotion
- Held more effective opinion exchange forums to strengthen communication in addition to the existing compliance training **(1.(1)-b, 1.(4)-b)**
- Continued to disseminate messages to employees with enhanced frequency and quality, including distribution of messages from top management **(1.(3)-a)**

2. Enhancement of risk management system
- Continued internal sharing of risks that have emerged through the portal dedicated to risk information **(2.(2)-d)**
- Continued collaboration with the Governance and Corporate Culture Advisory Committee, which was created in April 2022 after reorganizing the Internal Control Enhancement Council **(2.(2)-e)**

3. Strengthening of business execution systems and other internal systems
- Continued holding various periodic joint meeting with the first, 1.5th, and second lines of defense to share information across divisions and strengthen the business execution system **(3.(1)-a, 3.(2)-a)**

4. Radical revisions to our auditing system
- Established an internal control assessment plan compliant with the Financial Instruments and Exchange Act (J-SOX) for FY22 and began updating internal control-related documents **(4.(3)-a)**
- Contents of internal audits have been reviewed and organization-specific internal audits are underway **(4.(1)-b)**
- Held regular meetings to facilitate the exchange of views between the outside executive director (full-time Audit & Supervisory Committee member) and inside executive directors **(4.(4)-a)**

5. System for collecting employee feedback
- Introduced a whistleblower platform that enables anonymous two-way communication through a common point of contact for all Group companies, and provided awareness and training to communicate the purpose and necessity of the platform **(5.(1)-a)**
- Currently promoting improvement activities based on feedback gained through the feedback system utilizing third-party points of contact **(5.(2)-a)**

6. Reform and creation of organizational culture
- Recruited and confirmed planning and management members for activities to promote corporate philosophy in FY22 to reform organizational culture, and members initiated some plans for promotion activities **(6.(2)-b/c/d)**

7. Accounting literacy education and training and instruction based on prior examples of misconduct
- Currently promoting more advanced accounting literacy and accounting knowledge training that builds on the training provided in FY21 **(7.(1)-a)**
- Held business rule briefings and workshops on learning from previous mistakes or failures, and shared examples of mistakes or failures **(7.(3)-a)**

8. Ongoing monitoring
- As part of monitoring activities conducted by the Governance and Corporate Culture Advisory Committee, interviews with employees were conducted with the goal of obtaining suggestions that would improve and strengthen recurrence prevention measures **(8.(1)-a)**

(Note) Please refer to our release entitled "Additional Measures to Prevent Recurrence" dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures (in blue).

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Progress of measures to prevent recurrence (September 2022)

Progress

1. Governance reform and promotion
- Held more effective opinion exchange forums to strengthen communication in addition to the existing compliance training **(1.(1)-b, 1.(4)-b)**
- Continued to disseminate messages to employees with enhanced frequency and quality, including distribution of messages from top management **(1.(3)-a)**

2. Enhancement of risk management system
- Continued internal sharing of risks that have emerged through the portal dedicated to risk information **(2.(2)-d)**
- Continued collaboration with the Governance and Corporate Culture Advisory Committee, which was created in April 2022 after reorganizing the Internal Control Enhancement Council **(2.(2)-e)**

3. Strengthening of business execution systems and other internal systems
- Continued holding various periodic joint meeting with the first, 1.5th, and second lines of defense to share information across divisions and strengthen the business execution system **(3.(1)-a, 3.(2)-a)**

4. Radical revisions to our auditing system
- FY22 internal control assessment plan compliant with J-SOX was established, and internal control-related documents are currently being updated **(4.(3)-a)**
- Organization-specific internal audits remain underway **(4.(1)-b)**
- Held regular meetings to facilitate the exchange of views between the outside executive director (full-time Audit & Supervisory Committee member) and inside executive directors; began allowing outside executive directors who are not Audit & Supervisory Committee members to participate as observers **(4.(4)-a)**

5. System for collecting employee feedback
- Introduced a whistleblower platform that enables anonymous two-way communication through a common point of contact for all Group companies, and provided awareness and training to communicate the purpose and necessity of the platform **(5.(1)-a)**
- Currently promoting improvement activities based on feedback gained through the feedback system utilizing third-party points of contact **(5.(2)-a)**

6. Reform and creation of organizational culture
- Recruited and confirmed planning and management members for activities to promote corporate philosophy in FY22 to reform organizational culture, and members initiated some plans for promotion activities **(6.(2)-b/c/d)**

7. Accounting literacy education and training and instruction based on prior examples of misconduct
- Currently promoting more advanced accounting literacy and accounting knowledge training that builds on the training provided in FY21 **(7.(1)-a)**
- Held business rule briefings and workshops on learning from previous mistakes or failures, and shared examples of mistakes or failures **(7.(3)-a)**

8. Ongoing monitoring
- As part of monitoring activities conducted by the Governance and Corporate Culture Advisory Committee, the committee implemented suggestions for improving and strengthening recurrence prevention measures that were obtained through employee interviews **(8.(1)-a)**

(Note) Please refer to our release entitled "Additional Measures to Prevent Recurrence" dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures (in blue).

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