



Results for Q3 FY23

Ended December 31, 2023

Net One Systems Co., Ltd.

February 2, 2024 (Stock Code 7518: JP)

1	Summary (FY23 Q1-3 results overview, FY23 forecast, etc.)	P.02-06
2	FY23 Q1-3 (Apr.-Dec. 9 months) results	P.07-19
3	Progress of measures to prevent recurrence	P.20-23
4	[Appendix] FY23 Q3 (Oct.-Dec. 3 months) results	P.24-31

1

Summary

- **FY23 Q1-3 results overview**
- **FY23 forecast**
- **For growth in bookings from next fiscal year onward: improvement in customer-facing**
- **“Revision of skills required of members of the Board of Directors” and “Candidates for positions as executive directors”**

Revenue and operating income progressed steadily against the revised plan. Bookings were slightly lower than the revised plan due to delays in some projects.

		FY22 results	FY23 results	
Bookings	Q3	JPY40.1bn	JPY36.4bn	<ul style="list-style-type: none"> Due to the delays in some projects, the progress was slightly lower than the revised plan
	Q1-3	JPY155.1bn	JPY128.3bn	<ul style="list-style-type: none"> Large product projects in FY22 Q1-3 was dropped (two projects: total JPY13.2bn) Telecom Carrier, Public, and Partner segment remained weak
Revenue	Q3	JPY46.9bn	JPY49.8bn	<ul style="list-style-type: none"> Due to the advance of some projects, the progress was slightly higher than the revised plan
	Q1-3	JPY139.6bn	JPY143.0bn	<ul style="list-style-type: none"> The progress was steady against the revised plan
Operating income	Q3	JPY4.6bn	JPY5.7bn	<ul style="list-style-type: none"> GPM: +2.7pts YoY (FY22 Q3: 24.8%, FY23 Q3: 27.5%) SG&A: +JPY1.0bn YoY (FY22 Q3: JPY6.9bn, FY23 Q3: JPY7.9bn)
	Q1-3	JPY13.0bn	JPY12.0bn	<ul style="list-style-type: none"> GPM: +1.1pts YoY (FY22 Q1-3: 24.8%, FY23 Q1-3, 25.9%) SG&A: +JPY3.3bn YoY (FY22 Q1-3: JPY21.5bn, FY23 Q1-3: JPY 24.9bn)

FY23 forecast (announced on October 26, 2023)

(JPYmn)	FY23 initial forecast		FY23 revised forecast		Compared to initial forecast	
	Amount	%	Amount	%	Amount	%
Bookings	225,000		210,000		(15,000)	-6.7%
Revenue	220,000	100.0%	201,000	100.0%	(19,000)	-8.6%
Cost of sales	161,000	73.2%	150,700	75.0%	(10,300)	-6.4%
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%
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%

(JPYmn)		FY23 initial forecast		FY23 revised forecast		Compared to initial forecast	
		Amount	%	Amount	%	Amount	%
Enterprise	Bookings	57,000		58,500		+1,500	+2.6%
	Revenue	54,000		54,000		0	0.0%
Telecom Carrier	Bookings	49,000		43,000		(6,000)	-12.2%
	Revenue	48,000		42,500		(5,500)	-11.5%
Public	Bookings	71,000		65,000		(6,000)	-8.5%
	Revenue	70,000		61,500		(8,500)	-12.1%
Partner	Bookings	48,000		43,500		(4,500)	-9.4%
	Revenue	48,000		43,000		(5,000)	-10.4%

For growth in bookings from next fiscal year onward: improvement in customer-facing

In order to capture growing demand,
we will mainly improve customer-facing through the following two measures

Effective execution of strategy

- Approach the market/service by clarifying the following
 - ✓ Utilization of cutting-edge technologies
 - ✓ Expansion of focus areas & focus services
 - ✓ Strengthen existing areas & existing services

Expand resources and efficiency of business divisions based on a certain level of retention of recurrence prevention measures

- Transfer/integrate the following to the business division
 - ✓ Sales engineers
 - ✓ Market strategy function
 - ✓ Part of the internal check function
 - ✓ Part of the service development function

“Revision of skills required of members of the Board of Directors” and “Candidates for positions as executive directors”

From the discussion of "Ideal vision for the Company's Board of Directors", "Topics our Board of Directors should address", and "Skills required of our Board members", the Board of Directors approved proposals for candidates for positions as executive directors

(Scheduled for June 2024)

Name	Position
Takafumi Takeshita	President & CEO
Takuya Tanaka	Executive director, Vice president, COO
Maya Ito	Outside executive director, Chairperson of the Board of Directors
Masayoshi Wada	Outside executive director
Shinobu Umino	Outside executive director
Yuka Uehara (new appointment)	Outside executive director
Kazuhiro Noguchi	Outside executive director (full-time Audit & Supervisory Committee member)
Mitsuru Kiuchi	Executive director (full-time Audit & Supervisory Committee member)
Sachiko Iizuka	Outside executive director (Audit & Supervisory Committee member)

For details, please refer to the [“Notice regarding revision of skills required of members of the Board of Directors”](#) and [“Notice regarding candidates for positions as executive directors”](#) released on January 30, 2024

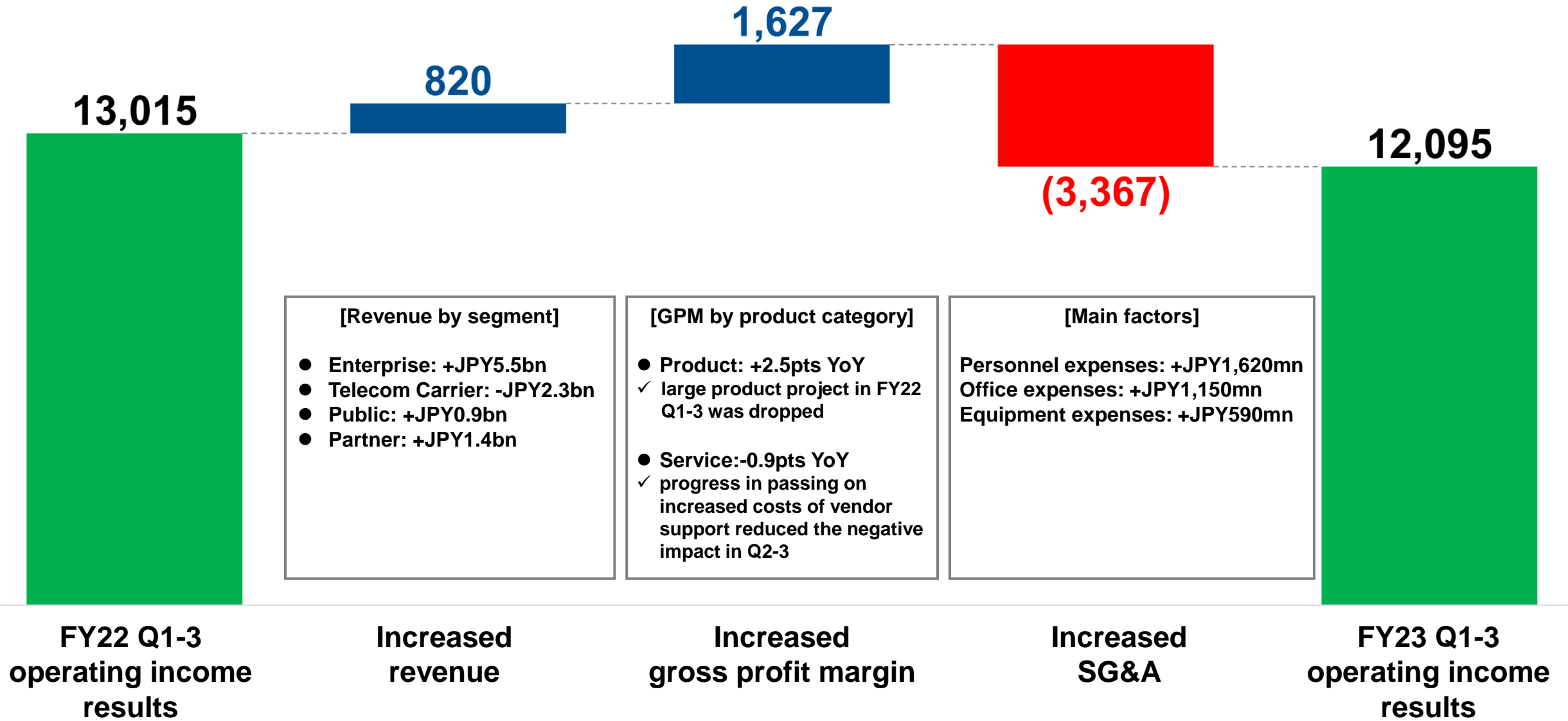
2

FY23 Q1-3 (Apr.-Dec. 9 months) results

FY23 Q1-3 (Apr.-Dec. 9 months) results

(JPYmn)	FY22 Q1-3		FY23 Q1-3		YoY		
	Amount	%	Amount	%	Amount	%	
Bookings	155,154		128,331		(26,823)	-17.3%	<ul style="list-style-type: none"> ● Large product projects in FY22 Q1-3 was dropped (two projects: total JPY13.2bn) ● Telecom Carrier, Public, and Partner segment remained weak ✓ [YoY] Enterprise: -JPY1.1bn, Telecom Carrier: -JPY9.8bn, Public: -JPY3.0bn, Partner: -JPY10.2bn
Backlog	154,616		134,384		(20,232)	-13.1%	
Revenue	139,699	100.0%	143,013	100.0%	+3,314	+2.4%	<ul style="list-style-type: none"> ● The progress was steady against the revised plan ✓ [YoY] Enterprise: +JPY5.5bn, Telecom Carrier: -JPY2.3bn, Public: +JPY0.9bn, Partner: +JPY1.4bn
Cost of sales	105,119	75.2%	105,986	74.1%	+866	+0.8%	<ul style="list-style-type: none"> ● Gross profit margin: +1.1pts YoY ✓ Product: +2.5pts YoY (FY22 Q1-3: 20.2%, FY23 Q1-3: 22.7%) <ul style="list-style-type: none"> • large product projects in FY22 Q1-3 was dropped ✓ Service: -0.9pts YoY (FY22 Q1-3: 30.1%, FY23 Q1-3: 29.2%) <ul style="list-style-type: none"> • progress in passing on increased costs of vendor support reduced the negative impact in Q2-3 ✓ Service ratio: +2.7pts YoY (FY22 Q1-3: 46.2%, FY23 Q1-3: 48.9%) <ul style="list-style-type: none"> • increased in maintenance services and dropped of large product projects
Gross profit	34,580	24.8%	37,027	25.9%	+2,447	+7.1%	
SG&A	21,565	15.4%	24,932	17.4%	+3,367	+15.6%	<ul style="list-style-type: none"> ● Personnel expenses: +JPY1,620mn, Office expenses: +JPY1,150mn, Equipment expenses: +JPY590mn
Operating income	13,015	9.3%	12,095	8.5%	(919)	-7.1%	<ul style="list-style-type: none"> ● Analysis of the increase/decrease YoY is provided on the next page
Ordinary income	12,800	9.2%	11,636	8.1%	(1,163)	-9.1%	
Profit attributable to owners of parent	9,709	6.9%	7,937	5.6%	(1,771)	-18.2%	
Earnings per share (JPY)	118.16		97.65		(20.51)	-17.4%	

Operating income analysis



Bookings and backlog by segment

(JPYmn)		FY22 Q1-3		FY23 Q1-3		YoY		
						Amount	%	
Enterprise	Bookings	38,113		36,933		(1,180)	-3.1%	<ul style="list-style-type: none"> ● Manufacturing sector: we won security and smart manufacturing projects, mainly from automakers and electronics manufacturers ● Non-manufacturing sector: we won large SASE projects ● Financial sector: despite weakness, we won ongoing projects for cloud utilization and security enhancements ● Service ratio: increased due to an increase in maintenance services and managed services
	Service (%)	20,182	53.0%	21,821	59.1%	+1,639	+8.1%	
	Backlog	35,906		34,851		(1,055)	-2.9%	
Telecom Carrier	Bookings	33,432		23,598		(9,833)	-29.4%	<ul style="list-style-type: none"> ● Absence of a large product project in FY22 Q1-3: -JPY10.0bn ● Although the co-creation business expanded, it did not reach the level assumed at the initial plan ● Service ratio: increased due to the absence of a large product project
	Service (%)	8,415	25.2%	9,810	41.6%	+1,395	+16.6%	
	Backlog	26,935		21,999		(4,935)	-18.3%	
Public	Bookings	42,529		39,519		(3,009)	-7.1%	<ul style="list-style-type: none"> ● Municipality: we won several large DX projects, including work style reforms, cloud utilization, and security measures. On the other hand, we lost a large project in Q2 ● Social infrastructure: we won upgrading IT operations projects of the electric power group, etc. ● Healthcare: we won large cloud infrastructure projects ● Several projects were delayed to FY24 (total JPY2.0bn) ● Service ratio: decreased due to the absence of a large service-type project in FY22 Q1, despite an increase in maintenance services
	Service (%)	23,891	56.2%	20,874	52.8%	(3,017)	-12.6%	
	Backlog	69,287		65,061		(4,226)	-6.1%	
Partner	Bookings	38,552		28,304		(10,247)	-26.6%	<ul style="list-style-type: none"> ● Absence of a large product project (Wi-Fi service business for MSPs) in FY22 Q1: -JPY3.2bn ● Security enhancement business remained strong ● Several projects were delayed to Q4 (JPY2.5bn). ● Competition rose in lower-priced products ● Service ratio: increased due to an increase in maintenance services and a drop in product projects
	Service (%)	5,787	15.0%	6,075	21.5%	+288	+5.0%	
	Backlog	22,147		12,471		(9,675)	-43.7%	

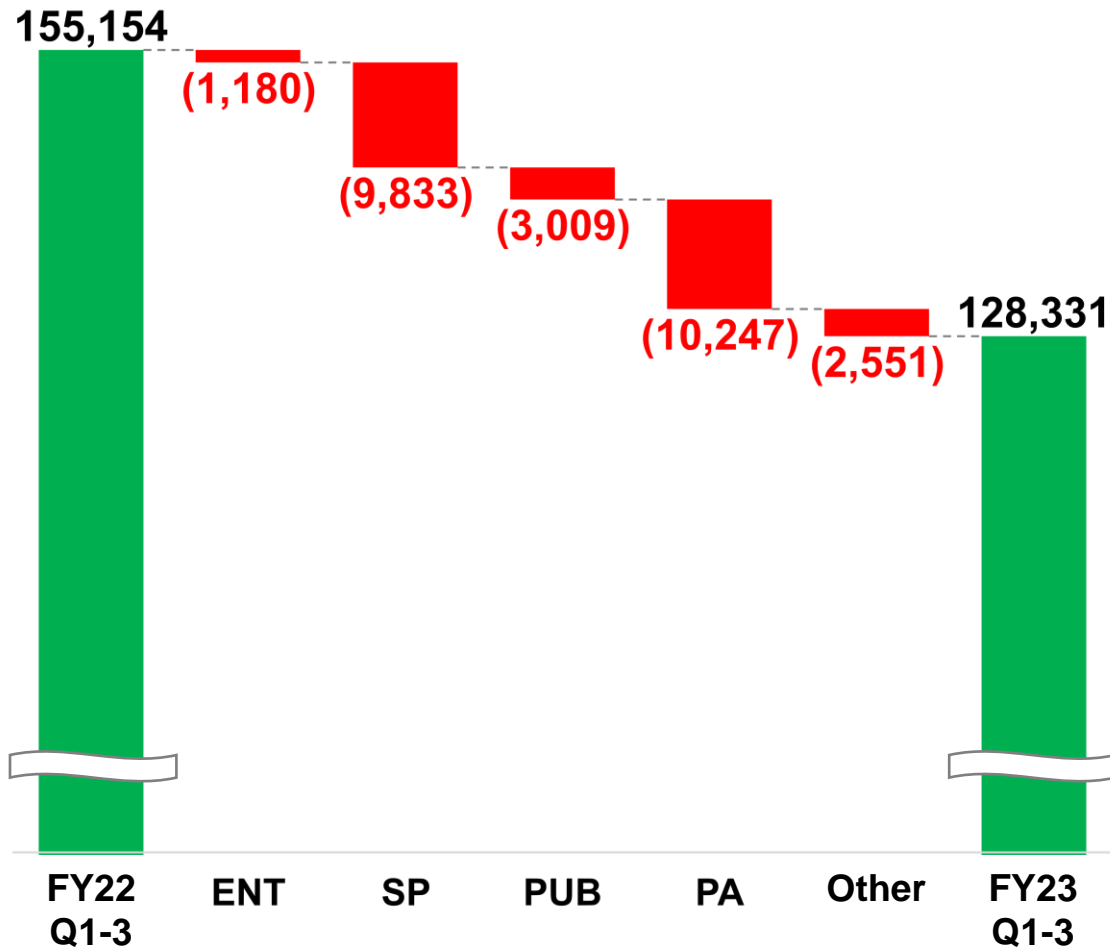
Revenue, gross profit, and operating income by segment

(JPYmn)		FY22 Q1-3		FY23 Q1-3		YoY		
						Amount	%	
Enterprise	Revenue	33,510		39,078		+5,568	+16.6%	<ul style="list-style-type: none"> ● Revenue: increased in manufacturing, non-manufacturing, and financial sectors ● Gross profit margin: -0.5pts YoY ✓ service ratio declined due to sales growth
	Service (%)	21,045	62.8%	23,113	59.1%	+2,068	+9.8%	
	Gross profit (%)	9,228	27.5%	10,558	27.0%	+1,330	+14.4%	
	Operating income (%)	3,057	9.1%	3,210	8.2%	+152	+5.0%	
Telecom Carrier	Revenue	34,027		31,643		(2,384)	-7.0%	<ul style="list-style-type: none"> ● Revenue: decreased due to the absence of large product projects in FY22 Q1-3 (JPY5.8bn), despite the expansion of co-creation business ● Gross profit margin: +3.5pts YoY ✓ service ratio improved due to the decreased due to the absence of large product projects in FY22 Q1-3
	Service (%)	14,219	41.8%	16,351	51.7%	+2,131	+15.0%	
	Gross profit (%)	7,004	20.6%	7,628	24.1%	+623	+8.9%	
	Operating income (%)	3,213	9.4%	3,216	10.2%	+3	+0.1%	
Public	Revenue	36,701		37,659		+957	+2.6%	<ul style="list-style-type: none"> ● Revenue: increased in social infrastructure, university, and hospital ● Gross profit margin: -0.2pts YoY ✓ decreased due to a portion of the cost increase in vendor support remained unpassed in Q1. The negative impact was mitigated in Q2-3
	Service (%)	23,317	63.5%	23,953	63.6%	+636	+2.7%	
	Gross profit (%)	9,282	25.3%	9,434	25.1%	+152	+1.6%	
	Operating income (%)	2,346	6.4%	1,713	4.5%	(633)	-27.0%	
Partner	Revenue	33,161		34,633		+1,471	+4.4%	<ul style="list-style-type: none"> ● Revenue: increased in overall partners, including the advance of some projects ● Gross profit margin: -0.8pts YoY ✓ in FY22 Q1-3, GPM increased due to the positive impact of foreign exchange. In FY23, Q1 was negative, Q2-3 were positive (positive impact in Q1-3)
	Service (%)	5,615	16.9%	6,547	18.9%	+932	+16.6%	
	Gross profit (%)	7,802	23.5%	7,877	22.7%	+75	+1.0%	
	Operating income (%)	4,987	15.0%	4,865	14.0%	(122)	-2.5%	

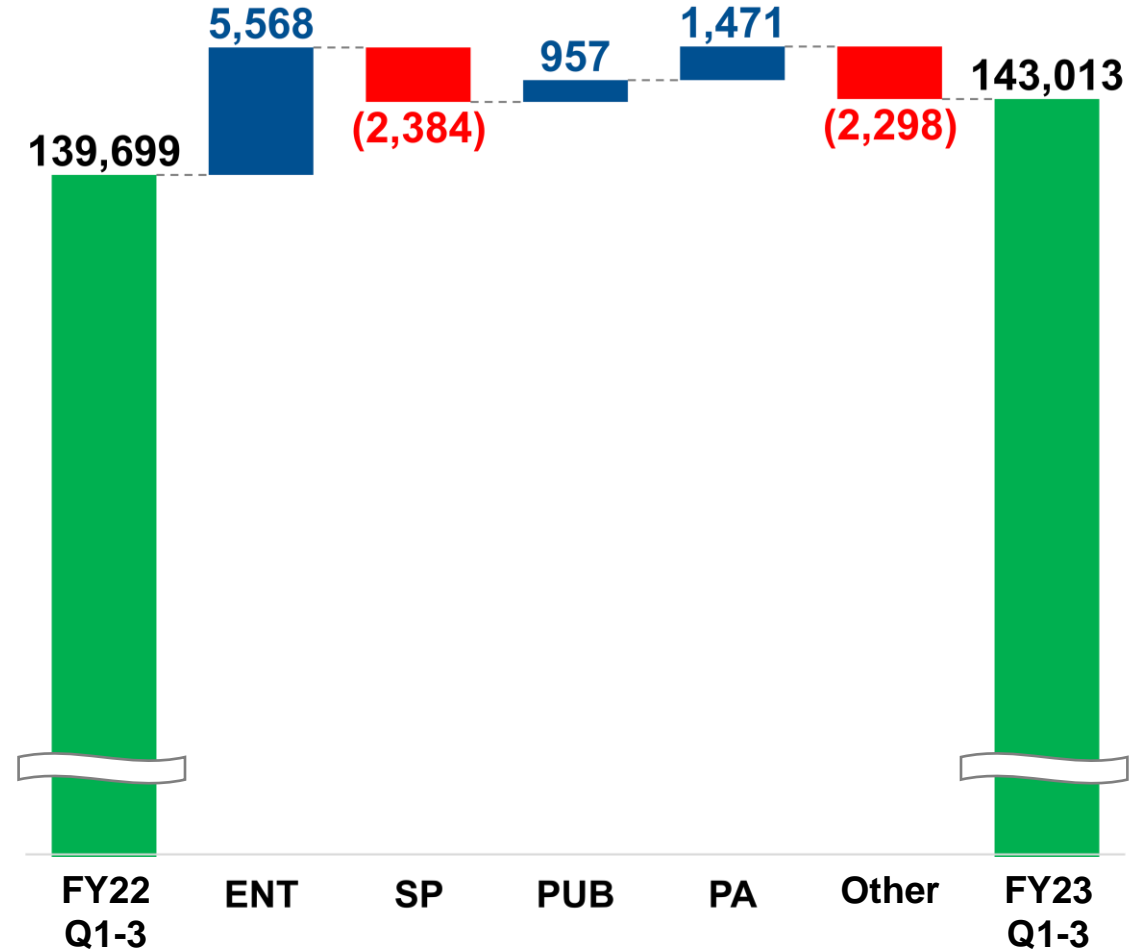
Bookings and revenue: YoY changes by segment

(JPYmn)

Bookings

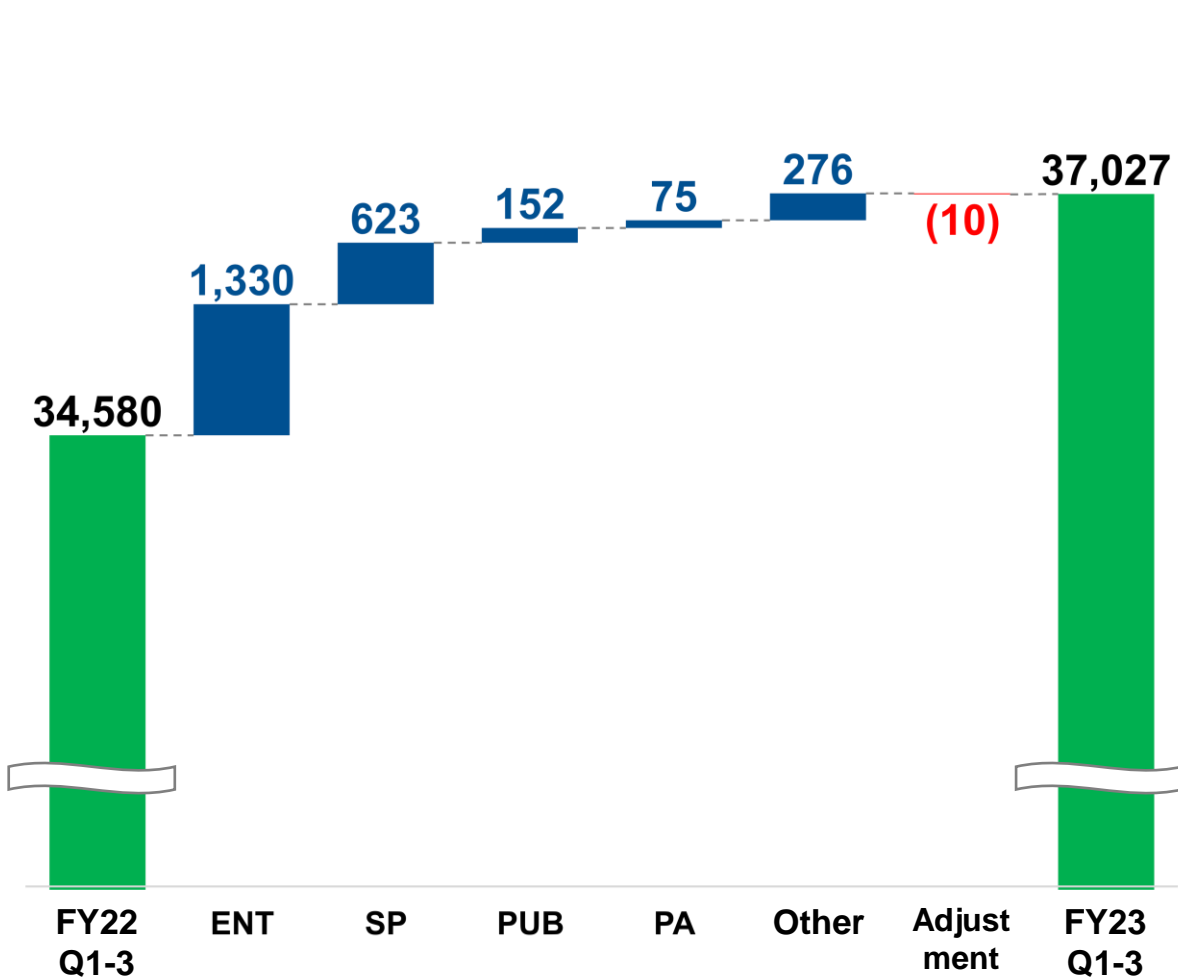


Revenue

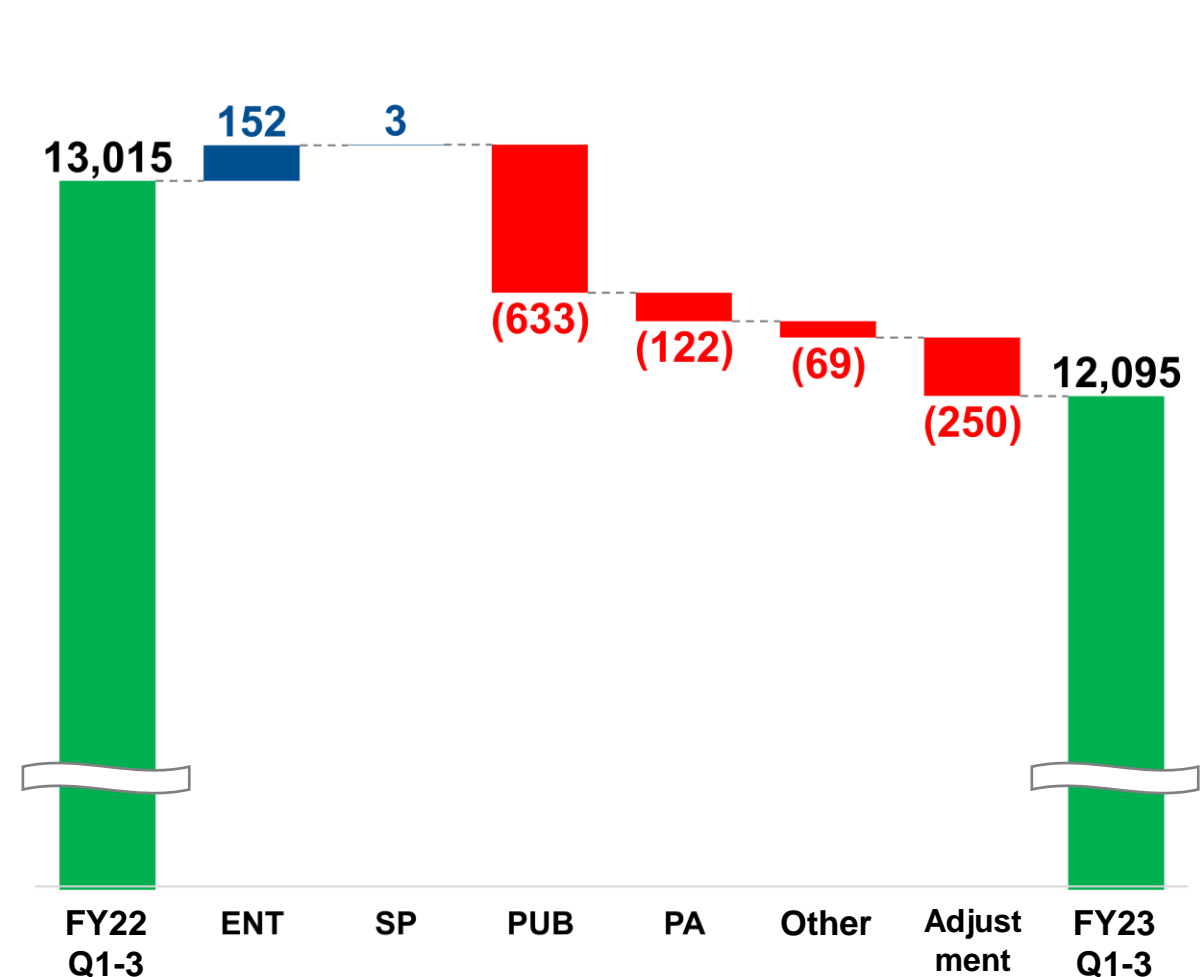


Gross profit and operating income: YoY changes by segment

Gross profit



Operating income



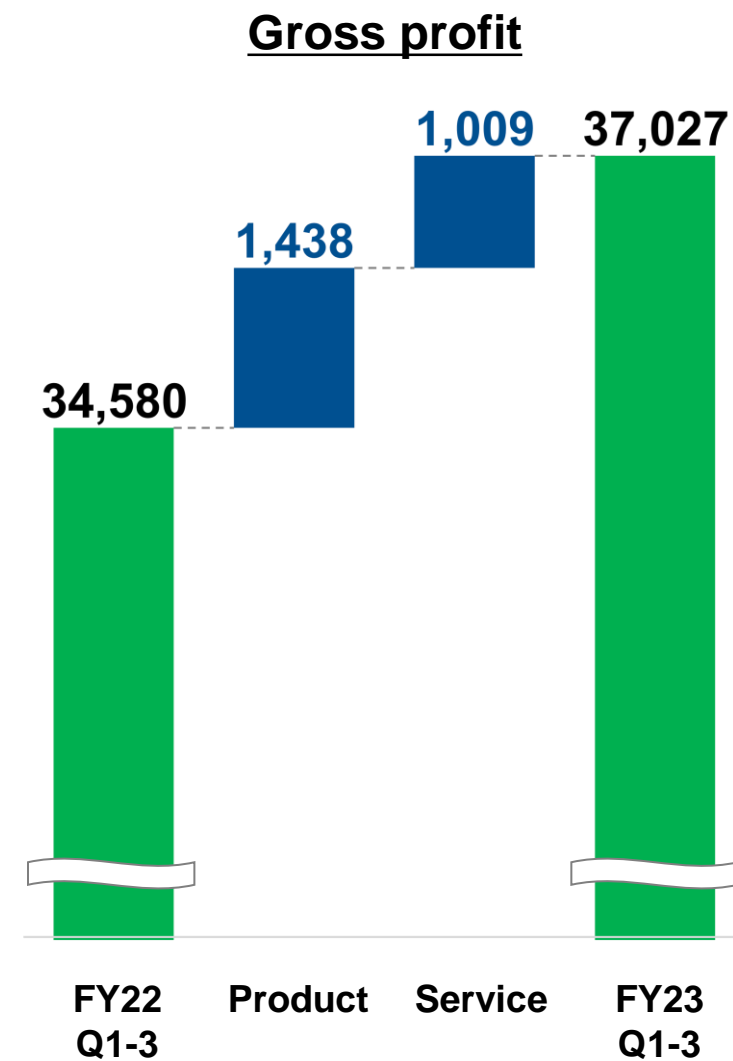
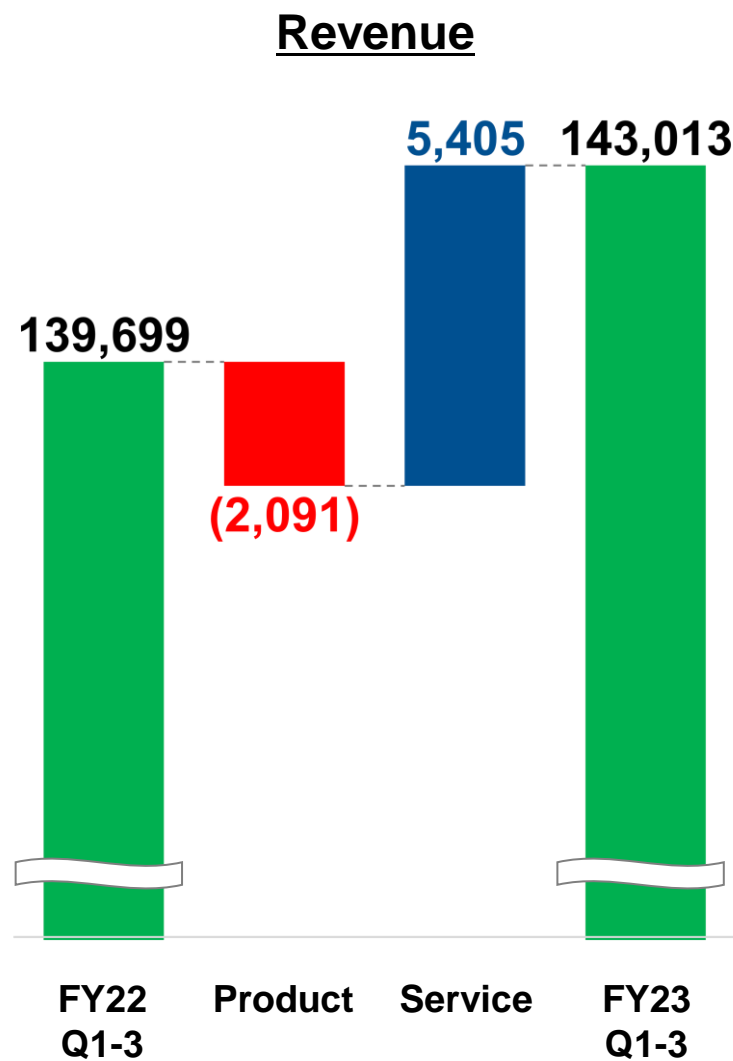
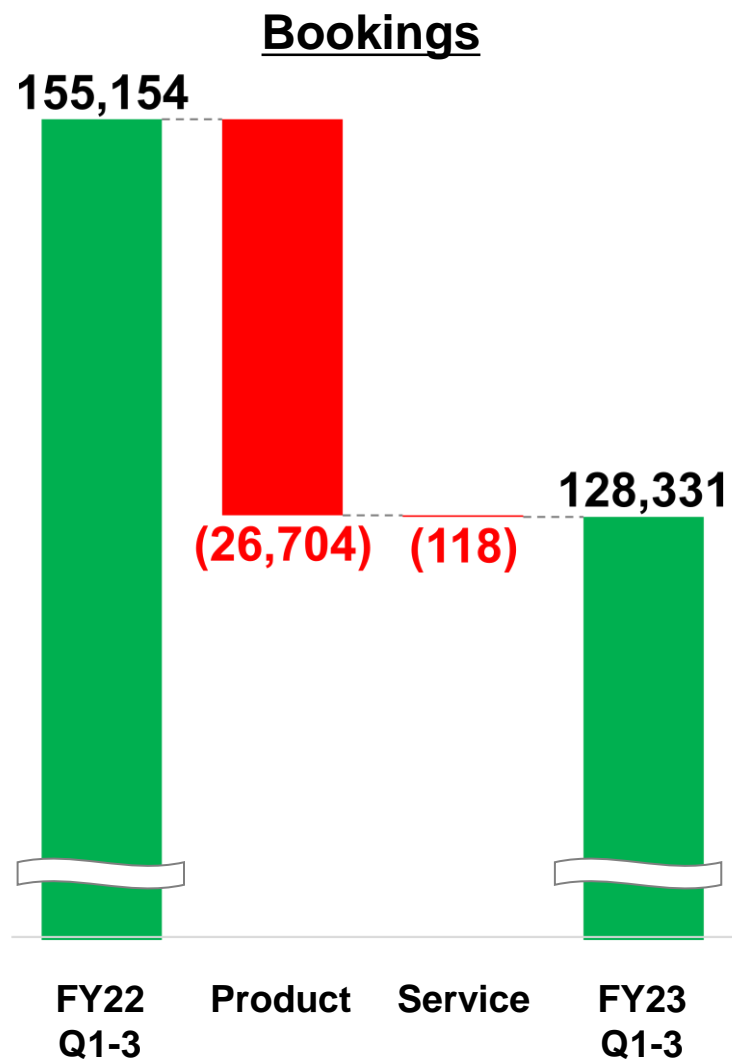
Bookings, backlog, revenue, and gross profit by product category

[Service ratio] bookings: 45.6% (+7.8pts), revenue: 48.9% (+2.7pts), backlog: 64.1% (+8.9pts)

(JPYmn)	FY22 Q1-3		FY23 Q1-3		YoY		
	Amount	%	Amount	%	Amount	%	
Product	Bookings	96,478	69,773	(26,704)	-27.7%	● Bookings: decreased due to the absence of large product projects in FY22 Q1-3 was dropped (two projects: total JPY13.2bn), and the weak performance in the Telecom Carrier, Public, and Partner segment	
	Backlog	69,267	48,186	(21,081)	-30.4%		
	Revenue	75,138	73,047	(2,091)	-2.8%	● Revenue: decreased due to the absence of large product projects in FY22 Q1-3	
	Gross profit (%)	15,165 20.2%	16,603 22.7%	+1,438	+9.5%	● Gross profit margin: +2.5pts YoY ✓ large product projects in FY22 Q1-3 was dropped	
Service	Bookings	58,676	58,558	(118)	-0.2%	● Bookings: remained at the same level due to an increase in maintenance services, while overall bookings were weak	
	Backlog	85,348	86,197	+849	+1.0%		
	Revenue	64,560	69,966	+5,405	+8.4%	● Revenue: increased mainly in maintenance services	
	Gross profit (%)	19,414 30.1%	20,424 29.2%	+1,009	+5.2%	● Gross profit margin: -0.9pts YoY ✓ progress in passing on increased costs of vendor support reduced the negative impact in Q2-3	

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

(JPYmn)



Consolidated balance sheets

(JPYmn)	Mar. 31, 2023 Results	Dec. 31, 2023 Results	Change		
			Amount	%	
Total assets	178,651	161,618	(17,033)	-9.5%	
Current assets	161,106	144,914	(16,192)	-10.1%	
Cash and deposits	35,509	28,176	(7,333)	-20.7%	
Notes and accounts receivable-trade	51,383	36,159	(15,224)	-29.6%	
Inventory assets	37,903	43,127	+5,223	+13.8%	Costs on uncompleted construction contracts: +6,686
Other	36,310	37,452	+1,141	+3.1%	
Noncurrent assets	17,545	16,703	(841)	-4.8%	
Property, plant and equipment	9,497	9,080	(417)	-4.4%	
Intangible assets	1,523	2,186	+663	+43.6%	
Investment etc.	6,523	5,436	(1,087)	-16.7%	
Total liabilities	102,887	91,200	(11,686)	-11.4%	
Current liabilities	80,084	70,155	(9,929)	-12.4%	
Non-current liabilities	22,802	21,045	(1,756)	-7.7%	
Total net assets	75,764	70,417	(5,347)	-7.1%	
Shareholders' equity	76,029	70,632	(5,396)	-7.1%	Treasury stock :+7,313
Accumulated other comprehensive income	(408)	(345)	+62	-	
Subscription rights to shares	143	130	(13)	-9.1%	
Total liabilities and net assets	178,651	161,618	(17,033)	-9.5%	

Bookings and revenue by focus areas

		FY22 Q1-3	FY23 Q1-3	Booking trends
Smart manufacturing	Bookings	JPY 2,900mn	JPY 3,900mn	<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&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"> ● Project examples <ul style="list-style-type: none"> ✓ Factory security (network isolation, assessment services, etc.) ✓ Factory wireless networks ✓ Local 5G verification (for smart glasses [digital twin] and AGVs)
	Revenue	JPY 900mn	JPY 5,000mn	
Digitalization of social infrastructure to realize Society 5.0	Bookings	JPY 1,600mn	JPY 5,900mn	<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"> ● Project examples <ul style="list-style-type: none"> ✓ Electric power group: upgrade IT operations ✓ Real estate: SASE ✓ Healthcare: cloud infrastructure ✓ Finance: generative AI infrastructure (for verification purposes)
	Revenue	JPY 300mn	JPY 3,700mn	
Digital government	Bookings	JPY 8,400mn	JPY 9,700mn	<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"> ● Project examples <ul style="list-style-type: none"> ✓ Large-scale infrastructure integrating work style reform, cloud utilization, and security measures ✓ Security enhancement projects (network isolation)
	Revenue	JPY 400mn	JPY 2,300mn	

Exchange rate, Employees

	FY22 Q1-3	FY23 Q1-3	YoY	
			Amount	%
Exchange rate (\$JPY)	122.42	136.73	+14.31	+11.7%

	End of FY22 Q3	End of FY23 Q3	YoY		
			Amount	%	
Number of consolidated employees	2,756	2,588	(168)	-6.1%	<ul style="list-style-type: none"> ● New graduates: +77 ● Effect of exclusion of consolidated subsidiaries: -206 (Note)
Excluding effect of exclusion of consolidated subsidiaries (Note)	2,550	2,588	+38	+1.5%	
Turnover rate	4.5%	3.3%	-	-	

(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)

Expanded "Lab as a Service," a multi-cloud verification facility

Local 5G LaaS, an environment for rapid verification of local 5G, was developed at netone valley

- Two base stations were deployed to achieve verification close to the real environment
- Providing co-creation environment using project rooms



Joint development and demonstration projects are underway with several companies

Examples of LaaS applications in proposal activities

Improved productivity of engineers

The transformation from "physical verification" to "remote verification" has enabled engineers to quickly prepare verification and learning environments.

Verification of cloud-based security system

Experiencing the "product need" and "security operation flow" scenarios composed by our knowledge accelerated the verification process.

Osaka General Medical Center deployed Cisco Secure Network Analytics and Net One Operation and Monitoring Service

In October 2022, the comprehensive information system including electronic medical records became unavailable due to a cyber attack, and many medical functions stopped.

Cisco Secure Network Analytics

Monitor the traffic of medical devices such as ultrasound machines and control terminals to detect sluggish behavior inside the network

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Net One Operation and Monitoring Service

Security analysts monitor and operate the system 24/7, and remotely block suspicious communications in the event of an emergency



Network visibility enabled quick response to incoming threats and enhanced security

- Enhance security for medical devices and control terminals
- Secure management of medical information systems
- Minimize damage by detecting signs of attacks and responding quickly

3

Progress of measures to prevent recurrence

Progress

1. Governance reform and promotion

- To raise awareness regarding both compliance and governance, we recognized the importance of improving accounting literacy among all employees and are currently conducting case study workshops focused on accounting irregularities. (1.(1)-b, 1.(4)-b)
- Our chief executives continuously provided opportunities for communication with employees and delivered messages directly to them. (1.(3)-a)

2. Enhancement of risk management system

- In accordance with our basic policy for risk management and our annual activity plan for FY23, we executed various measures while coordinating with CROs for each business unit and divisions responsible for risk management (1.5th and second lines of defense). Additionally, we began investigating emergent risks according to existing risk scenarios. (2.(2)-c)
- The Governance and Corporate Culture Advisory Committee received reports regarding semi-annual disclosures formulated based on up-to-date results of risk management-related recurrence prevention measures. (2.(2)-e)

3. Strengthening of business execution systems and other internal systems

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

4. Radical revisions to our auditing system

- We continued to conduct internal audits for each organization and follow-up internal audits based on our internal audit policy and plan for FY23. (4.(1)-b)
- As of end-August 2023, we had completed the update of internal control-related documents in accordance with our FY23 J-SOX assessment plan. We are currently assessing the design of process level controls (PLCs) and the implementation of company level controls (CLCs). (4.(3)-a/b)
- We developed a training plan to facilitate understanding of J-SOX. (4.(3)-d)
- We continued to carry out measures recommended by our Audit & Supervisory Committee, including periodic exchanges of opinions with executive directors and the Internal Audit Office, as well as participation in training regarding instances of fraud. (4.(4)-a/b/c)

5. System for collecting employee feedback

- We began full-scale operation of our whistleblower platform, which enables anonymous two-way communication, and continue to respond to reports and consultations from employees. (5.(1)-a)
- Formulating an improvement plan designed to effectively identify issues through the collection of constructive and specific feedback, we began to implement our feedback system, which operates using third-party points of contact. (5.(2)-a)

6. Reform and creation of organizational culture

- To increase opportunities for disseminating our corporate philosophy, we held our first Vision Day on September 15, 2023. (6.(2)-d)
- We continued to hold one-on-one meetings between supervisors and individual subordinates in accordance with the Declaration of Conduct, which is pursuant to our philosophy system. (6.(2)-e)

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

- We launched Step 3 of our FY23 education plan for improving accounting literacy and accounting knowledge. We continued to provide education for those who have not yet completed Step 2. (7.(1)-a)
- We 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

- Reports were submitted to the Governance and Corporate Culture Advisory Committee regarding the results of hearings conducted in accordance with our FY23 survey plan, which was formulated to strengthen our 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

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- Our chief executives continuously provided opportunities for communication with employees and delivered messages directly to them. (1.(3)-a)

5. System for collecting employee feedback

- We began full-scale operation of our whistleblower platform, which enables anonymous two-way communication, and continue to respond to reports and consultations from employees. (5.(1)-a)
- We are currently implementing our feedback system, which operates using third-party points of contact, under new rules aimed at facilitating the collection of constructive and specific feedback. (5.(2)-a)

2. Enhancement of risk management system

- In accordance with our basic policy for risk management and our annual activity plan for FY23, we executed various measures while coordinating with CROs for each business unit, divisions responsible for risk management (1.5th and second lines of defense), and the Governance and Corporate Culture Advisory Committee. Additionally, we are currently investigating emergent risks according to existing risk scenarios. (2.(2)-c, 2.(2)-e)

6. Reform and creation of organizational culture

- To increase opportunities for disseminating our corporate philosophy, members of our corporate culture reform project planned our second Vision Day for December 12, 2023 and informed all employees. (6.(2)-d)
- We continued to hold one-on-one meetings between supervisors and individual subordinates in accordance with the Declaration of Conduct, which is pursuant to our philosophy system. (6.(2)-e)

3. Strengthening of business execution systems and other internal systems

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

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

- We launched Step 3 of our FY23 education plan for improving accounting literacy and accounting knowledge. We continued to provide education for those who have not yet completed Step 2. (7.(1)-a)
- We 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)

4. Radical revisions to our auditing system

- We continued to conduct internal audits for each organization and follow-up internal audits based on our internal audit policy and plan for FY23. (4.(1)-b)
- As of end-August 2023, we had completed the update of internal control-related documents in accordance with our FY23 J-SOX assessment plan. We are currently assessing the design of process level controls (PLCs) and the implementation of company level controls (CLCs) and financial statement close process (FSCP) controls. (4.(3)-a/b)
- We have developed a training plan to facilitate understanding of J-SOX and have completed preparation of training content; arrangements have been made to implement the plan beginning in December 2023. (4.(3)-d)
- We continued to carry out measures recommended by our Audit & Supervisory Committee, including periodic exchanges of opinions with executive directors and the Internal Audit Office, as well as participation in training regarding instances of fraud. (4.(4)-a/b/c)

8. Ongoing monitoring

- We developed a course of action based on the results of hearings conducted to strengthen our internal control system on an ongoing basis and delivered corresponding reports to the Governance and Corporate Culture Advisory Committee. (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

- To raise awareness regarding both compliance and governance, we recognized the importance of improving accounting literacy among all employees and are currently conducting case study workshops focused on accounting irregularities. (1.(1)-b, 1.(4)-b)
- Our chief executives continuously provided opportunities for communication with employees and delivered messages directly to them. (1.(3)-a)

5. System for collecting employee feedback

- We began full-scale operation of our whistleblower platform, which enables anonymous two-way communication, and continue to respond to reports and consultations from employees. (5.(1)-a)
- We are currently implementing our feedback system, which operates using third-party points of contact, under new rules aimed at facilitating the collection of constructive and specific feedback. (5.(2)-a)

2. Enhancement of risk management system

- In accordance with our basic policy for risk management and our annual activity plan for FY23, we executed various measures while coordinating with CROs for each business unit, divisions responsible for risk management (1.5th and second lines of defense), and the Governance and Corporate Culture Advisory Committee. Quarterly reports regarding the status of these measures were delivered to the Management Committee, along with information concerning major risks. (2.(2)-c, 2.(2)-e)

6. Reform and creation of organizational culture

- To increase opportunities for disseminating our corporate philosophy, members of our corporate culture reform project convened our second Vision Day on December 12, 2023. (6.(2)-d)
- We continued to hold one-on-one meetings between supervisors and individual subordinates in accordance with the Declaration of Conduct, which is pursuant to our philosophy system. (6.(2)-e)

3. Strengthening of business execution systems and other internal systems

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

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

- We launched Step 3 of our FY23 education plan for improving accounting literacy and accounting knowledge. We continued to provide education for those who have not yet completed Step 2. (7.(1)-a)
- We 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)

4. Radical revisions to our auditing system

- We continued to conduct internal audits for each organization and follow-up internal audits based on our internal audit policy and plan for FY23. Reports concerning 1H internal audit activities were delivered to the Board of Directors during a meeting held in November 2023. (4.(1)-b)
- As of end-August 2023, we had completed the update of internal control-related documents in accordance with our FY23 J-SOX assessment plan. We have completed assessments of the design of process level controls (PLCs) and the implementation of company level controls (CLCs). Evaluations of the implementation of financial statement close process (FSCP) controls and IT controls are currently underway. (4.(3)-a/b)
- We have developed a training plan to facilitate understanding of J-SOX and have completed preparation of training content; training has been underway since December 2023. (4.(3)-d)
- We continued to carry out measures recommended by our Audit & Supervisory Committee, including periodic exchanges of opinions with executive directors and the Internal Audit Office, as well as participation in training regarding instances of fraud. (4.(4)-a/b/c)

8. Ongoing monitoring

- We developed a concrete action plan in accordance with the course of action we previously organized to strengthen our internal control system on an ongoing basis. Details regarding this plan have been disclosed internally. (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).

4

Appendix

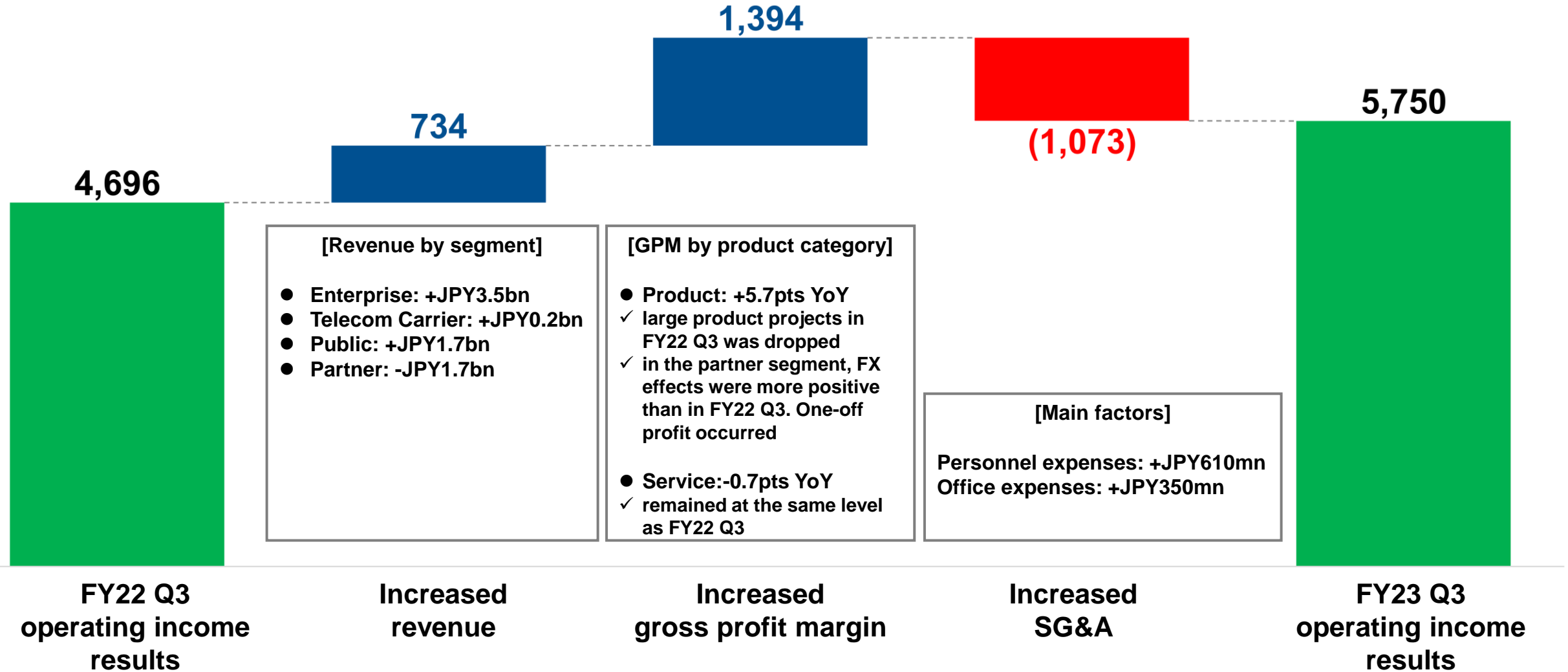
- **FY23 Q3 (Oct.-Dec. 3 months) results**

FY23 Q3 (Oct.-Dec. 3 months) results

(JPYmn)	FY22		FY23		YoY		
	Q3 (Oct.-Dec.)		Q3 (Oct.-Dec.)		Amount	%	
Bookings	40,113		36,431		(3,682)	-9.2%	<ul style="list-style-type: none"> Due to the delays in some projects, the progress was slightly lower than the revised plan. ✓ [YoY] Enterprise: +JPY1.7bn, Telecom Carrier: +JPY0.6bn, Public: -JPY2.3bn, Partner: -JPY2.9bn
Revenue	46,933	100.0%	49,899	100.0%	+2,965	+6.3%	<ul style="list-style-type: none"> Due to the advance of some projects, the progress was slightly higher than the revised plan. ✓ [YoY] Enterprise: +JPY3.5bn, Telecom Carrier: +JPY0.2bn, Public: +JPY1.7bn, Partner: -JPY1.7bn
Cost of sales	35,316	75.2%	36,154	72.5%	+837	+2.4%	<ul style="list-style-type: none"> Gross profit margin: +2.7pts YoY ✓ Product: +5.7pts YoY (FY22 Q3: 20.2%, FY23 Q3: 25.9%) <ul style="list-style-type: none"> large product projects in FY22 Q3 was dropped in the partner segment, foreign exchange effects were more positive than in FY22 Q3. One-off profit occurred ✓ Service: -0.7pts YoY (FY22 Q3: 29.9%, FY23 Q3: 29.2%) <ul style="list-style-type: none"> remained at the same level as FY22 Q3 ✓ Service ratio: +2.6pts YoY (FY22 Q3: 47.1%, FY23 Q3: 49.7%) <ul style="list-style-type: none"> increased in maintenance services and dropped of large product projects
Gross profit	11,616	24.8%	13,744	27.5%	+2,128	+18.3%	
SG&A	6,920	14.7%	7,993	16.0%	+1,073	+15.5%	<ul style="list-style-type: none"> Personnel expenses: +JPY610mn, Office expenses: +JPY350mn
Operating income	4,696	10.0%	5,750	11.5%	+1,054	+22.5%	<ul style="list-style-type: none"> Analysis of the increase/decrease YoY is provided on the next page
Ordinary income	4,117	8.8%	5,436	10.9%	+1,318	+32.0%	
Profit attributable to owners of parent	4,533	9.7%	3,727	7.5%	(806)	-17.8%	

FY23 Q3 (Oct.-Dec. 3 months)

Operating income analysis



FY23 Q3 (Oct.-Dec. 3 months)

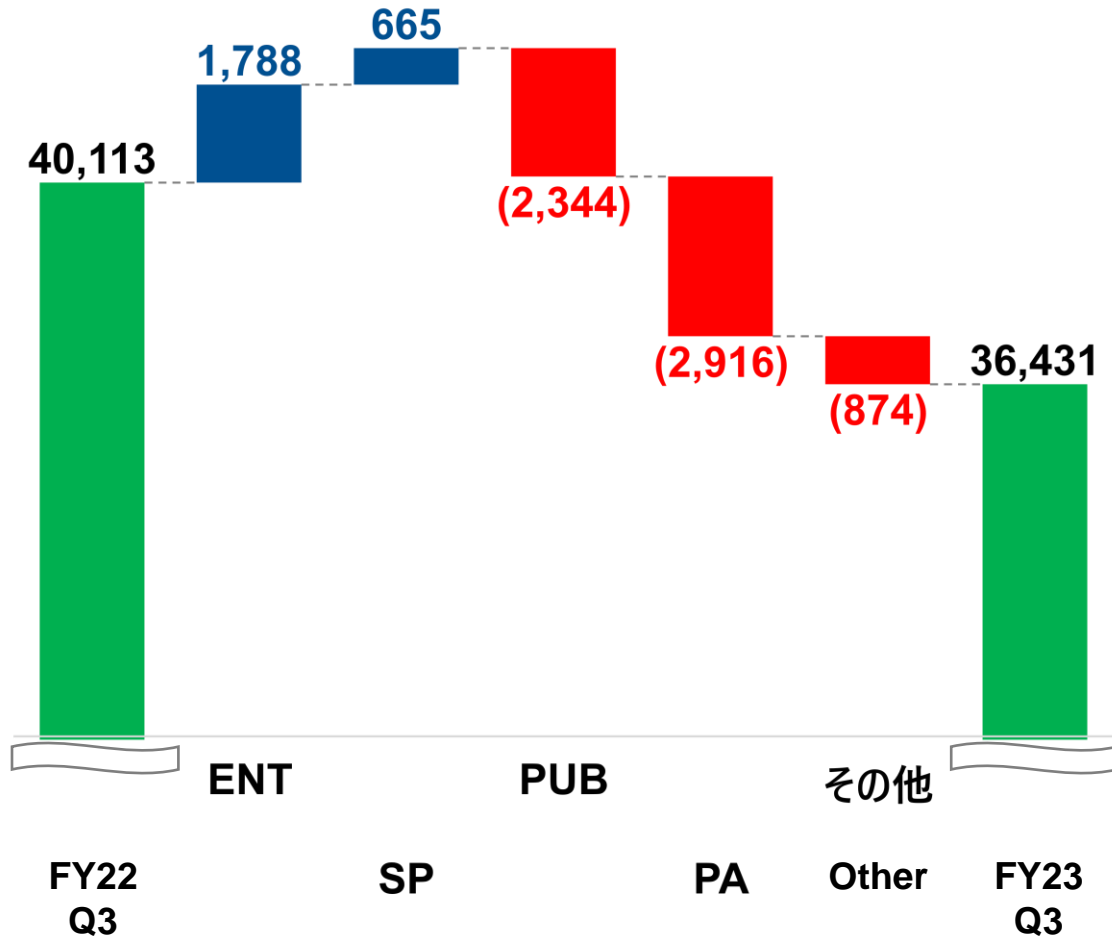
Bookings, revenue, gross profit, and operating income by segment

	(JPYmn)	FY22		FY23		YoY		
		Q3 (Oct.-Dec.)		Q3 (Oct.-Dec.)		Amount	%	
Enterprise	Bookings	10,594		12,382		+1,788	+16.9%	<ul style="list-style-type: none"> ● Bookings: in the manufacturing sector, we won a large SDN-based smarter project. In the non-manufacturing sector, we won a large SASE project. The financial sector continued to be weak ● Revenue: increased mainly in the manufacturing sector ● Gross profit margin: -2.3pts YoY <ul style="list-style-type: none"> ✓ service ratio decreased due to higher revenue
	Service (%)	6,721	63.4%	7,163	57.8%	+441	+6.6%	
	Revenue	11,443		14,965		+3,521	+30.8%	
	Service (%)	7,369	64.4%	8,763	58.6%	+1,394	+18.9%	
	Gross profit (%)	3,291	28.8%	3,967	26.5%	+676	+20.5%	
	Operating income (%)	1,284	11.2%	1,582	10.6%	+298	+23.2%	
Telecom Carrier	Bookings	7,983		8,648		+665	+8.3%	<ul style="list-style-type: none"> ● Bookings: although the co-creation business expanded, it did not reach the level assumed at the initial plan ● Revenue: remained at the same level due to the expansion of co-creation business, despite the absence of large product project in FY22 Q3 ● Gross profit margin: +3.3pts YoY <ul style="list-style-type: none"> ✓ service ratio increased due to the absence of large product project in FY22 Q3
	Service (%)	2,131	26.7%	3,811	44.1%	+1,679	+78.8%	
	Revenue	10,662		10,896		+233	+2.2%	
	Service (%)	5,079	47.6%	5,777	53.0%	+697	+13.7%	
	Gross profit (%)	2,326	21.8%	2,737	25.1%	+411	+17.7%	
	Operating income (%)	1,121	10.5%	1,326	12.2%	+205	+18.3%	
Public	Bookings	9,872		7,527		(2,344)	-23.8%	<ul style="list-style-type: none"> ● Bookings: several projects were delayed to FY24 (total JPY2.0bn) ● Revenue: increased in social infrastructure, university, and hospital ● Gross profit margin: +1.4pts YoY <ul style="list-style-type: none"> ✓ increased due to the absence of large low-profit projects in FY22 Q3
	Service (%)	4,905	49.7%	4,236	56.3%	(668)	-13.6%	
	Revenue	11,660		13,367		+1,707	+14.6%	
	Service (%)	7,790	66.8%	8,147	60.9%	+356	+4.6%	
	Gross profit (%)	2,825	24.2%	3,424	25.6%	+598	+21.2%	
	Operating income (%)	653	5.6%	997	7.5%	+344	+52.6%	
Partner	Bookings	10,788		7,871		(2,916)	-27.0%	<ul style="list-style-type: none"> ● Bookings: several projects were delayed to Q4 (JPY2.5bn). Competition rose in low-priced products ● Revenue: although some projects were brought forward, revenue decreased due to a decline in bookings in Q1-2 ● Gross profit margin: +6.6pts YoY <ul style="list-style-type: none"> ✓ increased due to the more positive impact of foreign exchange in this Q3 than FY22 Q3 ✓ One-off profit occurred
	Service (%)	1,917	17.8%	1,944	24.7%	+27	+1.4%	
	Revenue	12,413		10,669		(1,743)	-14.0%	
	Service (%)	1,725	13.9%	2,121	19.9%	+396	+23.0%	
	Gross profit (%)	2,738	22.1%	3,067	28.7%	+328	+12.0%	
	Operating income (%)	1,800	14.5%	2,031	19.0%	+231	+12.8%	

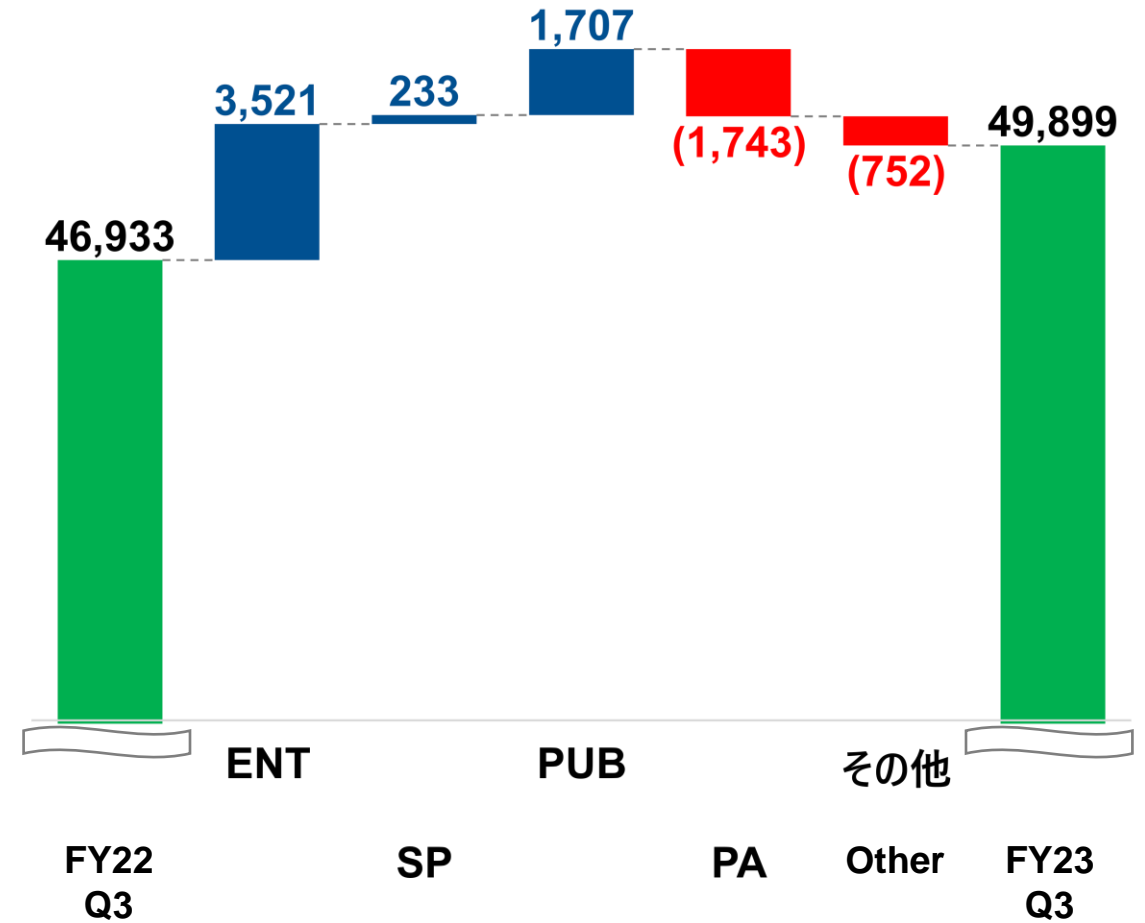
FY23 Q3 (Oct.-Dec. 3 months)

Bookings and revenue: YoY changes by segment

Bookings



Revenue

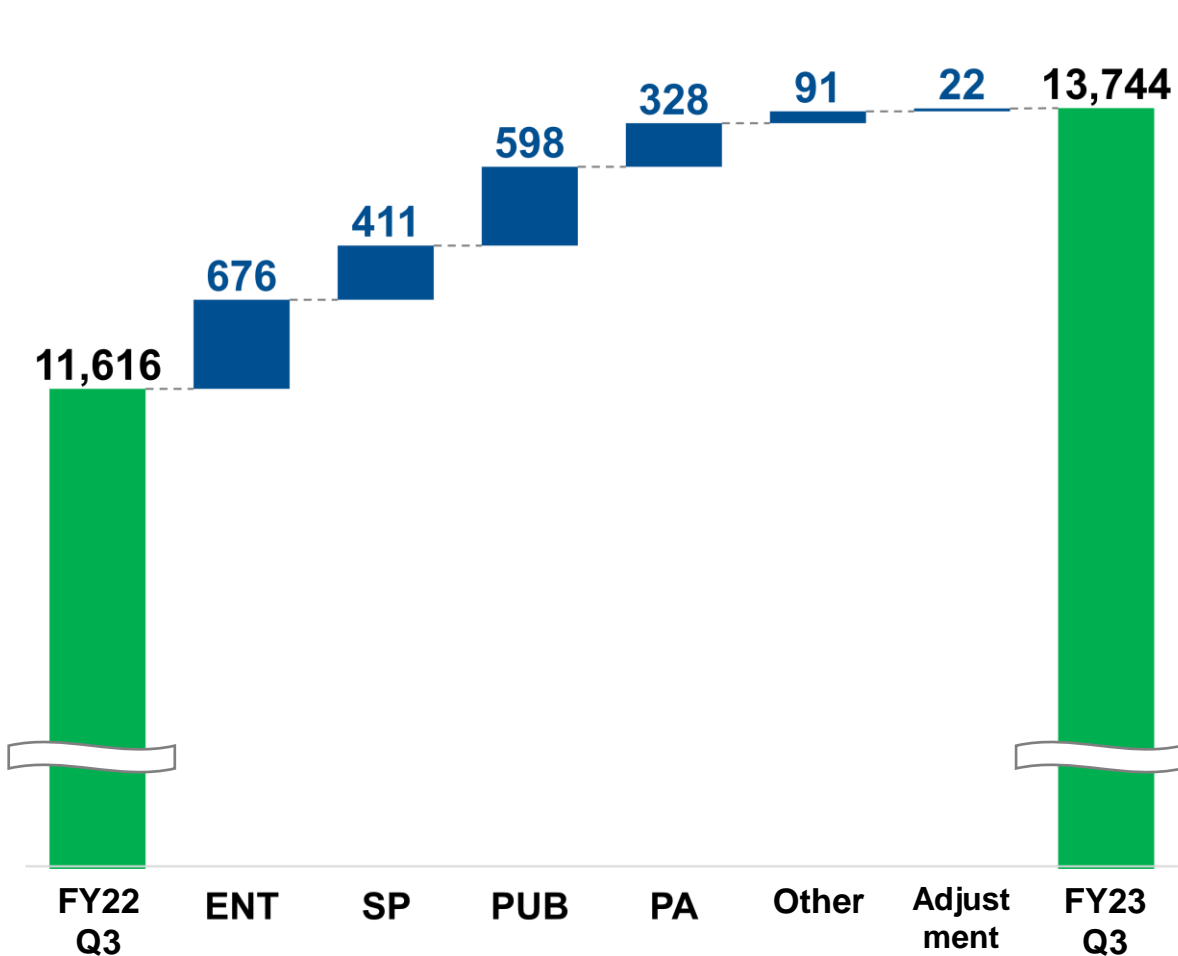


(Note) ENT: Enterprise, SP: Telecom Carrier, PUB: Public, PA: Partner

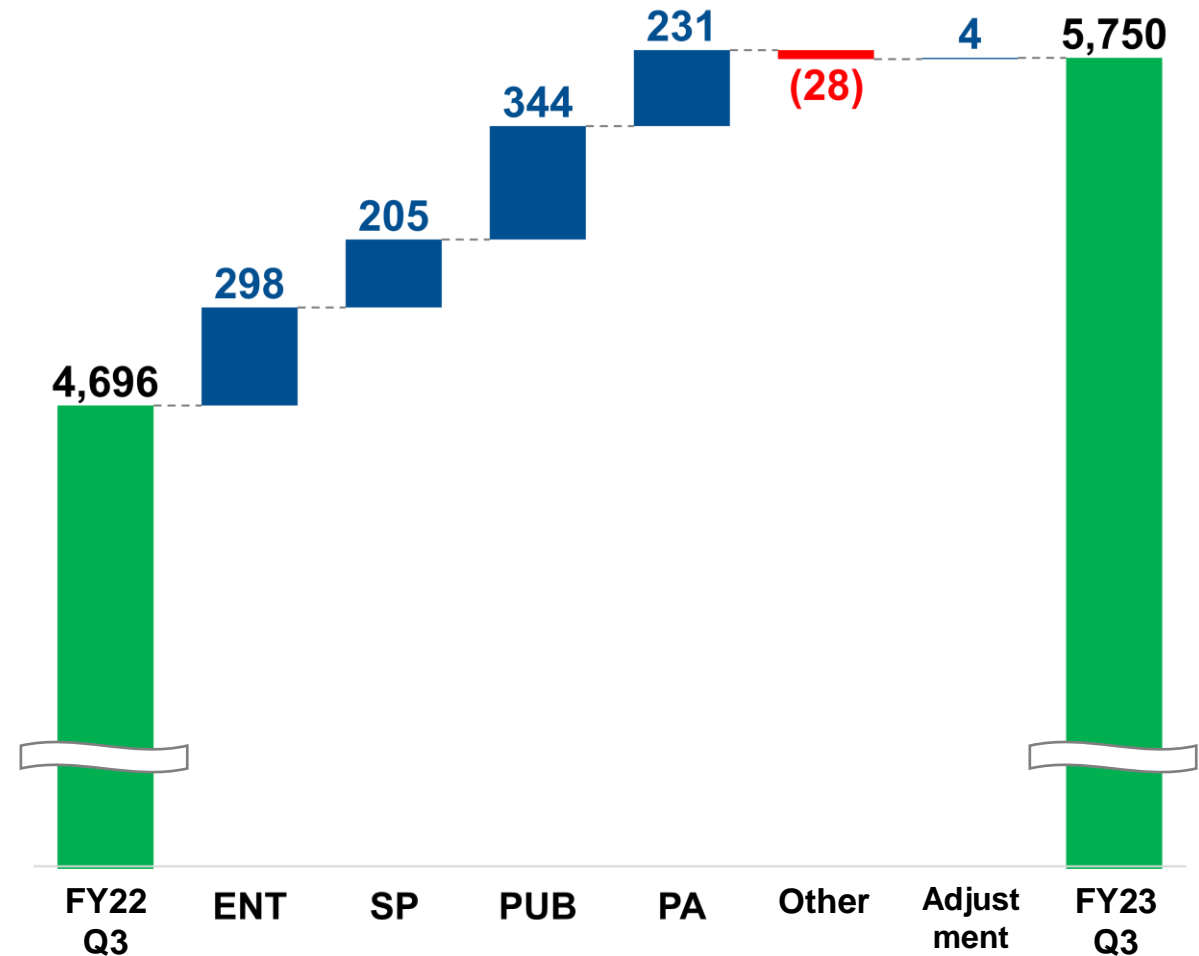
FY23 Q3 (Oct.-Dec. 3 months)

Gross profit and operating income: YoY changes by segment

Gross profit



Operating income



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

FY23 Q3 (Oct.-Dec. 3 months)

Bookings, revenue, and gross profit by product category

[Service ratio] bookings: 47.1% (+7.6pts), revenue: 49.7% (+2.6pts)

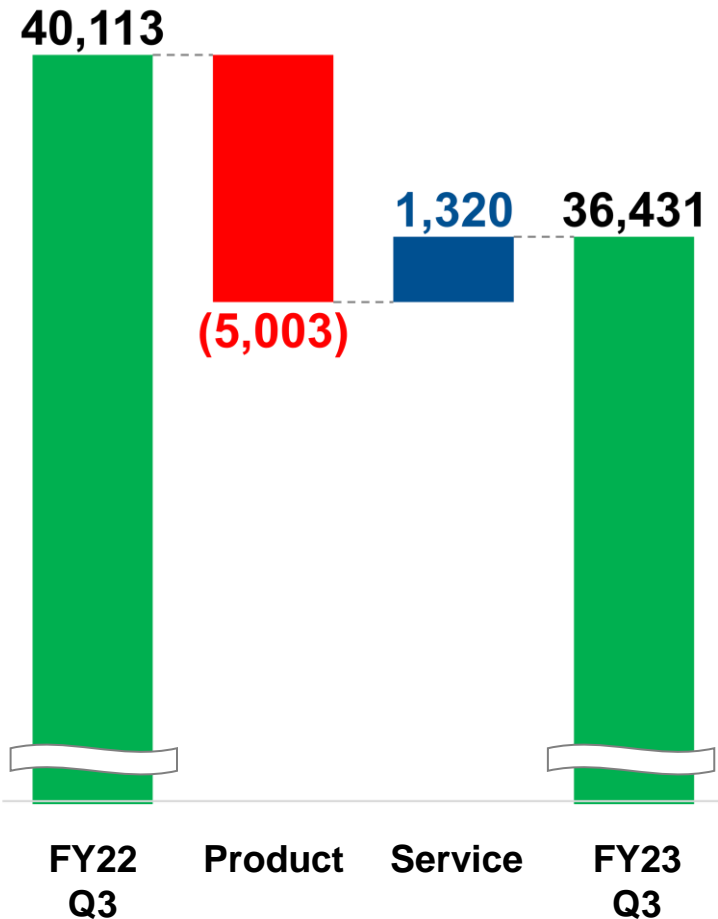
(JPYmn)	FY22 Q3 (Oct.-Dec.)		FY23 Q3 (Oct.-Dec.)		YoY		
					Amount	%	
Product	Bookings	24,278	19,274		(5,003)	-20.6%	<ul style="list-style-type: none"> ● Bookings: decreased due to lower bookings in the Public and Partner segment, as well as an overall increase in the service ratio.
	Revenue	24,833	25,088		+254	+1.0%	<ul style="list-style-type: none"> ● Revenue: same level ● Gross profit margin: +5.7pts YoY ✓ large product projects in FY22 Q3 was dropped ✓ in the partner segment, foreign exchange effects were more positive than in FY22 Q3. One-off profit occurred
	Gross profit (%)	5,007	20.2%	6,497	25.9%	+1,490	
Service	Bookings	15,835	17,156		+1,320	+8.3%	<ul style="list-style-type: none"> ● Bookings: increased mainly in maintenance services and managed services
	Revenue	22,099	24,810		+2,710	+12.3%	<ul style="list-style-type: none"> ● Revenue: increased mainly in maintenance services and managed services ● Gross profit margin: -0.7pts YoY ✓ remained at the same level as FY22 Q3
	Gross profit (%)	6,609	29.9%	7,247	29.2%	+637	

FY23 Q3 (Oct.-Dec. 3 months)

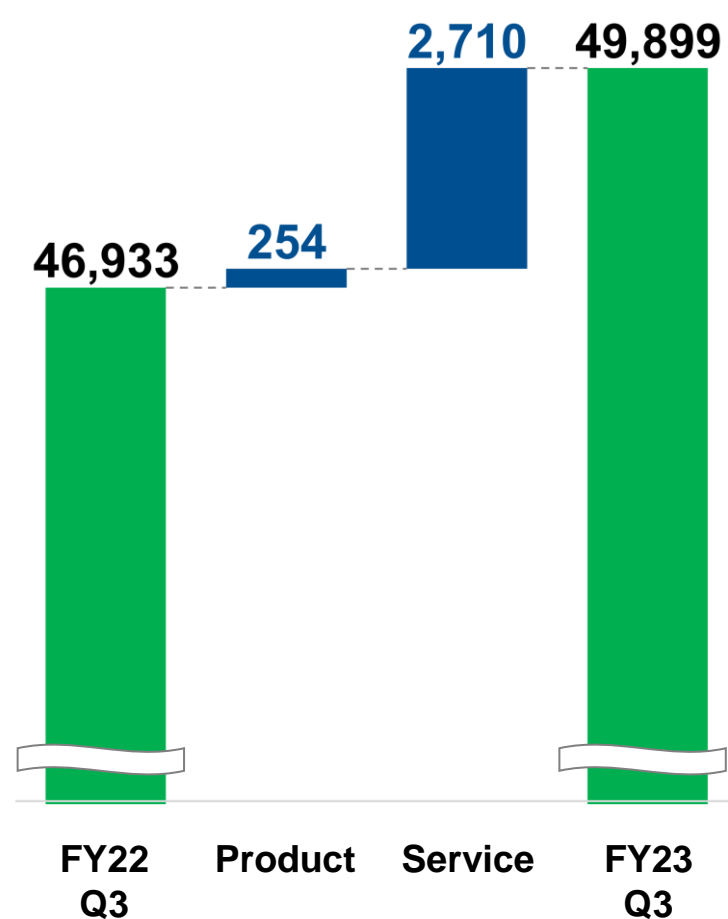
Bookings, revenue, and gross profit: YoY changes by product category

net one
(JPYmn)

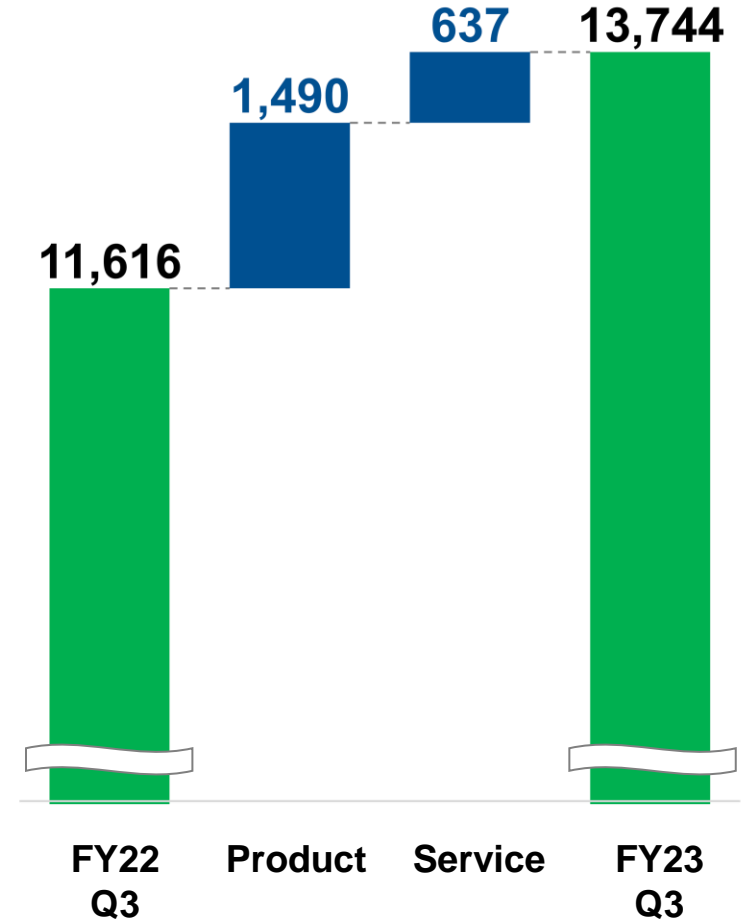
Bookings



Revenue



Gross profit



charge ∠ channel ∠ change



net one