Results for Q2 FY24
Ended September 30, 2024

Net One Systems Co., Ltd.
November 6, 2024 (Stock Code 7518: JP)

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1 Summary (H1 results overview, FY forecast)

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H1 FY24 results overview

Bookings, revenue, and operating income all rose YoY and exceeded initial projections, reflecting our response to demand for ICT platform enhancements essential to digitalization, including network enhancement, security reinforcement, and cloud utilization.

Bookings were steady thanks in part to advance orders, while revenue exceeded expectations due primarily to our fulfillment of order backlog, and operating income rose due to ongoing improvement in profitability.

	FY23 H1 results	FY24 H1 initial forecast	FY24 H1 results	
Bookings	JPY 91.9bn	JPY 105.0bn	JPY 108.7bn	(YoY) +JPY16.8bn (+18.3%) ● Enterprise: +JPY3.2bn, Telecom Carrier: +JPY0.9bn, Public: +JPY8.3bn, Partner: +JPY4.2bn (Versus initial forecast) +JPY3.7bn (+3.6%) ● Enterprise: +JPY2.3bn, Telecom Carrier: -JPY4.1bn, Public: +JPY1.3bn, Partner: +JPY4.0bn
Revenue	JPY 93.1bn	JPY 91.2bn	JPY 100.6bn	(YoY) +JPY7.5bn (+8.1%) ● Enterprise: +JPY4.6bn, Telecom Carrier: +JPY0.4bn, Public: +JPY1.1bn, Partner: +JPY1.3bn (Versus initial forecast) +JPY9.4bn (+10.4%) ● Enterprise: +JPY3.5bn, Telecom Carrier: -JPY0.1bn, Public: +JPY1.4bn, Partner: +JPY4.5bn
Operating income	JPY 6.3bn	JPY 5.8bn	JPY 8.9bn	(YoY) +JPY2.6bn (+41.2%) ● GPM: +0.9pts (H1 FY23: 25.0%, H1 FY24: 25.9%) ● SG&A expenses: +JPY0.1bn (H1 FY23: JPY16.9bn, H1 FY24: JPY17.1bn) (Versus initial forecast) +JPY3.1bn (+54.5%) ● GPM: +0.7pts (initial forecast: 25.2%, result: 25.9%) ● SG&A expenses: -JPY0.0bn (initial forecast: JPY17.2bn, result: JPY17.1bn

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FY24 forecast (*no change from the previous forecast)

FY24 forecast remains unchanged because H1 performance exceeded forecasts due mainly to our accelerated fulfillment of order backlog. Moving forward, we will continue aiming to improve bookings and service profitability while pursuing further performance growth.

(JPYmn)	FY24 forecast		YoY	
			Amount	%
Bookings	225,000		+23,551	+11.7%
Revenue	220,000	100.0%	+14,872	+7.3%
Cost of sales	163,400	74.3%	+10,828	+7.1%
Gross profit	56,600	25.7%	+4,044	+7.7%
SG&A	35,600	16.2%	+2,577	+7.8%
Operating income	21,000	9.5%	+1,466	+7.5%
Ordinary income	20,800	9.5%	+1,648	+8.6%
Profit attributable to owners of parent	14,400	6.5%	+679	+5.0%

(JPYmn)		FY24 forecast	YoY	
			Amount	%
Enterprise	Bookings	57,700	+2,345	+4.2%
	Revenue	59,500	+4,293	+7.8%
Telecom Carrier	Bookings	46,700	+2,114	+4.7%
	Revenue	47,900	+2,702	+6.0%
Public	Bookings	75,600	+15,306	+25.4%
	Revenue	66,700	+5,303	+8.6%
Partner	Bookings	45,000	+3,760	+9.1%
	Revenue	45,900	+2,572	+5.9%

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Reference: Trends in progress versus full-year revenue forecast

(JPYbn)		Initial	End-Q1	End-Q2	End-Q3	End-Q4
FY22	Backlog for which revenue is scheduled to be recorded by fiscal year-end (A)	104.0	115.3	90.8	61.7	-
	Revenue (B)	-	36.5	92.7	139.6	209.6
	Total (A+B)	104.0	151.8	183.6	201.4	209.6
	Progress ((A+B)/209.6)	49.6%	72.4%	87.6%	96.1%	100.0%
FY23	Backlog for which revenue is scheduled to be recorded by fiscal year-end (A)	107.7	105.3	83.3	52.9	-
	Revenue (B)	-	42.5	93.1	143.0	205.1
	Total (A+B)	107.7	147.9	176.4	195.9	205.1
	Progress ((A+B)/205.1)	52.5%	72.1%	86.0%	95.5%	100.0%
FY24	Backlog for which revenue is scheduled to be recorded by fiscal year-end (A)	107.8	105.3	88.1		-
	Revenue (B)	-	45.6	100.6		220.0 (plan)
	Total (A+B)	107.8	150.9	188.7		220.0 (plan)
	Progress ((A+B)/220.0)	49.0%	68.6%	85.8%		

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2 Q1-2 FY24 (Apr.-Sep. 6 months) results

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Q1-2 FY24 (Apr.-Sep. 6 months) results (YoY)

(JPYmn)	FY23 Q1-2 results		FY24 Q1-2 results		YoY Amount	YoY %	
Bookings	91,900		108,730		+16,830	+18.3%	● Steady progress ● (YoY) Enterprise: +JPY3.2bn, Telecom Carrier: +JPY0.9bn, Public: +JPY8.3bn, Partner: +JPY4.2bn
Backlog	147,852		153,460		+5,608	+3.8%	
Revenue	93,114	100.0%	100,657	100.0%	+7,543	+8.1%	● Revenue was strong primarily because order backlogs were fulfilled more quickly than expected ● (YoY) Enterprise: +JPY4.6bn, Telecom Carrier: +JPY0.4bn, Public: +JPY1.1bn, Partner: +JPY1.3bn
Cost of sales	69,831	75.0%	74,583	74.1%	+4,751	+6.8%	● GPM: +0.9pts YoY ✓ Product: -0.5pts YoY (Q1-2 FY23: 21.1%, Q1-2 FY24: 20.6%) • Performance remained level YoY ✓ Service: +2.4pts YoY (Q1-2 FY23: 29.2%, Q1-2 FY24: 31.6%) • Optimization of service prices gradually contributed to increasing GPM ✓ Service ratio: -0.4pts YoY (Q1-2 FY23: 48.5%, Q1-2 FY24: 48.1%) • Performance of service continues to expand; regardless, service ratio remained level YoY due in part to impact from large product projects
Gross profit	23,283	25.0%	26,074	25.9%	+2,791	+12.0%	
SG&A	16,938	18.2%	17,113	17.0%	+174	+1.0%	● (YoY) Personnel expenses +JPY1.76bn, office expenses -JPY0.48bn, equipment expenses -JPY0.33bn, and various other cost items declined
Operating income	6,344	6.8%	8,960	8.9%	+2,616	+41.2%	● Factors contributing to YoY increase/decrease are provided on the next page
Ordinary income	6,200	6.7%	8,812	8.8%	+2,611	+42.1%	
Profit attributable to owners of parent	4,210	4.5%	6,402	6.4%	+2,192	+52.1%	● The sale of “legacy provider-independent addresses” (see note below) generated approximately JPY0.5bn in extraordinary income
EPS (JPY)	51.34		80.73		+29.39	+57.2%	

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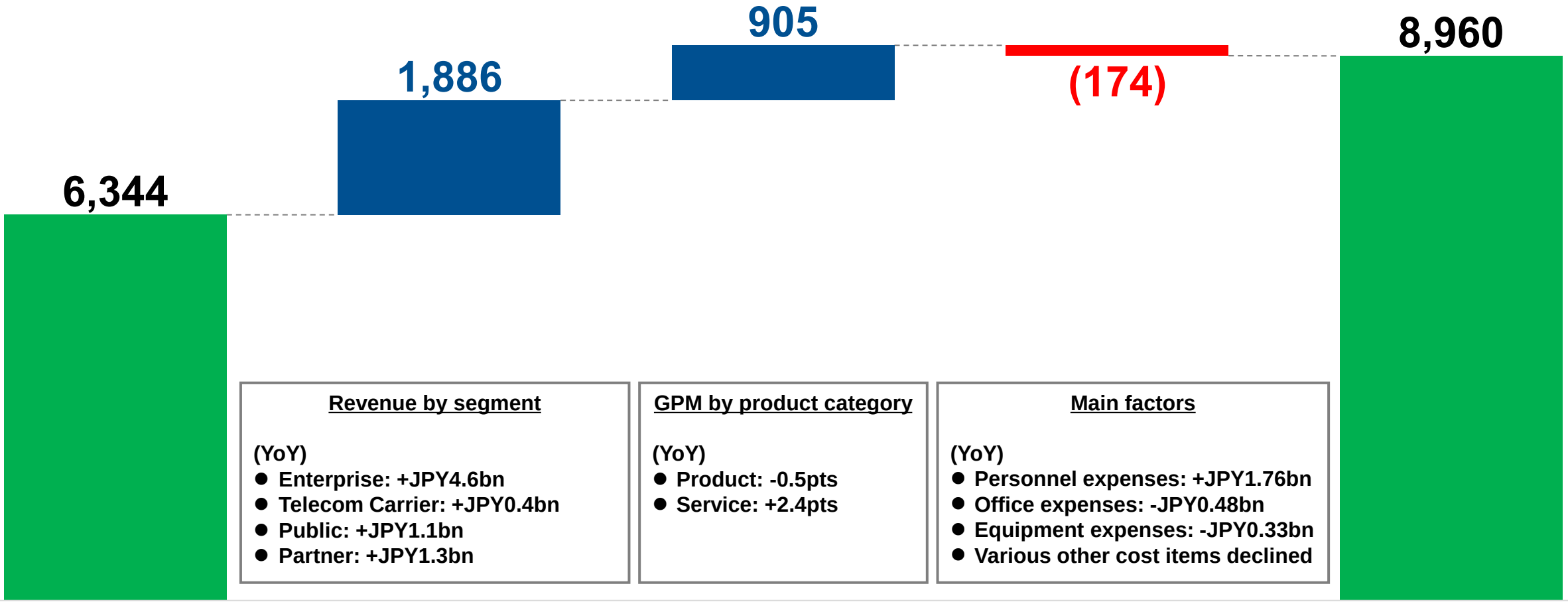
Note: These IP addresses were directly allocated by international IP address allocation organizations, without going through providers, etc.

Operating income analysis (YoY)

(JPYmn)



Revenue by segment

(YoY)
- Enterprise: +JPY4.6bn
- Telecom Carrier: +JPY0.4bn
- Public: +JPY1.1bn
- Partner: +JPY1.3bn

GPM by product category

(YoY)
- Product: -0.5pts
- Service: +2.4pts

Main factors

(YoY)
- Personnel expenses: +JPY1.76bn
- Office expenses: -JPY0.48bn
- Equipment expenses: -JPY0.33bn
- Various other cost items declined

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Q1-2 FY24 (Apr.-Sep. 6 months) results (versus initial forecast)

(JPYmn)	FY24 Q1-2 initial forecast		FY24 Q1-2 results		versus initial forecast		
					Amount	%	
Backlog	105,000		108,730		+3,730	+3.6%	● Bookings exceeded forecasts in the Enterprise, Public, and Partner segments ● (Versus revised plan) Enterprise: +JPY2.3bn, Telecom Carrier: -JPY4.1bn, Public: +JPY1.3bn, Partner: +JPY4.0bn
Revenue	91,200	100.0%	100,657	100.0%	+9,457	+10.4%	● Revenue exceeded forecasts in the Enterprise, Public, and Partner segments ● (Versus revised plan) Enterprise: +JPY3.5bn, Telecom Carrier: -JPY0.1bn, Public: +JPY1.4bn, Partner: +JPY4.5bn
Cost of sales	68,200	74.8%	74,583	74.1%	+6,383	+9.4%	● GPM: +0.7pts versus revised plan ✓ Profitability improved in the Public segment ✓ Service profitability improved
Gross profit	23,000	25.2%	26,074	25.9%	+3,074	+13.4%	
SG&A	17,200	18.9%	17,113	17.0%	(86)	-0.5%	● (Versus revised plan) personnel expenses +JPY0.61bn, outsourcing expenses -JPY0.50bn
Operating income	5,800	6.4%	8,960	8.9%	+3,160	+54.5%	● Factors contributing to the increase/decrease from the revised plan are provided on the next page
Ordinary income	5,800	6.4%	8,812	8.8%	+3,012	+51.9%	
Profit attributable to owners of parent	4,100	4.5%	6,402	6.4%	+2,302	+56.2%	● The sale of “legacy provider-independent addresses” generated approximately JPY0.5bn in extraordinary income

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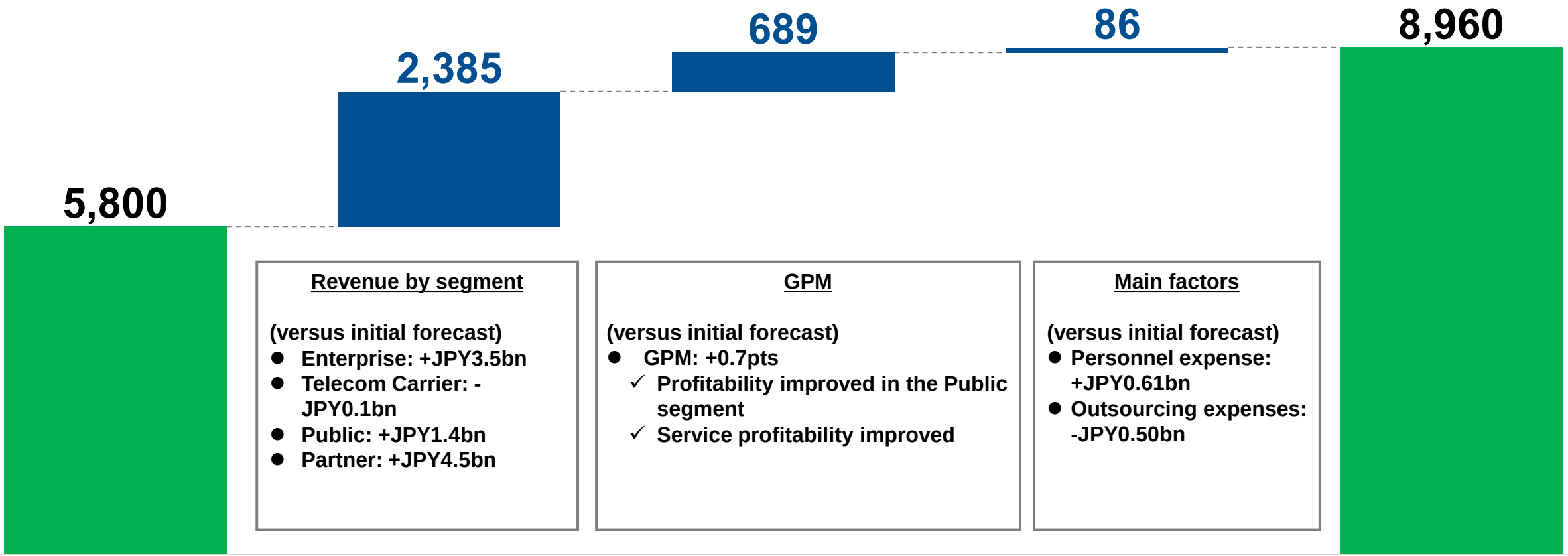
Operating income analysis (versus initial forecast)

(JPYmn)



Revenue by segment

(versus initial forecast)
- Enterprise: +JPY3.5bn
- Telecom Carrier: -JPY0.1bn
- Public: +JPY1.4bn
- Partner: +JPY4.5bn

GPM

(versus initial forecast)
- GPM: +0.7pts
  - ✓ Profitability improved in the Public segment
  - ✓ Service profitability improved

Main factors

(versus initial forecast)
- Personnel expense: +JPY0.61bn
- Outsourcing expenses: -JPY0.50bn

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Bookings and backlog by segment

(JPYmn)		FY23 Q1-2		FY24 Q1-2		YoY Amount	YoY %	
Enterprise	Bookings	24,550		27,770		+3,219	+13.1%	● Financial sector: We won security enhancement and cloud utilization projects ● Manufacturing sector: We won security enhancement and smart manufacturing projects, mainly from automakers and electronics manufacturers ● Non-manufacturing sector: Despite the acquisition of cloud infrastructure and security enhancement projects, progress was slightly on the weak side ● Service ratio: Performance from services expanded, but the service ratio declined due in part to impact from product projects
	Service (%)	14,658	59.7%	15,740	56.7%	+1,082	+7.4%	
	Backlog	37,433		36,192		(1,241)	-3.3%	
Telecom Carrier	Bookings	14,949		15,888		+938	+6.3%	● Bookings expanded for all telecom carriers, but performance achieved through the co-creation business for corporate clients trailed expectations ● Service ratio: Increased driven mainly by maintenance services
	Service (%)	5,999	40.1%	7,310	46.0%	+1,311	+21.9%	
	Backlog	24,246		24,142		(104)	-0.4%	
Public	Bookings	31,991		40,372		+8,380	+26.2%	● Municipal governments: We won multiple large DX projects centered on cloud utilization (multi-cloud), security enhancement (zero trust, SASE), and work style innovation ● Service ratio: Increased driven mainly by managed and system integration services
	Service (%)	16,637	52.0%	24,879	61.6%	+8,241	+49.5%	
	Backlog	70,901		77,073		+6,172	+8.7%	
Partner	Bookings	20,433		24,699		+4,266	+20.9%	● We won a large Wi-Fi service project for an MSP ● Collaboration with partner companies was strong ● Service ratio: Declined in tandem with the acquisition of large product projects
	Service (%)	4,130	20.2%	4,584	18.6%	+454	+11.0%	
	Backlog	15,270		16,052		+782	+5.1%	

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Revenue, gross profit, and operating income by segment

(JPYmn)		FY23 Q1-2		FY24 Q1-2		YoY Amount	YoY %	
Enterprise	Revenue	24,113		28,722		+4,609	+19.1%	● Revenue: Growth was achieved primarily through the financial and manufacturing sectors ● GPM: +0.1pts YoY ✓ GPM remained level as revenue expanded significantly
	Service (%)	14,350	59.5%	16,918	58.9%	+2,568	+17.9%	
	Gross profit (%)	6,591	27.3%	7,867	27.4%	+1,275	+19.4%	
	Operating income (%)	1,627	6.8%	3,041	10.6%	+1,413	+86.8%	
Telecom Carrier	Revenue	20,747		21,178		+431	+2.1%	● Revenue: Performance remained level YoY ● GPM: +0.2pts YoY ✓ Performance remained level YoY
	Service (%)	10,574	51.0%	11,369	53.7%	+795	+7.5%	
	Gross profit (%)	4,890	23.6%	5,041	23.8%	+150	+3.1%	
	Operating income (%)	1,889	9.1%	2,024	9.6%	+134	+7.1%	
Public	Revenue	24,291		25,396		+1,105	+4.5%	● Revenue: Earnings secured through municipal governments rose, while performance achieved through universities, a central source of large projects during Q1-2 FY23, fell off YoY ● GPM: +3.6pts YoY ✓ Optimization of service prices gradually contributed to increasing GPM ✓ In Q1 FY23, we remained unable to pass on a portion of the increased vendor support costs
	Service (%)	15,806	65.1%	15,673	61.7%	(133)	-0.8%	
	Gross profit (%)	6,010	24.7%	7,197	28.3%	+1,187	+19.8%	
	Operating income (%)	715	2.9%	1,503	5.9%	+788	+110.1%	
Partner	Revenue	23,963		25,360		+1,396	+5.8%	● Revenue: Performance was boosted by bookings for large projects during Q1 FY24 ● GPM: -0.8pts YoY ✓ GPM decreased slightly due to impact from large product projects
	Service (%)	4,425	18.5%	4,483	17.7%	+57	+1.3%	
	Gross profit (%)	4,810	20.1%	4,891	19.3%	+81	+1.7%	
	Operating income (%)	2,833	11.8%	2,868	11.3%	+34	+1.2%	

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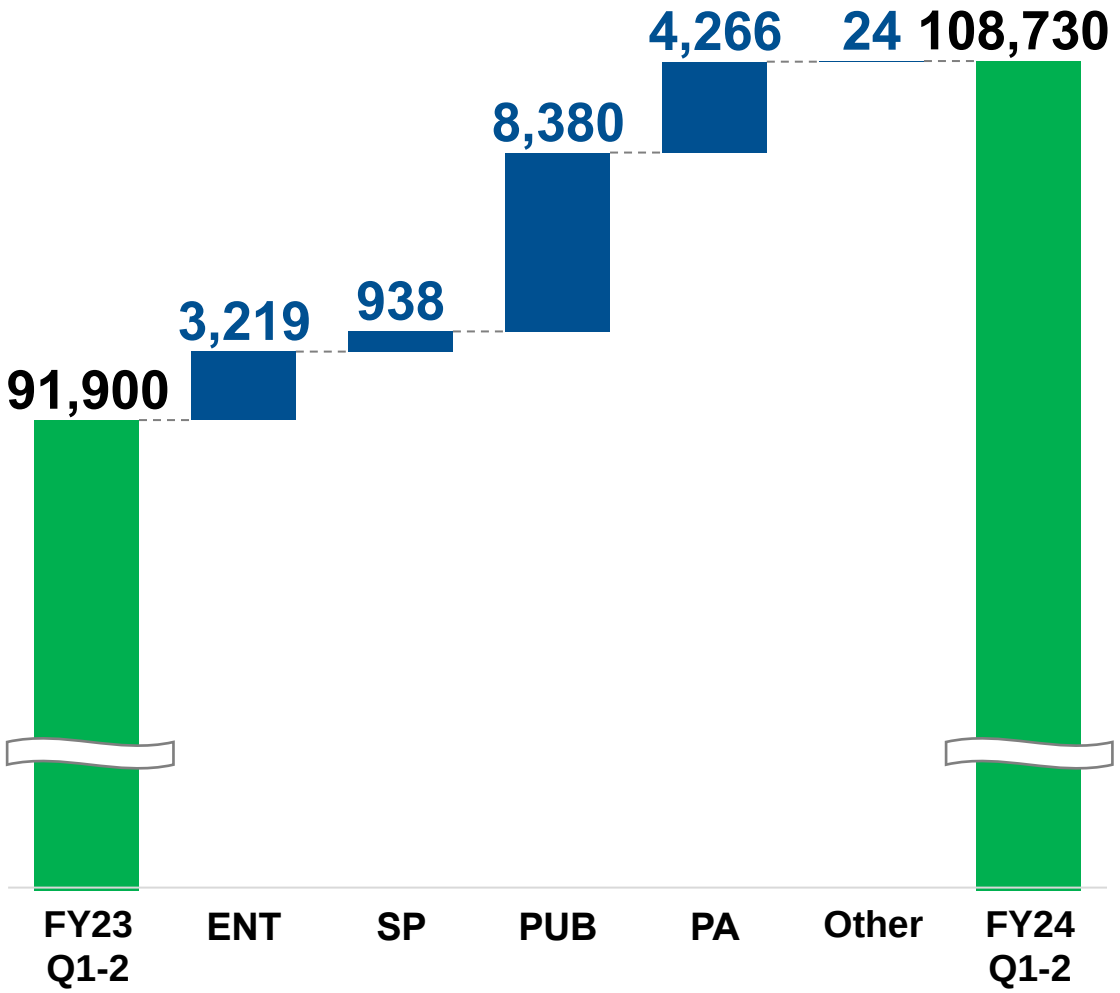
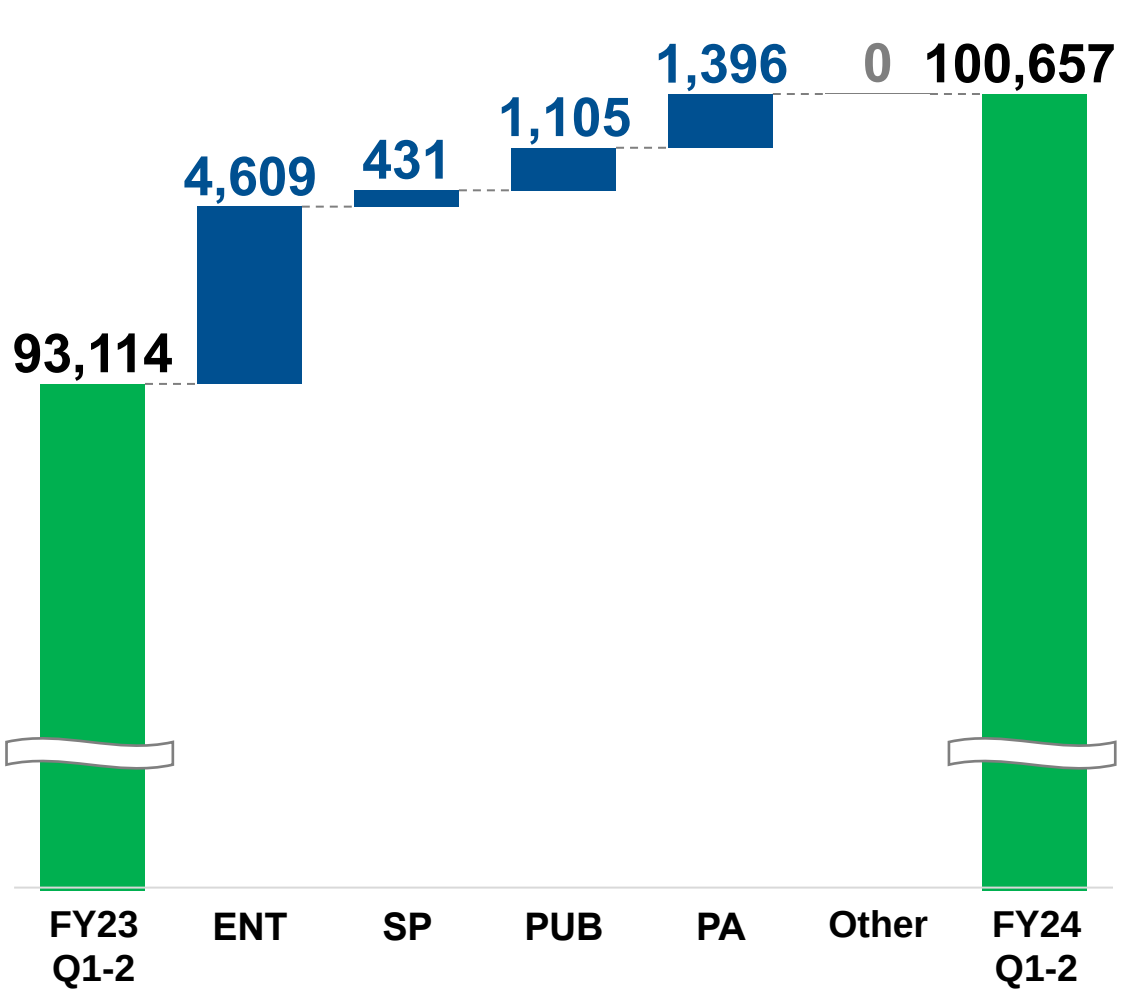
Bookings and revenue: YoY changes by segment

(JPYmn)

Bookings



Revenue



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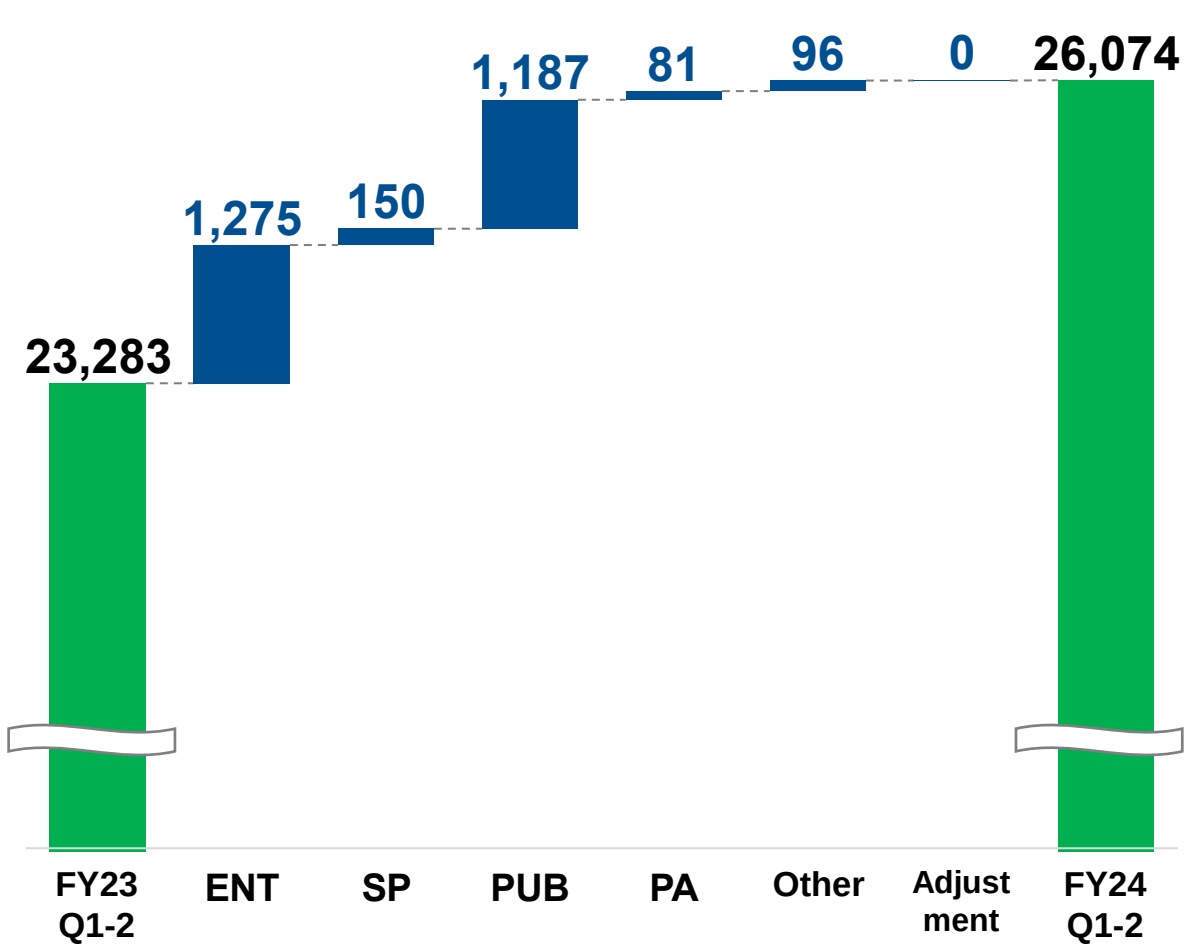
(Note) ENT: Enterprise, SP: Telecom Carrier, PUB: Public, PA: Partner

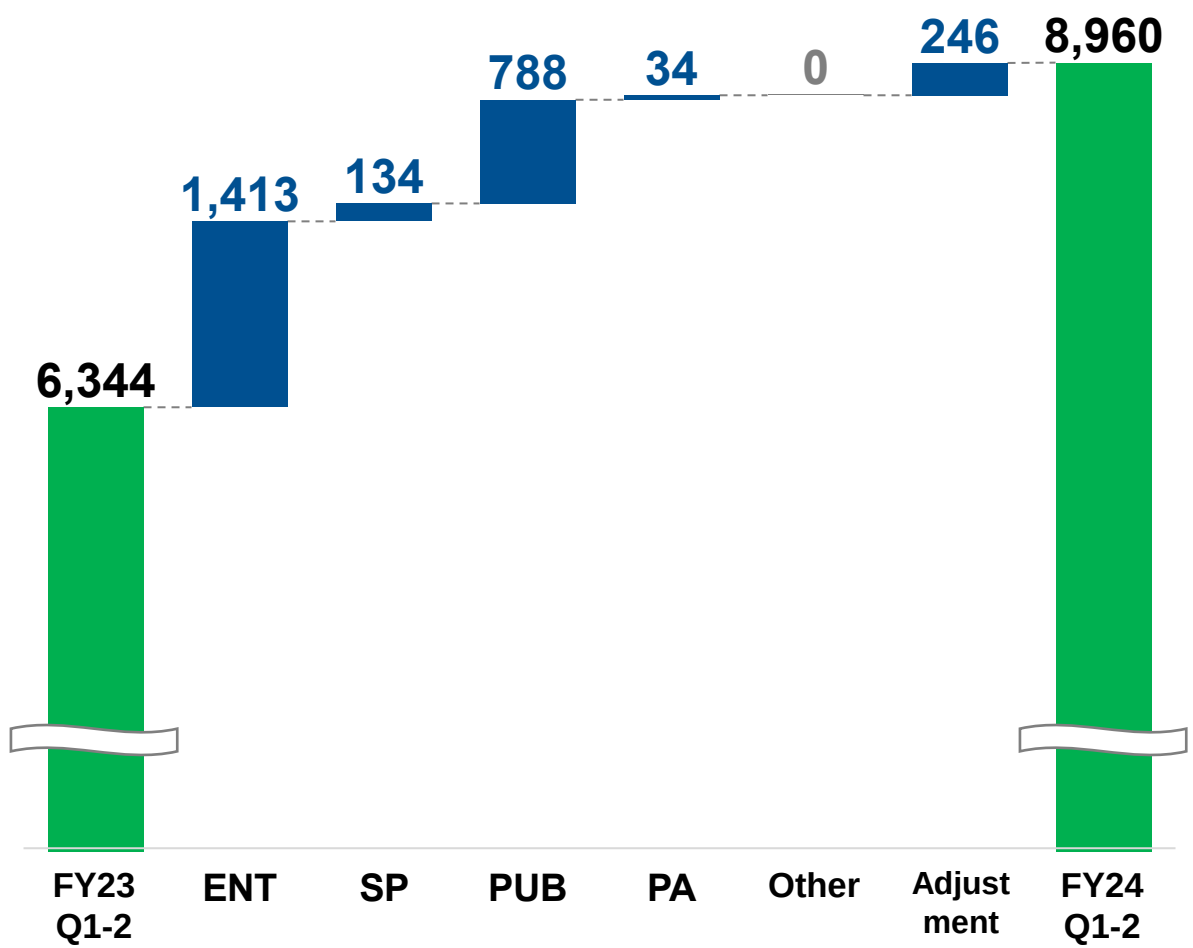
Gross profit and operating income: YoY changes by segment

(JPYmn)

Gross profit



Operating income



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

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

(Service ratio) 48.3% in bookings (+3.2pts YoY), 48.1% in revenue (-0.4pts YoY), 68.2% in backlog (+4.7pts YoY)

(JPYmn)		FY23 Q1-2		FY24 Q1-2		YoY Amount	YoY %	
Product	Bookings	50,498		56,214		+5,715	+11.3%	● Bookings: Increased in the Partner segment in large part due to the acquisition of a large product project (Wi-Fi service project for an MSP)
	Backlog	54,000		48,746		(5,253)	-9.7%	
	Revenue	47,958		52,213		+4,254	+8.9%	● Revenue: Expanded due mainly to large product projects handled through the Partner and Enterprise segments
	Gross profit (%)	10,105	21.1%	10,750	20.6%	+644	+6.4%	● GPM: -0.5pts YoY ✓ Performance remained level YoY
Service	Bookings	41,401		52,516		+11,114	+26.8%	● Bookings: Increased particularly in the Public segment, with growth driven mainly by managed and system integration services
	Backlog	93,851		104,713		+10,861	+11.6%	
	Revenue	45,156		48,444		+3,288	+7.3%	● Revenue: Grew thanks mainly to performance achieved through managed and maintenance services
	Gross profit (%)	13,177	29.2%	15,324	31.6%	+2,147	+16.3%	● GPM: +2.4pts YoY ✓ Optimization of service prices gradually contributed to increasing GPM of services

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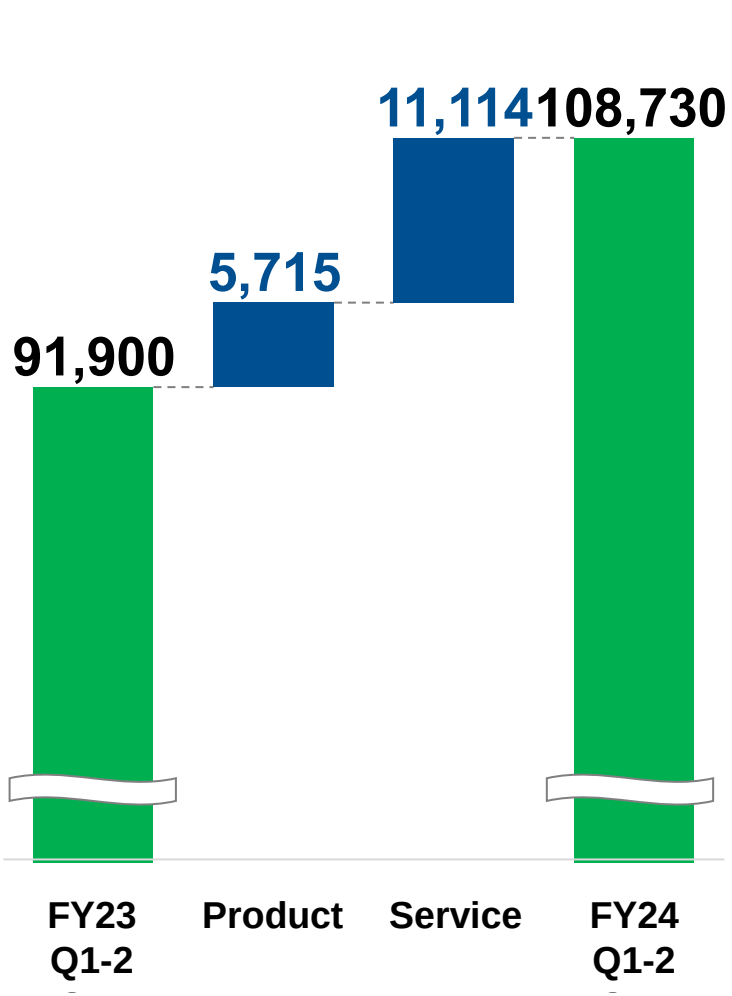
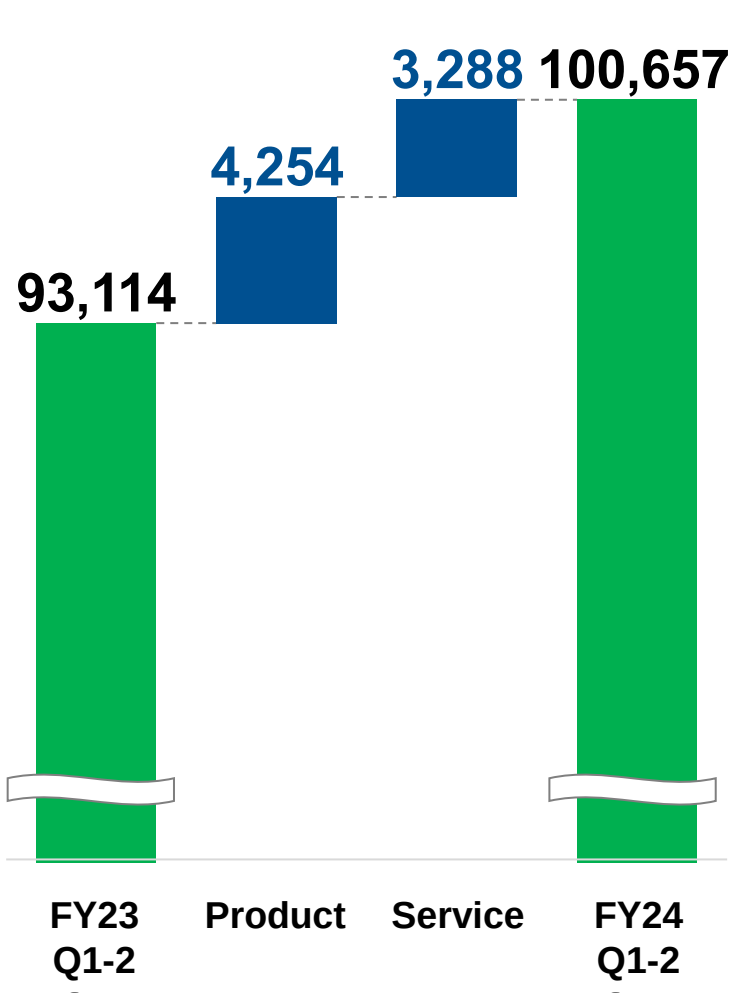
Bookings, revenue, and gross profit: YoY changes by product category

(JPYmn)

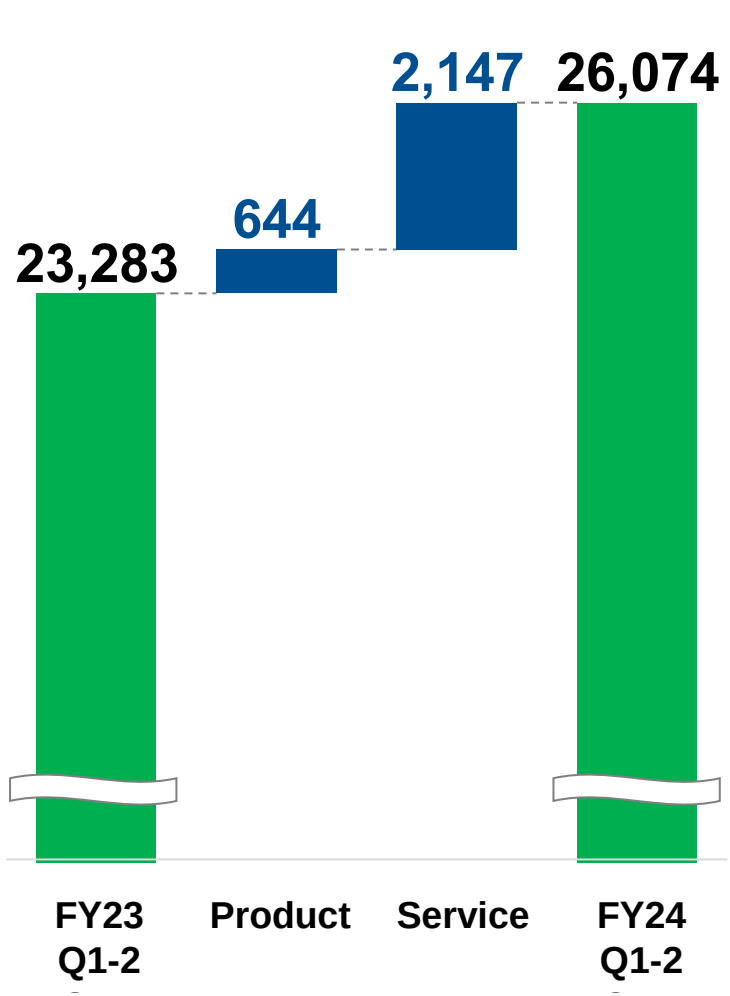
Bookings



Revenue



Gross profit



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Consolidated balance sheets

(JPYmn)	Mar. 31, 2024	Sep. 30, 2024	Change		
			Amount	%	
Total assets	164,909	167,153	+2,243	+1.4%	
Current assets	147,488	148,905	+1,416	+1.0%	
Cash and deposits	32,035	26,055	(5,980)	-18.7%	
Notes and accounts receivable-trade	46,180	41,877	(4,302)	-9.3%	
Inventory assets	33,695	42,762	+9,067	+26.9%	Costs on uncompleted construction contracts: +10,395
Other	35,577	38,209	+2,632	+7.4%	Prepaid expenses: +5,035
Noncurrent assets	17,420	18,248	+827	+4.8%	
Property, plant and equipment	8,895	8,670	(224)	-2.5%	
Intangible assets	2,644	3,238	+594	+22.5%	
Investment etc.	5,881	6,339	+458	+7.8%	
Total liabilities	88,094	88,239	+144	+0.2%	
Current liabilities	66,703	70,225	+3,522	+5.3%	
Non-current liabilities	21,391	18,013	(3,377)	-15.8%	
Total net assets	76,814	78,913	+2,098	+2.7%	
Shareholders' equity	76,414	79,818	3,403	+4.5%	
Accumulated other comprehensive income	268	(1,035)	(1,304)	-	
Subscription rights to shares	130	130	0	0.0%	
Total liabilities and net assets	164,909	167,153	+2,243	+1.4%	

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Employees

	End of FY23 Q2	End of FY24 Q2	YoY		
			Amount	%	
Number of consolidated employees	2,607	2,667	+60	+2.3%	● 75 new graduates joined the Company in FY24
Turnover rate	2.4%	2.0%	-	-	

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Activity highlights

OMRON, MEIJI ELECTRIC INDUSTRIES, and Net One Systems are jointly implementing the “Next-Generation Wireless Co-Creation Project” with the aim of developing smart manufacturing environments

Leveraging their expertise concerning smart factory solutions, these three companies demonstrated applications of next-generation wireless technology to over 40 manufacturing companies

Applying their deep knowledge and technical expertise, the three companies carried out co-creation activities guided by the concept “transition from a wired to a wireless world” while leveraging their ICT capabilities and insight to facilitate innovation

Next-Generation Wireless Co-Creation Project

- ✓ We have enabled more flexible and scalable production lines through next-generation wireless technology and plan to further apply these solutions to the development of smart cities
- ✓ In addition to delivering solutions through the application of next-generation wireless technology, we have successfully virtualized control equipment used in factories while enhancing overall OT network infrastructure
- ✓ Collaborating with our co-creation eco-partners, we have progressively fulfilled customer requirements while also generating new business opportunities

Meio University, Cisco Systems, and Net One Systems have concluded an industry-academia collaboration agreement

These organizations are jointly fostering data analysts capable of addressing local challenges and contributing to the development of the Nago area and Okinawa’s Yanbaru region as a whole

Through their industry–academia collaboration agreement, these three organizations are helping address IT personnel shortages while supporting the development of talent essential to the development and revitalization of regional communities

Industry-academia collaboration agreement

- ✓ By training data analysts using big data-driven education methods, we aim to develop human resources who can proactively deliver solutions both in Japan and overseas
- ✓ We are supporting the sustainable development of local communities through our cultivation of data analysts
- ✓ Through our strong partnership with Cisco Systems, we aim to further improve our competitive advantage

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3 Progress of medium-term business plan

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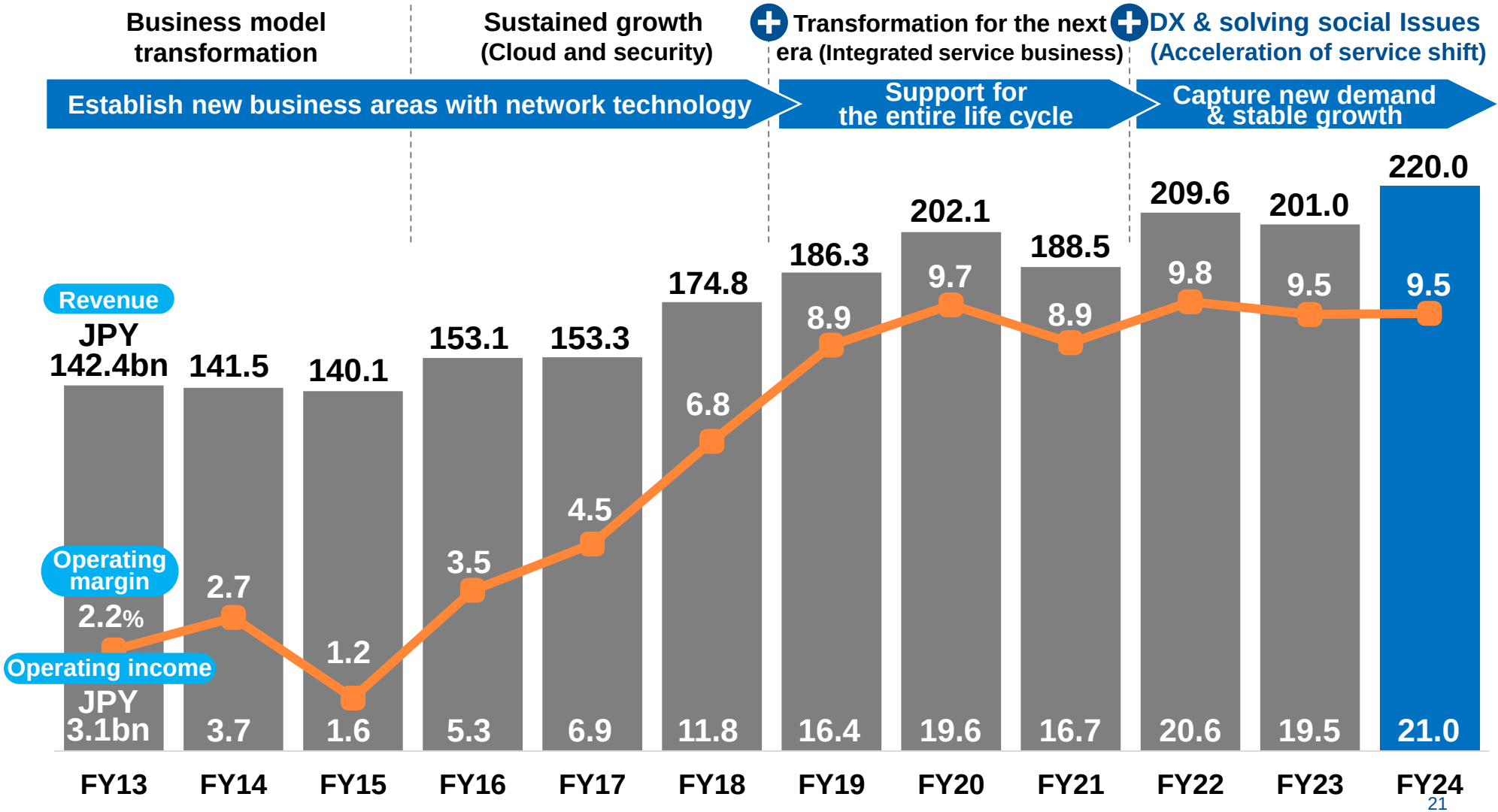
Medium-Term Business Plan targets

Performance improvements reflected impact from initiatives aimed at improving bookings and service profitability, which had both been identified as challenges. We are currently preparing our next medium-term business plan with our sights set on ongoing growth.

	FY24 forecast
Revenue	JPY 220.0bn
Operating margin	9.5%
Service ratio	50.0%
ROE	20.0%



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Bookings and revenue by focus areas

		FY23 Q1-2	FY24 Q1-2	Booking trends
Smart manufacturing	Bookings	JPY 2.2bn	JPY 6.2bn	Requests increased for the development of wired and wireless networks, along with the establishment of new production bases and upgrades to existing ones. Additionally, there was a rise in requests for security enhancements, including IT/OT network separation and global SASE, integration of various production data, and AI utilization. In addition to expanding business in the manufacturing sector, we have been promoting business creation with R&D departments and strategic partners. ● Project examples ✓ Factory security (network isolation, assessment services, etc.) ✓ Factory wireless networks
	Revenue	JPY 3.3bn	JPY 3.2bn	
Digitalization of social infrastructure to realize Society 5.0	Bookings	JPY 4.9bn	JPY 5.1bn	We promoted DX projects that are gaining momentum across society, in the electricity and gas, railroad, healthcare, construction, financial, and ICT sectors. ● Project examples ✓ Financial: Cloud utilization ✓ Electric power: Consulting for multi-cloud utilization ✓ Railroad: Cloud systems for corporate groups
	Revenue	JPY 2.0bn	JPY 5.2bn	
Digital government	Bookings	JPY 8.7bn	JPY 19.8bn	Municipal governments: We won multiple large DX projects in areas such as cloud utilization (multi-cloud), security enhancement (zero trust and SASE), and work style innovation. In addition, there was an acceleration in activities related to GIGA school upgrades, school administration DX, and next-generation security cloud and security enhancement. ● Project examples ✓ Large-scale infrastructure that integrates work style innovation, cloud utilization, and security ✓ Managed services
	Revenue	JPY 1.4bn	JPY 2.6bn	

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Sustainability

Material sustainability issues		KPIs		Progress in H1 FY24
Achievement of a safe and secure advanced information society 	Providing solutions and services for specific issues and fields	Revenue from solutions for social issues	2024 target: JPY30.0bn	JPY11.2bn
	Expanding and promoting service-based businesses	Service ratio	2024 target: 50%	48.1%
Success of professional personnel 	Developing human resources for the next generation	Security personnel	CISSP certification holders 2030 target: 80	33 (FY24 target) 35
			Registered information security specialists 2030 target: 100	67 (FY24 target) 65
		Cloud personnel	Front office departments 2030 target: 50% increase in cloud personnel (232 at end-FY21)	506 (FY24 target) 566
		DX personnel (with certifications in data analysis)	Corporate divisions 2030 target: Increase of 150 employees	In progress (FY24 target) 57
			100 operational improvement proposals (target cumulative total over 2022–2030)	In progress (FY24 target) 34
		Development of next-generation ICT personnel	Expansion of next-generation IT personnel development programs through academic–industrial collaboration	In progress (FY24 results to be disclosed)
	Promoting diversity and inclusion	Ratio of female executives	2030 target: 15%	In progress (FY24 results to be disclosed)
		Percentage of freshly recruited new graduates who are women	2030 target: 50%	Employees who joined the Company in April 2024: 28.6% (April 2025 target) 38.0%
		Growth in the rate of male employees taking childcare leave and special leave at the time of childbirth	2030 target: 90%	H1 FY24 results: 93% (FY24 target) 75.0% (Reference) (H1 FY24 results) Male employees taking childcare leave: 43%

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Sustainability

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

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4 Progress of measures to prevent recurrence

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Progress of measures to prevent recurrence (July 2024)

net one

Progress

1. Governance reform and promotion	• All divisions, offices, and teams held quarterly case study workshops. In Q2 FY24, all employees initiated to exchange opinions on the theme of “diversity and inclusion”. (1.(1)-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 FY24, we implemented risk management plans for key risks and reported on all associated activities during the second meeting of our Risk Management Committee. We also ensured the sharing of feedback regarding committee reports and discussions through coordination meetings held between the secretariats of the Governance and Corporate Culture Advisory Committee, the Risk Management Committee, and the Compliance Committee. (2.(2)-c, 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 the checking and follow-up structure. (3.(2)-a)
4. Radical revisions to our auditing system	• As part of efforts to strengthen the Internal Audit Office and develop career paths, we conducted a personnel transfer on April 1, 2024, appointing a new Internal Audit Office head with extensive business division experience, and assigned personnel with engineering division experience. (4.(1)-a, 4.(2)-a) • We fully briefed process owners in preparation of updates to control documents and began conducting these updates. (4.(3)-a) • We continued 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 broke down whistleblowing categories into more specific segments and launched operations aimed at simplifying feedback for statistical analysis and recurrence prevention. (5.(1)-a) • We continued to implement 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)
6. Reform and creation of organizational culture	• Discussions were held to facilitate the development of plans and measures targeting issues identified by the first corporate culture monitoring surveys for FY24. (6.(2)-a) • Based on the FY24 corporate culture reform efforts policy, we launched activities with members tasked with planning companywide measures has begun preparing plans for our Vision Day while developing measures aimed at fostering an ideal corporate culture and promoting awareness of our WAY. (6.(2)-a/d)
7. Accounting literacy education, and training and instruction based on prior examples of misconduct	• We continued to develop educational content for FY24 based on results for education provided through—and questionnaire responses received for—Step 3 of our FY23 education plan for improving accounting literacy and accounting knowledge. (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	• We continued to conduct the survey based on the formulated survey method and plan for FY24. (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.
2. Parts in blue text are major changes from the previous month.

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Progress of measures to prevent recurrence (August 2024)

net one

Progress

1. Governance reform and promotion	• All divisions, offices, and teams held quarterly case study workshops. In Q2 FY24, all employees initiated to exchange opinions on the theme of “diversity and inclusion”. (1.(1)-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 FY24, we implemented risk management plans for key risks and reported on all associated activities during the second meeting of our Risk Management Committee. We also ensured the sharing of feedback regarding committee reports and discussions through coordination meetings held between the secretariats of the Governance and Corporate Culture Advisory Committee, the Risk Management Committee, and the Compliance Committee and held discussions regarding future agendas for these committees. (2.(2)-c, 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 the checking and follow-up structure. (3.(2)-a)
4. Radical revisions to our auditing system	• As part of efforts to strengthen the Internal Audit Office and develop career paths, we conducted a personnel transfer on April 1, 2024, appointing a new Internal Audit Office head with extensive business division experience, and assigned personnel with engineering division experience. (4.(1)-a, 4.(2)-a) • Updates to control documents are underway. (4.(3)-a) • We continued 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 broke down whistleblowing categories into more specific segments and launched operations aimed at simplifying feedback for statistical analysis and recurrence prevention. (5.(1)-a) • We continued to implement 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)
6. Reform and creation of organizational culture	• The members tasked with planning companywide measures are currently coordinating our Vision Day while developing measures aimed at fostering an ideal corporate culture and promoting awareness of our WAY. (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 are currently formulating our FY24 education plan for improving accounting literacy. (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	• We continued to conduct the survey based on the formulated survey method and plan for FY24. Interviews have been completed as outlined through our survey plan, and we have begun analyzing and reporting the results of these interviews. (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.
2. Parts in blue text are major changes from the previous month.

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Progress of measures to prevent recurrence (September 2024)

Progress

1. Governance reform and promotion

- All divisions, offices, and teams held quarterly case study workshops. In Q2 FY24, all employees continued to exchange opinions on the theme of “diversity and inclusion”. (1.(1)-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 FY24, we implemented risk management plans for key risks and reported on all associated activities during the third meeting of our Risk Management Committee. Through a joint meeting held between the secretariats of our Governance and Corporate Culture Advisory Committee, the Risk Management Committee, and the Compliance Committee, we reviewed and disclosed the progress of our recurrence prevention measures for Q1-2 and discussed future agenda for these committees. (2.(2)-c, 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 the checking and follow-up structure. (3.(2)-a)

4. Radical revisions to our auditing system

- As part of efforts to strengthen the Internal Audit Office and develop career paths, we conducted a personnel transfer on April 1, 2024, appointing a new Internal Audit Office head with extensive business division experience, and assigned personnel with engineering division experience. (4.(1)-a, 4.(2)-a)
- Control documents have been fully updated. We plan to begin evaluating the development of relevant internal processes in September 2024. (4.(3)-a)
- We continued 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 broke down whistleblowing categories into more specific segments and are currently pushing forward with activities aimed at simplifying feedback for statistical analysis and recurrence prevention. (5.(1)-a)
- We have analyzed views submitted through our feedback system, which operates using third-party points of contact during FY24 to identify trends or common themes. Based on our findings, we are currently examining additional improvement measures. (5.(2)-a)

6. Reform and creation of organizational culture

- The members tasked with planning companywide measures are currently coordinating our Vision Day while developing measures aimed at fostering an ideal corporate culture and promoting awareness of our WAY. (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 continued conducting activities in accordance with FY24 education plan for improving accounting literacy. (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

- We conducted the survey based on the formulated survey method and plan for FY24. Additionally, we have analyzed and shared the results of corresponding interviews and delivered a report to our Governance and Corporate Culture Advisory Committee. (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.
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5 Appendix

- **Q2 FY24 (Jul.-Sep. 3 months) results**
- **Quarterly results**

  Detailed results data (Excel files): Posted at the following link
  https://www.netone.co.jp/english/investor-relations/ir-library/presentations/

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Q2 FY24 (Jul.-Sep. 3 months) results

(JPYmn)	FY23 Q2 (Jul.-Sep.)		FY24 Q2 (Jul.-Sep.)		YoY Amount	YoY %	
Bookings	41,899		47,420		+5,520	+13.2%	● Steady progress ● (YoY) Enterprise: +JPY2.0bn, Telecom Carrier: +JPY2.1bn, Public: +JPY0.6bn, Partner: +JPY0.5bn
Revenue	50,525	100.0%	55,033	100.0%	+4,507	+8.9%	● Revenue was strong primarily because order backlogs were fulfilled more quickly than expected ● (YoY) Enterprise: +JPY1.8bn, Telecom Carrier: -JPY1.2bn, Public: +JPY1.8bn, Partner: +JPY2.0bn
Cost of sales	37,614	74.4%	41,156	74.8%	+3,542	+9.4%	● GPM: -0.4pts YoY ✓ Product: -3.3pts YoY (Q2 FY23: 23.0%, Q2 FY24: 19.7%) • Impact of foreign exchange rate boosted the performance of the Partner segment in Q2 FY23, but no such impact has been observed for Q2 FY24 ✓ Service: +3.8pts YoY (Q2 FY23: 28.4%, Q2 FY24: 32.2%) • Optimization of service prices gradually contributed to increasing GPM ✓ Service ratio: -3.7pts YoY (Q2 FY23: 47.9%, Q2 FY24: 44.2%) • Service held steady YoY. On the other hand, service ratio declined due to large product projects
Gross profit	12,911	25.6%	13,877	25.2%	+965	+7.5%	
SG&A	8,232	16.3%	8,744	15.9%	+512	+6.2%	● (YoY) Personnel expenses +JPY1.13bn, office expenses -JPY0.30bn
Operating income	4,678	9.3%	5,132	9.3%	+453	+9.7%	● Factors contributing to YoY increase/decrease are provided on the next page
Ordinary income	4,698	9.3%	5,118	9.3%	+420	+8.9%	
Profit attributable to owners of parent	3,195	6.3%	3,833	7.0%	+637	+20.0%	● The sale of “legacy provider-independent addresses” generated approximately JPY0.5bn in extraordinary income

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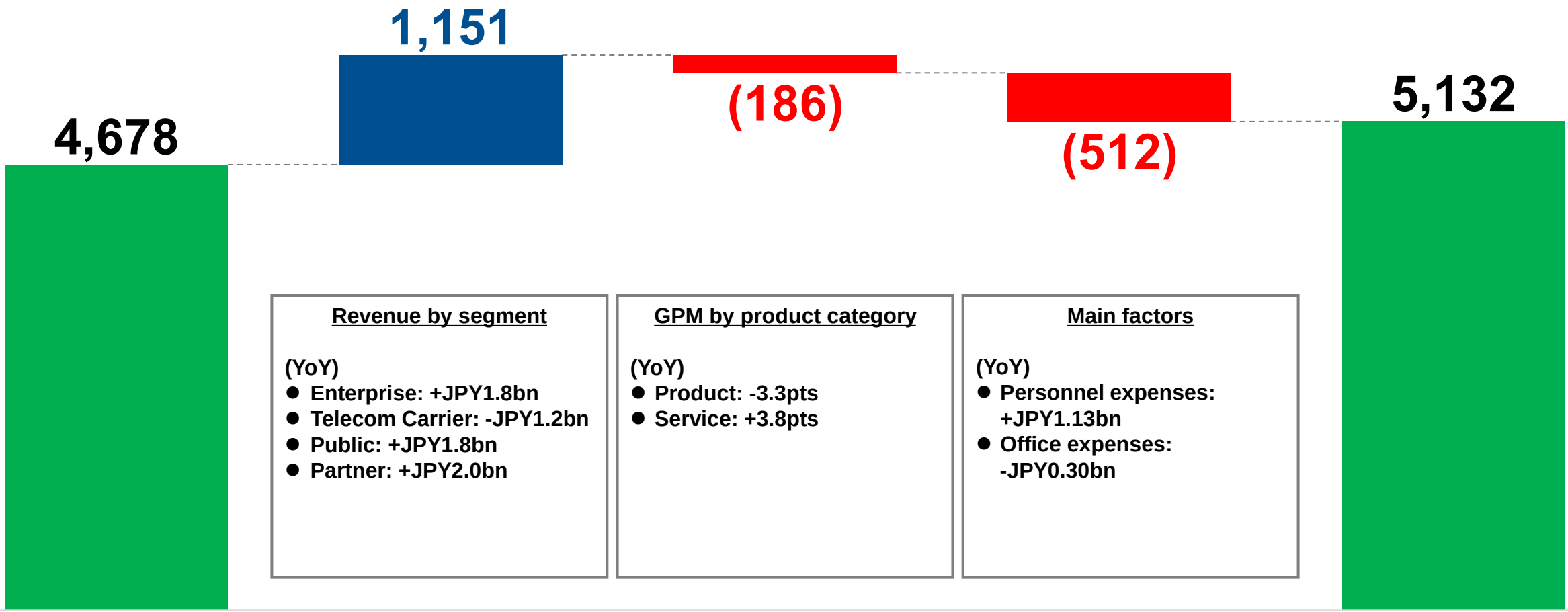
Q2 FY24 (Jul.-Sep. 3 months)
Operating income analysis

(JPYmn)



Revenue by segment

(YoY)
- Enterprise: +JPY1.8bn
- Telecom Carrier: -JPY1.2bn
- Public: +JPY1.8bn
- Partner: +JPY2.0bn

GPM by product category

(YoY)
- Product: -3.3pts
- Service: +3.8pts

Main factors

(YoY)
- Personnel expenses: +JPY1.13bn
- Office expenses: -JPY0.30bn

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Q2 FY24 (Jul.-Sep. 3 months)
Bookings, revenue, gross profit, and operating income by segment

	(JPYmn)	FY23 Q2 (Jul.-Sep.)		FY24 Q2 (Jul.-Sep.)		YoY Amount	YoY %	
Enterprise	Bookings	13,027		15,113		+2,085	+16.0%	● Bookings: Financial sector bookings associated with cloud utilization and security measures were strong. Manufacturing sector bookings related to smart manufacturing and security measures were also robust. In the non-manufacturing sector, bookings were somewhat weak overall despite solid acquisition of orders for security measures ● Revenue: Growth driven primarily by the manufacturing sector ● GPM: +0.9pts YoY ✓ GPM rose thanks mainly to improvement in project profitability
	Service (%)	7,834	60.1%	7,900	52.3%	+66	+0.8%	
	Revenue	13,511		15,399		+1,888	+14.0%	
	Service (%)	7,942	58.8%	8,387	54.5%	+444	+5.6%	
	Gross profit (%)	3,555	26.3%	4,183	27.2%	+628	+17.7%	
	Operating income (%)	1,117	8.3%	1,701	11.0%	+583	+52.2%	
Telecom Carrier	Bookings	6,123		8,304		+2,180	+35.6%	● Bookings: Expanded YoY for all telecom carriers, but performance was weaker than forecast ● Revenue: Decreased due to the absence of large product projects that contributed during Q2 FY23 ● GPM: ±0pts YoY ✓ Performance remained level YoY
	Service (%)	2,829	46.2%	3,485	42.0%	+656	+23.2%	
	Revenue	11,854		10,561		(1,292)	-10.9%	
	Service (%)	5,702	48.1%	5,544	52.5%	(157)	-2.8%	
	Gross profit (%)	2,788	23.5%	2,477	23.5%	(310)	-11.1%	
	Operating income (%)	1,320	11.1%	895	8.5%	(424)	-32.2%	
Public	Bookings	13,071		13,741		+669	+5.1%	● Bookings: Booked orders in association with municipal governments' projects covering security, cloud utilization, and operations while also securing orders through large cloud systems projects in social infrastructure sector ● Revenue: Expanded thanks primarily to performance achieved through municipal projects ● GPM: +3.6pts YoY ✓ Optimization of service prices gradually contributed to increasing GPM
	Service (%)	7,255	55.5%	8,082	58.8%	+827	+11.4%	
	Revenue	12,343		14,210		+1,867	+15.1%	
	Service (%)	8,406	68.1%	8,091	56.9%	(314)	-3.7%	
	Gross profit (%)	3,007	24.4%	3,980	28.0%	+973	+32.4%	
	Operating income (%)	466	3.8%	1,104	7.8%	+637	+136.7%	
Partner	Bookings	9,676		10,261		+585	+6.0%	● Bookings: Collaboration with partner companies was strong ● Revenue: Performance was boosted by bookings for large projects during Q1 FY24 ● GPM: -5.4pts YoY ✓ Impact of foreign exchange rates boosted performance in Q2 FY23, but no such impact has been observed for Q2 FY24 ✓ Performance also affected by a slight decrease in proceeds from large product projects
	Service (%)	1,995	20.6%	2,364	23.0%	+369	+18.5%	
	Revenue	12,817		14,862		+2,044	+16.0%	
	Service (%)	2,151	16.8%	2,313	15.6%	+162	+7.5%	
	Gross profit (%)	3,038	23.7%	2,718	18.3%	(319)	-10.5%	
	Operating income (%)	2,064	16.1%	1,675	11.3%	(388)	-18.8%	

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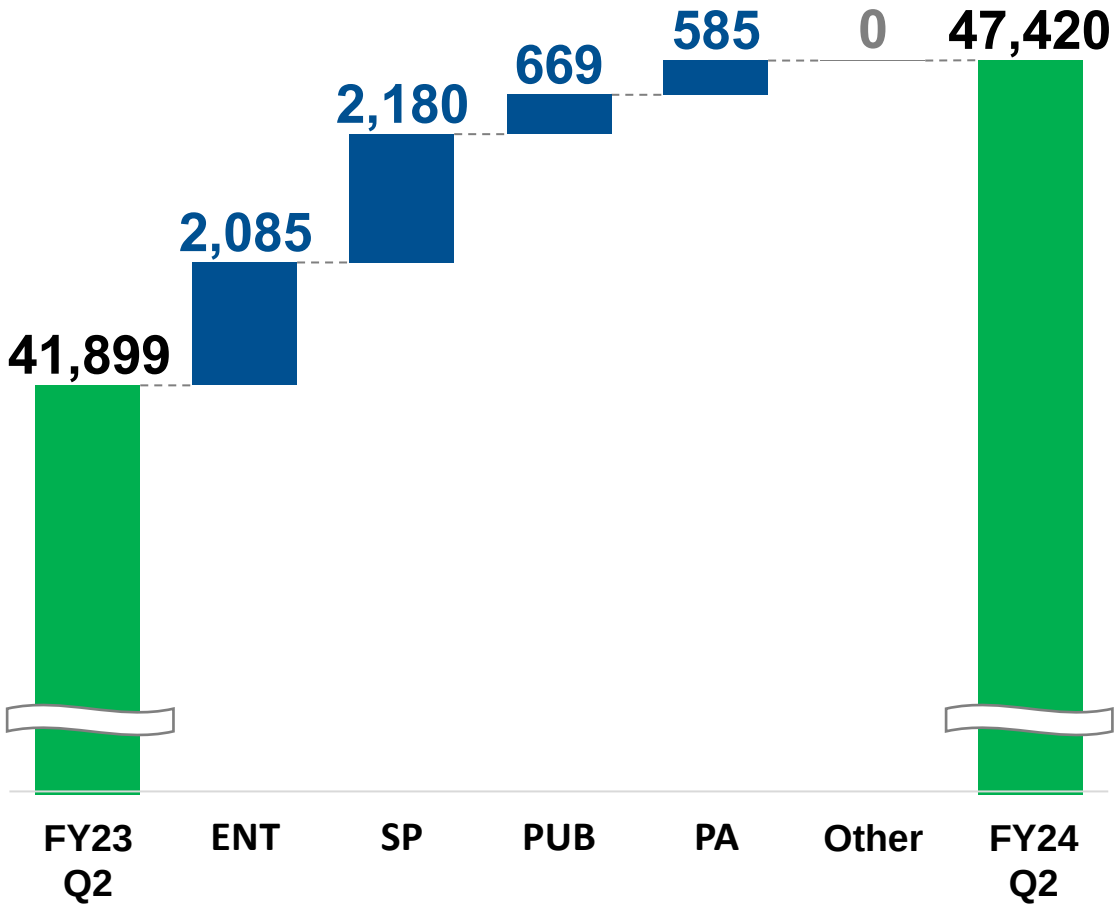
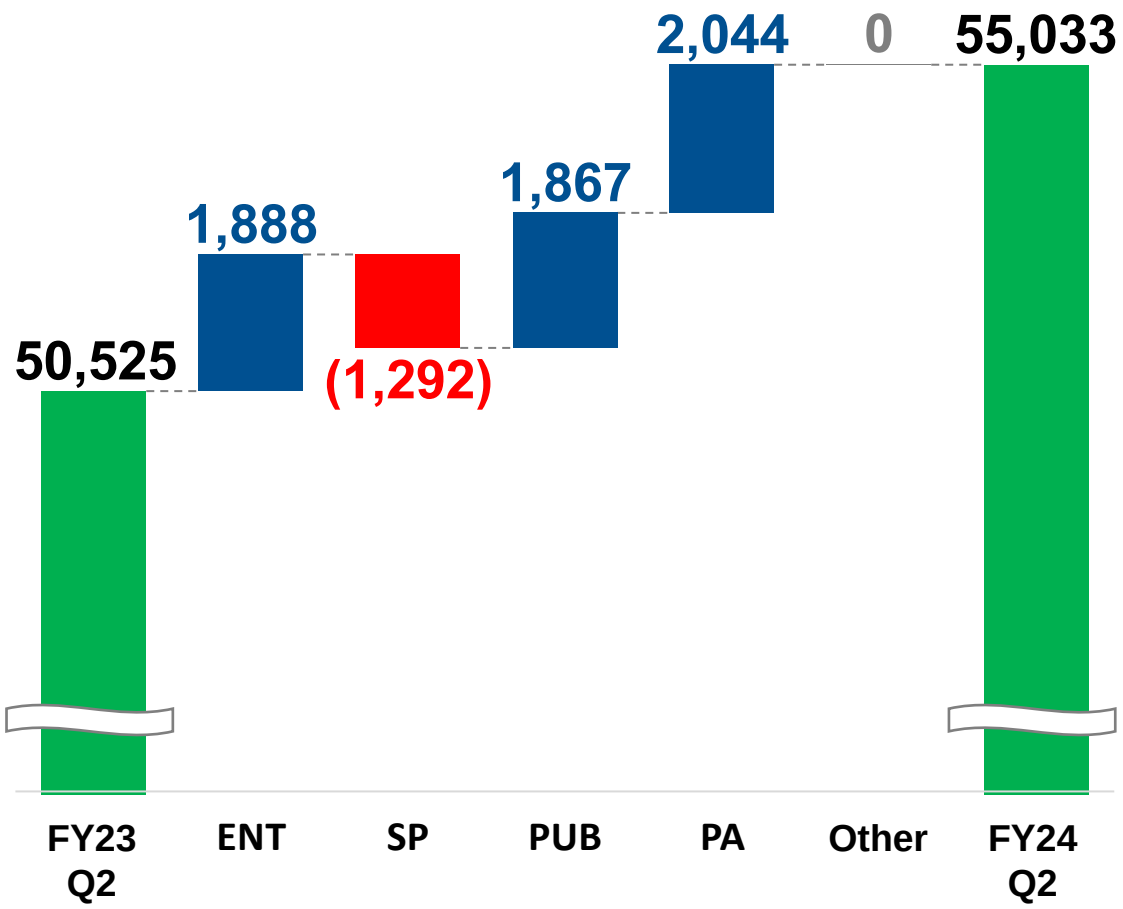
Q2 FY24 (Jul.-Sep. 3 months)
Bookings and revenue: YoY changes by segment

(JPYmn)

Bookings



Revenue



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

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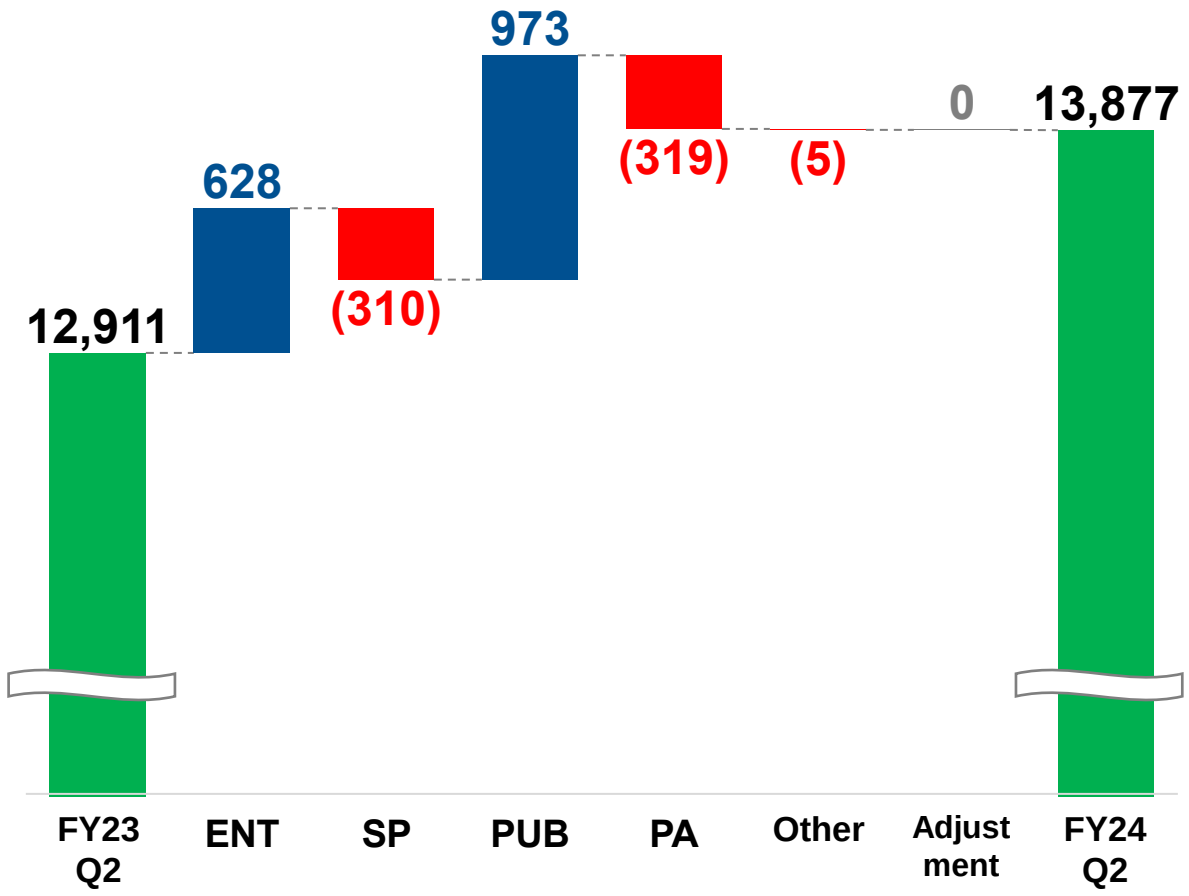
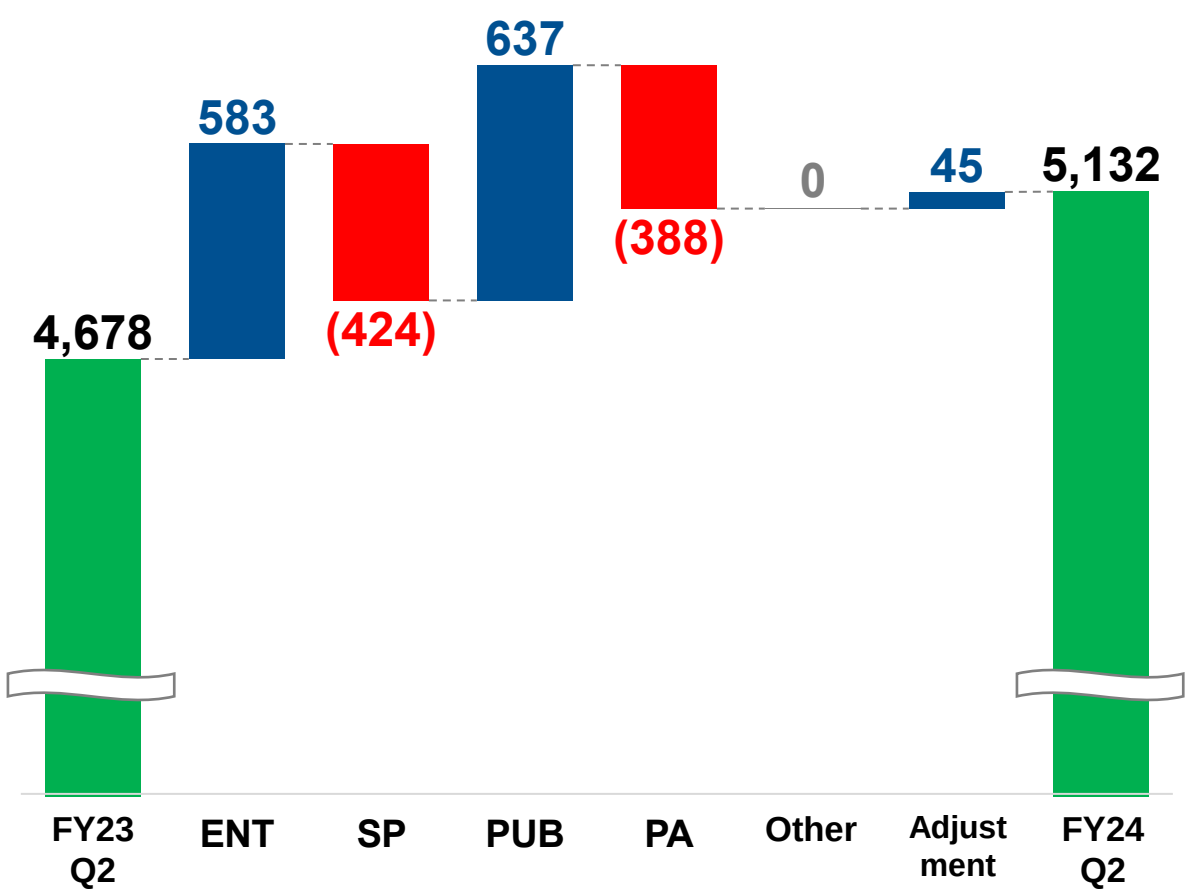
Q2 FY24 (Jul.-Sep. 3 months)
Gross profit and operating income: YoY changes by segment

(JPYmn)

Gross profit



Operating income



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

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Q2 FY24 (Jul.-Sep. 3 months)
Bookings, revenue, and gross profit by product category

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(Service ratio) 46.0% in bookings (-1.5pts YoY), 44.2% in revenue (-3.7pts YoY)

	(JPYmn)	FY23 Q2 (Jul.-Sep.)		FY24 Q2 (Jul.-Sep.)		YoY Amount	YoY %	
Product	Bookings	21,984		25,585		+3,601	+16.4%	● Bookings: Expanded due to growth in bookings secured through the Telecom Carrier segment and bookings accepted through the Enterprise segment in association with product projects
	Revenue	26,322		30,695		+4,372	+16.6%	● Revenue: Grew thanks primarily to performance achieved through large product projects handled through the Partner and Enterprise segments ● GPM: -3.3pts YoY ✓ Impact of foreign exchange rate boosted the performance of the Partner segment in Q2 FY23, but no such impact has been observed for Q2 FY24
	Gross profit (%)	6,048	23.0%	6,032	19.7%	(16)	-0.3%	
Service	Bookings	19,914		21,834		+1,919	+9.6%	● Bookings: Increased particularly in the Public segment, with growth driven mainly by managed service
	Revenue	24,203		24,338		+135	+0.6%	● Revenue: Performance remained level YoY ● GPM: +3.8pts YoY ✓ Optimization of service prices gradually contributed to increasing GPM
	Gross profit (%)	6,862	28.4%	7,844	32.2%	+982	+14.3%	

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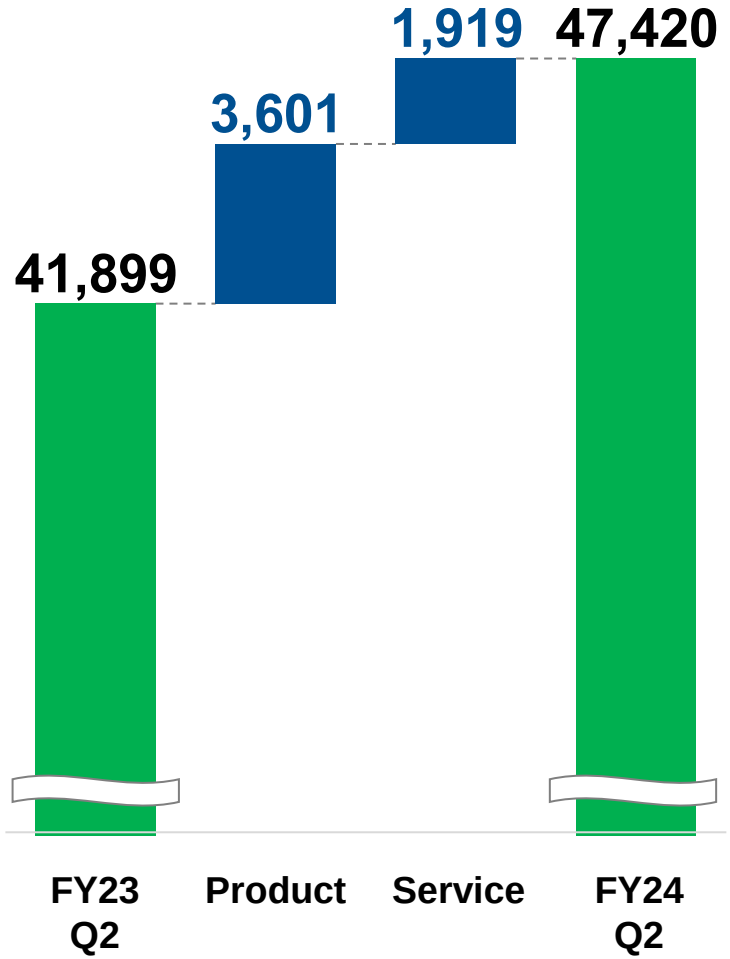
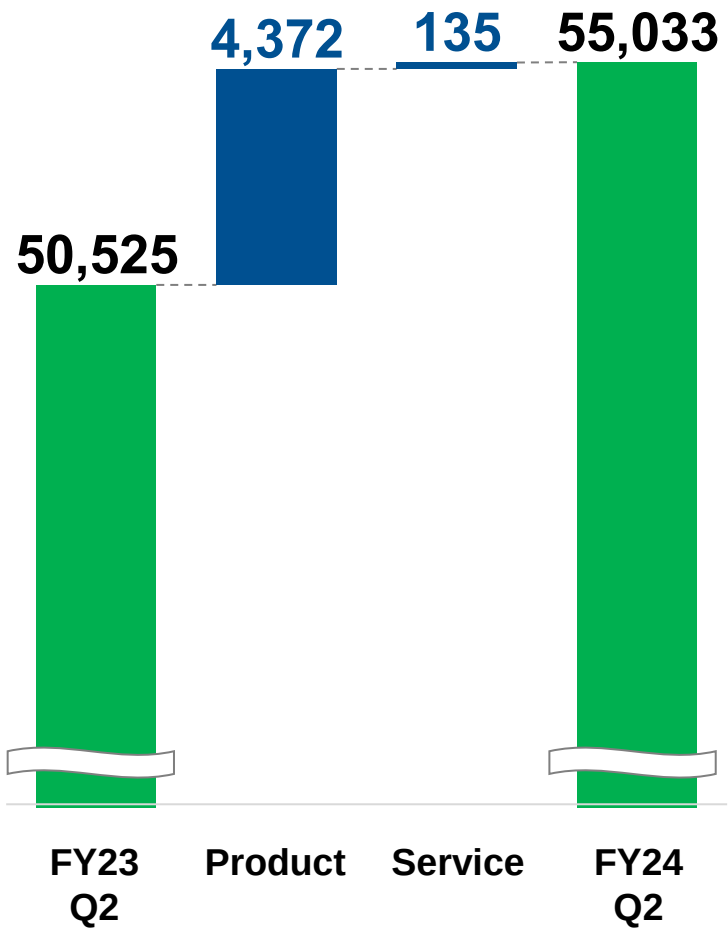
Q2 FY24 (Jul.-Sep. 3 months)
Bookings, revenue, and gross profit: YoY changes by product category

(JPYmn)

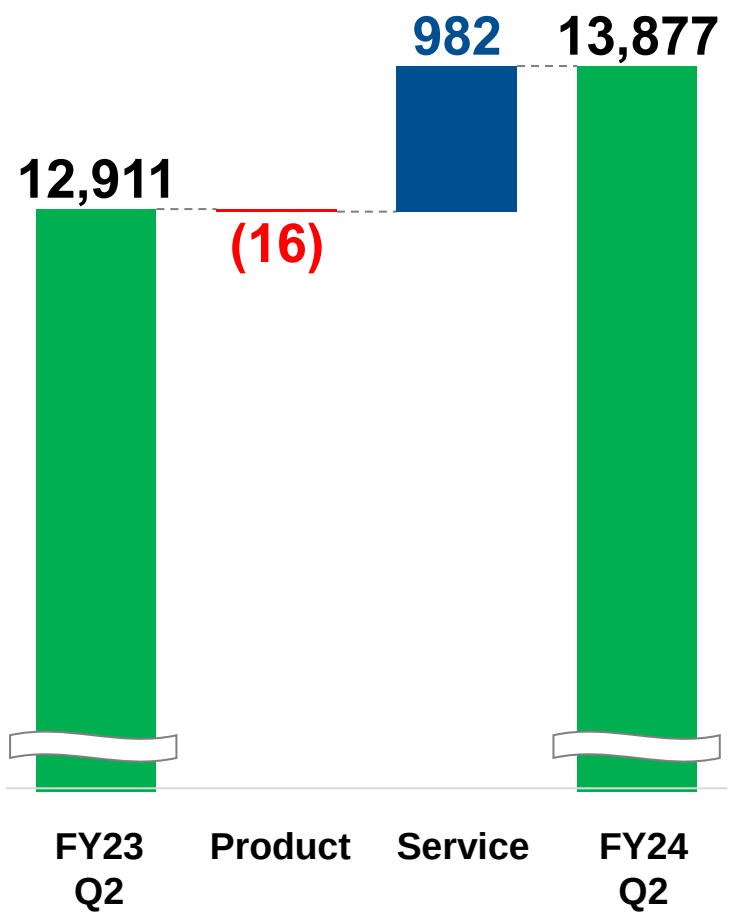
Bookings



Revenue



Gross profit



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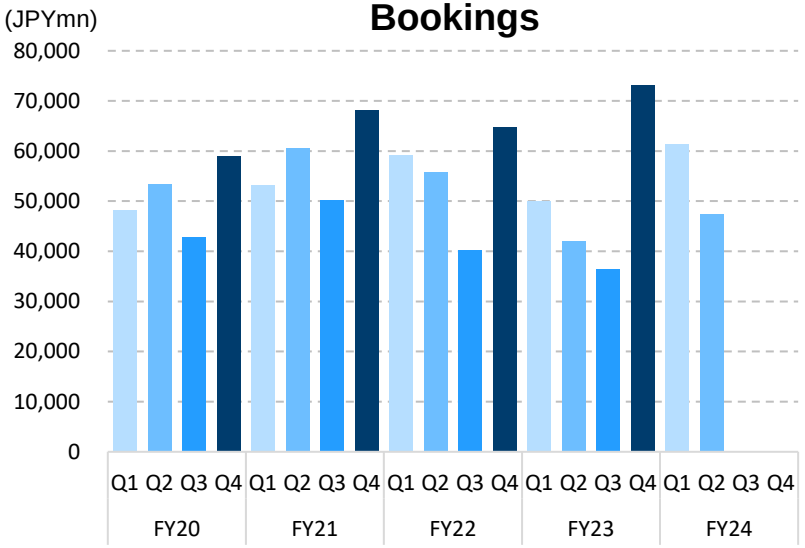
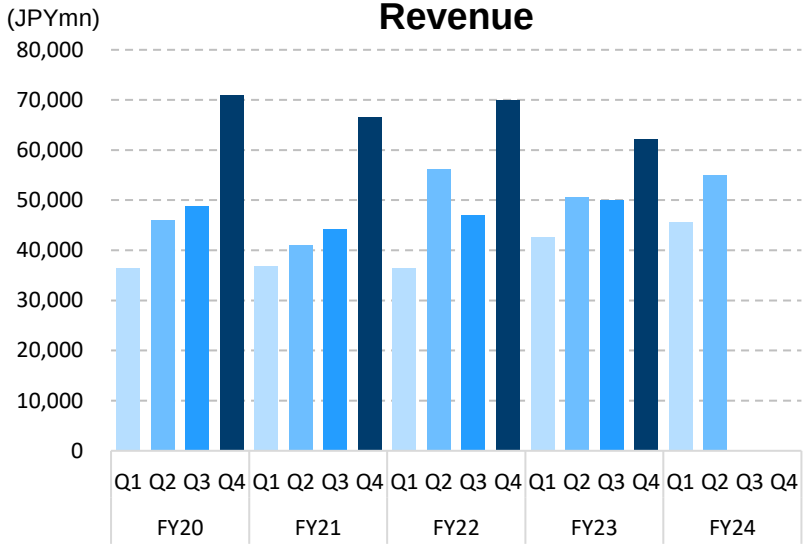
Quarterly results: Company-wide

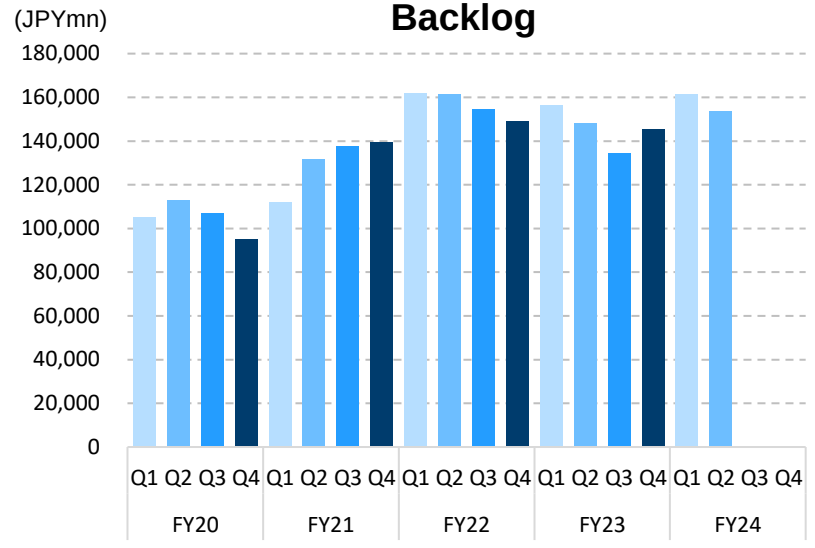
Bookings



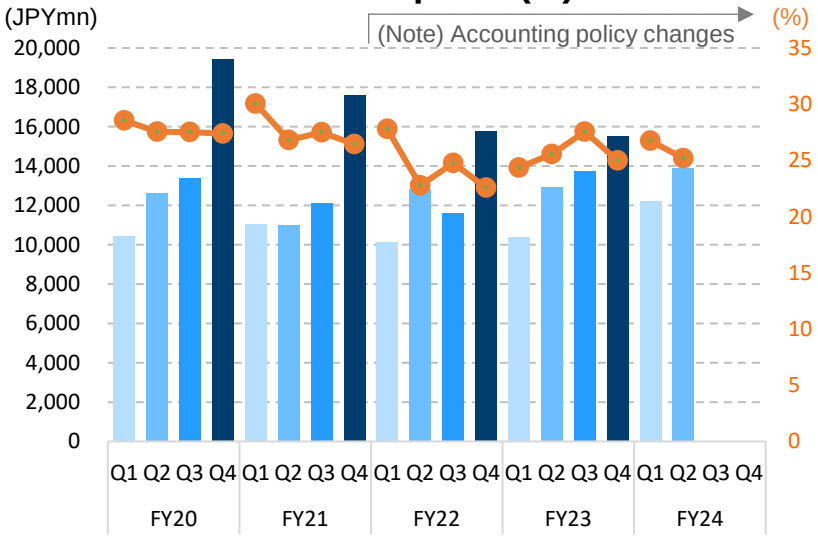
Revenue



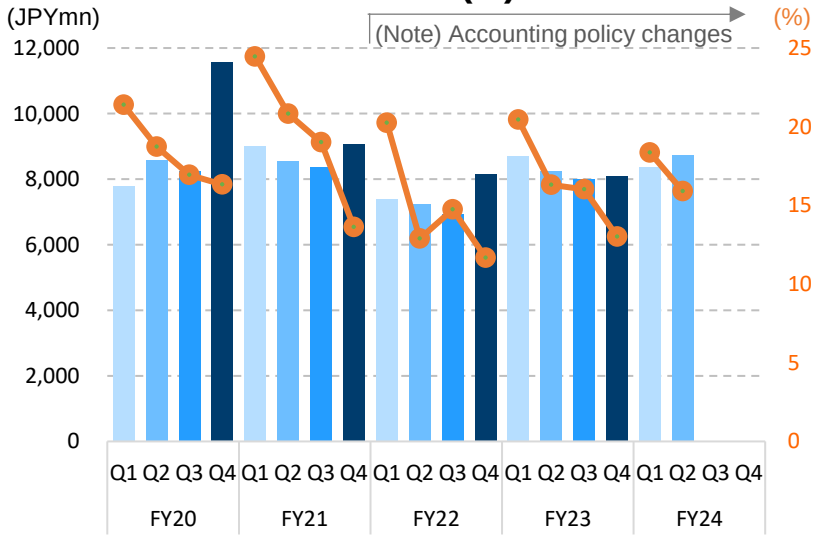
Backlog



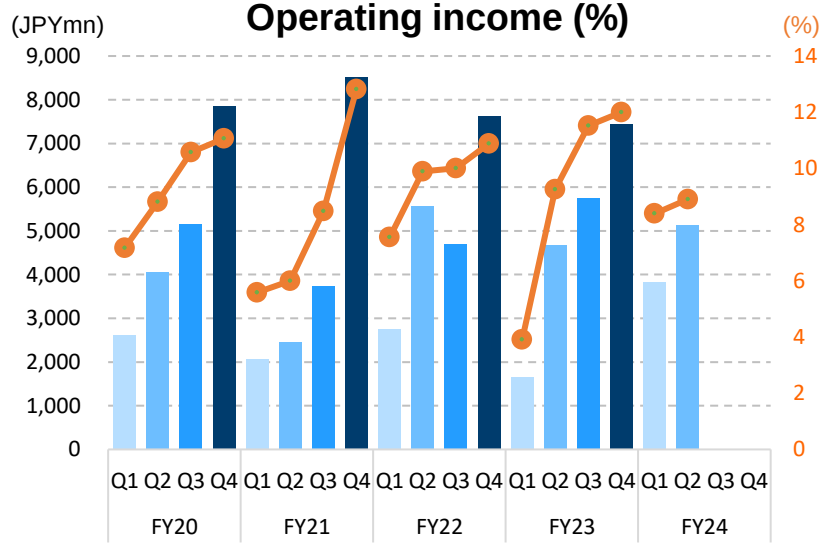
Gross profit (%)



SG&A (%)



Operating income (%)



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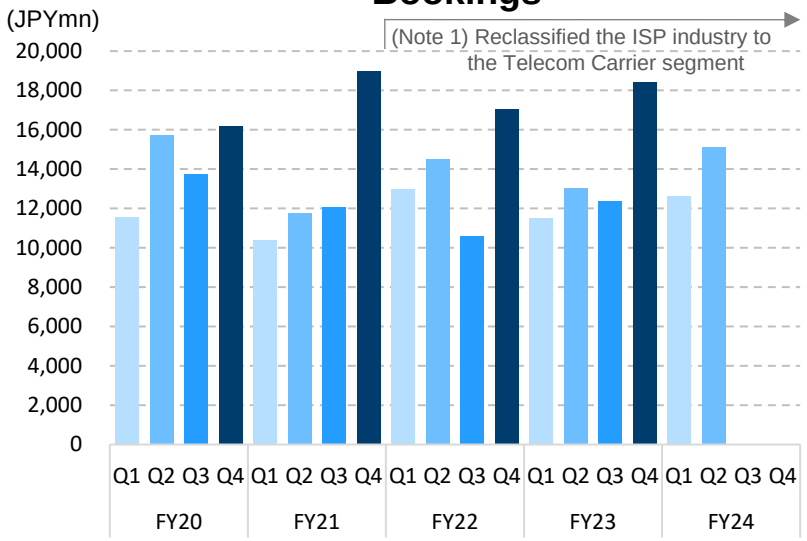
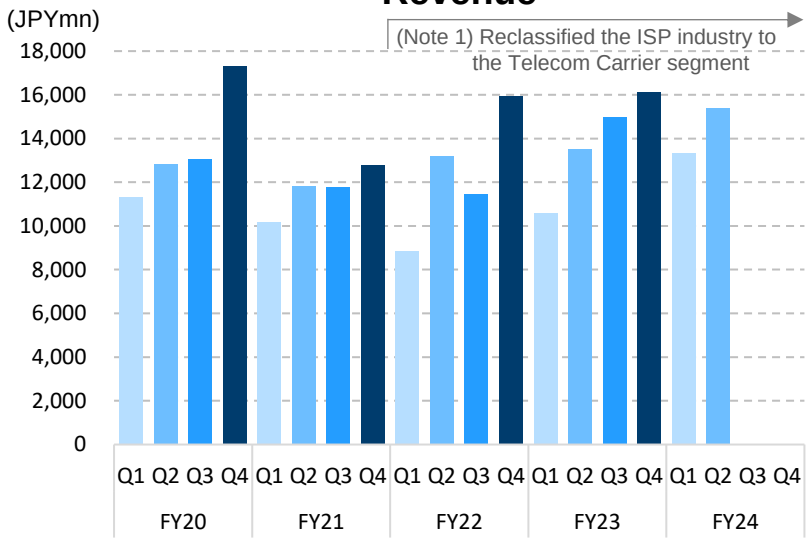
Quarterly results: Enterprise segment

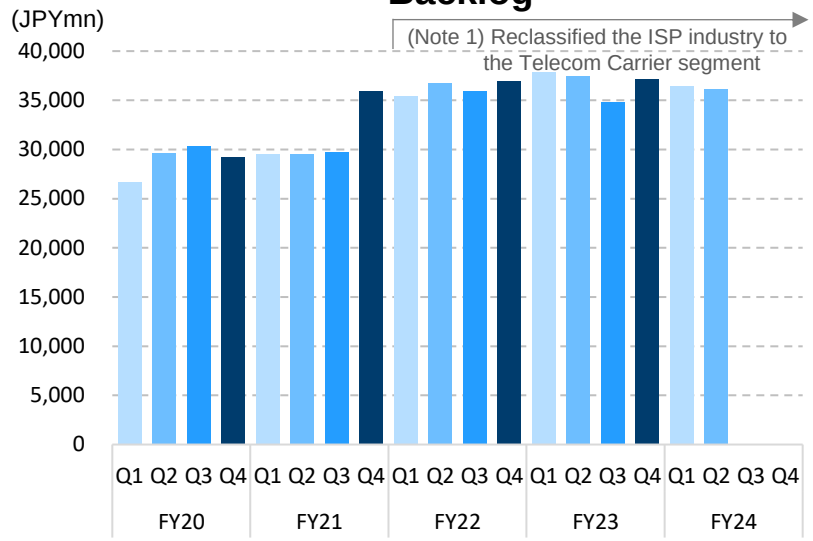
Bookings



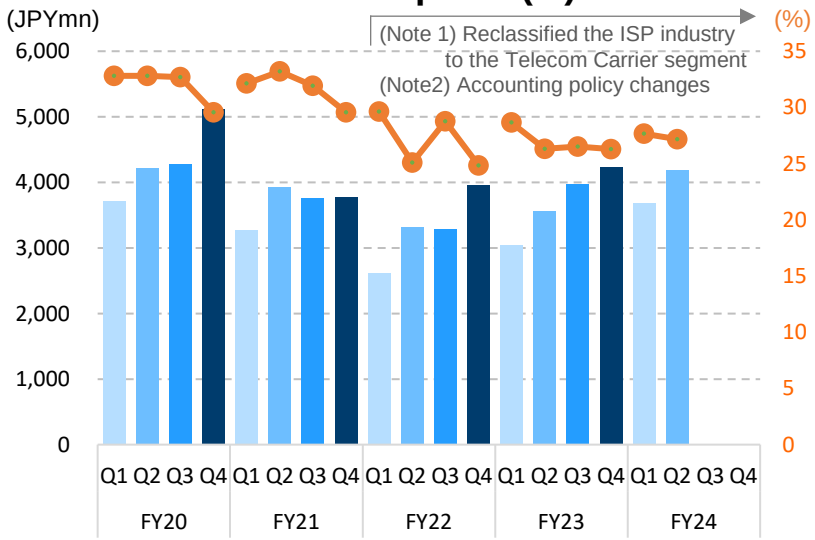
Revenue



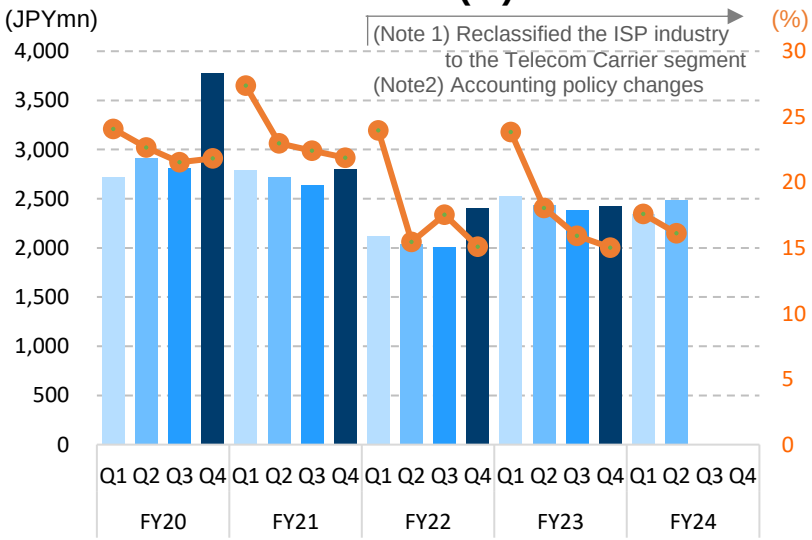
Backlog



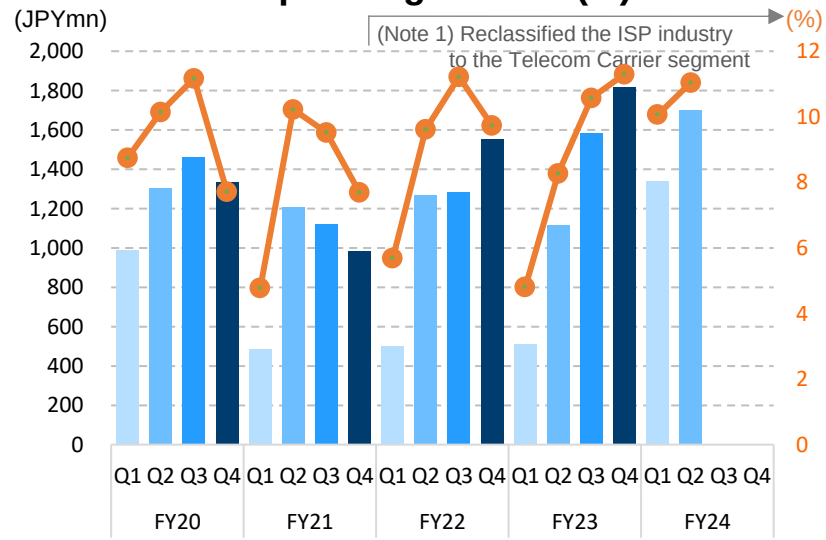
Gross profit (%)



SG&A (%)



Operating income (%)



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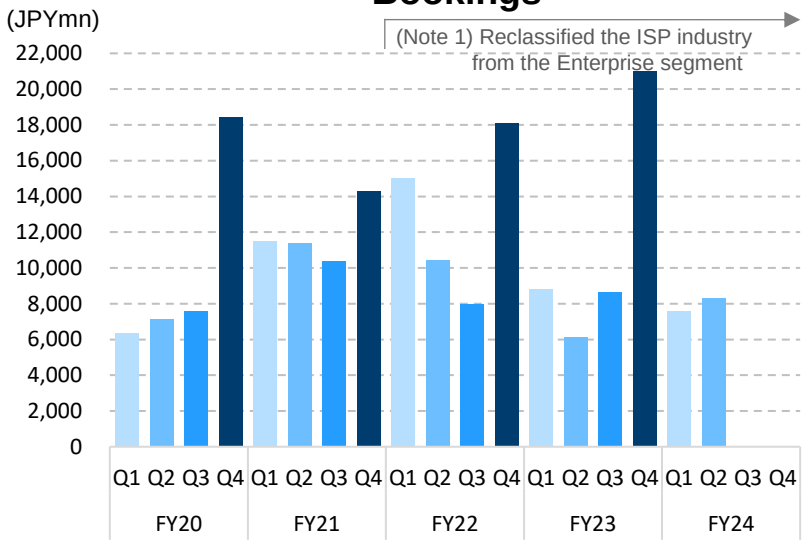
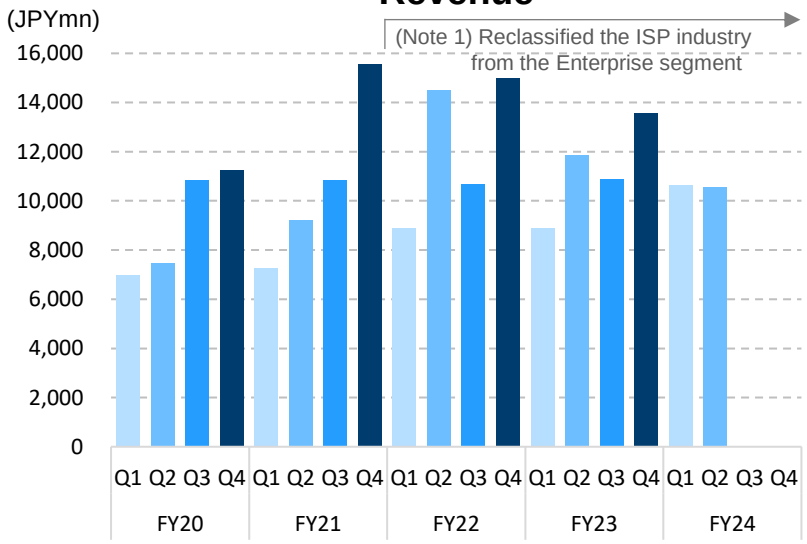
Quarterly results: Telecom Carrier segment

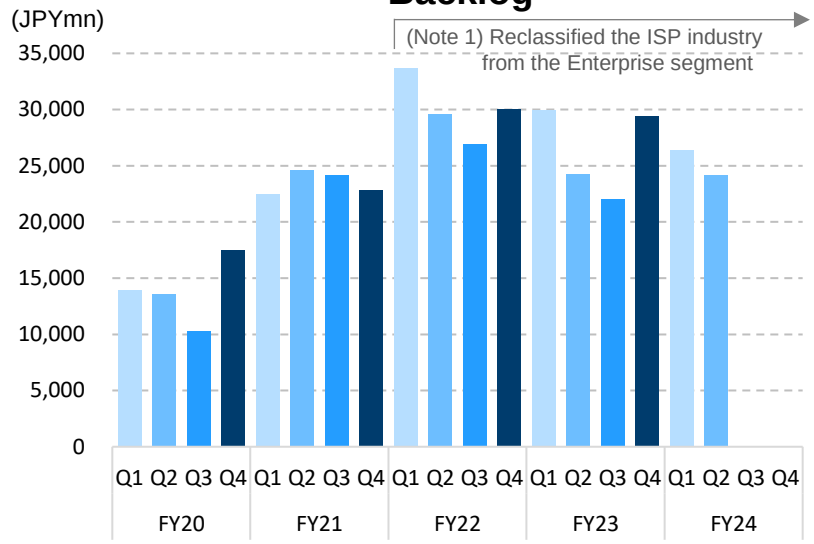
Bookings



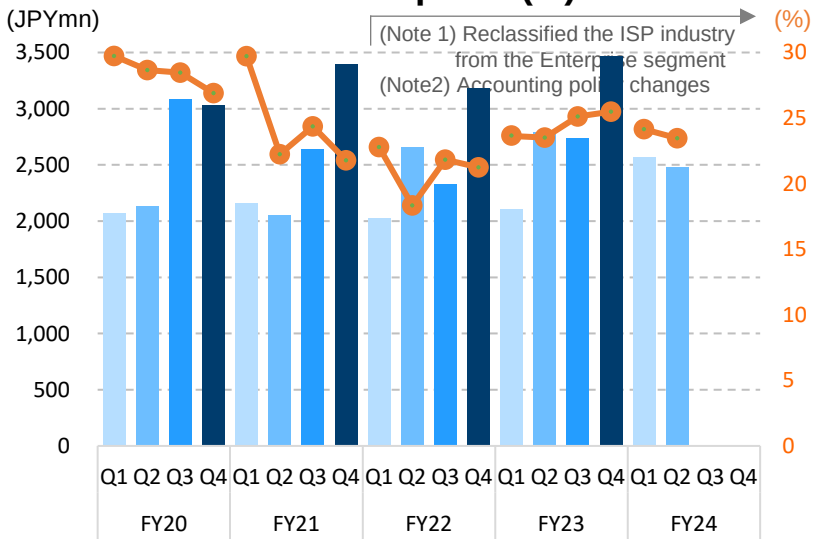
Revenue



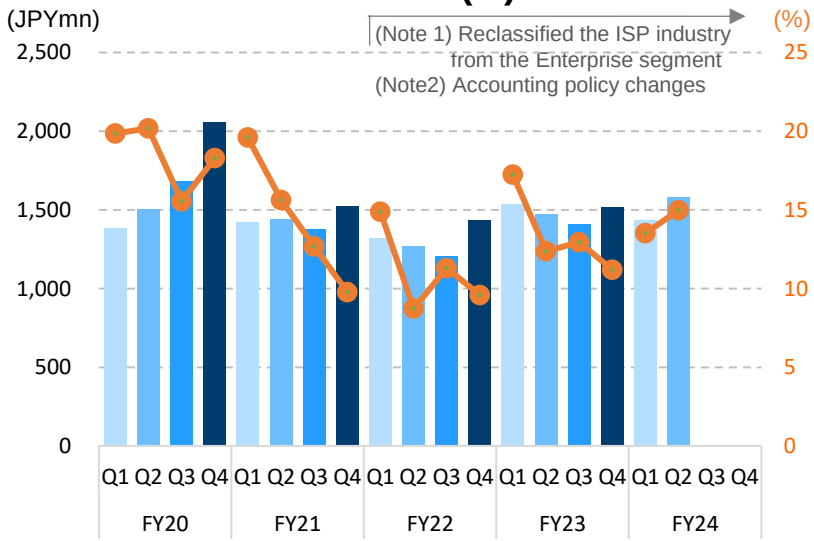
Backlog



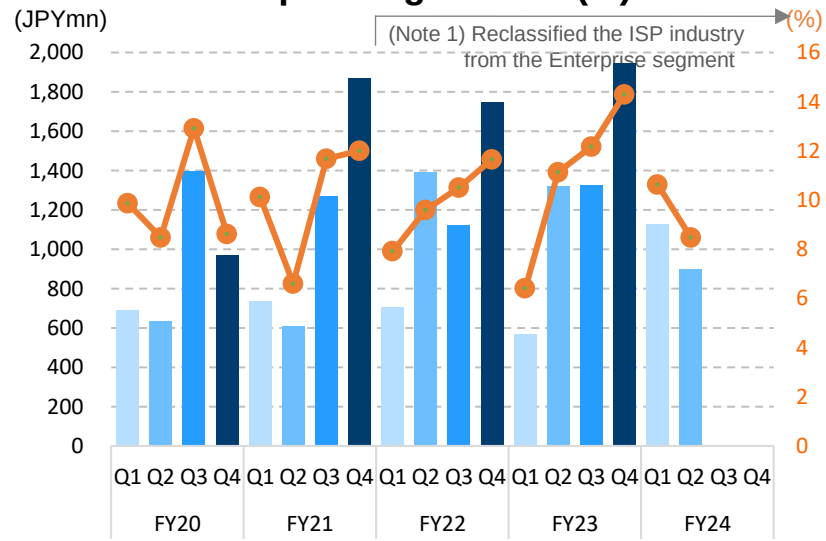
Gross profit (%)



SG&A (%)



Operating income (%)



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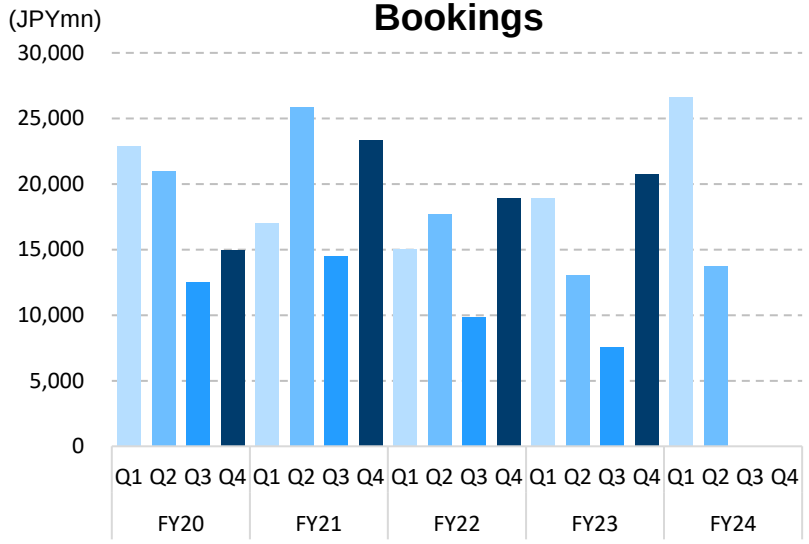
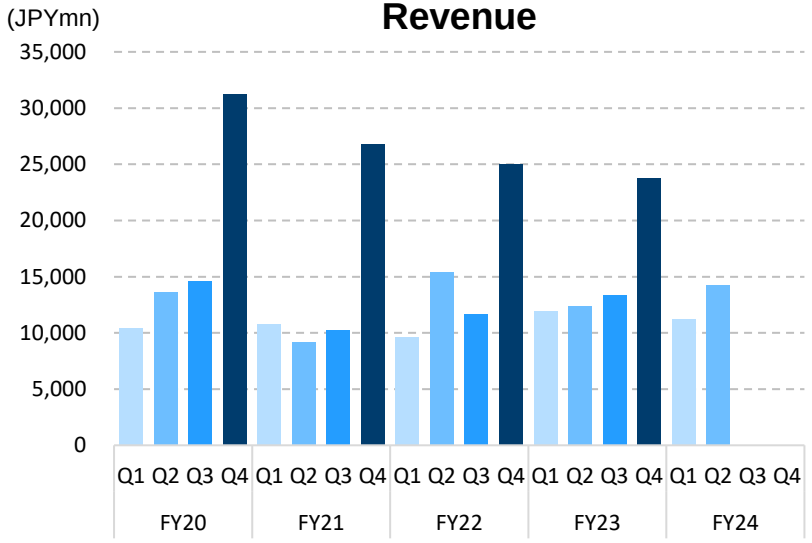
Quarterly results: Public segment

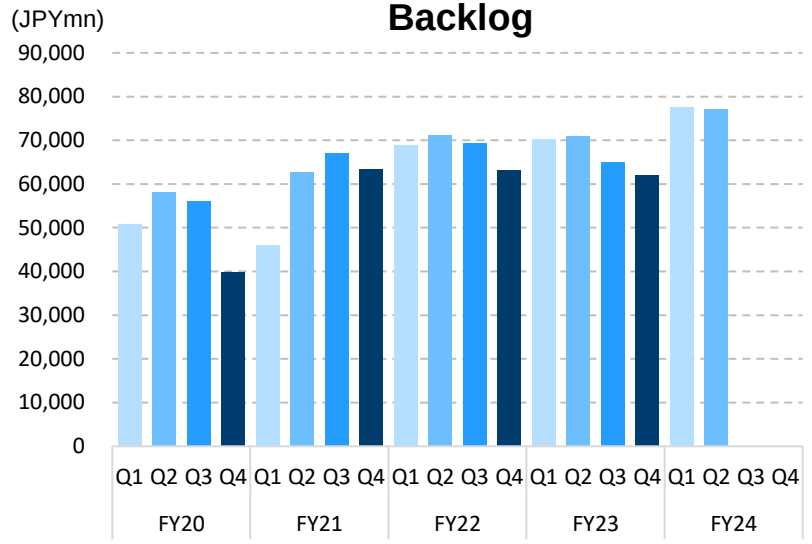
Bookings



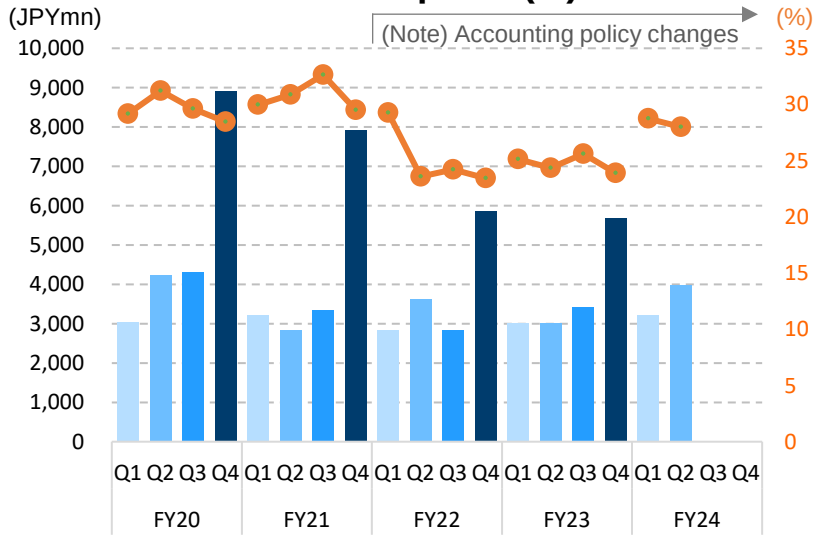
Revenue



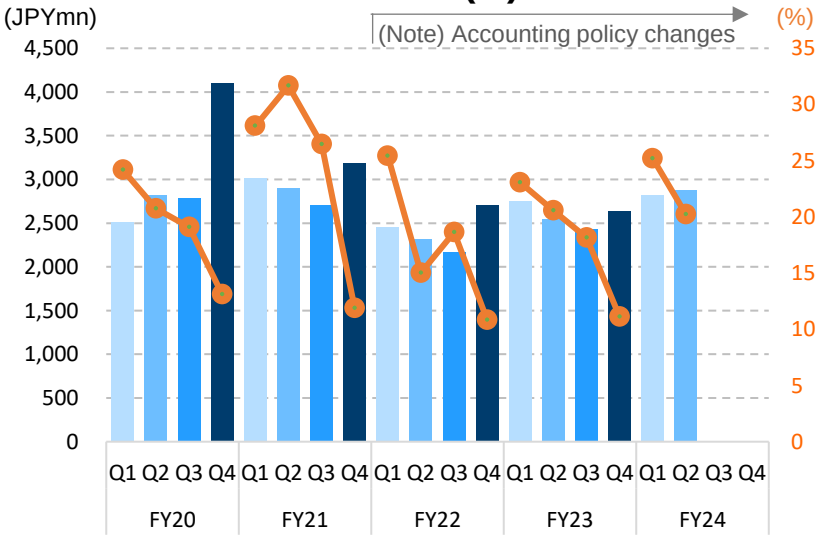
Backlog



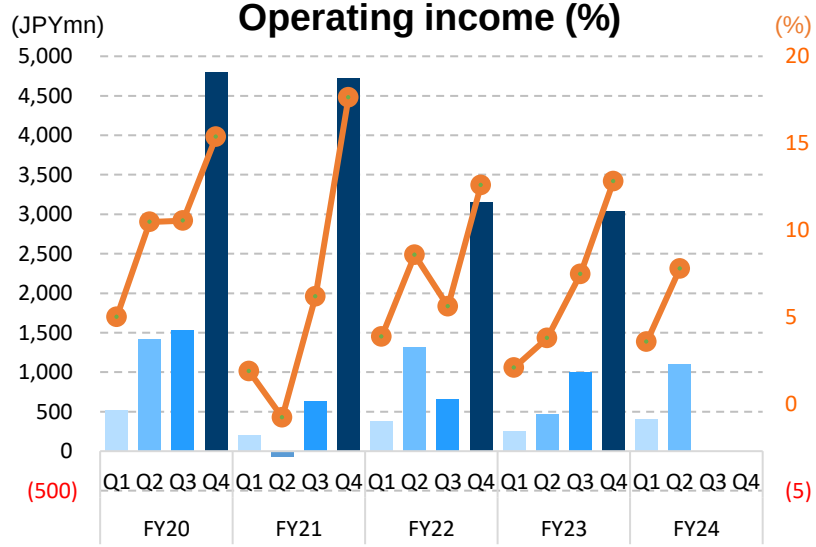
Gross profit (%)



SG&A (%)



Operating income (%)



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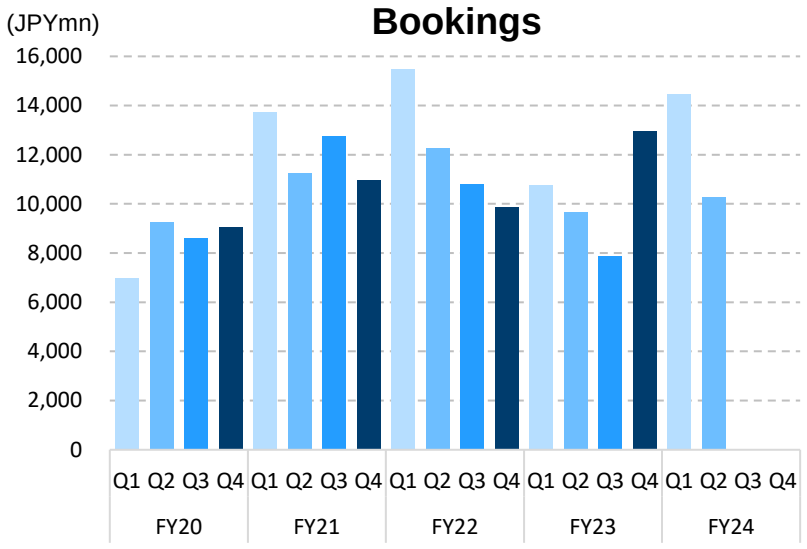
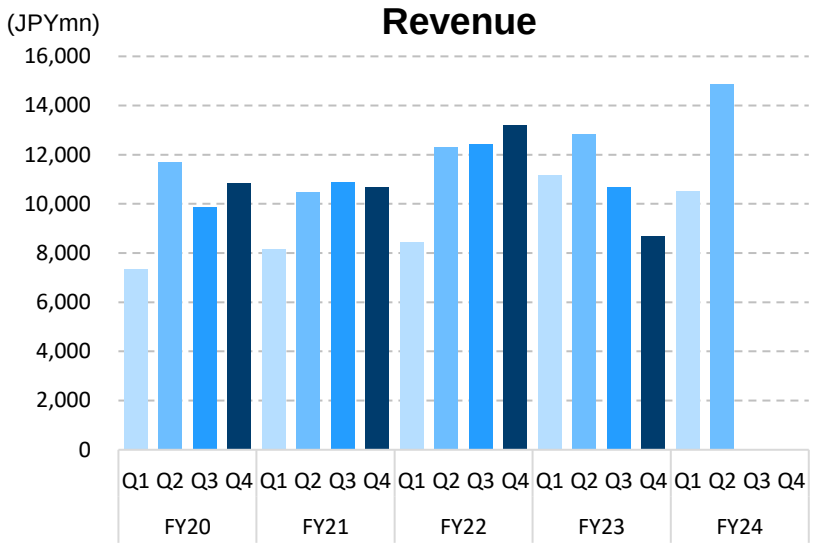
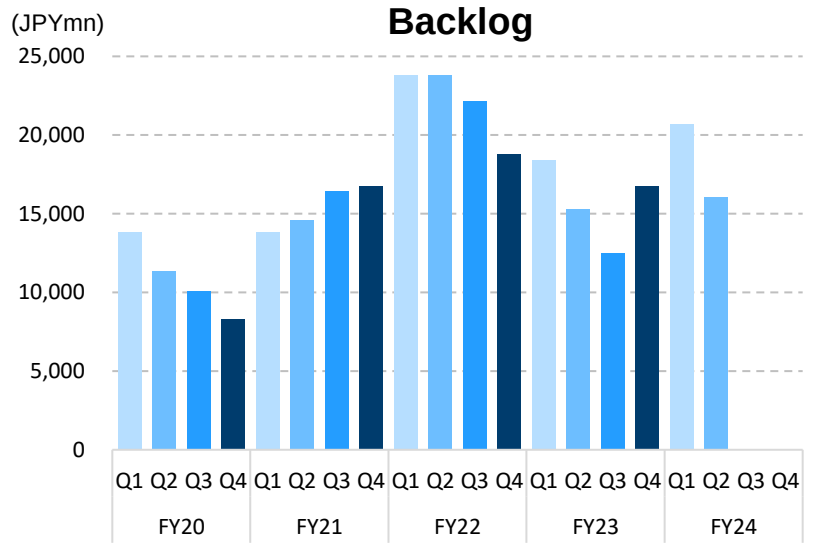
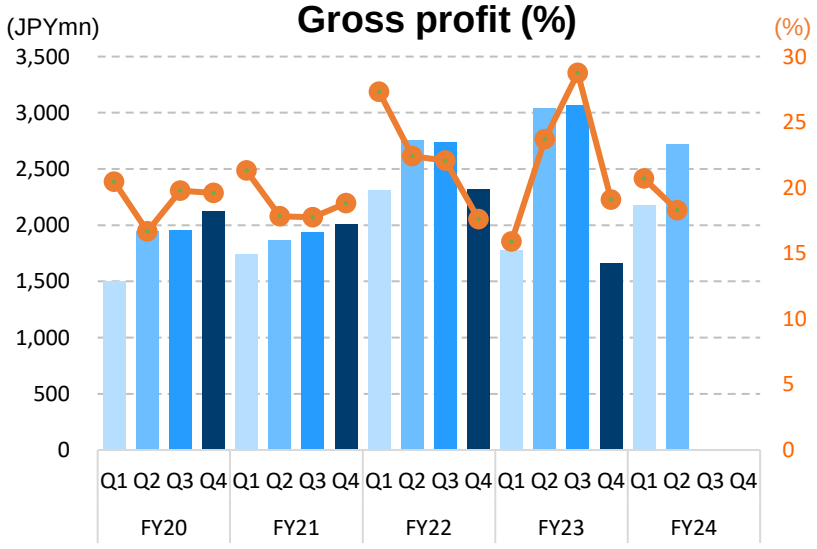
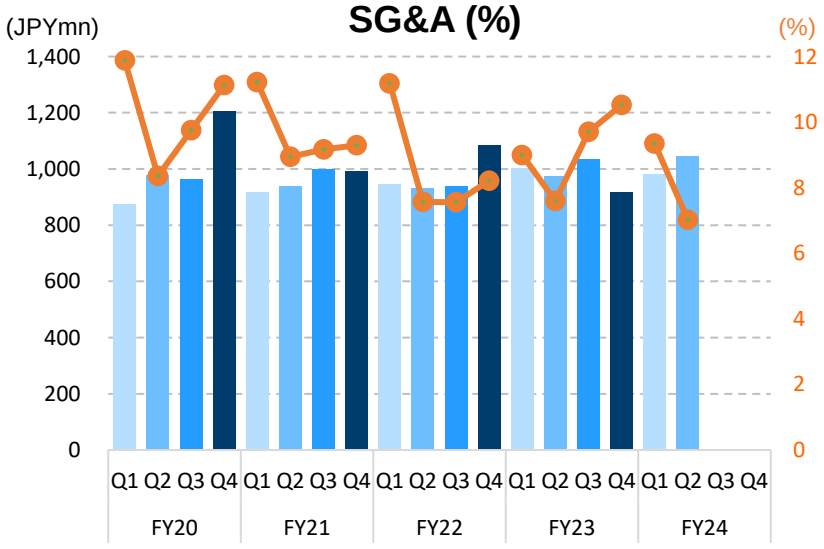
Quarterly results: Partner segment

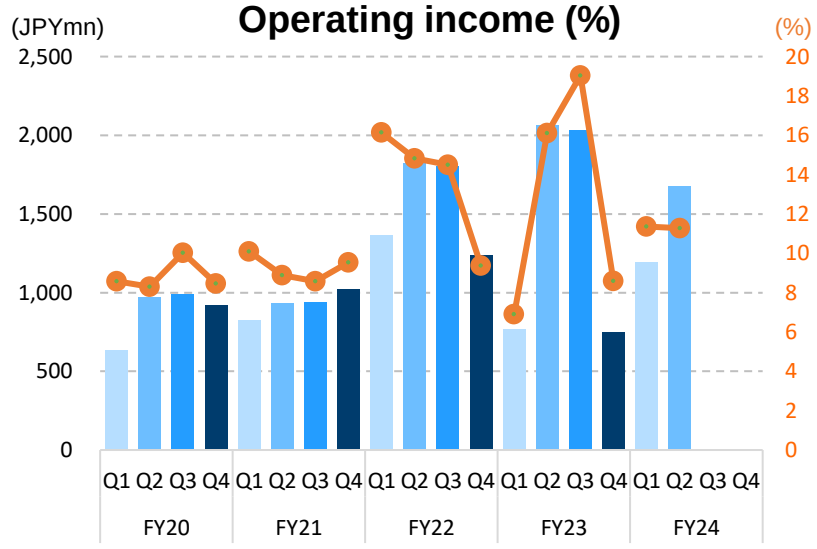












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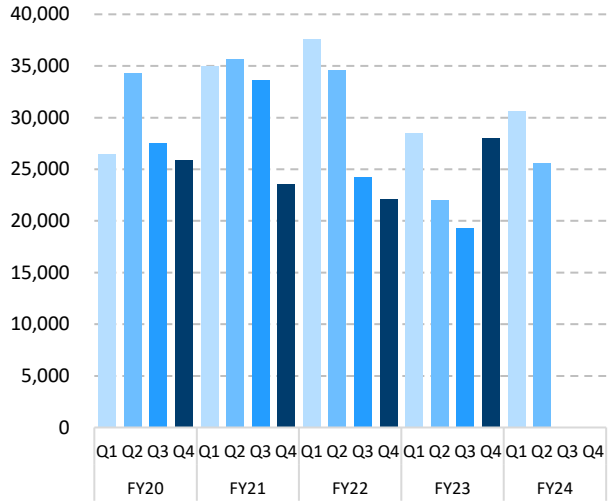
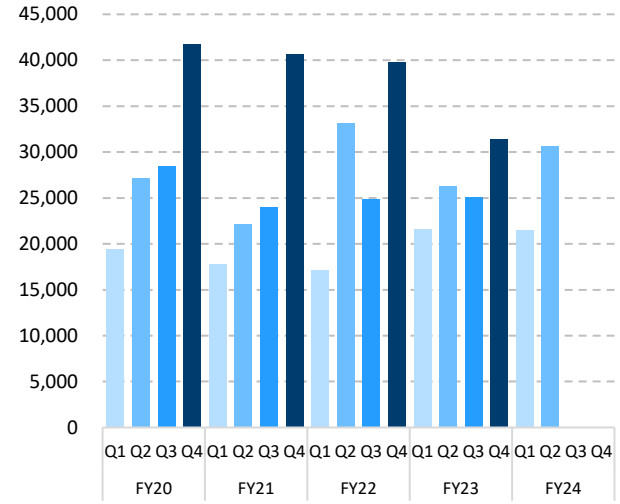
Quarterly results: Product and Service

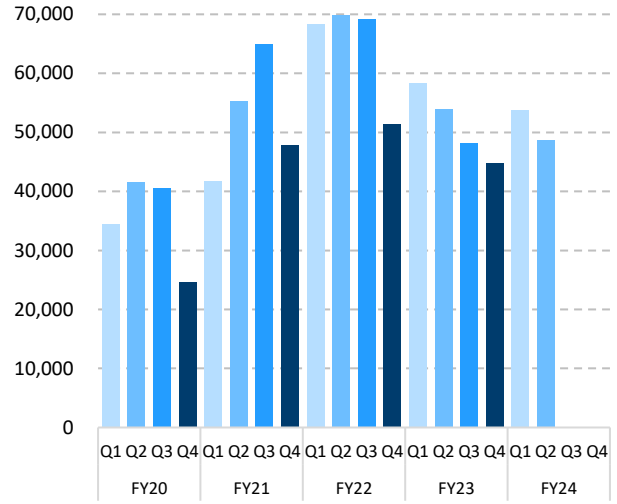
Product Bookings



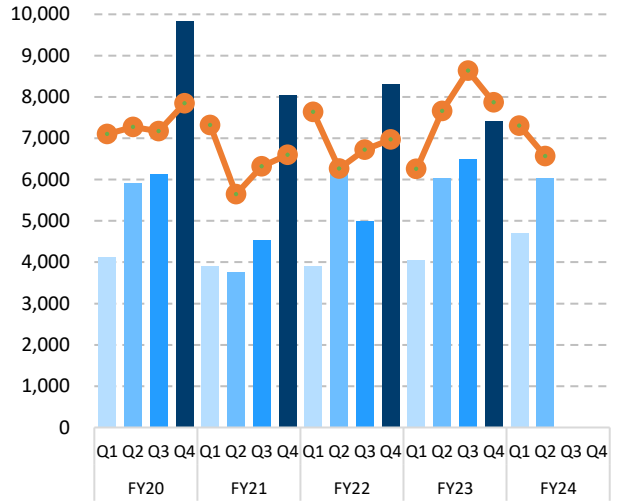
Product Revenue



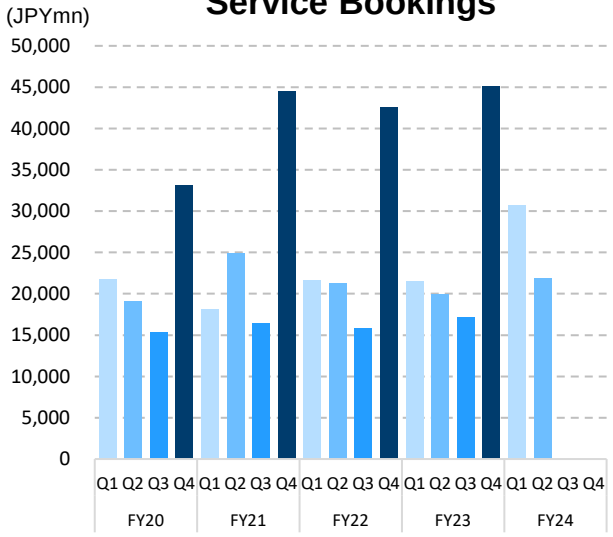
Product Backlog



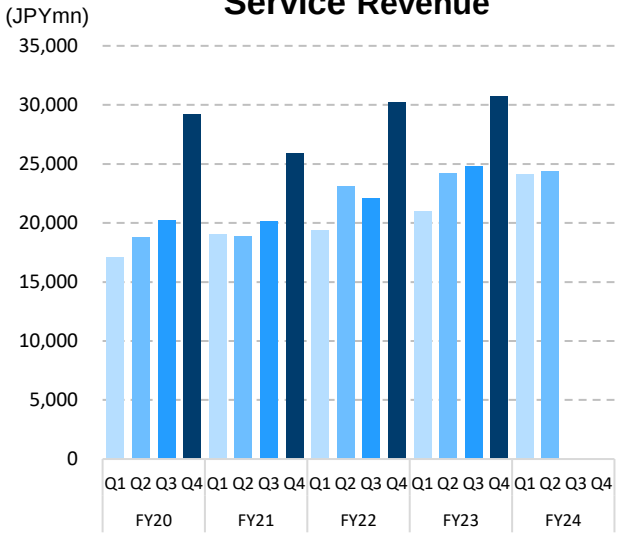
Product Gross profit (%)



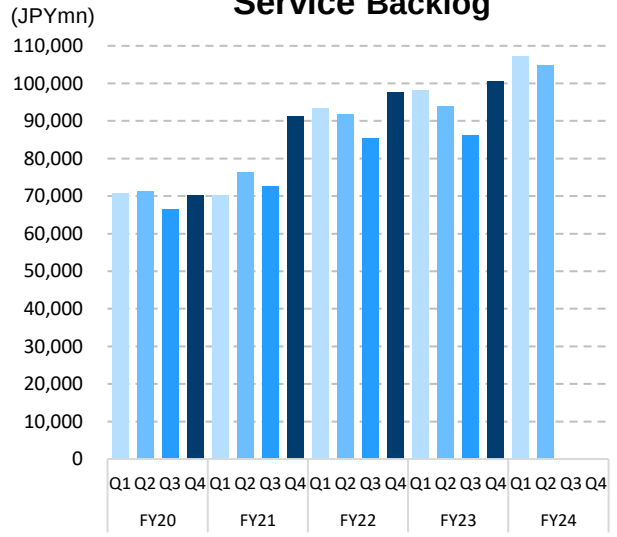
Service Bookings



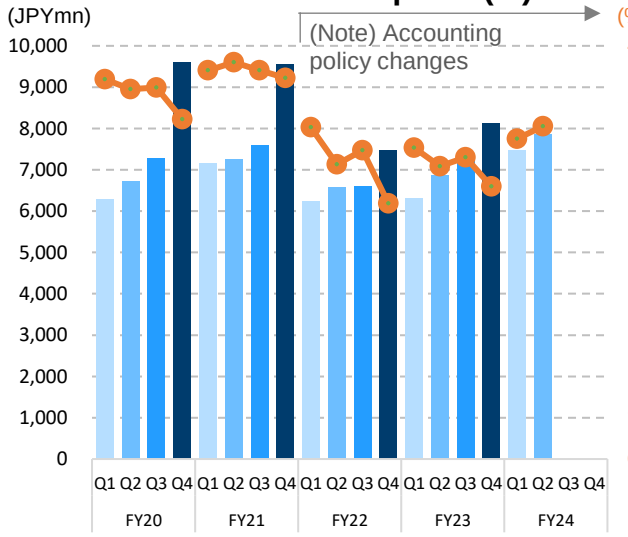
Service Revenue



Service Backlog



Service Gross profit (%)



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Reference materials

- **Business overview documents (PDF files): Posted in the “Business Overview” section at the following link**
  https://www.netone.co.jp/english/investor-relations/ir-library/sector-information/