



# Results for Q2 FY23

## Ended September 30, 2023

Net One Systems Co., Ltd.

November 1, 2023 (Stock Code 7518: JP)

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# 1

## Summary

- H1 results overview
- **FY23 forecast and dividends forecast (announced on October 26)**

# H1 results overview

Bookings fell short of the plan due to weak performance in the Telecom Carrier, Public, and Partner segment. Revenue was in line with the plan. Gross profit margin improved in Q2 but fell short of the plan. SG&A expenses slightly exceeded the plan. As a result, operating income fell short of the plan.

H1 results overview				
	FY22 H1 results	FY23 H1 initial forecast	FY23 H1 results	
Bookings	JPY115.0bn	JPY106.0bn	JPY91.9bn	<ul style="list-style-type: none"> <li>● Large product projects in FY22 H1 (two projects: total JPY14.3bn), out of which JPY12.4bn was dropped</li> <li>● Telecom Carrier: the co-creation business expanded but fell short, and the timing of bookings were pushed back as product delivery times improved</li> <li>● Public: we had JPY3.8bn lost order for a large project and JPY3.5bn delays into H2 of multiple projects</li> <li>● Partner: competition rose in lower-priced products as product delivery times improved</li> </ul>
Revenue	JPY92.7bn	JPY93.0bn	JPY93.1bn	<ul style="list-style-type: none"> <li>● In line with the plan</li> </ul>
Operating income	JPY8.3bn	JPY8.5bn	JPY6.3bn	<ul style="list-style-type: none"> <li>● Gross profit margin: +0.2pts YoY                             <ul style="list-style-type: none"> <li>✓ Product GPM: +0.9pts YoY                                     <ul style="list-style-type: none"> <li>• large equipment project in the Telecom Carrier segment in FY22 Q2 was dropped</li> <li>• the foreign exchange impact on the partner segment was flat in H1 (negative in Q1 but positive in Q2)</li> </ul> </li> <li>✓ Service GPM: -1.0pts YoY                                     <ul style="list-style-type: none"> <li>• progress in passing on increased costs of vendor support reduced the negative impact in Q2</li> </ul> </li> <li>✓ Service ratio: +2.7pts YoY                                     <ul style="list-style-type: none"> <li>• increased in maintenance services and dropped of large equipment projects</li> </ul> </li> </ul> </li> <li>● SG&amp;A: +JPY2.3bn YoY                             <ul style="list-style-type: none"> <li>✓ personnel expenses +JPY1,000mn, office expenses +JPY800mn, and equipment expenses +JPY540mn</li> </ul> </li> </ul>

# FY23 forecast and dividends forecast (announced on October 26)

(JPYmn)	FY23 initial forecast		FY23 revised forecast		Compared to initial forecast		
	Amount	%	Amount	%	Amount	%	
Bookings	225,000		210,000		(15,000)	-6.7%	Bookings are expected to be at the same level as the initial plan in H2 but will not make up for the shortfall in H1 and are expected to fall short of the initial plan
Revenue	220,000	100.0%	201,000	100.0%	(19,000)	-8.6%	Revenue is expected to fall short of the initial plan ✓ bookings in H1 fell short of the plan ✓ bookings in H2 will be weighted heavily in Q4 due to the pushing back of timing of orders because of the improvement of product delivery times
Cost of sales	161,000	73.2%	150,700	75.0%	(10,300)	-6.4%	Gross profit margin is expected to fall short of the initial plan although further optimization of overall offering prices will lead to improvement
Gross profit	59,000	26.8%	50,300	25.0%	(8,700)	-14.7%	
SG&A	34,400	15.6%	33,800	16.8%	(600)	-1.7%	
Operating income	24,600	11.2%	16,500	8.2%	(8,100)	-32.9%	Despite efforts to reduce SG&A expenses, operating income is expected to fall short of the initial plan because revenue and gross profit margin are expected to fall short of the initial plan
Ordinary income	24,400	11.1%	16,100	8.0%	(8,300)	-34.0%	
Profit attributable to owners of parent	17,000	7.7%	10,900	5.4%	(6,100)	-35.9%	
Dividends per share (JPY)	86.00		74.00		(12.00)	-14.0%	We revised the dividends forecast, taking into account the basic policy of the capital policy, which aims for a dividend payout ratio of 40%, the capital allocation policy, and other factors comprehensively (the dividend payout ratio is expected to be 53.9%)
Second quarter-end	43.00		37.00		(6.00)	-14.0%	
Fiscal-year end	43.00		37.00		(6.00)	-14.0%	

# FY23 forecast by segment

(JPYmn)		FY23 Initial forecast	FY23 revised forecast	Compared to initial forecast		
				Amount	%	
Enterprise	Bookings	57,000	58,500	+1,500	+2.6%	Bookings are expected to exceed the initial plan mainly in the manufacturing and non-manufacturing sectors.
	Revenue	54,000	54,000	0	0.0%	Revenue is expected to be at the planned level.
Telecom Carrier	Bookings	49,000	43,000	(6,000)	-12.2%	Co-creation business is expected to expand, but not to the expected level Booking is expected to be pushed back due to improved product delivery times
	Revenue	48,000	42,500	(5,500)	-11.5%	Revenue is expected to fall short because bookings in H1 did not meet the plan and bookings in H2 will be weighted heavily in Q4.
Public	Bookings	71,000	65,000	(6,000)	-8.5%	Bookings are expected to fall short due to the loss of a large project in Q2.
	Revenue	70,000	61,500	(8,500)	-12.1%	Revenue is expected to fall short because bookings in H1 did not meet the plan and bookings in H2 will be weighted heavily in Q4.
Partner	Bookings	48,000	43,500	(4,500)	-9.4%	Bookings are expected to fall short due to competition in the low-priced products as product delivery times improved.
	Revenue	48,000	43,000	(5,000)	-10.4%	Revenue is expected to fall short because bookings in H1 did not meet the plan and bookings in H2 will be weighted heavily in Q4.

**2**

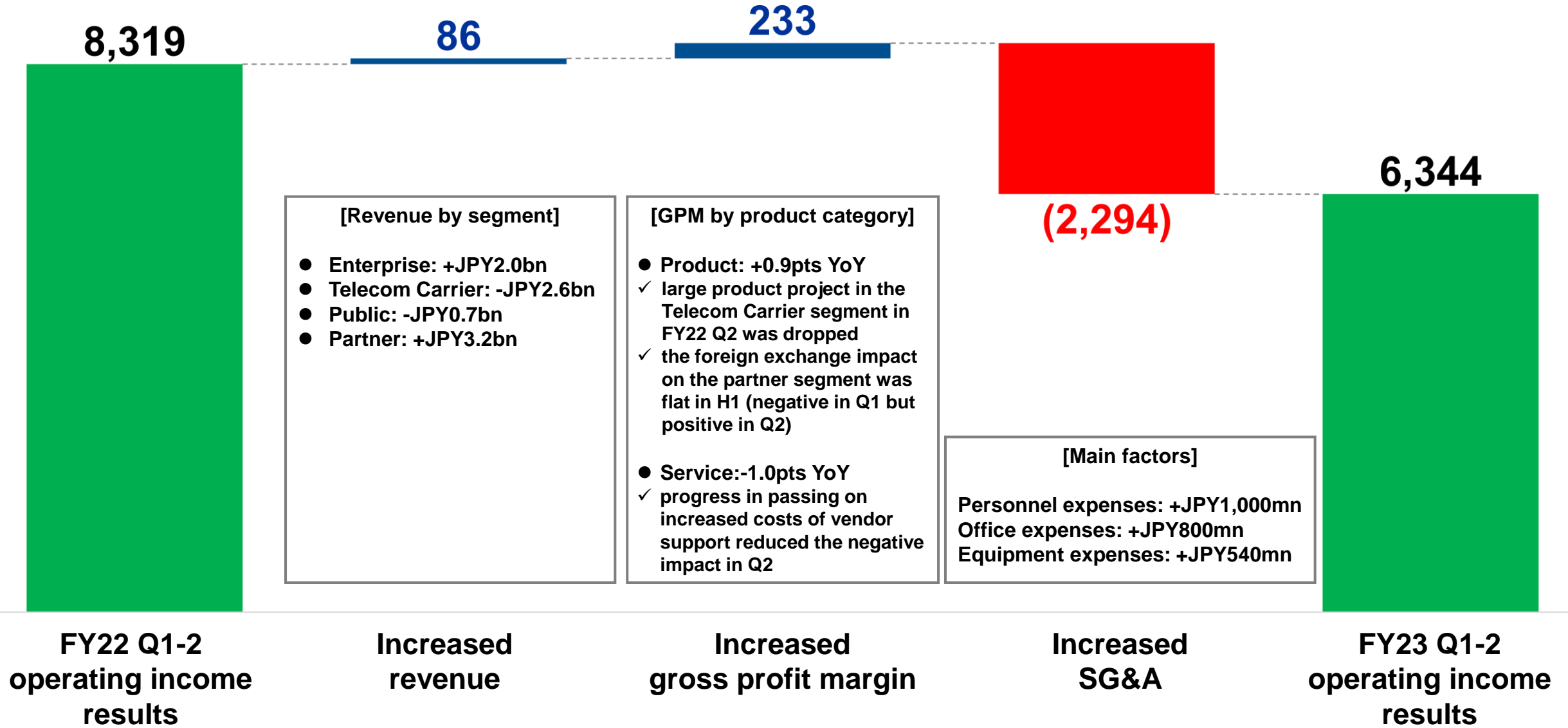
## **Q1-2 FY23 (Apr.-Sep. 6 months) results**

# Q1-2 FY23 (Apr.-Sep. 6 months) results (YoY)

(JPYmn)	FY22		FY23		YoY		
	Q1-2 results		Q1-2 results		Amount	%	
Bookings	115,040		91,900		(23,140)	-20.1%	<ul style="list-style-type: none"> <li>● Large product projects in FY22 H1 (two projects: total JPY14.3bn), out of which JPY12.4bn was dropped</li> <li>● Telecom Carrier: the co-creation business expanded but fell short, and the timing of bookings were pushed back as product delivery times improved</li> </ul>
Backlog	161,435		147,852		(13,583)	-8.4%	<ul style="list-style-type: none"> <li>● Public: we had JPY3.8bn lost order for a large project and JPY3.5bn delays into H2 of multiple projects</li> <li>● Partner: competition rose in lower-priced products as product delivery times improved</li> </ul>
Revenue	92,765	100.0%	93,114	100.0%	+348	+0.4%	<ul style="list-style-type: none"> <li>● In line with the plan Enterprise: +JPY2.0bn, Telecom Carrier: -JPY2.6bn, Public: -JPY0.7bn, Partner: +JPY3.2bn</li> </ul>
Cost of sales	69,802	75.2%	69,831	75.0%	+29	+0.0%	<ul style="list-style-type: none"> <li>● Gross profit margin: +0.2pts YoY                             <ul style="list-style-type: none"> <li>✓ Product: +0.9pts YoY                                     <ul style="list-style-type: none"> <li>• large product project in the Telecom Carrier segment in FY22 Q2 was dropped</li> <li>• the foreign exchange impact on the partner segment was flat in H1 (negative in Q1 but positive in Q2)</li> </ul> </li> <li>✓ Service: -1.0pts YoY                                     <ul style="list-style-type: none"> <li>• progress in passing on increased costs of vendor support reduced the negative impact in Q2</li> </ul> </li> <li>✓ Service ratio: +2.7pts YoY                                     <ul style="list-style-type: none"> <li>• increased in maintenance services and dropped of large equipment projects</li> </ul> </li> </ul> </li> </ul>
Gross profit	22,963	24.8%	23,283	25.0%	+319	+1.4%	
SG&A	14,644	15.8%	16,938	18.2%	+2,294	+15.7%	Personnel expenses: +JPY1,000mn, Office expenses: +JPY800mn, Equipment expenses: +JPY540mn
Operating income	8,319	9.0%	6,344	6.8%	(1,974)	-23.7%	Analysis of the increase/decrease YoY is provided on the next page
Ordinary income	8,683	9.4%	6,200	6.7%	(2,482)	-28.6%	
Profit attributable to owners of parent	5,175	5.6%	4,210	4.5%	(965)	-18.6%	
Earnings per share (JPY)	62.99		51.34		(11.65)	-18.5%	



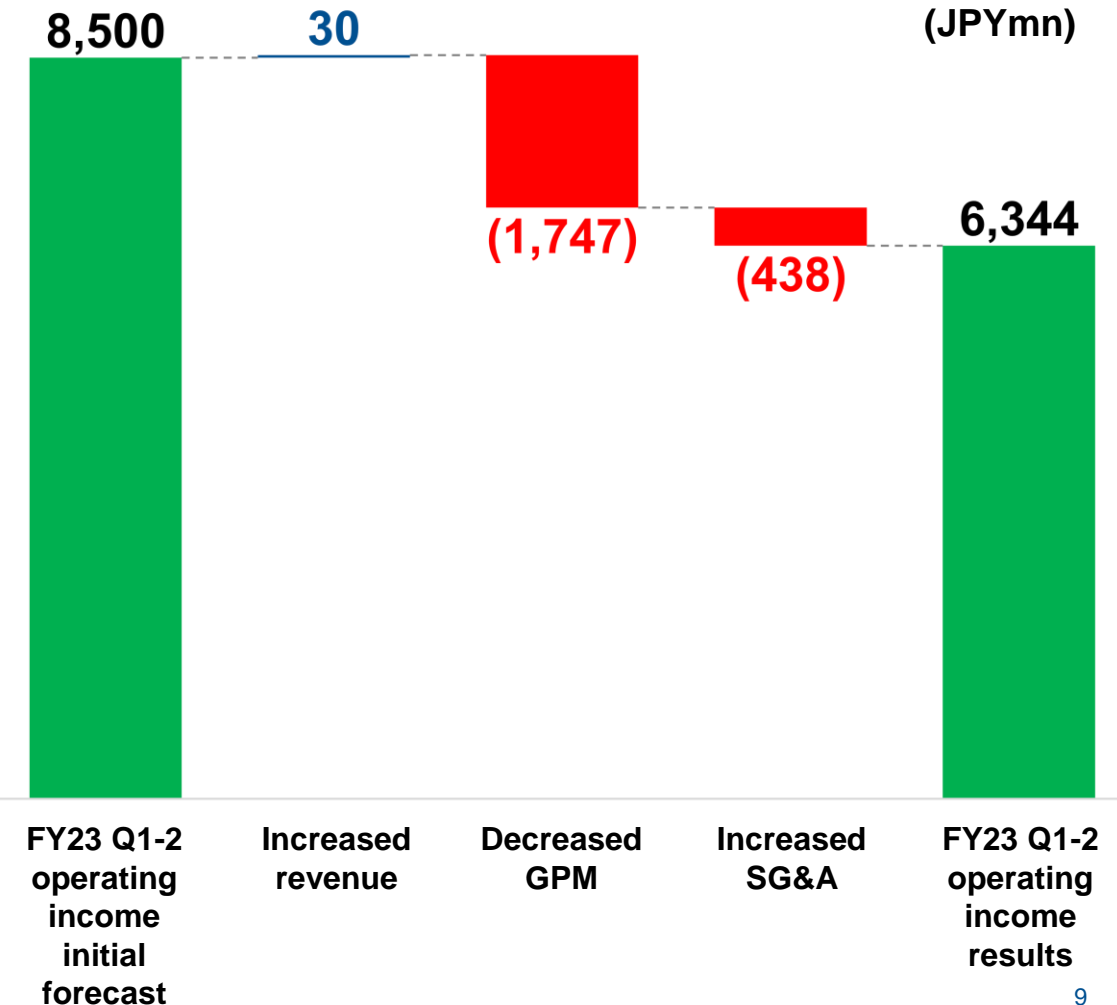
# Operating income analysis (YoY)



# Q1-2 FY23 (Apr.-Sep. 6 months) results (compared to initial forecast)

(JPYmn)	FY23 Q1-2 initial forecast		FY23 Q1-2 results		Compared to initial forecast	
	Amount	%	Amount	%	Amount	%
Backlog	106,000		91,900		(14,099)	-13.3%
Revenue	93,000	100.0%	93,114	100.0%	+114	+0.1%
Cost of sales	68,000	73.1%	69,831	75.0%	+1,831	+2.7%
Gross profit	25,000	26.9%	23,283	25.0%	(1,716)	-6.9%
SG&A	16,500	17.7%	16,938	18.2%	+438	+2.7%
Operating income	8,500	9.1%	6,344	6.8%	(2,155)	-25.4%
Ordinary income	8,400	9.0%	6,200	6.7%	(2,199)	-26.2%
Profit attributable to owners of parent	5,800	6.2%	4,210	4.5%	(1,589)	-27.4%

## Operating income analysis (compared to initial forecast)



# Bookings and backlog by segment

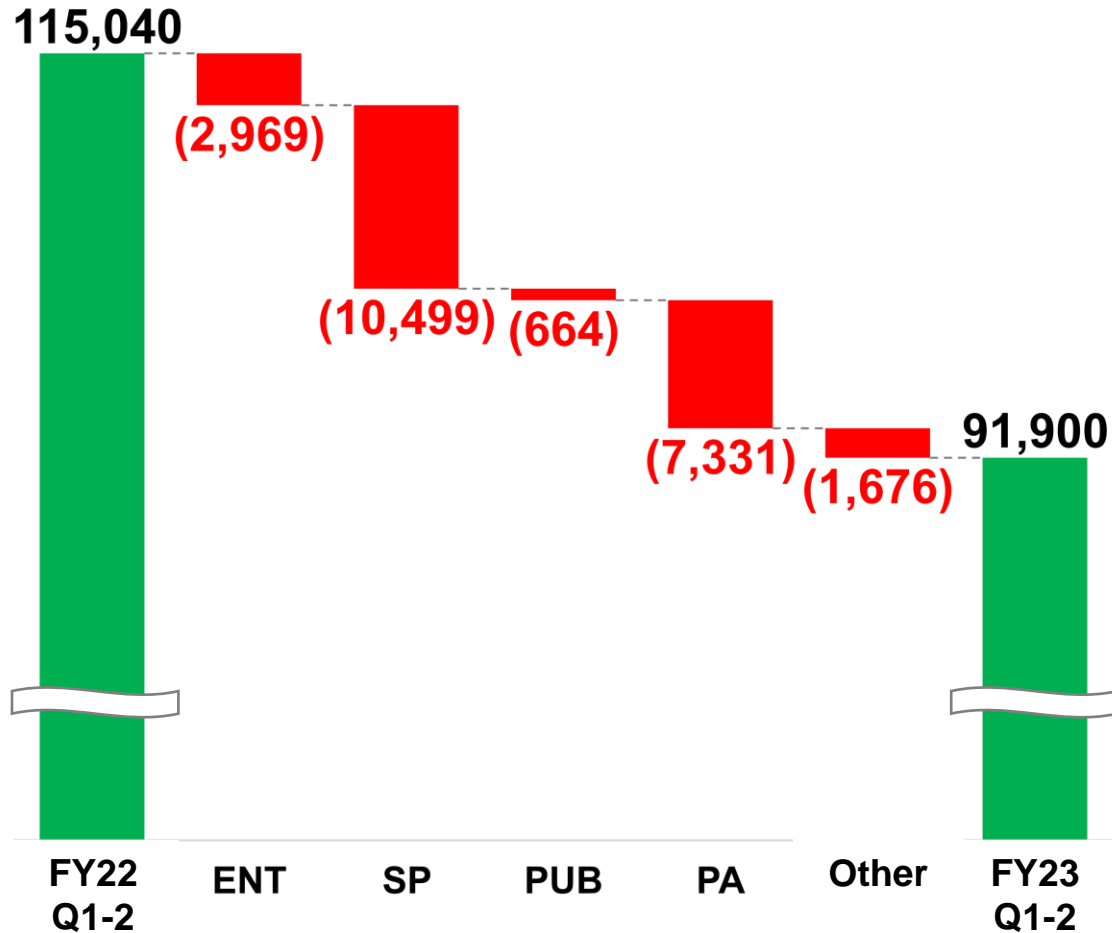
(JPYmn)		FY22 Q1-2		FY23 Q1-2		YoY		
						Amount	%	
Enterprise	Bookings	27,519		24,550		(2,969)	-10.8%	<ul style="list-style-type: none"> <li>● Manufacturing sector: we won security and smart manufacturing projects, mainly from automakers and electronics manufacturers</li> <li>● Non-manufacturing sector: 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 maintenance services</li> </ul>
	Service (%)	13,460	48.9%	14,658	59.7%	+1,197	+8.9%	
	Backlog	36,756		37,433		+677	+1.8%	
Telecom Carrier	Bookings	25,448		14,949		(10,499)	-41.3%	<ul style="list-style-type: none"> <li>● Absence of a large product project in FY22 Q1-2: -JPY9.3bn</li> <li>● Co-creation business expanded but didn't reach the expected level</li> <li>● The timing of bookings were pushed back as product delivery times improved</li> <li>● Service ratio: increased due to the absence of a large product project</li> </ul>
	Service (%)	6,283	24.7%	5,999	40.1%	(283)	-4.5%	
	Backlog	29,614		24,246		(5,367)	-18.1%	
Public	Bookings	32,656		31,991		(664)	-2.0%	<ul style="list-style-type: none"> <li>● Municipality: we won several large DX projects, including work style reforms, cloud utilization, and security measures. On the other hand, we had JPY3.8bn lost order for a large project</li> <li>● Social infrastructure: we won upgrading IT operations projects of the electric power group, etc.</li> <li>● Healthcare: we won large cloud infrastructure projects</li> <li>● JPY3.5bn delays into H2 of multiple projects</li> <li>● Service ratio: decreased due to the absence of a large service-type project in FY22 Q1, despite an increase in maintenance services</li> </ul>
	Service (%)	18,986	58.1%	16,637	52.0%	(2,348)	-12.4%	
	Backlog	71,076		70,901		(174)	-0.2%	
Partner	Bookings	27,764		20,433		(7,331)	-26.4%	<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>● Security enhancement business remained strong</li> <li>● Competition rose in lower-priced products as product delivery times improved</li> <li>● Service ratio: increased due to an increase in maintenance services and a drop in product projects</li> </ul>
	Service (%)	3,870	13.9%	4,130	20.2%	+260	+6.7%	
	Backlog	23,773		15,270		(8,503)	-35.8%	

# Revenue, gross profit, and operating income by segment

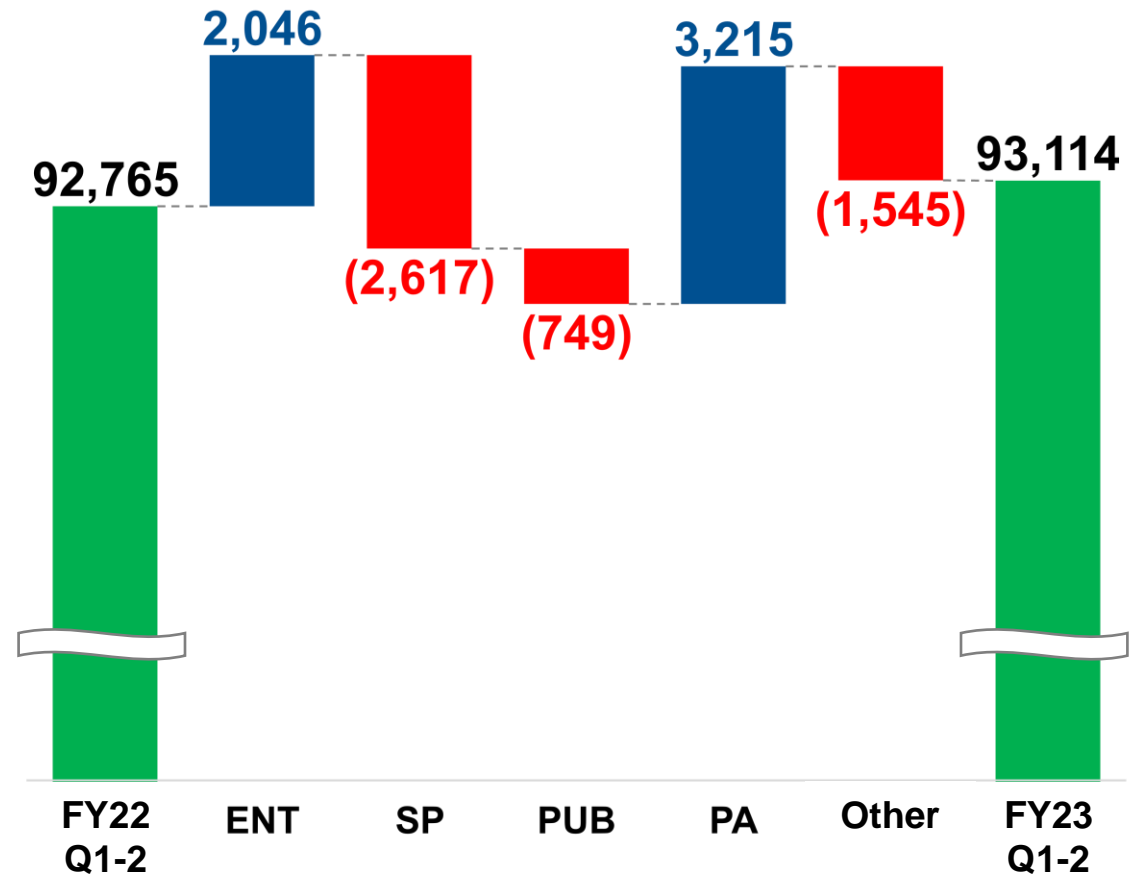
(JPYmn)		FY22 Q1-2		FY23 Q1-2		YoY		
						Amount	%	
Enterprise	Revenue	22,066		24,113		+2,046	+9.3%	<ul style="list-style-type: none"> <li>● Revenue: increased mainly in the financial sector</li> <li>● Gross profit margin: +0.4pts YoY ✓ profitability improved despite lower service ratio</li> </ul>
	Service (%)	13,676	62.0%	14,350	59.5%	+674	+4.9%	
	Gross profit (%)	5,937	26.9%	6,591	27.3%	+654	+11.0%	
	Operating income (%)	1,773	8.0%	1,627	6.8%	(145)	-8.2%	
Telecom Carrier	Revenue	23,364		20,747		(2,617)	-11.2%	<ul style="list-style-type: none"> <li>● Revenue: decreased due to the absence of large product projects in FY22 Q1-2</li> <li>● Gross profit margin: +3.6pts YoY ✓ service ratio improved due to the decreased due to the absence of large product projects in FY22 Q2</li> </ul>
	Service (%)	9,140	39.1%	10,574	51.0%	+1,433	+15.7%	
	Gross profit (%)	4,678	20.0%	4,890	23.6%	+212	+4.5%	
	Operating income (%)	2,092	9.0%	1,889	9.1%	(202)	-9.7%	
Public	Revenue	25,040		24,291		(749)	-3.0%	<ul style="list-style-type: none"> <li>● Revenue: decreased mainly in municipalities</li> <li>● Gross profit margin: -1.1pts YoY ✓ decreased due to a portion of the cost increase in vendor support remained unpassed in Q1. ✓ the negative impact was mitigated in Q2</li> </ul>
	Service (%)	15,526	62.0%	15,806	65.1%	+279	+1.8%	
	Gross profit (%)	6,456	25.8%	6,010	24.7%	(446)	-6.9%	
	Operating income (%)	1,692	6.8%	715	2.9%	(977)	-57.7%	
Partner	Revenue	20,748		23,963		+3,215	+15.5%	<ul style="list-style-type: none"> <li>● Revenue: increased at most of the partners</li> <li>● Gross profit margin: -4.3pts YoY ✓ in FY22 Q1-2, GPM increased due to the positive impact of foreign exchange rates. On the other hand, GPM was flat in Q1-2 (negative in Q1, positive in Q2)</li> </ul>
	Service (%)	3,890	18.8%	4,425	18.5%	+535	+13.8%	
	Gross profit (%)	5,063	24.4%	4,810	20.1%	(253)	-5.0%	
	Operating income (%)	3,187	15.4%	2,833	11.8%	(353)	-11.1%	

# Bookings and revenue: YoY changes by segment

## Bookings



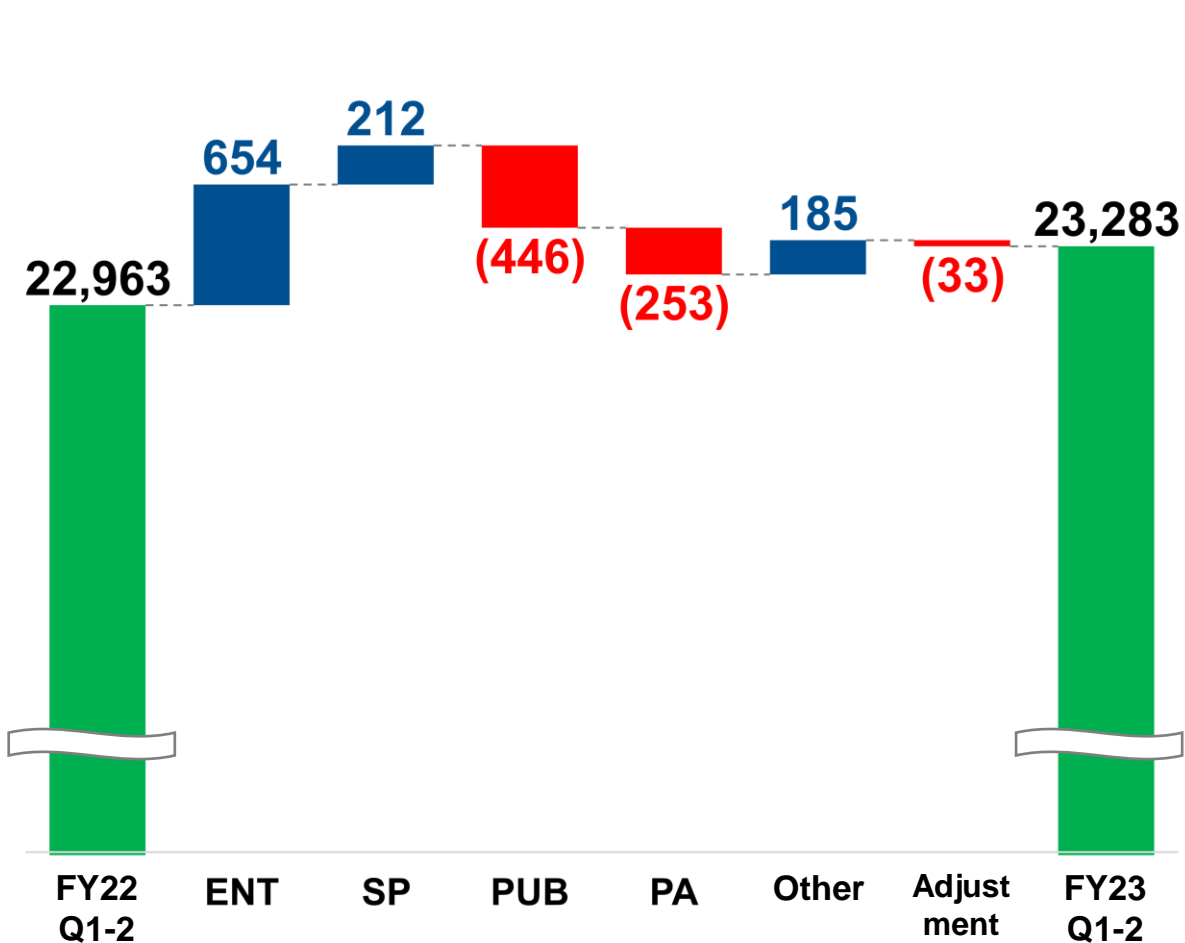
## Revenue



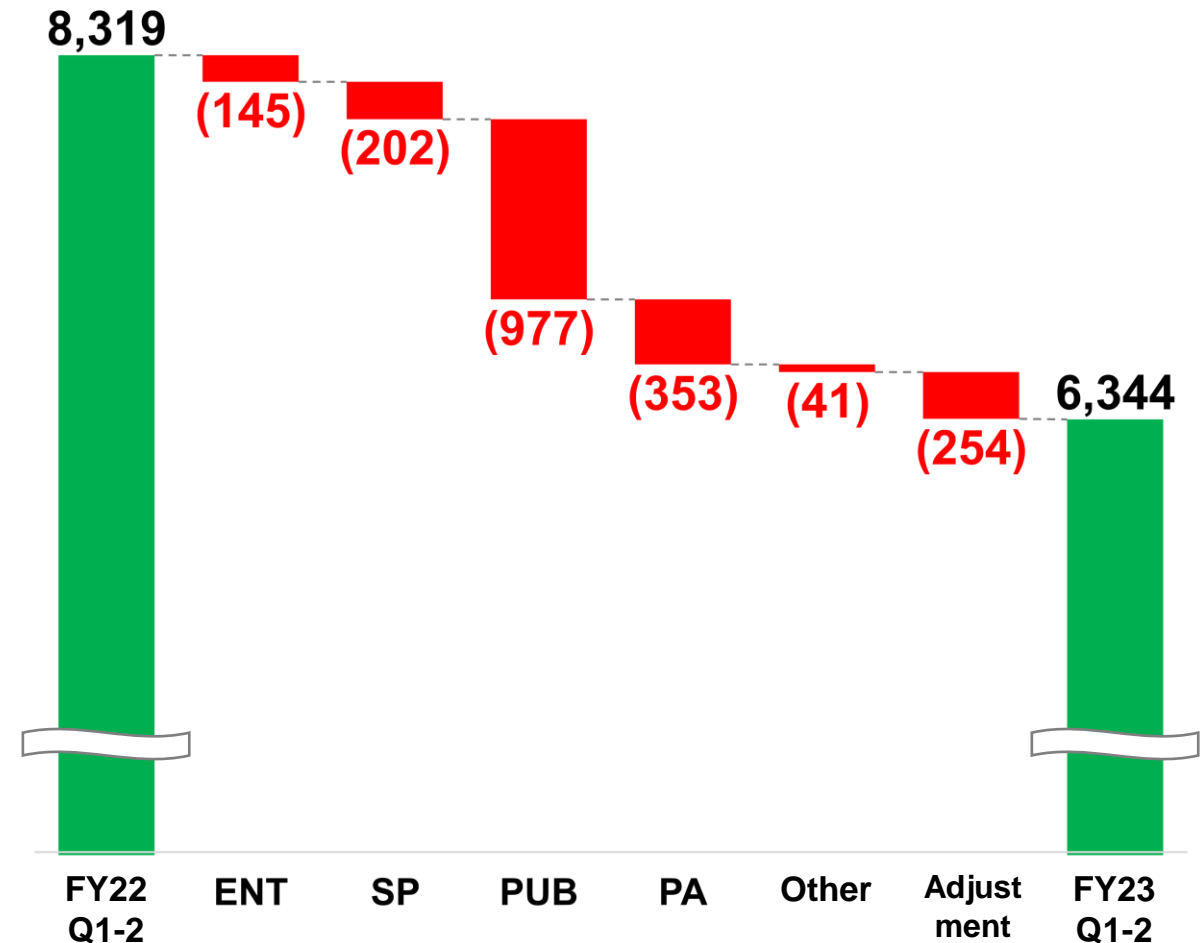
# Gross profit and operating income: YoY changes by segment

(JPYmn)

## Gross profit



## Operating income



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

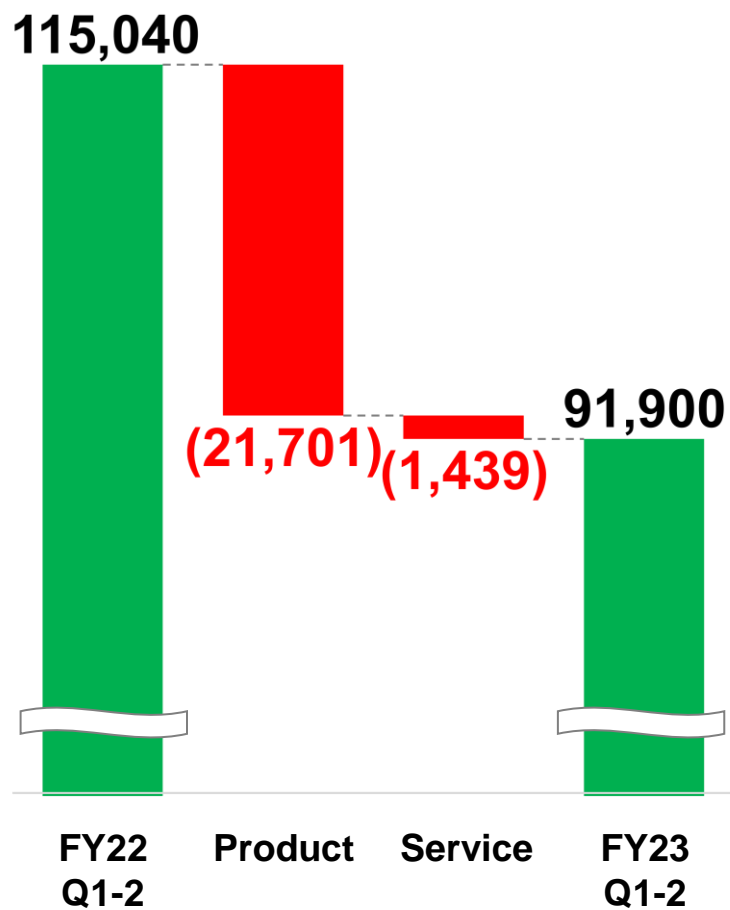
[Service ratio] bookings: 45.1% (+7.9pts), revenue: 48.5% (+2.7pts), backlog: 63.5% (+6.8pts)

(JPYmn)	FY22 Q1-2		FY23 Q1-2		YoY		
	Amount	%	Amount	%	Amount	%	
Product	Bookings	72,200	50,498		(21,701)	-30.1%	<ul style="list-style-type: none"> <li>● Bookings: decreased due to the absence of two large product projects in FY22 Q1-2 (two projects: total JPY14.3bn), out of which JPY12.3bn was dropped, and the weak performance in the Telecom Carrier, Public, and Partner segment</li> <li>● Revenue: decreased due to the absence of large product projects in FY22 Q1-2</li> <li>● Gross profit margin: +0.9pts YoY                             <ul style="list-style-type: none"> <li>✓ large equipment project in the Telecom Carrier segment in FY22 Q2 was dropped</li> <li>✓ the foreign exchange impact on the partner segment was flat in H1 (negative in Q1 but positive in Q2)</li> </ul> </li> </ul>
	Backlog	69,823	54,000		(15,823)	-22.7%	
	Revenue	50,304	47,958		(2,346)	-4.7%	
	Gross profit (%)	10,157	20.2%	10,105	21.1%	(51)	
Service	Bookings	42,840	41,401		(1,439)	-3.4%	<ul style="list-style-type: none"> <li>● Bookings: decreased due to the absence of a large service-type project (for a municipality) in FY22 Q1, despite an increase in maintenance services</li> <li>● Revenue: increased mainly in maintenance services</li> <li>● Gross profit margin: -1.0pts YoY                             <ul style="list-style-type: none"> <li>✓ progress in passing on increased costs of vendor support reduced the negative impact in Q2</li> </ul> </li> </ul>
	Backlog	91,612	93,851		+2,239	+2.4%	
	Revenue	42,461	45,156		+2,695	+6.3%	
	Gross profit (%)	12,806	30.2%	13,177	29.2%	+371	

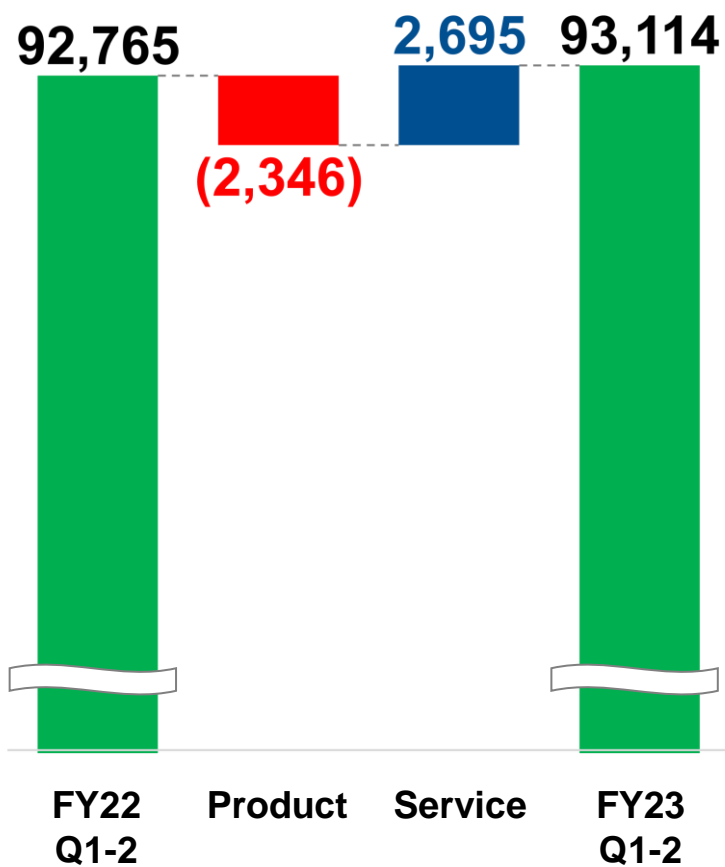
# Bookings, revenue, and gross profit: YoY changes by product category

(JPYmn)

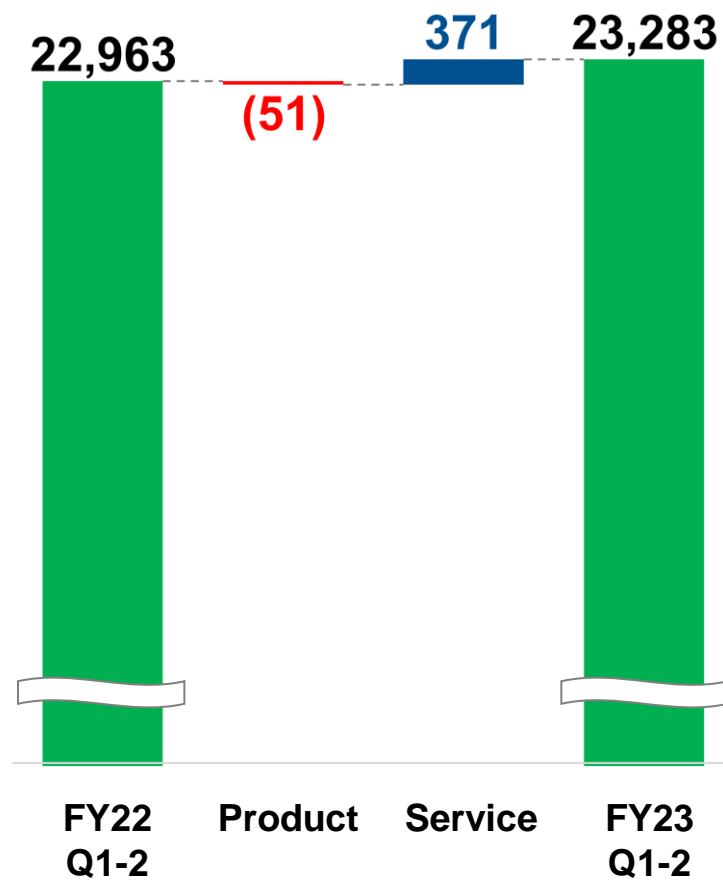
## Bookings



## Revenue



## Gross profit





# Consolidated balance sheets

(JPYmn)	Mar. 31, 2023 Results	Sep. 30, 2023 Results	Change		
			Amount	%	
<b>Total assets</b>	<b>178,651</b>	<b>175,460</b>	<b>(3,191)</b>	<b>-1.8%</b>	
<b>Current assets</b>	<b>161,106</b>	<b>158,189</b>	<b>(2,917)</b>	<b>-1.8%</b>	
Cash and deposits	35,509	29,960	(5,549)	-15.6%	
Notes and accounts receivable-trade	51,383	38,342	(13,041)	△25.4%	
Inventory assets	37,903	47,477	+9,574	+25.3%	Costs on uncompleted construction contracts: +9,665
Other	36,310	42,408	+6,098	+16.8%	Prepaid expenses: +5,242
<b>Noncurrent assets</b>	<b>17,545</b>	<b>17,270</b>	<b>(274)</b>	<b>-1.6%</b>	
Property, plant and equipment	9,497	9,554	+56	+0.6%	
Intangible assets	1,523	1,949	+425	+28.0%	
Investment etc.	6,523	5,766	(757)	-11.6%	
<b>Total liabilities</b>	<b>102,887</b>	<b>100,761</b>	<b>(2,125)</b>	<b>-2.1%</b>	
<b>Current liabilities</b>	<b>80,084</b>	<b>78,881</b>	<b>(1,203)</b>	<b>-1.5%</b>	
<b>Non-current liabilities</b>	<b>22,802</b>	<b>21,880</b>	<b>(921)</b>	<b>-4.0%</b>	
<b>Total net assets</b>	<b>75,764</b>	<b>74,698</b>	<b>(1,066)</b>	<b>-1.4%</b>	
<b>Shareholders' equity</b>	<b>76,029</b>	<b>74,208</b>	<b>(1,820)</b>	<b>-2.4%</b>	
Accumulated other comprehensive income	(408)	358	+766	-	
Subscription rights to shares	143	130	(13)	-9.1%	
<b>Total liabilities and net assets</b>	<b>178,651</b>	<b>175,460</b>	<b>(3,191)</b>	<b>-1.8%</b>	

# Exchange rate, Employees

	FY22 Q1-2	FY23 Q1-2	YoY	
			Amount	%
Exchange rate (\$JPY)	120.99	135.42	+14.43	+11.9%

	End of FY22 Q2	End of FY23 Q2	YoY		
			Amount	%	
Number of consolidated employees	2,759	2,607	(152)	-5.5%	<ul style="list-style-type: none"> <li>● New graduates: +77</li> <li>● Effect of exclusion of consolidated subsidiaries: -192 (Note)</li> </ul>
Excluding effect of exclusion of consolidated subsidiaries (Note)	2,567	2,607	+40	+1.6%	
Turnover rate	3.1%	2.4%	-	-	

(Note)

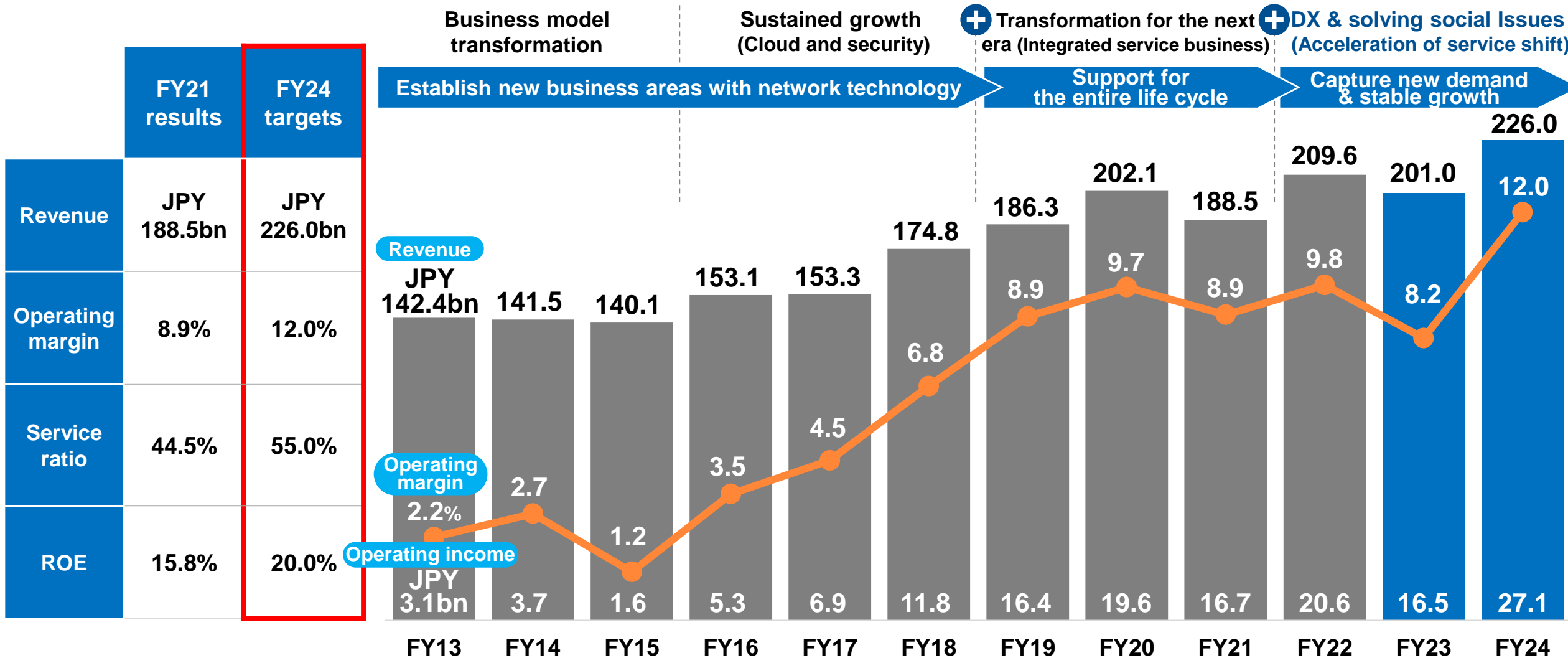
eXtreak, Inc. and Net One Asia Pte. Ltd. were excluded from the consolidated subsidiaries following the transfer of their shares. (announced on February 1, 2023, February 22, 2023)

# 3

## Progress of medium-term business plan

# Medium-term business plan targets

We will re-examine for the final year of medium-term business plan and announce it at the time of earnings announcement at the end of the current fiscal year.



# Bookings and revenue by focus areas

		FY22 Q1-2	FY23 Q1-2	Booking trends
Smart manufacturing	Bookings	JPY 1,500mn	JPY 2,200mn	<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 200mn	JPY 3,300mn	
Digitalization of social infrastructure to realize Society 5.0	Bookings	JPY 600mn	JPY 4,900mn	<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 100mn	JPY 2,000mn	
Digital government	Bookings	JPY 7,700mn	JPY 8,700mn	<p>We won several large DX projects, such as work style reforms, cloud utilization, and security measures. We are also accelerating our proposals for large projects, Government Cloud connection, and Next-GIGA (use of cloud-based digital teaching materials) in the next fiscal year and beyond.</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 50mn	JPY 1,400mn	

## Establishment of a digital platform with the latest digital technology and transformation to a new service model - aiming to expand service areas and develop new IT infrastructure markets -

**Partnership with NaaS startup Nile Global, Inc.  
Expanding service areas through our unique NaaS model**

NaaS: Network as a Service

**Subscription-based service usage model enables us to reach a wide range of markets and expand our unique network service area**

**Started collaboration with VMware, Inc. on edge solution services to accelerate DX**

**Demonstration experiments utilizing real-time data generated by various devices in netone valley**

**We will approach a wide range of markets that require the utilization of large volumes of data and the provision of services based on real-time analysis**

**Started development of "netone LLM," proprietary generative AI  
Transform into a service business utilizing generative AI**

LLM: Large Language Models

**Started trials of introducing generative AI into engineering operations to reform operations and improve quality**




**Developing new services in collaboration with LLMs of vendors**



**Transforming business models and upgrading services by leveraging our technological capabilities and expertise**

- Ensure stable operation of customers' ICT infrastructure**
- Upgrading operations to ensure business continuity**

Material sustainability issues		KPIs		Progress in FY23 Q1-2
<b>Achievement of a safe and secure advanced information society</b> 	<b>Providing solutions and services for specific issues and fields</b>	<b>Revenue from solutions for social issues</b>	2024 target: JPY30.0bn	JPY6.7bn
	<b>Expanding and promoting service-based businesses</b>	<b>Service ratio</b>	2024 target: 55%	45.2%
<b>Success of professional personnel</b> 	<b>Developing human resources for the next generation</b>	<b>Security personnel</b>	CISSP certification holders 2030 target: 80	25 (FY23 target) 28
			Registered information security specialists 2030 target: 100	57 (FY23 target) 56
		<b>Cloud personnel</b>	Front office departments 2030 target: 50% increase in cloud personnel (232 at end-FY21)	456 (FY23 target) 410
		<b>DX personnel (with certifications in data analysis)</b>	Corporate divisions 2030 target: Increase of 150 employees	42 (FY23 target) 39
			100 operational improvement proposals (target cumulative total over 2022–2030)	In progress (FY23 results to be disclosed)
		<b>Development of next-generation ICT personnel</b>	Expansion of next-generation IT personnel development programs through academic–industrial collaboration	In progress (FY23 results to be disclosed)
	<b>Promoting diversity and inclusion</b>	<b>Ratio of female executives</b>	2030 target: 15%	In progress (FY23 results to be disclosed)
	<b>Percentage of freshly recruited new graduates who are women</b>	2030 target: 50%	FY23 results 28.6% (FY23 target) 36.5%	
	<b>Growth in the rate of male employees taking childcare leave and special leave at the time of childbirth</b>	2030 target: 90%	93% (FY23 target) 65.0% (Reference) Male employees taking childcare leave: 43%	

Material sustainability issues		KPIs		Progress in FY23 Q1-2
<b>Contributing to the achievement of a decarbonized society</b>  	<b>Reducing greenhouse gas emissions generated through our business activities</b>	<b>Expansion of green solutions</b>	<b>Development and expansion of solutions and services that assist both customers and society with greenhouse gas emission reduction</b>	<b>In progress</b> (FY23 results to be disclosed)
	<b>Reducing emissions stemming from internal operational processes</b>	<b>Growth in sales of products and services that require less energy consumption</b>	<b>Reduction of the ratio of CO<sub>2</sub> emissions generated through the procurement and sale of products and services (which account for the majority of CO<sub>2</sub> emissions) to the total monetary values paid or received for the same products and services</b>	<b>In progress</b> (FY23 results to be disclosed)
<b>Maintaining and strengthening a governance system that facilitates sustainable growth</b> 	<b>Fostering an appropriate corporate culture and bolstering internal controls</b>	<b>Distribution of annual employee awareness surveys in an effort to foster an appropriate corporate culture</b>	(*Survey results to be disclosed in the future)	<b>Survey distributed to all employees at October</b>
		<b>Progress reports on recurrence prevention measures</b>	<b>Semiannual reports on the Company's website regarding the operational status of recurrence prevention measures</b>	<b>Operational status details for H1 FY23 disclosed through the Company's website</b>
	<b>Achieving Health Management®</b>	<b>Accreditation as a Certified Health &amp; Productivity Management Outstanding Organization</b>	<b>2024 target: Accreditation as a Certified Health &amp; Productivity Management Outstanding Organization</b>	<b>In progress</b> (FY23 results to be disclosed)



# 4

## Progress of measures to prevent recurrence

# Progress of measures to prevent recurrence (July 2023)

## Progress

### 1. Governance reform and promotion

- Continued to hold case study workshops on the theme of communication within organizations, between new graduate recruits and mid-career employees, and between business divisions in order to promote compliance awareness and governance, identifying internal communication as an important issue (1.(1)-b,1.(4)-b)
- Set up dialogue sessions where chief executives can directly communicate their messages to employees (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)
- Reported on risk management activities by the Risk Management Committee at a meeting of the Governance and Corporate Culture Advisory Committee held on July 14 (2.(2)-e)

### 3. Strengthening of business execution systems and other internal systems

- Continued to hold meetings established to strengthen the system for conducting business operations across organizations (such as between sales and engineering divisions and the Procurement Department) (3.(1)-a)
- Continued to hold meetings between administrative divisions to bolster internal controls and strengthen the checking and follow-up structure (3.(2)-a)

### 4. Radical revisions to our auditing system

- Continued to conduct internal audits for each organization and follow-up internal audits based on the internal audit policy and plan for FY23 (4.(1)-b)
- Reported results of internal audit quality assessment to the Audit & Supervisory Committee and Management Committee (4.(1)-b)
- Completed formulating the FY23 J-SOX assessment plan and began updating internal control-related documents (4.(3)-a/b)
- Continued to carry out the measures recommended by the Audit & Supervisory Committee (which apply to FY23 as well), including periodic exchanges of opinions with executive directors and the Internal Audit Office, as well as participation in training on instances of fraud (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 continued to respond 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. Continued preparation for operational launch (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 philosophy system (6.(2)-e)

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

- Continued to formulate the FY23 education plan for improving accounting literacy and accounting knowledge. Started education for those who have not yet completed Step 2 (7.(1)-a)
- Continued to host business rule briefings and workshops aimed at learning from and sharing examples of past mistakes or failures (7.(3)-a)

### 8. Ongoing monitoring

- Continued to conduct hearings in accordance with the FY23 survey plan formulated to strengthen the internal control system on an ongoing basis (8.(2)-a)

(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

### 1. Governance reform and promotion

- Continued to hold case study workshops on the theme of communication within organizations, between new graduate recruits and mid-career employees, and between business divisions in order to promote compliance awareness and governance, identifying internal communication as an important issue (1.(1)-b,1.(4)-b)
- Continued to host dialogue sessions where chief executives can directly communicate their messages to employees (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)
- Based on discussions on risk management activities by the Governance and Corporate Culture Advisory Committee, CRO reported to the Management Committee on July 27 (2.(2)-e)

### 3. Strengthening of business execution systems and other internal systems

- Continued to hold meetings established to strengthen the system for conducting business operations across organizations (such as between sales and engineering divisions and the Procurement Department) (3.(1)-a)
- Continued to hold meetings between administrative divisions to bolster internal controls and strengthen the checking and follow-up structure (3.(2)-a)

### 4. Radical revisions to our auditing system

- Continued to conduct internal audits for each organization and follow-up internal audits based on the internal audit policy and plan for FY23 (4.(1)-b)
- Completed formulating the FY23 J-SOX assessment plan and began updating internal control-related documents (4.(3)-a/b)
- Continued to carry out the measures recommended by the Audit & Supervisory Committee (which apply to FY23 as well), including periodic exchanges of opinions with executive directors and the Internal Audit Office, as well as participation in training on instances of fraud (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 continued to respond 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. Continued preparation for operational launch (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 philosophy system (6.(2)-e)

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

- Continued to formulate the FY23 education plan for improving accounting literacy and accounting knowledge. Started education for those who have not yet completed Step 2 (7.(1)-a)
- Continued to host business rule briefings and workshops aimed at learning from and sharing examples of past mistakes or failures, while making some improvements to the content (7.(3)-a)

### 8. Ongoing monitoring

- Completed hearings in accordance with the FY23 survey plan formulated to strengthen the internal control system on an ongoing basis. Began analysis and reporting of the hearing results (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

- Continued to hold case study workshops on the theme of communication within organizations, between new graduate recruits and mid-career employees, and between business divisions in order to promote compliance awareness and governance, identifying internal communication as an important issue (1.(1)-b,1.(4)-b)
- Continued to host dialogue sessions where chief executives can directly communicate their messages to employees (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)
- Reported to the Governance and Corporate Culture Advisory Committee on the content of semi-annual disclosures based on up-to-date verification results of risk management-related measures to prevent the recurrence of fraudulent acts (2.(2)-e)

### 3. Strengthening of business execution systems and other internal systems

- Continued to hold meetings established to strengthen the system for conducting business operations across organizations (such as between sales and engineering divisions and the Procurement Department) (3.(1)-a)
- Continued to hold meetings between administrative divisions to bolster internal controls and strengthen the checking and follow-up structure (3.(2)-a)

### 4. Radical revisions to our auditing system

- Continued to conduct internal audits for each organization and follow-up internal audits based on the internal audit policy and plan for FY23 (4.(1)-b)
- Received approval from the Audit & Supervisory Committee in July for themes selected for FY23 internal audits (4.(1)-b)
- Completed update of internal control-related documents based on the FY23 J-SOX assessment plan at end-August 2023. Plans to conduct internal control design assessment from September onward (4.(3)-a/b)
- Continued to carry out the measures recommended by the Audit & Supervisory Committee (which apply to FY23 as well), including periodic exchanges of opinions with executive directors and the Internal Audit Office, as well as participation in training on instances of fraud (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 continued to respond 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. Continued preparation for operational launch (5.(2)-a)

### 6. Reform and creation of organizational culture

- Replaced annual Vision Week with four Vision Days per year to increase opportunities to disseminate the corporate philosophy, informing all employees that the first Vision Day would be held on September 15 (6.(2)-a)
- Continued one-on-one meetings between supervisors and individual subordinates based on the Declaration of Conduct pursuant to our philosophy system (6.(2)-e)

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

- Began Step 3 of accounting literacy and accounting knowledge education program for FY23. Continued education for those who have not yet completed Step 2 (7.(1)-a)
- Continued to host business rule briefings and workshops aimed at learning from and sharing examples of past mistakes or failures, while making some improvements to the content (7.(3)-a)

### 8. Ongoing monitoring

- Completed the analysis and reporting of results from the hearing conducted in accordance with the FY23 survey plan formulated to strengthen 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).

# 5

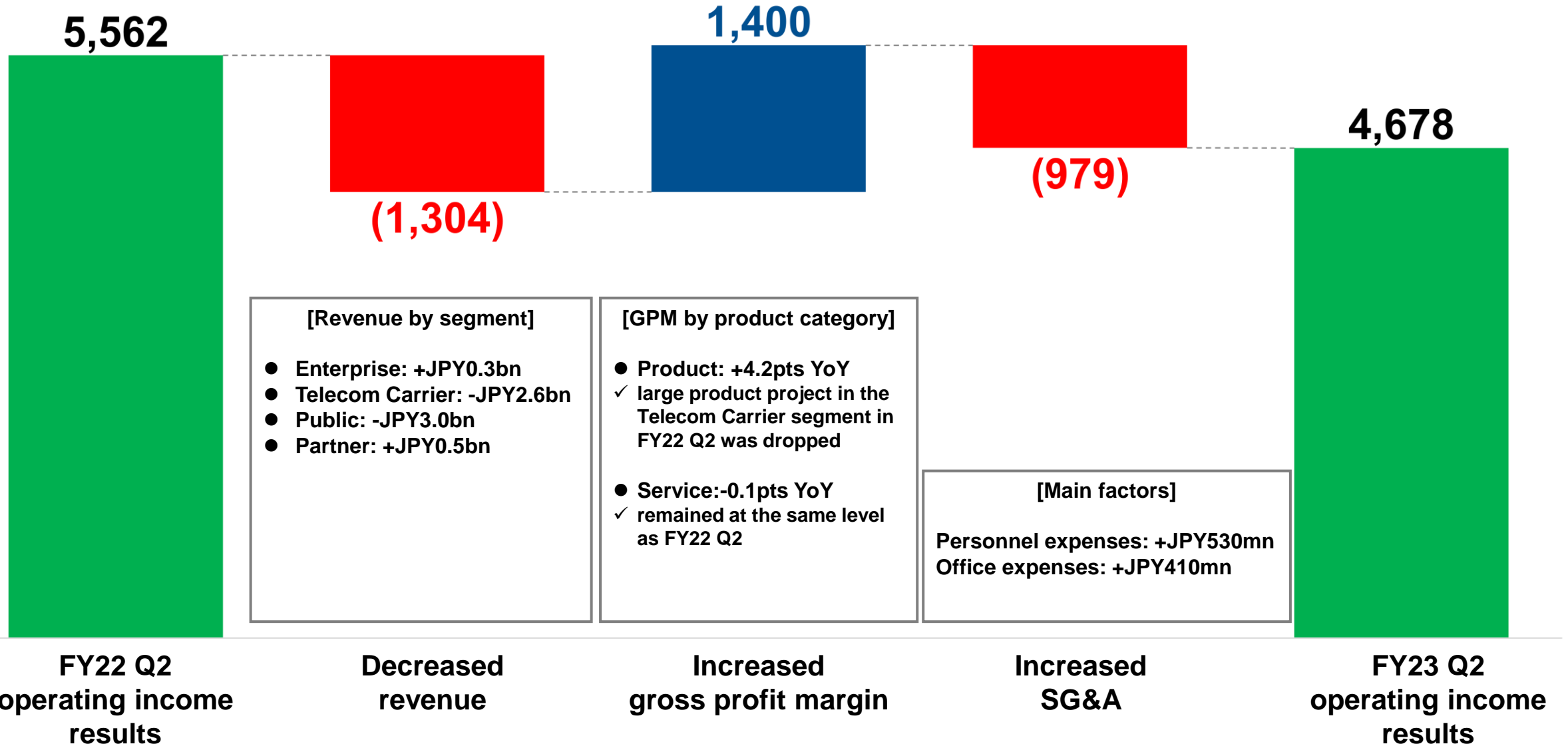
## Appendix

- **Q2 FY23 (Jul.-Sep. 3 months) results**

# Q2 FY23 (Jul.-Sep. 3 months) results

(JPYmn)	FY22 Q2 (Jul.-Sep.)		FY23 Q2 (Jul.-Sep.)		YoY		
	Amount	%	Amount	%	Amount	%	
Bookings	55,788		41,899		(13,888)	-24.9%	<ul style="list-style-type: none"> <li>● Telecom Carrier: large product project in FY22 Q2 (JPY3.5bn) was dropped, the co-creation business expanded but fell short, and the timing of bookings were pushed back as product delivery times improved</li> <li>● Public: we had JPY3.8bn lost order for a large project and JPY3.5bn delays into H2 of multiple projects</li> <li>● Partner: competition rose in lower-priced products as product delivery times improved</li> </ul>
Revenue	56,254	100.0%	50,525	100.0%	(5,728)	-10.2%	<ul style="list-style-type: none"> <li>● In line with the plan</li> <li>● Decreased YoY due to due to the sales concentration of delayed projects in FY22 Q2 Enterprise: +JPY0.3bn, Telecom Carrier:-JPY2.6bn, Public: -JPY3.0bn, Partner: +JPY0.5bn</li> </ul>
Cost of sales	43,438	77.2%	37,614	74.4%	(5,823)	-13.4%	<p>Gross profit margin: +2.8pts YoY</p> <ul style="list-style-type: none"> <li>✓ Product: +4.2pts YoY <ul style="list-style-type: none"> <li>• large product project in the Telecom Carrier segment in FY22 Q2 was dropped</li> </ul> </li> <li>✓ Service: -0.1pts YoY <ul style="list-style-type: none"> <li>• remained at the same level as FY22 Q2</li> </ul> </li> <li>✓ Service ratio: +6.9pts YoY <ul style="list-style-type: none"> <li>• sales of delayed projects, including large product projects, were concentrated in the FY22 Q2</li> </ul> </li> </ul>
Gross profit	12,815	22.8%	12,911	25.6%	+95	+0.7%	
SG&A	7,253	12.9%	8,232	16.3%	+979	+13.5%	Personnel expenses: +JPY530mn, Office expenses: +JPY410mn
Operating income	5,562	9.9%	4,678	9.3%	(883)	-15.9%	Analysis of the increase/decrease YoY is provided on the next page
Ordinary income	5,627	10.0%	4,698	9.3%	(928)	-16.5%	
Profit attributable to owners of parent	3,704	6.6%	3,195	6.3%	(509)	-13.7%	

# Q2 FY23 (Jul.-Sep. 3 months) Operating income analysis



# Q2 FY23 (Jul.-Sep. 3 months)

## Bookings, revenue, gross profit, and operating income by segment

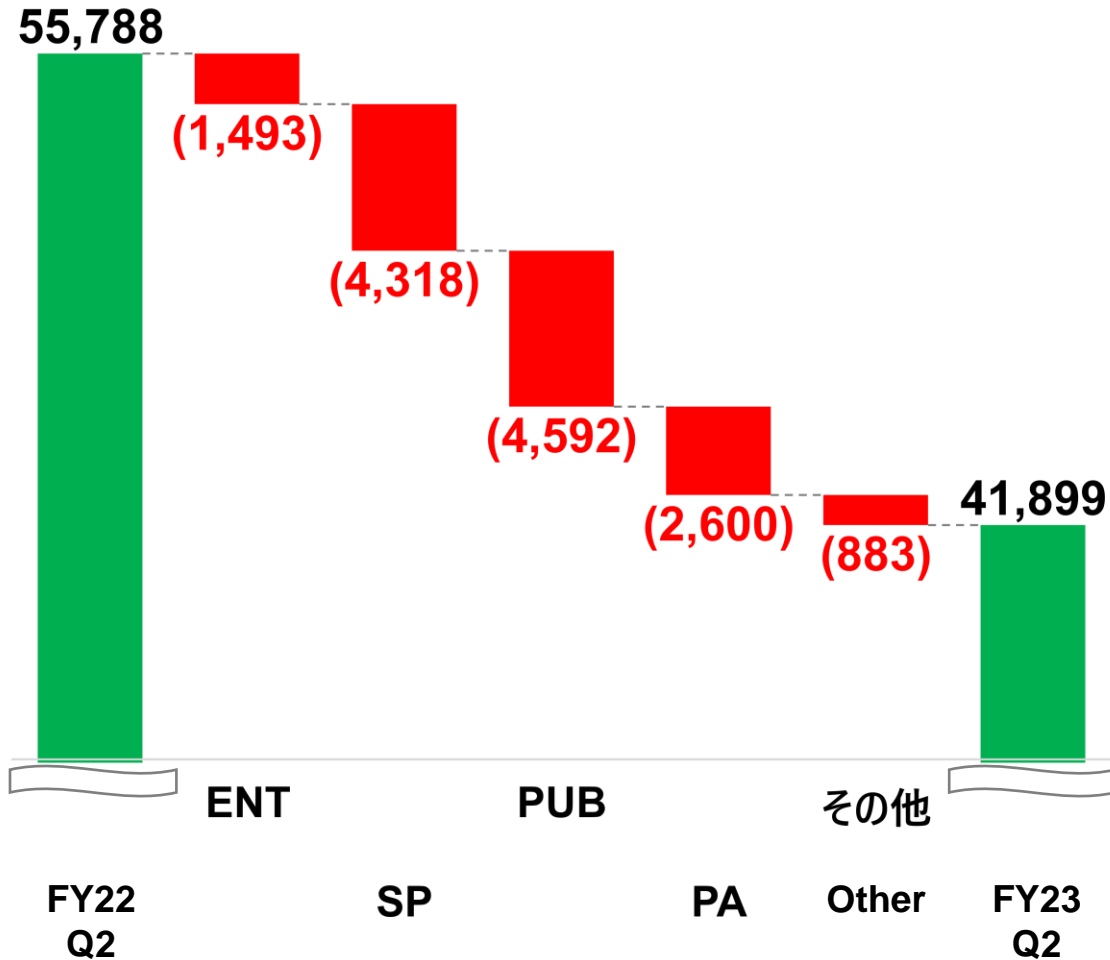
(JPYmn)		FY22		FY23		YoY		
		Q2 (Jul.-Sep.)		Q2 (Jul.-Sep.)		Amount	%	
Enterprise	Bookings	14,521		13,027		(1,493)	-10.3%	<ul style="list-style-type: none"> <li>● Bookings: Continuing from Q1, the financial sector has slightly weakened</li> <li>● Revenue: increased in the financial and non-manufacturing sectors</li> <li>● Gross profit margin: +1.2pts YoY                             <ul style="list-style-type: none"> <li>✓ service ratio improved YoY due to the increase in maintenance services</li> </ul> </li> </ul>
	Service (%)	6,710	46.2%	7,834	60.1%	+1,124	+16.8%	
	Revenue	13,207		13,511		+303	+2.3%	
	Service (%)	7,061	53.5%	7,942	58.8%	+881	+12.5%	
	Gross profit (%)	3,313	25.1%	3,555	26.3%	+241	+7.3%	
	Operating income (%)	1,270	9.6%	1,117	8.3%	(152)	-12.0%	
Telecom Carrier	Bookings	10,441		6,123		(4,318)	-41.4%	<ul style="list-style-type: none"> <li>● Bookings: large product project in FY22 Q2 (JPY3.5bn) was dropped, the co-creation business expanded but fell short, and the timing of bookings were pushed back as product delivery times improved</li> <li>● Revenue: decreased YoY due to due to the sales concentration of delayed projects in FY22 Q2</li> <li>● Gross profit margin: +5.2pts YoY                             <ul style="list-style-type: none"> <li>✓ Service ratio increased YoY due to the sales concentration of delayed projects and large product project in FY22 Q2</li> </ul> </li> </ul>
	Service (%)	2,898	27.8%	2,829	46.2%	(69)	-2.4%	
	Revenue	14,486		11,854		(2,631)	-18.2%	
	Service (%)	4,703	32.5%	5,702	48.1%	+999	+21.2%	
	Gross profit (%)	2,655	18.3%	2,788	23.5%	+132	+5.0%	
	Operating income (%)	1,390	9.6%	1,320	11.1%	(69)	-5.0%	
Public	Bookings	17,664		13,071		(4,592)	-26.0%	<ul style="list-style-type: none"> <li>● Bookings: we had JPY3.8bn lost order for a large project and JPY3.5bn delays into H2 of multiple projects</li> <li>● Revenue: decreased YoY due to due to the sales concentration of delayed projects in FY22 Q2, and the anticipated sales of some of the large project that was lost</li> <li>● Gross profit margin: +0.8pts YoY                             <ul style="list-style-type: none"> <li>✓ service ratio improved YoY due to the sales concentration of delayed projects in FY22 Q2</li> </ul> </li> </ul>
	Service (%)	9,332	52.8%	7,255	55.5%	(2,077)	-22.3%	
	Revenue	15,403		12,343		(3,060)	-19.9%	
	Service (%)	9,019	58.6%	8,406	68.1%	(612)	-6.8%	
	Gross profit (%)	3,633	23.6%	3,007	24.4%	(625)	-17.2%	
	Operating income (%)	1,319	8.6%	466	3.8%	(853)	-64.6%	
Partner	Bookings	12,276		9,676		(2,600)	-21.2%	<ul style="list-style-type: none"> <li>● Bookings: competition rose in lower-priced products as product delivery times improved</li> <li>● Revenue: increased mainly in key partner companies</li> <li>● Gross profit margin: +1.3pts YoY                             <ul style="list-style-type: none"> <li>✓ increased YoY due to the more positive impact of foreign exchange rates in this Q2 than FY22 Q2</li> </ul> </li> </ul>
	Service (%)	2,151	17.5%	1,995	20.6%	(156)	-7.3%	
	Revenue	12,291		12,817		+525	+4.3%	
	Service (%)	2,153	17.5%	2,151	16.8%	(1)	-0.1%	
	Gross profit (%)	2,753	22.4%	3,038	23.7%	+284	+10.3%	
	Operating income (%)	1,822	14.8%	2,064	16.1%	+241	+13.2%	



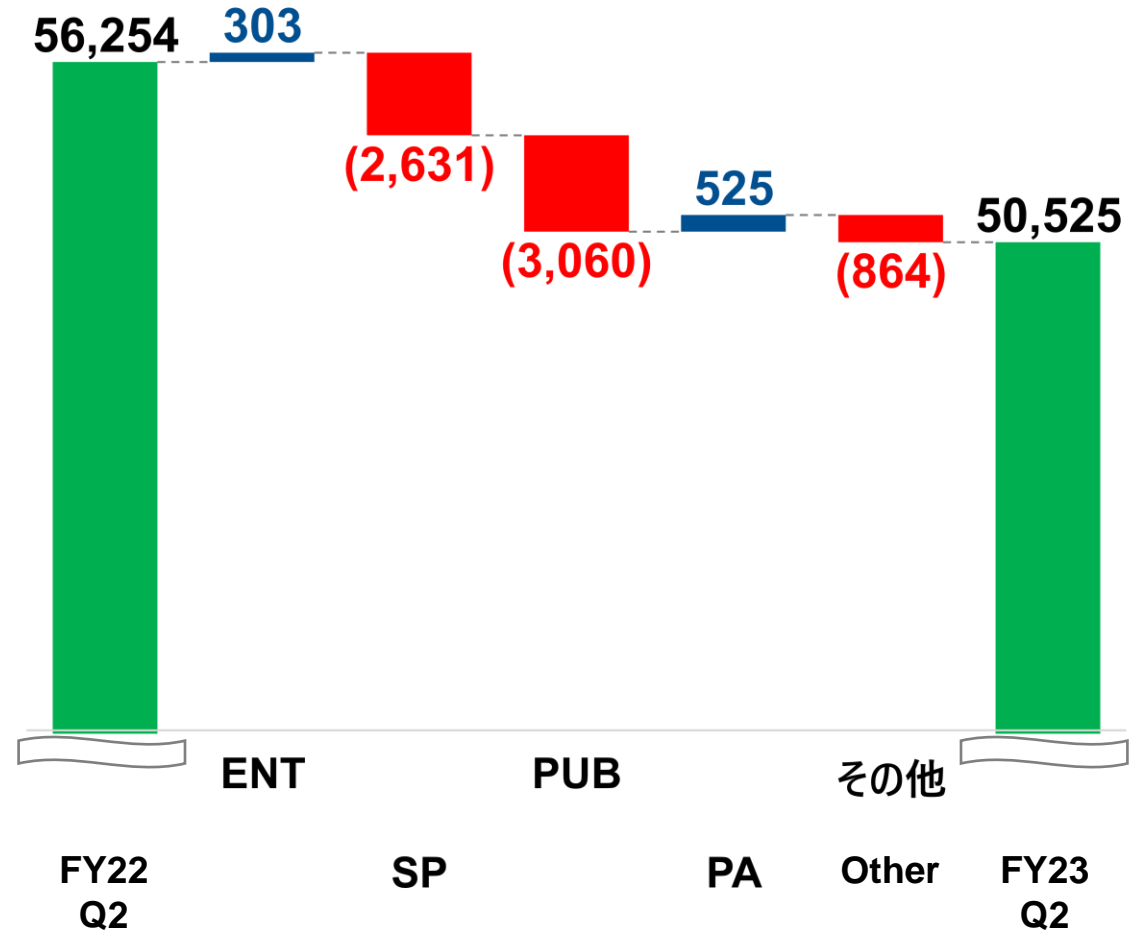
# Q2 FY23 (Jul.-Sep. 3 months)

## Bookings and revenue: YoY changes by segment

### Bookings



### Revenue

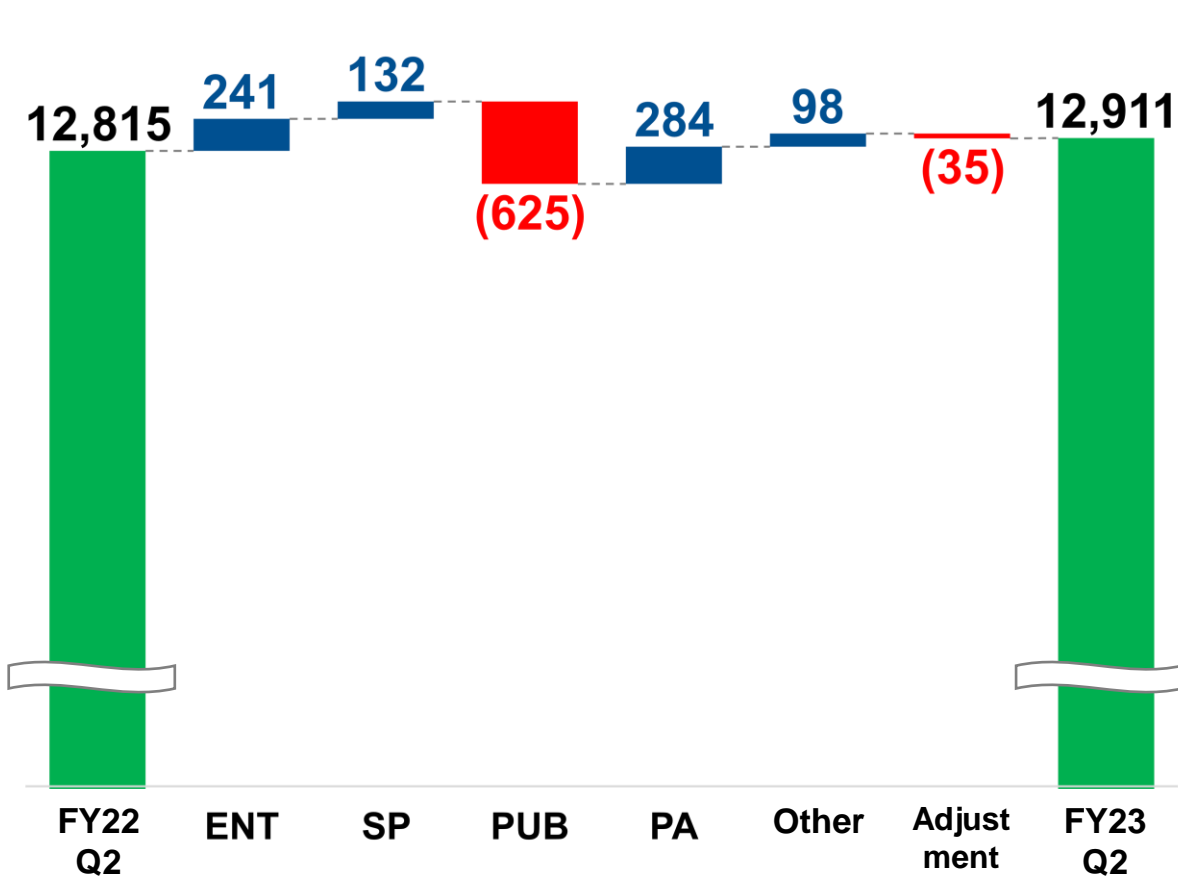


(Note) ENT: Enterprise, SP: Telecom Carrier, PUB: Public, PA: Partner

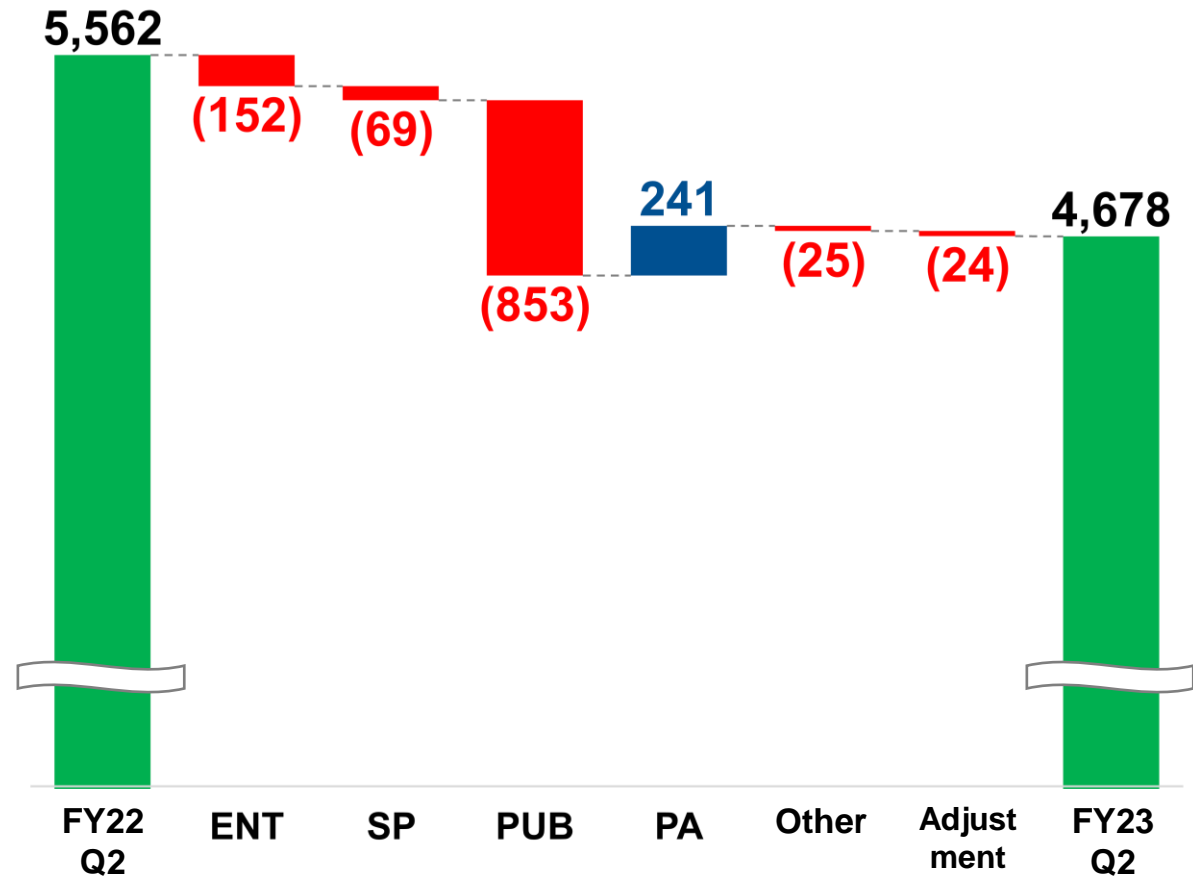
# Q2 FY23 (Jul.-Sep. 3 months)

## Gross profit and operating income: YoY changes by segment

### Gross profit



### Operating income



(Note) ENT: Enterprise, SP: Telecom Carrier, PUB: Public, PA: Partner

# Q2 FY23 (Jul.-Sep. 3 months)

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

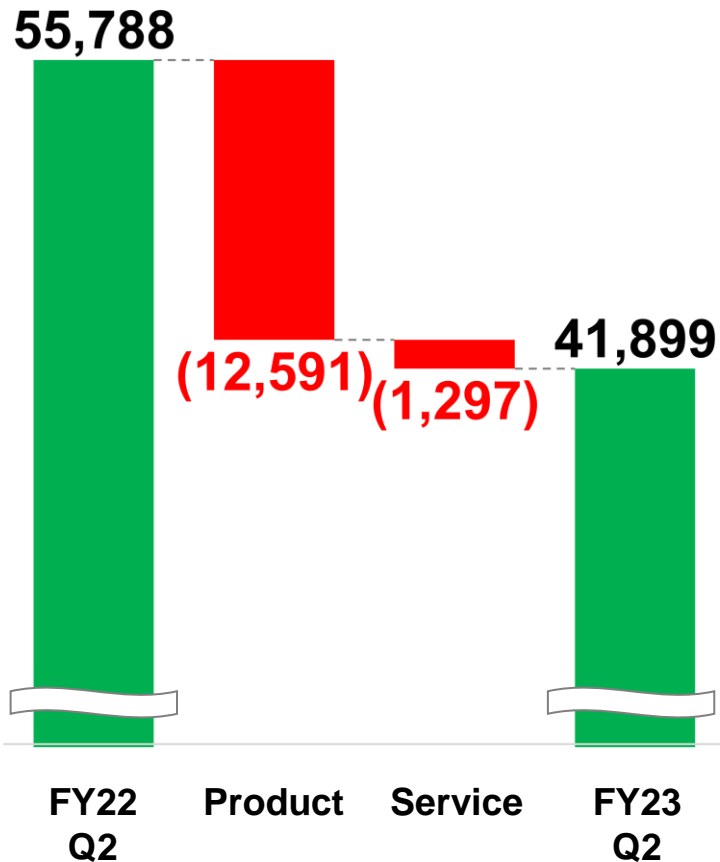
[Service ratio] bookings: 47.5% (+9.5pts), revenue: 47.9% (+6.9pts)

(JPYmn)		FY22 Q2 (Jul.-Sep.)		FY23 Q2 (Jul.-Sep.)		YoY		
						Amount	%	
Product	Bookings	34,576		21,984		(12,591)	-36.4%	● Bookings: large product project in FY22 Q2 (JPY3.5bn) was dropped, and weak performance in the Telecom Carrier, Public, and Partner segment
	Revenue	33,189		26,322		(6,867)	-20.7%	● Revenue: decreased YoY due to the sales concentration of delayed projects including large product project in FY22 Q2
	Gross profit (%)	6,237	18.8%	6,048	23.0%	(188)	-3.0%	● Gross profit margin: +4.2pts YoY ✓ large product project in the Telecom Carrier segment in FY22 Q2 was dropped
Service	Bookings	21,212		19,914		(1,297)	-6.1%	● Bookings: while overall FY23 Q2 bookings decreased YoY, maintenance services increased
	Revenue	23,064		24,203		+1,138	+4.9%	● Revenue: increased mainly in maintenance services and managed services
	Gross profit (%)	6,578	28.5%	6,862	28.4%	+284	+4.3%	● Gross profit margin: -0.1pts YoY ✓ remained at the same level as FY22 Q2

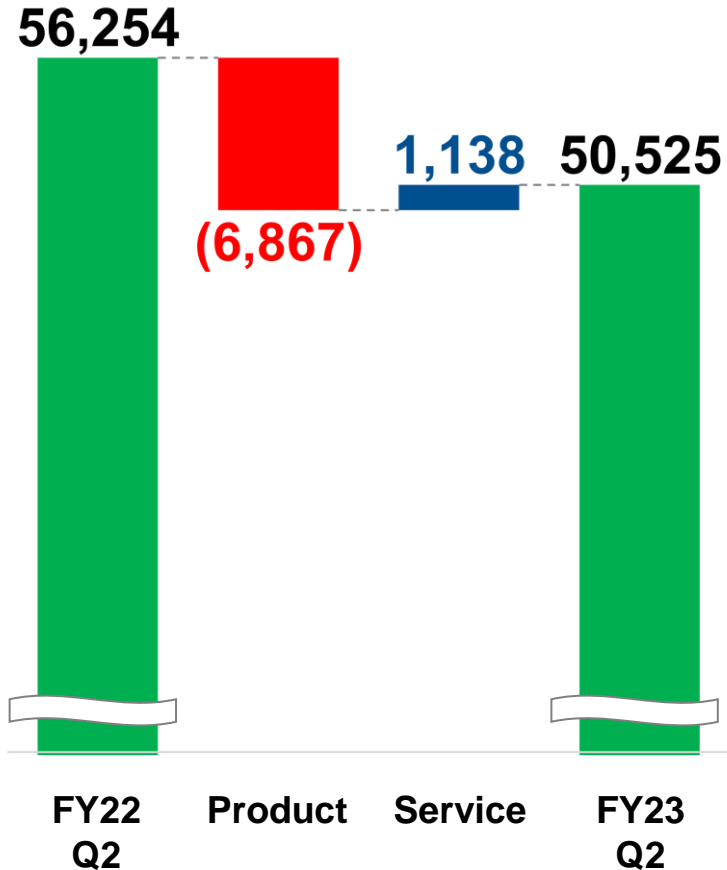
# Q2 FY23 (Jul.-Sep. 3 months)

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

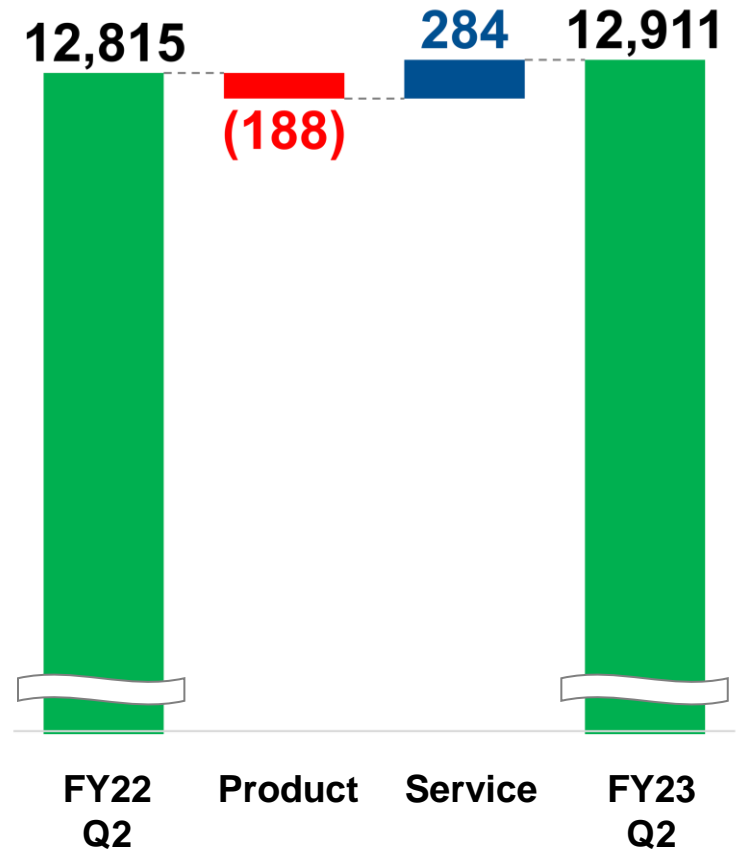
### Bookings



### Revenue



### Gross profit



charge ∠ channel ∠ change



**net one**