



# Results for Q1 FY23

## Ended June 30, 2023

Net One Systems Co., Ltd.

August 3, 2023 (Stock Code 7518: JP)

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## Summary

# Q1 overview, Q2 outlook, and measures to improve profitability

[Q1 overview] Bookings and revenue were firm, but operating income declined due to a decrease in the GPM and an increase in SG&A

[Q2 outlook] Revenue is expected to remain steady (expected to decrease in YoY). Bookings are expected to be weighted toward Q4 with some backwardation. Operating income is expected to improve along with gross profit margin

[Measures to improve profitability] Optimizing the overall provision prices

	Q1 overview		Q2 outlook
	FY22 Q1 results	FY23 Q1 results	
Bookings	JPY59.2bn	JPY50.0bn	<ul style="list-style-type: none"> <li>● We expect some of our customers' order timing to be pushed back due to improved product delivery times</li> <li>● Expected to be weighted toward Q4</li> </ul>
Revenue	JPY36.5bn	JPY42.5bn	<ul style="list-style-type: none"> <li>● Expected to remain steady</li> <li>● On the other hand, revenue is expected to decrease YoY due to the concentration of sales from delayed projects in FY22 Q2</li> </ul>
Operating income	JPY2.7bn	JPY1.6bn	<ul style="list-style-type: none"> <li>● Gross profit margin: -3.4pts YoY                             <ul style="list-style-type: none"> <li>✓ Product GPM: -4.1pts YoY                                     <ul style="list-style-type: none"> <li>• decreased due to the foreign exchange impact on the partner segment (positive effect in FY22 Q1, negative effect in FY23 Q1)</li> </ul> </li> <li>✓ Service GPM: -2.0pts YoY                                     <ul style="list-style-type: none"> <li>• decreased due to a portion of the cost increase in vendor support remained unpassed</li> </ul> </li> <li>✓ Service ratio: -3.9pts YoY                                     <ul style="list-style-type: none"> <li>• decreased due to the product sales were delayed in the FY22 Q1, and product delivery times improved in the FY23 Q1</li> </ul> </li> </ul> </li> <li>● SG&amp;A: +JPY1.3bn YoY                             <ul style="list-style-type: none"> <li>✓ increased in personnel expenses, equipment expenses, and office expenses</li> </ul> </li> </ul>

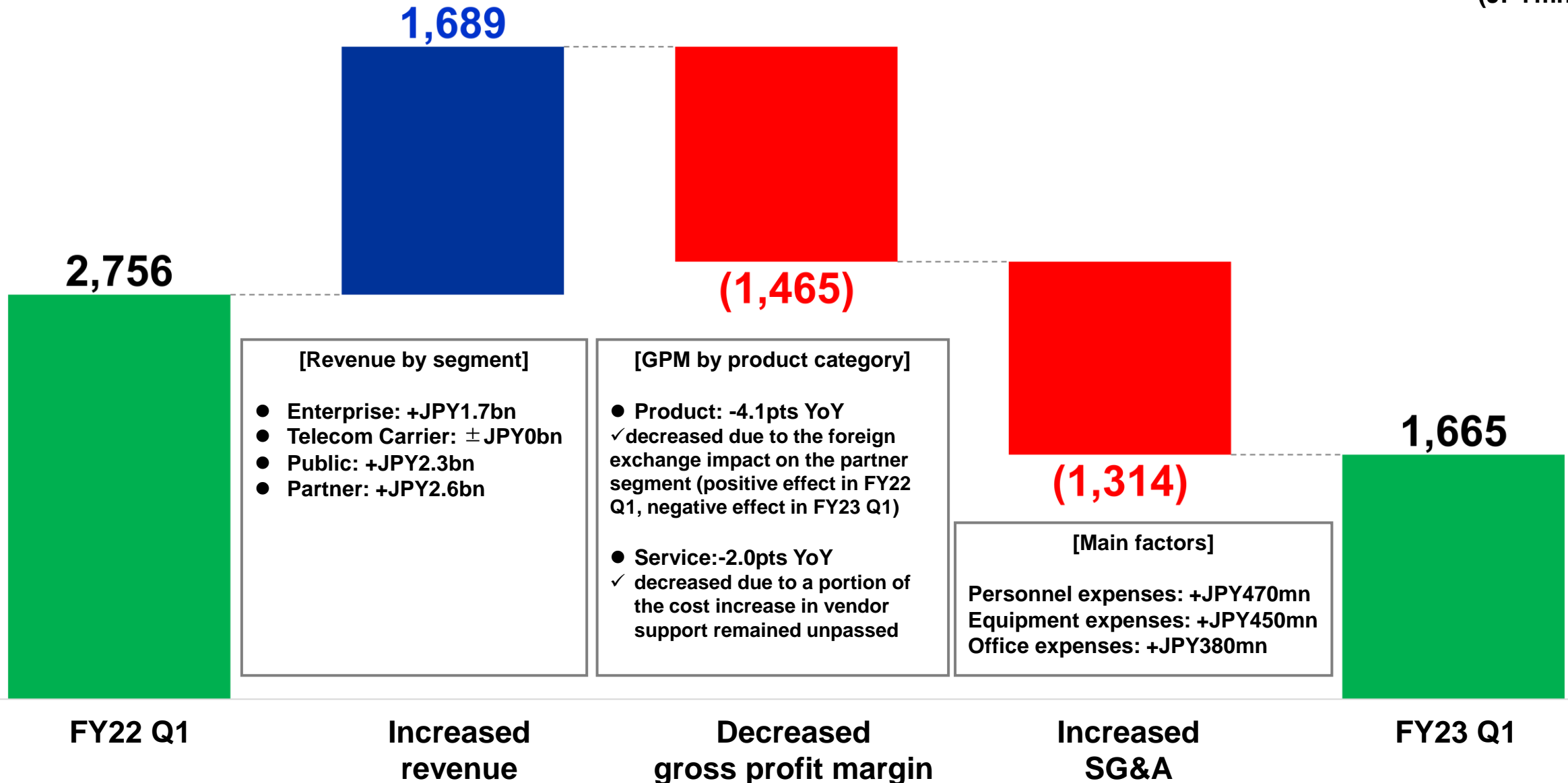
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## Q1 FY23(Apr.-Jun. 3 months) results

# Summary of Q1 FY23(Apr.-Jun. 3 months) results

(JPYmn)	FY22 Q1		FY23 Q1		YoY		
	Amount	%	Amount	%	Amount	%	
Bookings	59,252		50,000		(9,251)	-15.6%	Decreased due to the absence of two large product projects in FY22 Q1 (total JPY10.8bn), out of which JPY9.0bn was decreased
Backlog	161,901		156,478		(5,422)	-3.3%	<ul style="list-style-type: none"> <li>✓ Telecom Carrier: -JPY5.8bn</li> <li>✓ Partner: -JPY3.2bn</li> </ul>
Revenue	36,511	100.0%	42,588	100.0%	+6,077	+16.6%	Increased due to improved product delivery times <ul style="list-style-type: none"> <li>✓ Enterprise: +JPY1.7bn, Telecom Carrier: ±JPY0bn, Public: +JPY2.3bn, Partner: +JPY2.6bn</li> </ul>
Cost of sales	26,363	72.2%	32,217	75.6%	+5,853	+22.2%	Gross profit margin: -3.4pts YoY <ul style="list-style-type: none"> <li>✓ Product: -4.1pts YoY               <ul style="list-style-type: none"> <li>• decreased due to the foreign exchange impact on the partner segment (positive effect in FY22 Q1, negative effect in FY23 Q1)</li> </ul> </li> <li>✓ Service: -2.0pts YoY               <ul style="list-style-type: none"> <li>• decreased due to a portion of the cost increase in vendor support remained unpassed</li> </ul> </li> <li>✓ Service ratio: -3.9pts YoY               <ul style="list-style-type: none"> <li>• decreased due to the products sales were delayed in the FY22 Q1, and product delivery times improved in the FY23 Q1</li> </ul> </li> </ul>
Gross profit	10,147	27.8%	10,371	24.4%	+223	+2.2%	
SG&A	7,391	20.2%	8,706	20.4%	+1,314	+17.8%	Personnel expenses: +JPY470mn, Equipment expenses: +JPY450mn, Office expenses: +JPY380mn
Operating income	2,756	7.5%	1,665	3.9%	(1,090)	-39.6%	Analysis of the increase/decrease YoY is provided on the next page
Ordinary income	3,056	8.4%	1,502	3.5%	(1,553)	-50.8%	FY22 Q1 foreign exchange gains: JPY350mn, FY23 Q1 foreign exchange losses: JPY50mn
Profit attributable to owners of parent	1,470	4.0%	1,014	2.4%	(455)	-31.0%	
Earnings per share (JPY)	17.90		12.34		(5.56)	-31.1%	

# Operating income analysis



# Bookings and backlog by segment

(JPYmn)		FY22 Q1		FY23 Q1		YoY		
						Amount	%	
Enterprise	Bookings	12,997		11,522		(1,475)	-11.3%	<ul style="list-style-type: none"> <li>● Manufacturing sector: we won security and smart manufacturing projects, mainly from automakers and electronics manufacturers</li> <li>● Non-manufacturing sector: we won a large SASE project</li> <li>● Financial sector: despite some weakness, we winning ongoing projects for cloud utilization and security enhancements</li> <li>● Service ratio: increased due to an increase in focused services and maintenance services</li> </ul>
	Service (%)	6,750	51.9%	6,823	59.2%	+72	+1.1%	
	Backlog	35,442		37,916		+2,474	+7.0%	
Telecom Carrier	Bookings	15,006		8,825		(6,180)	-41.2%	<ul style="list-style-type: none"> <li>● Absence of a large product project in FY22 Q1: -JPY5.8bn</li> <li>● Continue to expand co-creation business for corporate clients</li> <li>● Service ratio: increased due to the absence of a large product project in FY22 Q1</li> </ul>
	Service (%)	3,384	22.6%	3,170	35.9%	(214)	-6.3%	
	Backlog	33,658		29,977		(3,681)	-10.9%	
Public	Bookings	14,992		18,920		+3,927	+26.2%	<ul style="list-style-type: none"> <li>● Municipality: we won several large DX projects, including work style reforms, cloud utilization, and security measures</li> <li>● Social infrastructure: increased due to upgrade IT operations project of the electric power group, etc.</li> <li>● Healthcare: we won a large cloud infrastructure project</li> <li>● Service ratio: decreased due to the absence of a large service-type project in FY22 Q1. On the other hand, focused services and maintenance services were increased</li> </ul>
	Service (%)	9,653	64.4%	9,382	49.6%	(271)	-2.8%	
	Backlog	68,815		70,173		+1,357	+2.0%	
Partner	Bookings	15,487		10,756		(4,731)	-30.5%	<ul style="list-style-type: none"> <li>● Absence of a large product project (Wi-Fi service business for MSPs) in FY22 Q1: -JPY3.2bn</li> <li>● Major partner: maintained high levels in network and security projects</li> <li>● Some orders from several partners have been pushed back due to improved product delivery times</li> <li>● Service ratio: increased due to an increase in maintenance services and a drop in equipment projects.</li> </ul>
	Service (%)	1,718	11.1%	2,135	19.8%	+416	+24.2%	
	Backlog	23,788		18,411		(5,377)	-22.6%	

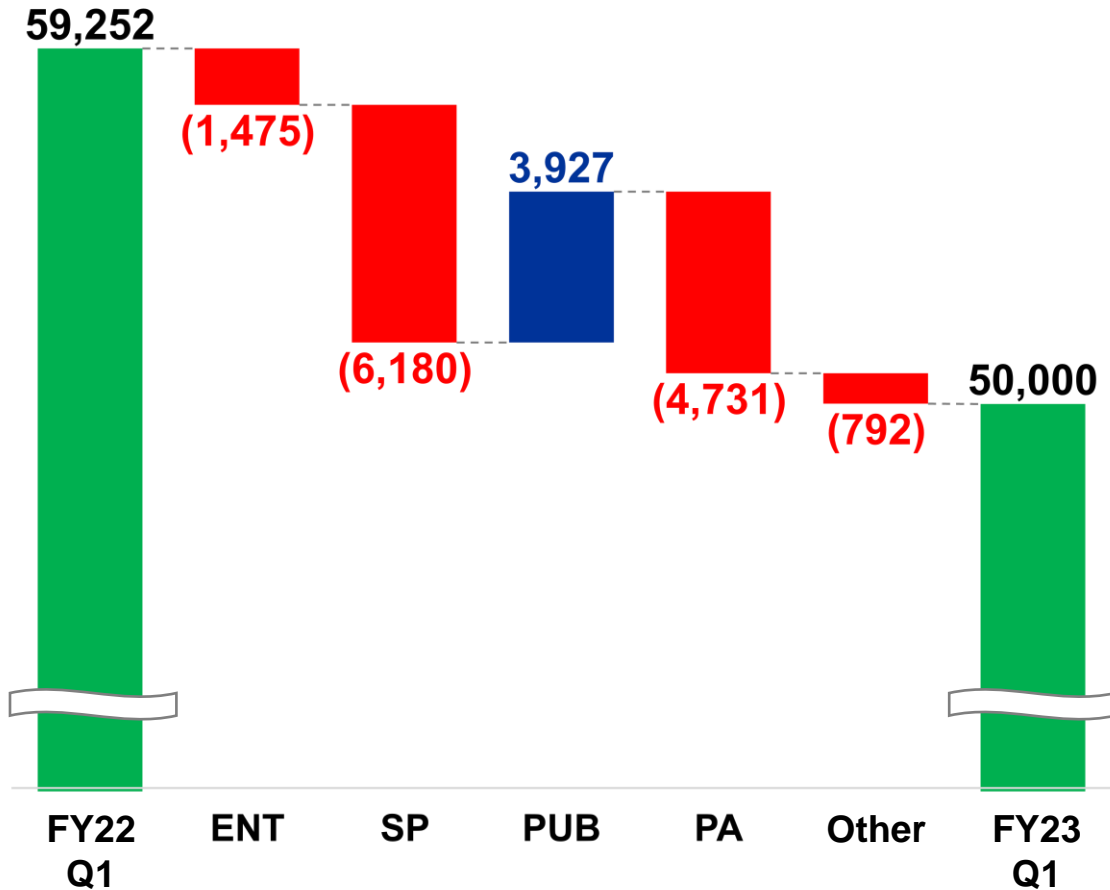


# Revenue, gross profit, and operating income by segment

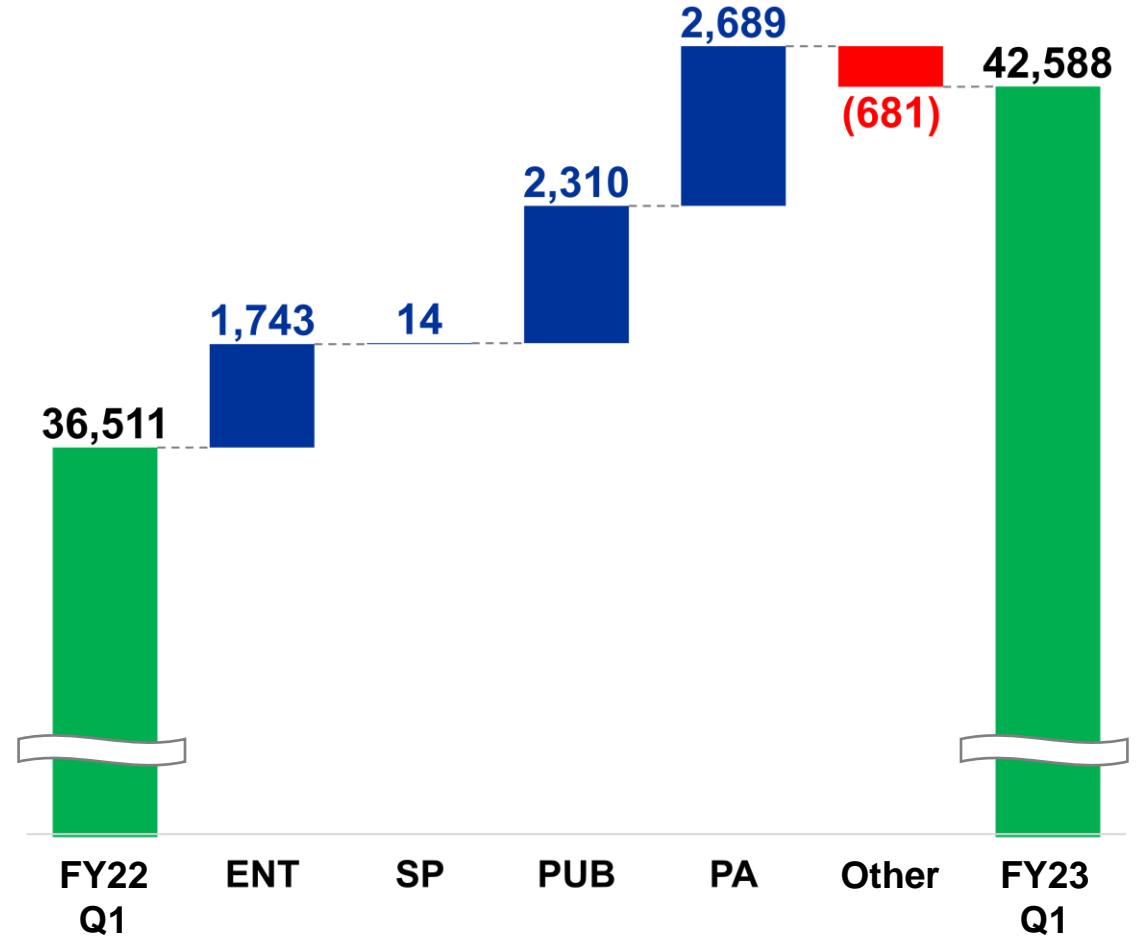
(JPYmn)		FY22 Q1		FY23 Q1		YoY		
						Amount	%	
Enterprise	Revenue	8,858		10,601		+1,743	+19.7%	<ul style="list-style-type: none"> <li>● Revenue: increased due to improved product delivery times ✓ increased mainly in the manufacturing and financial sectors</li> <li>● Gross profit margin: -1.0pts YoY ✓ decreased due to the service ratio declining YoY due to delayed product sales in Y22 Q1 and improved product delivery times in FY23 Q1</li> </ul>
	Service (%)	6,614	74.7%	6,407	60.4%	(207)	-3.1%	
	Gross profit (%)	2,623	29.6%	3,036	28.6%	+412	+15.7%	
	Operating income (%)	503	5.7%	509	4.8%	+6	+1.3%	
Telecom Carrier	Revenue	8,878		8,892		+14	+0.2%	<ul style="list-style-type: none"> <li>● Revenue: almost the same level YoY</li> <li>● Gross profit margin: +0.8pts YoY ✓ service ratio improved</li> </ul>
	Service (%)	4,436	50.0%	4,871	54.8%	+434	+9.8%	
	Gross profit (%)	2,022	22.8%	2,102	23.6%	+79	+3.9%	
	Operating income (%)	702	7.9%	569	6.4%	(132)	-18.9%	
Public	Revenue	9,637		11,947		+2,310	+24.0%	<ul style="list-style-type: none"> <li>● Revenue: increased due to improved product delivery times ✓ increased mainly at universities</li> <li>● Gross profit margin: -4.2pts YoY ✓ decreased due to the service ratio declining YoY due to delayed product sales in Y22 Q1 and improved product delivery times in FY23 Q1</li> </ul>
	Service (%)	6,507	67.5%	7,399	61.9%	+892	+13.7%	
	Gross profit (%)	2,822	29.3%	3,002	25.1%	+179	+6.4%	
	Operating income (%)	372	3.9%	248	2.1%	(124)	-33.3%	
Partner	Revenue	8,461		11,146		+2,689	+31.8%	<ul style="list-style-type: none"> <li>● Revenue: increased due to improved product delivery times ✓ increased at most of the partners</li> <li>● Gross profit margin: -11.4pts YoY ✓ in FY22 Q1, GPM increased due to the positive impact of foreign exchange rates. On the other hand, foreign exchange effects had a negative impact in FY23 Q1, resulting in a decrease in GPM</li> </ul>
	Service (%)	1,737	20.5%	2,273	20.4%	+536	+30.9%	
	Gross profit (%)	2,309	27.3%	1,771	15.9%	(538)	-23.3%	
	Operating income (%)	1,364	16.1%	769	6.9%	(594)	-43.6%	

# Bookings and revenue: YoY changes by segment

## Bookings



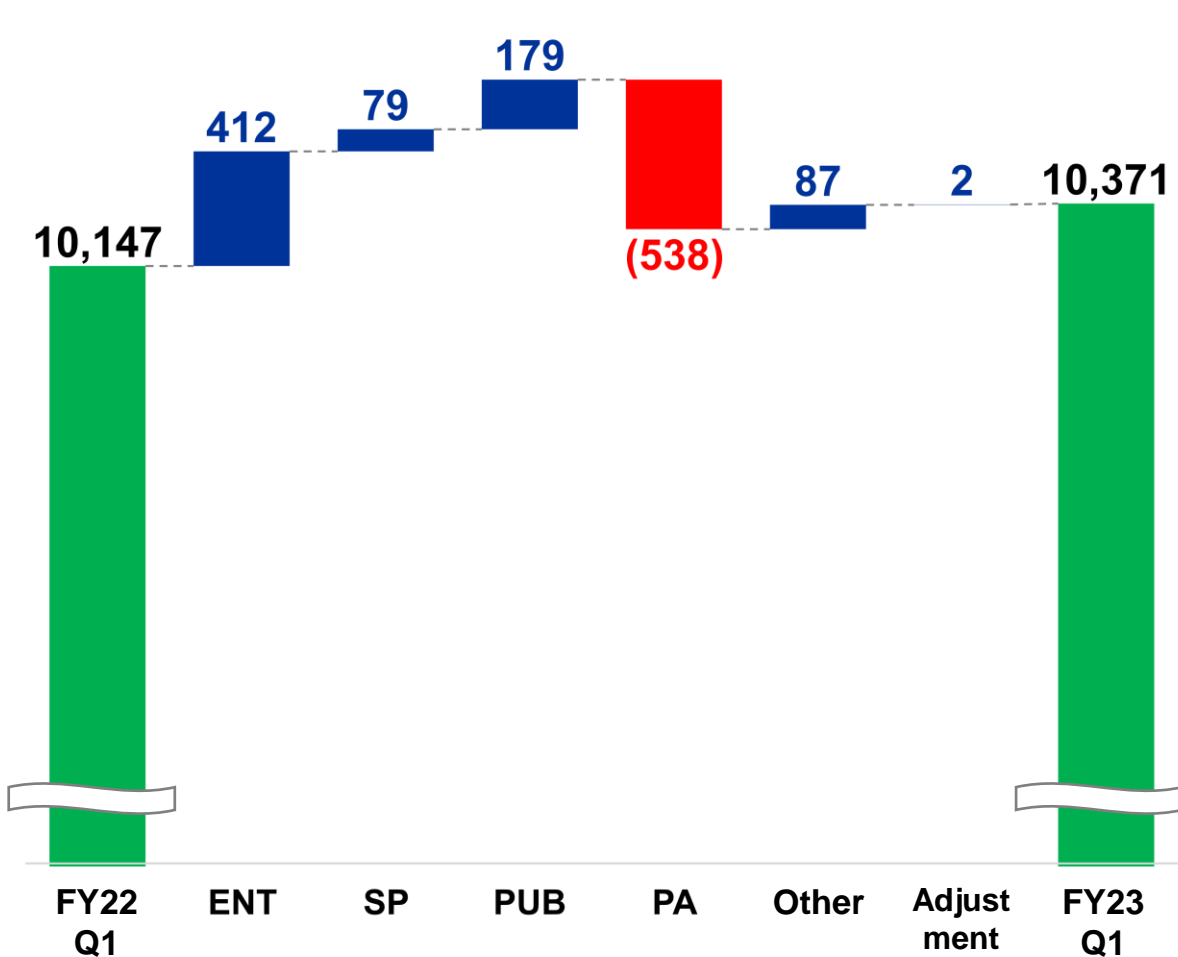
## Revenue



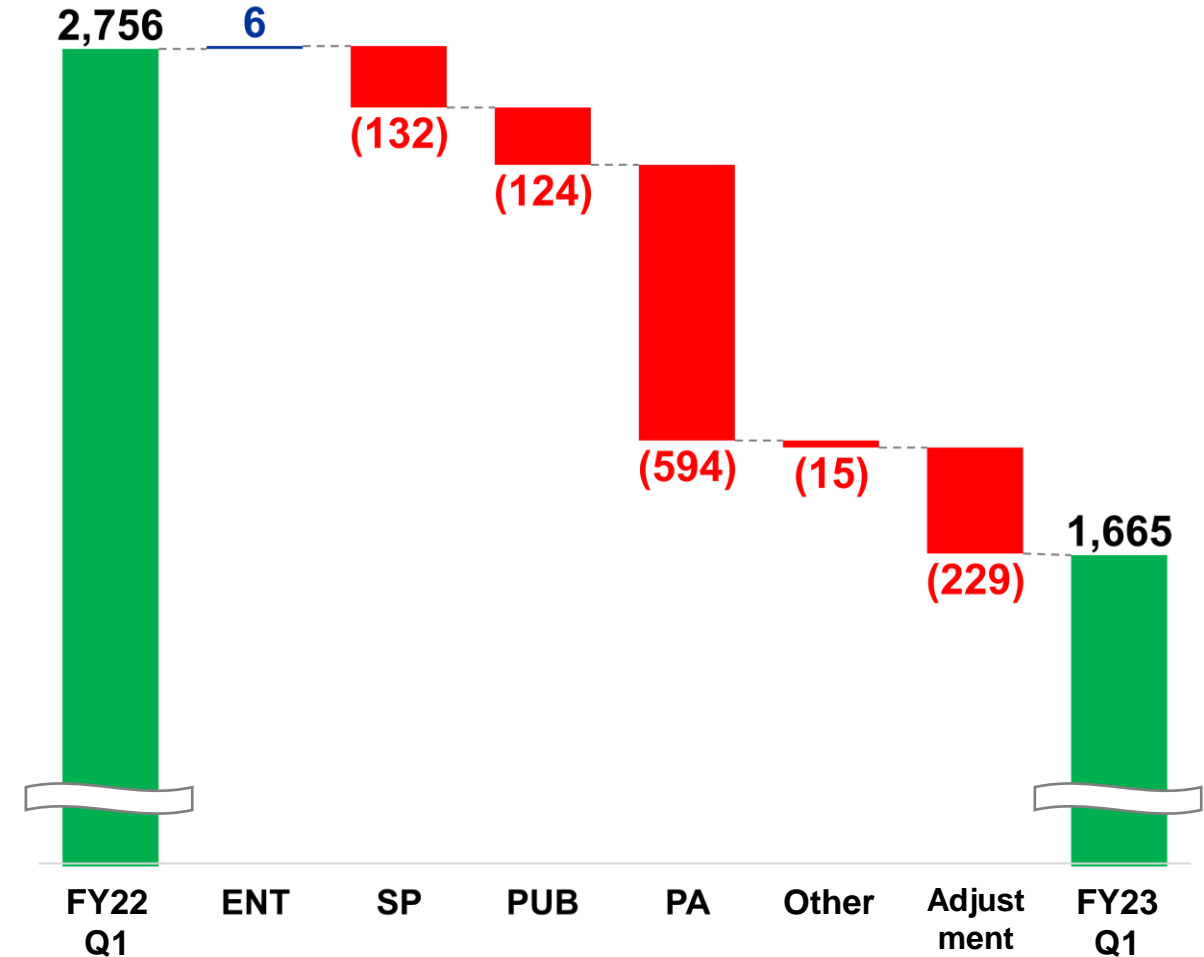
# Gross profit and operating income: YoY changes by segment

(JPYmn)

## Gross profit



## Operating income



# Bookings, backlog, revenue, and gross profit by product category

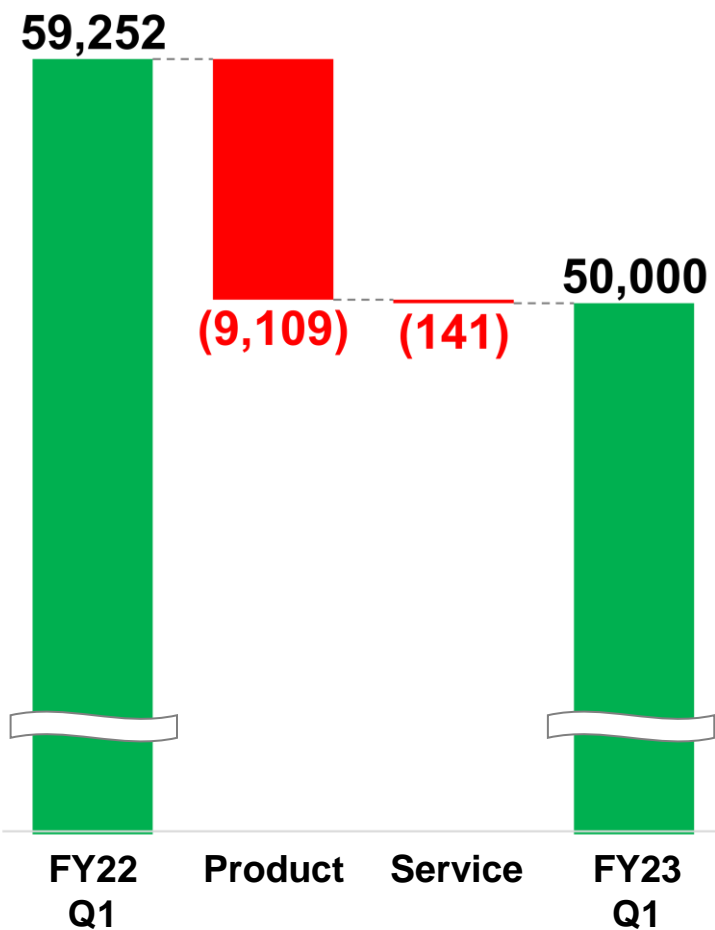
[Service ratio] bookings: 43.0% (+6.5pts), revenue: 49.2% (-3.9pts), backlog: 62.7% (+5.0pts)

(JPYmn)	FY22 Q1		FY23 Q1		YoY		
	Amount	%	Amount	%	Amount	%	
Product	Bookings	37,623	28,514		(9,109)	-24.2%	<ul style="list-style-type: none"> <li>● Bookings: decreased due to the absence of two large product projects in FY22 Q1 (total JPY10.8bn), out of which JPY9.0bn was decreased</li> </ul>
	Backlog	68,437	58,338		(10,098)	-14.8%	
	Revenue	17,115	21,635		+4,520	+26.4%	<ul style="list-style-type: none"> <li>● Revenue: increased due to improved product delivery times</li> <li>● Gross profit margin: -4.1pts YoY                             <ul style="list-style-type: none"> <li>✓ in the partner segment, in FY22 Q1, GPM increased due to the positive impact of foreign exchange, on the other hand, foreign exchange effects had a negative impact in FY23 Q1, resulting in a decrease in GPM</li> </ul> </li> </ul>
	Gross profit (%)	3,920	22.9%	4,057	18.8%	+136	
Service	Bookings	21,628	21,486		(141)	-0.7%	<ul style="list-style-type: none"> <li>● Bookings: despite the absence of a large service-type project (for a municipality) in FY22 Q1, bookings remained at the same level due to an increase in managed services and maintenance services</li> </ul>
	Backlog	93,464	98,140		+4,675	+5.0%	
	Revenue	19,396	20,953		+1,556	+8.0%	<ul style="list-style-type: none"> <li>● Revenue: increased due to improved product delivery times</li> <li>● Gross profit margin: -2.0pts YoY                             <ul style="list-style-type: none"> <li>✓ decreased due to a portion of the cost increase in vendor support remained unpassed</li> </ul> </li> </ul>
	Gross profit (%)	6,227	32.1%	6,314	30.1%	+87	

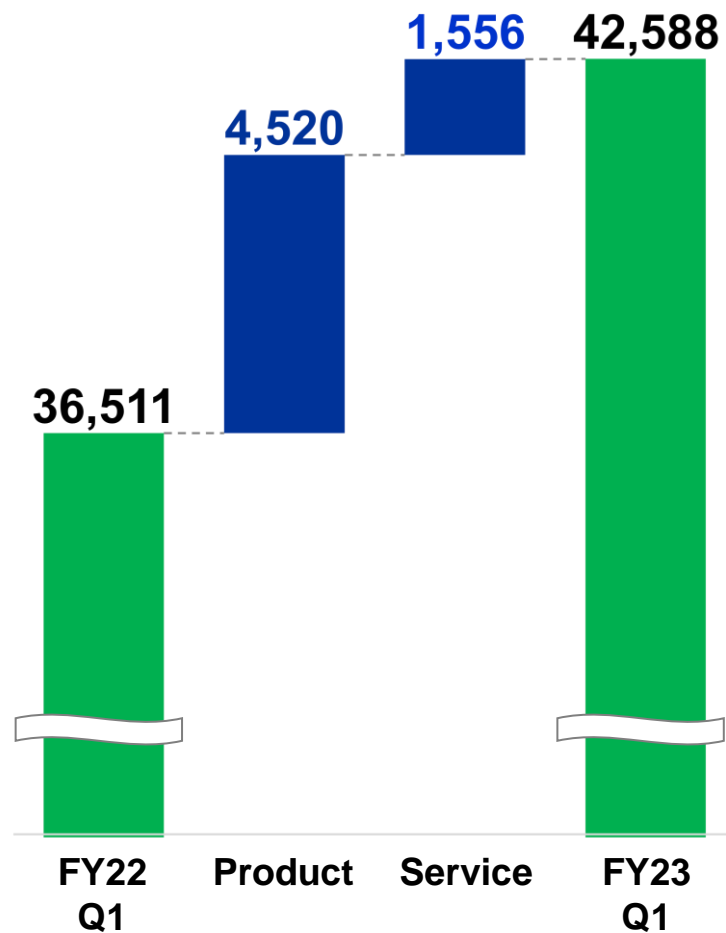
# Bookings, revenue, and gross profit: YoY changes by product category

(JPYmn)

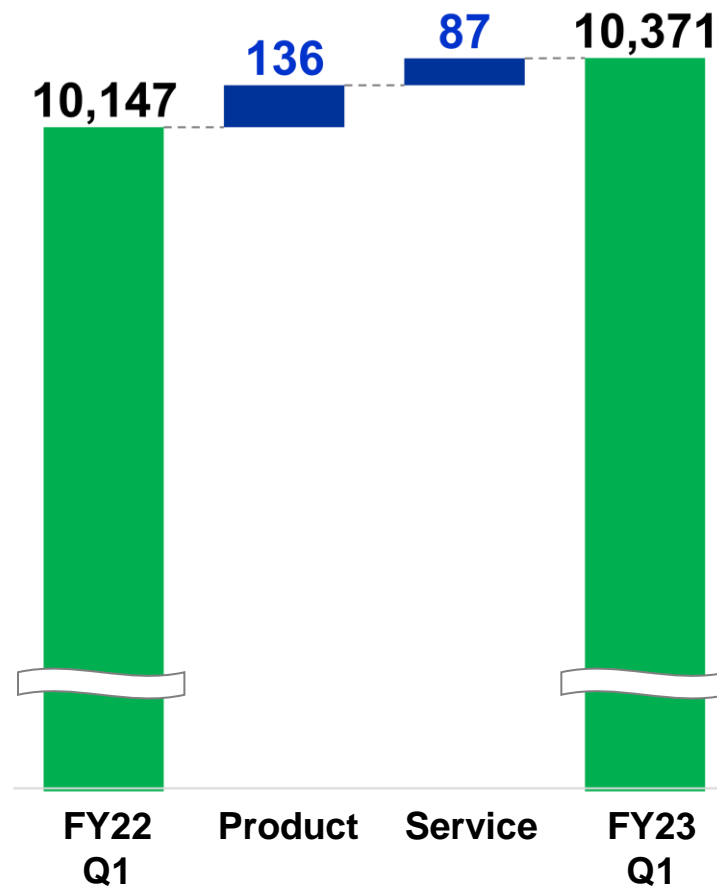
## Bookings



## Revenue



## Gross profit



# Bookings and revenue by focus areas

		FY22 Q1	FY23 Q1	Booking trends
Smart manufacturing	Bookings	JPY 900mn	JPY 1,100mn	<p>Investments related to EVs and semiconductors continued. In addition to expanding business in the manufacturing sector, we have been promoting business creation with R&amp;D departments and strategic partners. In addition, requests for network and data infrastructure to visualize power consumption per production line[GX] are increasing.</p> <ul style="list-style-type: none"> <li>● Project examples                             <ul style="list-style-type: none"> <li>✓ Factory security (network isolation, assessment services, etc.)</li> <li>✓ Factory wireless networks</li> <li>✓ Local 5G verification (for smart glasses [digital twin] and AGVs)</li> </ul> </li> </ul>
	Revenue	JPY 80mn	JPY 1,800mn	
Digitalization of social infrastructure to realize Society 5.0	Bookings	JPY 40mn	JPY 4,700mn	<p>We have been continuing to promote DX projects for society, in the electricity and gas, railroad, healthcare, construction, finance, and ICT sectors.</p> <ul style="list-style-type: none"> <li>● Project examples                             <ul style="list-style-type: none"> <li>✓ Electric power group: upgrade IT operations</li> <li>✓ Real estate: SASE</li> <li>✓ Healthcare: cloud infrastructure</li> </ul> </li> </ul>
	Revenue	JPY 30mn	JPY 1,000mn	
Digital government	Bookings	JPY 3,500mn	JPY 6,000mn	<p>We won several large DX projects, such as work style reforms, cloud utilization, and security measures. We are also accelerating our proposals in anticipation of Next-GIGA(use of cloud-based digital teaching materials) in the next fiscal year and the Government Cloud connection in the year after next.</p> <ul style="list-style-type: none"> <li>● Project examples                             <ul style="list-style-type: none"> <li>✓ Large-scale infrastructure integrating work style reform, cloud utilization, and security measures</li> <li>✓ Security enhancement projects (network isolation)</li> </ul> </li> </ul>
	Revenue	JPY 0mn	JPY 600mn	

# Consolidated balance sheets

(JPYmn)	Mar. 31, 2023 Results	Jun. 30, 2023 Results	Change		
			Amount	%	
<b>Total assets</b>	<b>178,651</b>	<b>174,996</b>	<b>(3,655)</b>	<b>-2.0%</b>	
<b>Current assets</b>	<b>161,106</b>	<b>157,926</b>	<b>(3,180)</b>	<b>-2.0%</b>	
Cash and deposits	35,509	36,183	+674	+1.9%	
Notes and accounts receivable-trade	51,383	33,109	(18,274)	-35.6%	
Inventory assets	37,903	43,683	+5,780	+15.3%	Costs on uncompleted construction contracts: +5,500
Other	36,310	44,950	+8,639	+23.8%	Prepaid expenses: +7,979
<b>Noncurrent assets</b>	<b>17,545</b>	<b>17,070</b>	<b>(474)</b>	<b>-2.7%</b>	
Property, plant and equipment	9,497	9,796	+298	+3.1%	
Intangible assets	1,523	1,658	+135	+8.9%	
Investment etc.	6,523	5,615	(908)	-13.9%	Deferred tax asset: -835
<b>Total liabilities</b>	<b>102,887</b>	<b>100,173</b>	<b>(2,713)</b>	<b>-2.6%</b>	
<b>Current liabilities</b>	<b>80,084</b>	<b>77,212</b>	<b>(2,872)</b>	<b>-3.6%</b>	
<b>Non-current liabilities</b>	<b>22,802</b>	<b>22,961</b>	<b>+159</b>	<b>+0.7%</b>	
<b>Total net assets</b>	<b>75,764</b>	<b>74,822</b>	<b>(942)</b>	<b>-1.2%</b>	
<b>Shareholders' equity</b>	<b>76,029</b>	<b>74,015</b>	<b>(2,013)</b>	<b>-2.6%</b>	
Accumulated other comprehensive income	(408)	676	+1,084	-	
Subscription rights to shares	143	130	(13)	-9.1%	
<b>Total liabilities and net assets</b>	<b>178,651</b>	<b>174,996</b>	<b>(3,655)</b>	<b>-2.0%</b>	

# Exchange rate, Employees

	FY22 Q1	FY23 Q1	YoY	
			Amount	%
Exchange rate (\$JPY)	118.35	133.55	+15.20	+12.8%

	End of FY22 Q1	End of FY23 Q1	YoY		
			Amount	%	
Number of consolidated employees	2,778	2,640	(138)	-5.0%	<ul style="list-style-type: none"> <li>● New graduates: +77</li> <li>● Effect of exclusion of consolidated subsidiaries: -193 (Note)</li> </ul>
Excluding effect of exclusion of consolidated subsidiaries (Note)	2,585	2,640	+55	+2.1%	
Turnover rate	1.4%	1.2%	-	-	

(Note)

eXtreak, Inc. and Net One Asia Pte. Ltd. were excluded from the consolidated subsidiaries following the transfer of their shares. (announced on February 1, 2023, February 22, 2023)



## Revised evaluation, grading, and compensation systems to create an environment in which human resources can take on challenges without hesitation

We have reformed our personnel system with the aim of promoting the development of professional human resources to execute our management strategy, including the shift of our business model to a service model, and to enhance our corporate value.

### Evaluation system that contributes to long-term growth and human resource development

- Changed to two evaluation axes: achievements and actions
- Achieve long-term growth of employees and the company by changing the evaluation period from every six months to one year

### Grading system suited to changes in business and work styles

- Reorganization of job classifications into two categories
  - ✓ ICT business staff: provide solutions to customer and social issues beyond the framework of sales staff and technical staff
  - ✓ Corporate staff: strategically and stably manage the company with expertise in the corporate domain
- Defined the positions that managers and professionals need to fill in the organization, and appoint the right people for those positions and roles

### Compensation system that ensures market competitiveness

- Raise monthly salaries by an average of 8% effective July of this year (already factored into company plan)
- Starting salary for new graduate to be raised in April 2024
- In order to balance the increase in starting salaries for new graduates, base salaries for existing young employees will also be increased from April 2024

### Various systems that enable flexible work styles

- Accelerate hybrid work through a system that allows employees to flexibly choose working times and working place

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## **FY23 forecast**

# FY23 forecast (※no change from the previous forecast)

(JPYmn)	FY23 H1		YoY		FY23 H2		YoY		FY23		YoY	
			Amount	%			Amount	%			Amount	%
Bookings	106,000		(9,040)	-7.9%	119,000		+14,233	+13.6%	225,000		+5,192	+2.4%
Revenue	93,000	100.0%	+234	+0.3%	127,000	100.0%	+10,085	+8.6%	220,000	100.0%	+10,319	+4.9%
Cost of sales	68,000	73.1%	(1,802)	-2.6%	93,000	73.2%	+3,490	+3.9%	161,000	73.2%	+1,687	+1.1%
Gross profit	25,000	26.9%	+2,036	+8.9%	34,000	26.8%	+6,595	+24.1%	59,000	26.8%	+8,632	+17.1%
SG&A	16,500	17.7%	+1,855	+12.7%	17,900	14.1%	+2,812	+18.6%	34,400	15.6%	+4,668	+15.7%
Operating income	8,500	9.1%	+180	+2.2%	16,100	12.7%	+3,783	+30.7%	24,600	11.2%	+3,964	+19.2%
Ordinary income	8,400	9.0%	(283)	-3.3%	16,000	12.6%	+4,023	+33.6%	24,400	11.1%	+3,739	+18.1%
Profit attributable to owners of parent	5,800	6.2%	+624	+12.1%	11,200	8.8%	+1,916	+20.6%	17,000	7.7%	+2,541	+17.6%

# FY23 forecast by segment (※no change from the previous forecast)

(JPYmn)		FY22	FY23	YoY	
				Amount	%
Enterprise	Bookings	55,172	57,000	+1,827	+3.3%
	Revenue	49,457	54,000	+4,542	+9.2%
Telecom Carrier	Bookings	51,519	49,000	(2,519)	-4.9%
	Revenue	49,005	48,000	(1,005)	-2.1%
Public	Bookings	61,425	71,000	+9,574	+15.6%
	Revenue	61,684	70,000	+8,315	+13.5%
Partner	Bookings	48,400	48,000	(400)	-0.8%
	Revenue	46,357	48,000	+1,642	+3.5%

# 4

## Progress of measures to prevent recurrence

## Progress

<p><b>1. Governance reform and promotion</b></p>	<ul style="list-style-type: none"> <li>• Held case study workshops on the Subcontract Act as a major risk to raise awareness of compliance and governance, which will prevent recurrence of misconduct (1.(1)-b, 1.(4)-b)</li> <li>• Continued to disseminate messages to employees with enhanced frequency and quality, including distribution of messages from top management (1.(3)-a)</li> </ul>	<p><b>5. System for collecting employee feedback</b></p>	<ul style="list-style-type: none"> <li>• Began full-scale operation of the whistleblower platform, which enables anonymous two-way communication, and now responding to reports and consultations from employees (5.(1)-a)</li> <li>• Redefined functions and roles of the feedback system utilizing third-party points of contact and worked on improvements to identify issues effectively; preparing to begin operations (5.(2)-a)</li> </ul>
<p><b>2. Enhancement of risk management system</b></p>	<ul style="list-style-type: none"> <li>• Continued internal sharing of risks that have emerged through the portal dedicated to risk information (2.(2)-d)</li> <li>• 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)</li> </ul>	<p><b>6. Reform and creation of organizational culture</b></p>	<ul style="list-style-type: none"> <li>• Created manga and video about the importance of the corporate philosophy and organizational culture and released them internally (1.(3)-a, 6.(2)-b/c/d)</li> <li>• Continued one-on-one meetings between supervisors and individual subordinates based on the Declaration of Conduct pursuant to our new philosophy system (6.(2)-e)</li> </ul>
<p><b>3. Strengthening of business execution systems and other internal systems</b></p>	<ul style="list-style-type: none"> <li>• Continued holding various periodic joint meetings 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)</li> </ul>	<p><b>7. Accounting literacy education, and training and instruction based on prior examples of misconduct</b></p>	<ul style="list-style-type: none"> <li>• Step 2 of accounting literacy improvement and accounting knowledge education for 2H FY22 fully completed; formulating plan for FY23 (7.(1)-a)</li> <li>• Continued holding business rule briefings and workshops on learning from previous mistakes or failures, and shared examples of mistakes or failures (7.(3)-a)</li> </ul>
<p><b>4. Radical revisions to our auditing system</b></p>	<ul style="list-style-type: none"> <li>• The Internal Audit Office conducted risk assessments referring to the Risk Management Department's risk assessments, and formulated an internal audit policy and plan for FY23 (4.(1)-b)</li> <li>• Making continuous response to Audit &amp; Supervisory Committee measure 4(4). The FY22 results are as follows: Vice president discussion: 19 people in total; Internal Audit Office opinion exchanges: 11 times; training participation: six courses (4.(4)-a/b/c)</li> </ul>	<p><b>8. Ongoing monitoring</b></p>	<ul style="list-style-type: none"> <li>• Implemented business improvement measures in FY22 to strengthen the effectiveness of recurrence prevention. While monitoring the measures for FY22, considering a survey plan in FY23 that will lead to the strengthening of the internal control system on an ongoing basis (8.(2)-a)</li> </ul>

(Notes) 1. 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).

2. Internal audit by theme: A theme will be set and an internal audit conducted when it is determined that a cross-organization internal audit is required based on the results of risk assessment and organization-specific internal audit.

# Progress of measures to prevent recurrence (May 2023)

## Progress

### 1. Governance reform and promotion

- A case study workshop is being held on the theme of software licenses, as one of the key risks, in order to promote compliance awareness and governance (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

- The Risk Management Committee began operating under the new system in FY23, and agreed on the basic policy and annual activity plan for FY23. Continue activities to improve the effectiveness of risk management activities (2.(2)-c)
- 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

- Reviewed the meeting bodies to strengthen the business execution system. The existing Leadership Meeting was developed into the Mid-term Plan Monitoring Meeting to promote the execution of the medium-term business plan and the strategies of business units and subsidiaries. In addition, a new Business Operations Meeting was established to focus on important issues related to the development and operation of the internal control system (3.(1)-a, 3.(2)-a)

### 4. Radical revisions to our auditing system

- Started internal audits for each organization and follow-up internal audits based on the internal audit policy and plan for FY23 (4.(1)-b)
- Continuing to respond to measures of the Audit & Supervisory Committee on periodic exchanges of opinions with executive directors and the Internal Audit Office as well as participation in training on instances of fraud in FY23 (4.(4)-a/b/c)

### 5. System for collecting employee feedback

- Began full-scale operation of the whistleblower platform, which enables anonymous two-way communication, and now responding to reports and consultations from employees (5.(1)-a)
- Redefined functions and roles of the feedback system utilizing third-party points of contact and worked on improvements to identify issues effectively; preparing to begin operations (5.(2)-a)

### 6. Reform and creation of organizational culture

- Distributed talk sessions by members of management at company-wide meetings (1.(3)-a)
- Started preparing for corporate culture reform activities for FY23 (6.(2)-a)
- Revised the Vision Book and disseminated it throughout the company (6.(2)-c)
- Continued one-on-one meetings between supervisors and individual subordinates based on the Declaration of Conduct pursuant to our new philosophy system (6.(2)-e)

### 7. Accounting literacy education, and training and instruction based on prior examples of misconduct

- Step 2 of accounting literacy improvement and accounting knowledge education for 2H FY22 fully completed; formulating plan for FY23 (7.(1)-a)
- Continued holding 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

- While monitoring the measures for FY22, considering a survey plan that will lead to the strengthening of the internal control system on an ongoing basis (8.(2)-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

### 1. Governance reform and promotion

- A case study workshop is being held on the theme of software licenses, as one of the key risks, in order to promote compliance awareness and governance (1.(1)-b, 1.(4)-b)
- Delivered top messages to the entire company via video messages (1.(3)-a)

### 2. Enhancement of risk management system

- Based on the basic policy for risk management and the annual activity plan for FY23, started promoting various measures while coordinating with CROs for each business unit and divisions responsible for risk management (1.5th and second lines of defense) (2.(2)-c)
- 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

- Reviewed the meeting bodies to strengthen the business execution system. The existing Leadership Meeting was developed into the Mid-term Plan Monitoring Meeting to promote the execution of the medium-term business plan and the strategies of business units and subsidiaries. In addition, a new Business Operations Meeting was established to focus on important issues related to the development and operation of the internal control system (3.(1)-a, 3.(2)-a)

### 4. Radical revisions to our auditing system

- Conducting internal audits for each organization and follow-up internal audits based on the internal audit policy and plan for FY23 (4.(1)-b)
- Compiled a set of internal audit case studies for FY22 and announced the results company-wide (4.(1)-b)
- FY22 J-SOX assessment has been completed, and the internal control report is to be submitted to the Kanto Local Finance Bureau on June 23 (4.(3)-b)
- Continuing to respond to measures of the Audit & Supervisory Committee on periodic exchanges of opinions with executive directors and the Internal Audit Office as well as participation in training on instances of fraud in FY23 (4.(4)-a/b/c)

### 5. System for collecting employee feedback

- Began full-scale operation of the whistleblower platform, which enables anonymous two-way communication, and now responding to reports and consultations from employees (5.(1)-a)
- Redefined functions and roles of the feedback system utilizing third-party points of contact and worked on improvements to identify issues effectively; preparing to begin operations (5.(2)-a)

### 6. Reform and creation of organizational culture

- Started consideration of measures by corporate culture reform activity members for FY23 (6.(2)-a)
- Continued one-on-one meetings between supervisors and individual subordinates based on the Declaration of Conduct pursuant to our new philosophy system (6.(2)-e)

### 7. Accounting literacy education, and training and instruction based on prior examples of misconduct

- A plan is being formulated for improving accounting literacy and accounting knowledge education for FY23. Started education for those who have not yet completed Step 2 (7.(1)-a)
- Continued holding 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

- Formulated a survey plan for FY23 to strengthen the internal control system on an ongoing basis. Hearings began in accordance with the implementation plan in June (8.(2)-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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