

DISCLAIMER

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NET ONE SYSTEMS CO., LTD. MAKES NO GUARANTEES WHATSOEVER WITH REGARD TO THE ACCURACY OF TRANSLATION OR CONTENTS OF THIS ENGLISH DOCUMENTATION.

To our shareholders:

Thank you as ever for your kind support. We are pleased to hereby bring you this notice of our 31st Annual Shareholders Meeting.

February 1, 2018, marked the 30th anniversary of our company. I would like to express my heartfelt gratitude to our shareholders and all other stakeholders for the support you have given us over the years.

Currently, the area in which we do business is transitioning from an era of “things,” in which we build networks and connecting systems, to an era of “concepts,” where we create solutions that make full use of these networks and systems to help customers increase management and business productivity. The Net One Group defines all our activity as “integrated service business” and is working to build a platform for growth in the era of “concepts.”

Amid this great change, the Group theme for 2018 is “*jishinryoku*,” which means “empowerment.” This embodies our strong belief that each employee should have self-discipline, be trusted, trust in others, all of which will enable them to demonstrate their “ability to take action.”

We will bring this sense of empowerment to our efforts to advance a growth strategy based on Net One Group’s own unique approach. We humbly ask for your continued understanding and support.

Takayuki Yoshino
President & CEO

May 23, 2018

Net One Systems Co., Ltd.
7-2, Marunouchi 2-chome,
Chiyoda-ku, Tokyo

NOTICE OF THE 31st ANNUAL SHAREHOLDERS MEETING

To Our Shareholders:

This is to notify you that the 31st Annual Shareholders Meeting of Net One Systems Co., Ltd. (hereinafter referred to as the “Company”) will be held as indicated below. Your attendance is cordially requested.

IN THE EVENT THAT YOU ARE UNABLE TO ATTEND THE MEETING IN PERSON, YOU MAY EXERCISE YOUR VOTING RIGHTS IN WRITING OR BY ELECTROMAGNETIC METHODS INCLUDING THE INTERNET AS EXPLAINED IN “Instructions Concerning the Exercise of Voting Rights” (pages 5 to 6). PLEASE CAREFULLY READ “Reference document regarding Shareholders Meeting” (pages 7 to 23) ATTACHED HERE TO AND EXERCISE YOUR VOTING RIGHTS BY 5:30 PM ON JUNE 13, 2018 (WEDNESDAY).

Truly yours,

Takayuki Yoshino
President & CEO
Net One Systems Co., Ltd.

1. Date/Time: June 14, 2018 (Thursday) at 10:00 am
(The reception of shareholders will commence at 9:00 am)

2. Place: JP TOWER Hall & Conference (KITTE 4F)
7-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan

3. Agenda of the Meeting:

Matters to be Reported:

1. Business Report, consolidated financial statements and Accounting Auditor’s and the Audit & Supervisory Board’s audit result reports on consolidated financial statements for the 31st fiscal year (April 1, 2017 to March 31, 2018)
2. Non-consolidated financial statements for the 31st fiscal year (April 1, 2017 to March 31, 2018)

Matters to be Resolved:

- Proposal 1: Appropriation of surplus
- Proposal 2: Partial amendment to the Articles of Incorporation
- Proposal 3: Election of eleven (11) Executive Directors
- Proposal 4: Payment of bonuses to Executive Directors

Requests for Attendance

If you plan to attend the meeting, please present the enclosed shareholder's Exercise of Voting Right Form to the receptionist at the meeting.

When attending by proxy, the proxy will be required to present documentary proof of his or her authority to exercise your voting rights (a letter of proxy) in addition to the shareholder's Exercise of Voting Right Form to the receptionist. You may name one (1) shareholder who holds voting rights of the Company to act as proxy and exercise your voting rights in accordance with the provisions of the Company's Articles of Incorporation.

Information about the Attachments to This Notice

- Of documents to be attached to this Notice, "Notes to consolidated financial statements" and "Notes to non-consolidated financial statements" (collectively the "Relevant Documents") are posted on the Company's website (<https://www.netone.co.jp/>) in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Incorporation. These two notes are not therefore included in the attachments to this Notice.

Meanwhile, the Relevant Documents posted on the Company's website as well as the attachments to this Notice are included in the consolidated financial statements and non-consolidated financial statements (excluding (Reference)), both of which have been audited by Audit & Supervisory Board Members to prepare an audit report and by Accounting Auditor to prepare an accounting audit report.

- If you wish to obtain the Relevant Documents posted on the website in paper form, please contact our Corporate Communications & Investors Relations Office (Phone: 03-6256-0615) to have forms mail to you.
- Any additional explanations to or changes to contents of the reference document regarding Shareholders Meeting, business report, consolidated financial statements and non-consolidated financial statements required up to one (1) day before the Shareholders Meeting shall be notified to shareholders by posting on the Company's website.

(Company's website: <https://www.netone.co.jp/>)

Information about Business Briefing Session

To enable shareholders to further their knowledge about the Company, the shareholders are invited to participate in the Company's Business Briefing Session taking place at the same venue subsequent to the conclusion of the Shareholders Meeting as follows.

Date/Time: June 14, 2018 (Thursday)

To be held subsequent to the conclusion of the Shareholders Meeting following a break of approximately 50 minutes.

Place: JP TOWER Hall & Conference (KITTE 4F)
7-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan
(Same venue as the Shareholders Meeting)

Main topics: · Businesses and growth strategies of the Company
· Questions and Answers

Instructions Concerning the Exercise of Voting Rights

The right to vote at the Annual Shareholders Meeting is a key right for shareholders. Please exercise your voting rights after considering the reference documents for the Annual Shareholders Meeting below (pages 7 to page 23). Voting rights may be exercised by the three methods below.

Exercise of voting rights by attendance at the Annual Shareholders Meeting

Please submit the Exercise of Voting Right Form to the receptionist.

When attending by proxy, the proxy will be required to present documentary proof of his or her authority to exercise your voting rights (a letter of proxy) in addition to the shareholder's Exercise of Voting Right Form to the receptionist. You may name one (1) shareholder who holds voting rights of the Company to act as proxy and exercise your voting rights in accordance with the provisions of the Company's Articles of Incorporation.

Date and Time of the Annual Shareholders Meeting:

10:00 a.m. on June 14, 2018 (Thursday)

Exercise of voting rights by mailing of written documents

Please indicate your approval or disapproval for each of the proposals on the enclosed Exercise of Voting Right Form and send it back to the Company. (No postage is needed.)

Arrival deadline for the exercise of voting rights by mailing of written documents:

No later than 5:30 p.m. on June 13, 2018 (Wednesday)

Exercise of voting rights via the Internet

Please access the following designated website for exercising voting rights from a personal computer, smart phone or cellular phone, etc. and indicate your approval or disapproval to each of the proposals as instructed on the screen, using the "Voting Rights Exercise Code" and "Password" printed on the enclosed Exercise of Voting Right Form.

For details, please refer to page 6.

Online voting website: <https://www.web54.net>

Deadline for the exercise of voting rights through online voting:

No later than 5:30 p.m. on June 13, 2018 (Wednesday)

For institutional investors:

Institutional investors may use the voting rights exercise platform operated by ICJ Inc. as a mean to exercise voting rights at the Annual Shareholders Meeting.

Instructions Concerning the Exercise of Voting Rights via the Internet

If you wish to exercise your voting rights via the Internet, we would like you to confirm the followings and exercise your voting rights by personal computer, smart phone or cellular phone by 5:30 p.m., Wednesday, June 13, 2018 (Japan Standard Time).

If you attend the meeting, you do not need to take the procedures for exercising the voting rights in writing (sending the Exercise of Voting Right Form by mail) or via the Internet.

1. Website for exercising voting rights

You can exercise your voting rights through the following voting website designated by the Company:

[Online voting site] <https://www.web54.net>

2. How to exercise voting rights via the Internet

At the voting website, please use the “Voting Rights Exercise Code” and “Password” printed on the Exercise of Voting Right Form, and indicate your approval or disapproval to the proposals as instructed on the screen.

3. Notes

- (1) If you exercise your online votes more than once via the Internet, only the last vote will be regarded as effectively exercised voting rights.
- (2) If you exercise your voting rights both in writing (sending the Exercise of Voting Right Form by mail) and via the Internet, only the online vote will be regarded as effectively exercised voting rights.
- (3) The fees for the Internet service provider and for the telecommunications carriers (connection fees, etc.) in connection with utilizing the above website for the exercise of voting rights shall be borne by the shareholder.
- (4) In certain Internet user environments or with certain types of smart phones or cellular phones, you may not be able to exercise your voting rights via the Internet.

4. Handling of Voting Rights Exercise Code and Password

- (1) Voting Rights Exercise Code indicated on the Exercise of Voting Right Form is valid only for this meeting.
- (2) In case you commit more errors than a certain number of tries to input your password, you will not be allowed to use the password. If you would like your password to be reissued, please follow the screen guide and follow the procedures.

Inquiries Regarding Voting via the Internet:

<p>Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Web Support</p> <p>Dedicated Line: 0120-652-031 (Toll-free) (Japan only)</p> <p>Business Hours: 9 a.m. – 9 p.m. (Japan Standard Time)</p>
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Reference document regarding Shareholders Meeting

Proposal 1: Appropriation of surplus

The Company makes continuous efforts to maximize shareholder value by enhancing corporate value and has a policy to increase shareholders' equity, a driver for expansion of the business base and growth of business, and to consistently pay out dividends to shareholders over the long term that appropriately reflects its performance thereover.

1. Year-end dividend

Under the above policy, the Company aims to provide consolidated dividend payout ratio of 30% or more.

The year-end dividend for the 31st fiscal year is proposed as follows.

Type of payout	Cash dividend	
Allocation of cash dividend and its total amount	15 yen per common share	
	Total dividend	1,269,235,980 yen
Effective date of dividend from surplus	June 15, 2018	

Dividend on an annual basis including the interim dividend is 30 yen per share (consolidated dividend payout ratio of 44.7%).

2. Appropriation of surplus

Account and amount of surplus that will decrease	Retained earnings brought forward	1,620,000,000 yen
Account and amount of surplus that will increase	General reserve	1,620,000,000 yen

Proposal 2: Partial amendment to the Articles of Incorporation

1. Reasons for proposal

In order to facilitate flexibility in the operational structure of Shareholders Meetings and the Board of Directors in cases where there are multiple Representative Directors present, we propose amending the way in which the convener and chairmanship for said meetings are appointed, as stipulated in Article 13 and Article 21, Paragraph 1 of the Articles of Incorporation.

2. The proposed amendments

The proposed amendments are as follows.

(Underlined sentences indicate amendment.)

Current Articles of Incorporation	Proposed Amendments
Article 1 to Article 12 <Provisions abridged>	Article 1 to Article 12 <No change>
<p>Article 13 (Convener and Chairmanship of Shareholders Meeting)</p> <p>The <u>Director and President</u> shall convene Shareholders Meetings and chair the meetings. In cases where the <u>Director and President</u> is prevented from so acting, another Director who is designated in accordance with an order of priority determined in advance by the Board of Directors shall so act.</p>	<p>Article 13 (Convener and Chairmanship of Shareholders Meeting)</p> <p>The <u>Representative Director</u> (in cases where there are multiple Representative Directors present, one shall be designated by the Board of Directors in advance) shall convene Shareholders Meetings and chair the meeting. In cases where the <u>Representative Director</u> is prevented from so acting, another Director who is designated in accordance with an order of priority determined in advance by the Board of Directors shall act on behalf of the <u>Representative Director</u>.</p>
Article 14 to Article 20 <Provisions abridged>	Article 14 to Article 20 <No change>
<p>Article 21 (Board of Directors)</p> <p>1. Unless otherwise provided for by laws and regulations, the <u>Director and President</u> shall convene Board of Directors meetings and chair the meetings. In cases where the post of the <u>Director and President</u> is prevented from so acting, another Director who is designated in accordance with an order of priority determined in advance by the Board of Directors shall so act.</p> <p>2. <Provisions abridged></p> <p>3. <Provisions abridged></p>	<p>Article 21 (Board of Directors)</p> <p>1. Unless otherwise provided for by laws and regulations, the <u>Representative Director</u> (in cases where there are multiple Representative Directors present, one shall be designated by the Board of Directors in advance) shall convene Board of Directors meetings and chair the meeting. In cases where the post of the <u>Representative Director</u> is prevented from so acting, another Director who is designated in accordance with an order of priority determined in advance by the Board of Directors shall so act.</p> <p>2. <Provisions abridged></p> <p>3. <Provisions abridged></p>
Article 22 to Article 35 <Provisions abridged>	Article 22 to Article 35 <No change>

Proposal 3: Election of eleven (11) Executive Directors

At the conclusion of this Annual Shareholders Meeting, the term of office of all nine (9) Executive Directors will expire. In that regard, the Company will increase the number of Executive Directors by two (2) to further enhance the management and corporate governance systems, and it is proposed that eleven (11) Executive Directors (of which four (4) are Outside Executive Directors) to be elected.

All the candidates for Outside Executive Directors satisfy the “Independence Standards” (page 22) established by the Company.

This proposal was deliberated by the Advisory Committee.

The candidates for Executive Directors are as follows.

Candidate number	Name	Present position and responsibility in the Company	Attributes of the candidate			Status of attendance at Board of Directors
1	Takayuki Yoshino	President & CEO	Reelected			12/12 (100%)
2	Toru Arai	Executive Director, Executive Vice President, in charge of Corporate Planning & Strategy Division, in charge of Business Development Division	Reelected			12/12 (100%)
3	Takahisa Kawaguchi	Executive Director, Senior Vice President, in charge of Corporate Planning & Strategy Division	Reelected			12/12 (100%)
4	Shinji Hirakawa	Senior Vice President, in charge of Eastern Japan Business Division 1, in charge of Western Japan Business Division	Newly elected			—
5	Takafumi Takeshita	Vice President, in charge of Eastern Japan Business Division 2	Newly elected			—
6	Takuya Tanaka	Vice President, in charge of New Business Development, Corporate Planning & Strategy Division	Newly elected			—
7	Norihisa Katayama	Executive Director, Senior Vice President, in charge of Administration & Management Division	Reelected			12/12 (100%)
8	Kunio Kawakami	Outside Executive Director	Reelected	Outside	Independent	12/12 (100%)
9	Mitsuo Imai	Outside Executive Director	Reelected	Outside	Independent	12/12 (100%)
10	Rieko Nishikawa	Outside Executive Director	Reelected	Outside	Independent	12/12 (100%)
11	Ryugo Hayano	—	Newly elected	Outside	Independent	—

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company’s shares owned	Status of attendance at Board of Directors
1	Takayuki Yoshino (Feb. 14, 1951) [Reelected]	President & CEO	29,601 shares	12/12 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1969	Joined NEC Engineering, Ltd. (current NEC Fielding, Ltd.)			
Aug. 1973	Joined Tokyo Electron Limited			
May 1996	Joined Fore Systems Inc.			
Apr. 1998	Joined Nihon Cisco Systems, K.K. (current Cisco Systems G.K.)			
Jul. 2003	Senior Managing Director of Cisco Systems, K.K.			
Oct. 2007	Advisor of the Company			
Jun. 2008	President & CEO			
Apr. 2011	President & CEO (incumbent)			
Reasons for selecting candidate for Executive Director				
Mr. Takayuki Yoshino has extensive experience and a substantial track record in a wide range of fields including involvement in management as an Executive Director at an industrial company. In addition, since assuming office as President & CEO of the Company, he has led the Group based on his strong leadership and made every effort to enhance corporate value. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company’s corporate value, the Company has selected him as a candidate for Executive Director.				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
2	Toru Arai (Oct. 6, 1958) [Reelected]	Executive Director Executive Vice President	16,038 shares	12/12 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
<p>Apr. 1981 Joined Ryoden Elevator Construction Ltd.</p> <p>Oct. 1983 Joined Ministry of Education National Laboratory for High Energy Physics (current High Energy Accelerator Research Organization), Data Processing Center</p> <p>Aug. 1988 Joined Mitsubishi Corporation (seconded to Ungermann-Bass Networks K.K.)</p> <p>Jun. 1989 Joined Ungermann-Bass Networks K.K.</p> <p>Apr. 1990 Joined the Company</p> <p>Apr. 2006 Vice President, Network Technology Division</p> <p>Jun. 2006 Executive Director</p> <p>Aug. 2008 President & CEO of Net One Systems USA, Inc. (incumbent)</p> <p>Apr. 2011 Executive Director, Vice President</p> <p>Apr. 2014 Executive Director, Senior Vice President</p> <p>Apr. 2018 Executive Director, Executive Vice President, in charge of Corporate Planning & Strategy Division, in charge of Business Development Division (incumbent)</p> <p>(Significant concurrent positions)</p> <p>President & CEO of Net One Systems USA, Inc.</p>				
<p>Reasons for selecting candidate for Executive Director</p> <p>Mr. Toru Arai has extensive experience and a substantial track record through his many years of practical experience in operations including technology and quality control. Since assuming office as an Executive Director, as the Executive Director in charge of corporate planning operations and others, he has made every effort to strengthen the management base of the entire Group and to optimize management, among others. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Executive Director.</p>				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
3	Takahisa Kawaguchi (Oct. 28, 1953) [Reelected]	Executive Director Senior Vice President	24,520 shares	12/12 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
<p>Apr. 1976 Joined Tokyo Electron Limited</p> <p>Oct. 1996 Joined KANEMATSU CORPORATION</p> <p>Oct. 1999 Director, General Manager of Sales Department of Kanematsu Aerospace Corporation</p> <p>Apr. 2002 President & CEO of Kanematsu Aerospace Corporation</p> <p>Apr. 2004 Joined Cisco Systems K.K. (current Cisco Systems G.K.)</p> <p>Aug. 2004 Executive Officers of Cisco Systems K.K.</p> <p>Nov. 2008 Advisor of the Company</p> <p>Jan. 2009 Senior Managing Director of Net One Partners Co., Ltd.</p> <p>Jun. 2009 Director, Senior Managing Director of Net One Partners Co., Ltd.</p> <p>Oct. 2013 President & CEO of Net One Systems Singapore Pte. Ltd. (incumbent)</p> <p>Feb. 2014 President & CEO of Xseed Co., Ltd.</p> <p>Apr. 2014 Vice President</p> <p>Oct. 2014 President & CEO of Net One Partners Co., Ltd.</p> <p>Mar. 2015 Chairman and Representative Director of Xseed Co., Ltd.</p> <p>Apr. 2015 Vice President</p> <p>Jun. 2015 Executive Director, Vice President</p> <p>Apr. 2018 Executive Director, Senior Vice President, in charge of Corporate Planning & Strategy Division (incumbent)</p> <p> Chairman of Net One Partners Co., Ltd. (incumbent)</p> <p>(Significant concurrent positions)</p> <p>Chairman of Net One Partners Co., Ltd.</p> <p>President & CEO of Net One Systems Singapore Pte. Ltd.</p> <p>Director of Asiasoft Solutions Pte. Ltd.</p>				
<p>Reasons for selecting candidate for Executive Director</p> <p>Mr. Takahisa Kawaguchi is not only involved in management as President & CEO of an industrial company but also is currently making every effort to grow and develop domestic and international businesses as Chairman of a subsidiary and officer of an associate of the Company inside and outside Japan. In these respects and others, he has extensive experience and a substantial track record covering all aspects of management. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Executive Director.</p>				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company’s shares owned	Status of attendance at Board of Directors
4	Shinji Hirakawa (Oct. 10, 1960) [Newly elected]	Senior Vice President	0 shares	—
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1983	Joined Teraoka Seiko Co., Ltd.			
Aug. 1987	Joined Kubota Tekko K.K. (current Kubota Corporation)			
Aug. 1988	Joined SHOWA ELECTRIC WIRE AND CABLE CO., LTD. (current SWCC SHOWA CABLE SYSTEMS CO., LTD.)			
May 1999	Joined Cisco Systems K.K. (current Cisco Systems G.K.)			
Jun. 2010	Operation Director in charge of Public System Business Division of Cisco Systems K.K.			
Jan. 2011	Joined the Company			
Apr. 2011	Vice President			
Apr. 2017	Senior Vice President President and Representative Executive Officer of Net One Connect G.K. (incumbent)			
Apr. 2018	Senior Vice President, in charge of Eastern Japan Business Division 1, in charge of Western Japan Business Division (incumbent)			
(Significant concurrent positions)				
President and Representative Executive Officer of Net One Connect G.K.				
Reasons for selecting candidate for Executive Director				
Mr. Shinji Hirakawa has extensive experience and a substantial track record through his many years of practical experience in sales operations. Since assuming office as a Vice President, he has made every effort to expand sales of the Company’s products and services. Having judged that it is necessary that he assume the position of Executive Director in order to further enhance the Company’s corporate value, the Company has selected him as a candidate for Director.				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company’s shares owned	Status of attendance at Board of Directors
5	Takafumi Takeshita (Mar. 28, 1965) [Newly elected]	Vice President	45,773 shares	—
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1988	Joined Ungermann-Bass Networks K.K.			
May 1989	Joined the Company			
Apr. 2005	Operation Director of Service Business Development Department, Solution Development Division			
Apr. 2006	Vice President of Technical Service Headquarters of Network Service And Technologies Co., Ltd. (current Net One Systems Co., Ltd.) (seconded)			
Jun. 2009	Executive Director of Network Service And Technologies Co., Ltd.			
Jul. 2011	Vice President			
Apr. 2016	Vice President, in charge of Eastern Japan Business Division 2 (incumbent)			
Reasons for selecting candidate for Executive Director				
Utilizing the extensive experience he has acquired in technology operations, Mr. Takafumi Takeshita has led the Company’s sales and technology operations and made every effort to develop these operations. Having judged that it is necessary that he assume the position of Executive Director in order to further enhance the Company’s corporate value, the Company has selected him as a candidate for Director.				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
6	Takuya Tanaka (Apr. 7, 1969) [Newly elected]	Vice President	0 shares	—
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1992	Joined Nihon Unisys, Limited			
Aug. 1996	Joined Nihon Cisco Systems K.K. (current Cisco Systems G.K.)			
Aug. 2000	Vice President, in charge of Western Japan Sales Headquarters of Cisco Systems K.K.			
Apr. 2009	Joined the Company Vice President, in charge of Western Japan Sales Headquarters of Net One Partners Co., Ltd.			
Apr. 2013	Vice President of Net One Partners Co., Ltd.			
Apr. 2014	Executive Director and Senior Vice President of Net One Partners Co., Ltd.			
Apr. 2017	Vice President, in charge of New Business Development, Corporate Planning & Strategy Division (incumbent) Executive Director and Executive Vice President of Net One Partners Co., Ltd.			
Apr. 2018	President, CEO of Net One Partners Co., Ltd. (incumbent)			
(Significant concurrent positions)				
President & CEO of Net One Partners Co., Ltd.				
Reasons for selecting candidate for Executive Director				
Mr. Takuya Tanaka has extensive experience and a substantial track record through his many years of practical experience in sales operations. Since assuming office as a Vice President at one of the Company's subsidiaries, he has led and made every effort to develop said subsidiary. Having judged that it is necessary that he assume the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Director.				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company’s shares owned	Status of attendance at Board of Directors
7	Norihisa Katayama (Jun. 30, 1955) [Reelected]	Executive Director Senior Vice President	107,141 shares	12/12 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1980	Joined Komatsu Forklift Co., Ltd. (current Komatsu Ltd.)			
Jul. 1984	Joined Ungermann-Bass Networks K.K.			
May 1989	Joined the Company			
Apr. 2003	Operation Director of CEO Office			
Jun. 2006	Executive Director			
Apr. 2011	Executive Director, Vice President			
Apr. 2014	Executive Director, Senior Vice President, in charge of Administration & Management Division (incumbent)			
Reasons for selecting candidate for Executive Director				
Utilizing the extensive experience he has acquired in business administration and management operations, Mr. Norihisa Katayama has led the Company’s business administration and management operations for many years and made every effort to strengthen the financial structure, improve earning capabilities and spread compliance, among other efforts. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company’s corporate value, the Company has selected him as a candidate for Executive Director.				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
8	Kunio Kawakami (Sep. 24, 1943) [Reelected] [Independent] [Outside]	Outside Executive Director	27,694 shares	12/12 (100%)

Career summary, position and responsibilities at the Company, and significant concurrent positions

Apr. 1967 Joined Kanto Denki Koji Co., Ltd. (current Kandenko Co., Ltd.)
Jul. 1999 Director, Assistant Senior Sales Director and Engineering Manager of Kanto Denki Koji Co., Ltd.
Jul. 2003 Managing Director, Director of Network Solutions Division, Kanto Denki Koji Co., Ltd.
Jun. 2008 Director of Tepco Systems Corporation
Jul. 2008 Special Adviser of Kandenko Co., Ltd.
Jun. 2009 Executive Director of the Company (incumbent)
Jun. 2010 Adviser of Kandenko Co., Ltd.
Dec. 2012 Vice President and Director of ZECO Co., Ltd.

Matters Concerning Candidate for Outside Executive Director

(1) Reasons for selecting candidate for Outside Executive Director:

Mr. Kunio Kawakami has been selected as a candidate for Outside Executive Director based on the determination that he will fully contribute to the overseeing of the Company's management, taking into consideration his experience as director of other companies, as well as his broad knowledge and experience in the field of information and communication business.

(2) The Company filed Mr. Kunio Kawakami as an Independent Executive Officer pursuant to the provisions of Tokyo Stock Exchange (TSE). If this proposal is resolved and approved as originally proposed, the Company will continue to have him as an Independent Executive Officer.

(3) As Mr. Kunio Kawakami used to work for Kandenko Co., Ltd. (until June 2011), there are certain transactions between the company and the Company. However, the amount of revenue from such transactions for the current fiscal year is approximately 14 million yen (less than 0.1% of revenue of the Company for the current fiscal year) and the amount of purchases through such transactions for the current fiscal year is approximately 20 million yen (less than 0.1% of revenue of the company for the current fiscal year). Therefore, we believe that there is no risk of conflict of interest with general shareholders in these transactions.

As he used to work for Tepco Systems Corporation (until June 2009), there are certain transactions between the company and the Company. However, the amount of revenue from such transactions for the current fiscal year is approximately 41 million yen (less than 0.1% of revenue of the Company for the current fiscal year). Therefore, we believe that there is no risk of conflict of interest with general shareholders in these transactions.

(4) Mr. Kunio Kawakami currently occupies the position of Outside Executive Director of the Company and his term of office will be nine (9) years at the conclusion of this general meeting.

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company’s shares owned	Status of attendance at Board of Directors
9	Mitsuo Imai (May 15, 1951) [Reelected] [Independent] [Outside]	Outside Executive Director	10,579 shares	12/12 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1974	Joined Hitachi Cable, Ltd. (current Hitachi Metals, Ltd.)			
Apr. 2005	Executive Officer, General Manager of Corporate Planning & Development Office, Group Executive of Environment & Disaster Prevention Group and CIO, Hitachi Cable, Ltd.			
Sep. 2006	Executive Officer, Group Executive of Information Systems Group, Group Executive of Information Technology Business Innovation Promotion Group and CIO, Hitachi Cable, Ltd.			
Apr. 2007	Executive Managing Officer, Group Executive of Information Systems Group, Group Executive of Information Technology Business Innovation Promotion Group and CIO, Hitachi Cable, Ltd.			
Apr. 2009	Representative Executive Officer, President and Chief Executive Officer of Hitachi Cable, Ltd.			
Jun. 2009	Representative Executive Officer, President, Chief Executive Officer and Director of Hitachi Cable, Ltd.			
Jun. 2011	Senior Corporate Advisor of Hitachi Cable, Ltd.			
Jun. 2012	Executive Director of the Company (incumbent)			
Matters Concerning Candidate for Outside Executive Director				
(1) Reasons for selecting candidate for Outside Executive Director:				
Mr. Mitsuo Imai has been selected as a candidate for Outside Executive Director based on the determination that he will fully contribute to the overseeing of the Company’s management, taking into consideration his experience as a corporate manager as well as his broad knowledge and experience in the field of information and communication business.				
(2) The Company filed Mr. Mitsuo Imai as an Independent Executive Officer pursuant to the provisions of Tokyo Stock Exchange (TSE). If this proposal is resolved and approved as originally proposed, the Company will continue to have him as an Independent Executive Officer.				
(3) As Mr. Mitsuo Imai used to work for Hitachi Metals, Ltd. (until June 2013), there are certain transactions between the company and the Company. However, the amount of purchases from such transactions for the current fiscal year is approximately 68 million yen (less than 0.1% of revenue of the company for the current fiscal year). Therefore, we believe that these transactions have no risk of conflict of interest with general shareholders.				
(4) Mr. Mitsuo Imai currently occupies the position of Outside Executive Director of the Company and his term of office will be six (6) years at the conclusion of this general meeting.				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
10	Rieko Nishikawa (Feb. 3, 1955) [Reelected] [Independent] [Outside]	Outside Executive Director	3,983 shares	12/12 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
<p>Apr. 1985 Full-time lecturer, Faculty of Law, Keio University</p> <p>Sep. 1989 Visiting Researcher, Harvard Law School</p> <p>Sep. 1991 Visiting Foreign Scholar, Fordham University, School of Law</p> <p>Apr. 1992 Assistant Professor, Faculty of Law, Keio University</p> <p>Oct. 1999 Visiting Scholar, The George Washington University Law School</p> <p>Apr. 2000 Professor, Faculty of Law, Keio University (incumbent)</p> <p>Aug. 2003 Outside consultant, Inter-American Development Bank</p> <p>Jun. 2015 Executive Director (incumbent)</p> <p>(Significant concurrent positions)</p> <p>Professor, Faculty of Law, Keio University</p>				
<p>Matters Concerning Candidate for Outside Executive Director</p> <p>(1) Reasons for selecting candidate for Outside Executive Director</p> <p>Ms. Rieko Nishikawa has been selected as a candidate for Outside Executive Director based on the determination that she will fully contribute to the overseeing of the Company's management, taking into consideration her ample knowledge and experience as a university professor specializing in legal research. Although she has no experience of direct involvement in management, it has been determined from the foregoing reason that she will be able to execute her duties properly.</p> <p>(2) The Company filed Ms. Rieko Nishikawa as an Independent Executive Officer pursuant to the provisions of Tokyo Stock Exchange (TSE). If this proposal is resolved and approved as originally proposed, the Company will continue to have her as an Independent Executive Officer.</p> <p>(3) Ms. Rieko Nishikawa is currently a Professor in the Faculty of Law, Keio University. There are certain transactions between Keio University and the Company. However, the amount of revenue from such transactions for the current fiscal year is only approximately 54 million yen (less than 0.1% of revenue of the Company for the current fiscal year). Therefore, we believe that these transactions have no risk of conflict of interest with general shareholders.</p> <p>(4) Ms. Rieko Nishikawa currently occupies the position of Outside Executive Director of the Company and her term of office will be three (3) years at the conclusion of this general meeting.</p>				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
11	Ryugo Hayano (Jan. 3, 1952) [Newly elected] [Independent] [Outside]	—	0 shares	—
Career summary, position and responsibilities at the Company, and significant concurrent positions				
<p>Apr. 1979 Assistant, School of Science, The University of Tokyo</p> <p>Nov. 1982 Associate Professor, Ministry of Education National Laboratory for High Energy Physics (current High Energy Accelerator Research Organization)</p> <p>Apr. 1985 Visiting Associate Professor, School of Science, The University of Tokyo</p> <p>Apr. 1986 Associate Professor of Physics, School of Science, The University of Tokyo</p> <p>Jan. 1997 Full Professor, Graduate School of Science, The University of Tokyo</p> <p>Jun. 2015 Councilor, Radiation Effects Research Foundation (incumbent)</p> <p>Aug. 2016 President, Talent Education Research Institute (Suzuki Method) (incumbent)</p> <p>Apr. 2017 Science Fellow, Hobonichi Co., Ltd. (incumbent)</p> <p>May 2017 Representative, Office-Hayano LLC (incumbent)</p> <p>May 2017 Director, General Incorporated Foundation Shigeta Education Foundation (current Public Interest Incorporated Foundation Shigeta Education Foundation) (incumbent)</p> <p>Jun. 2017 Professor Emeritus, The University of Tokyo (incumbent)</p> <p>Apr. 2018 Director of International Physics Olympiad 2022 Association (incumbent)</p> <p>(Significant concurrent positions)</p> <p>Councilor, Radiation Effects Research Foundation</p> <p>President, Talent Education Research Institute (Suzuki Method)</p> <p>Science Fellow, Hobonichi Co., Ltd.</p> <p>Representative, Office-Hayano LLC</p> <p>Director, Public Interest Incorporated Foundation Shigeta Education Foundatio</p> <p>Professor Emeritus, The University of Tokyo</p> <p>Director, International Physics Olympiad 2022 Association</p>				
<p>Matters Concerning Candidate for Outside Executive Director</p> <p>(1) Reasons for selecting candidate for Outside Executive Director</p> <p>Mr. Ryugo Hayano has been selected as a candidate for Outside Executive Director based on the determination that he will fully contribute to the overseeing of the Company's management, taking into consideration his ample knowledge and experience as a university professor specializing in physics research, and his insight attained through practical experience at various organizations.</p> <p>Although he has no experience of direct involvement in management, it has been determined from the foregoing reason that he will be able to execute his duties properly.</p> <p>(2) If this proposal is resolved and approved as originally proposed, the Company will file Mr. Ryugo Hayano as an Independent Executive Officer pursuant to the provisions of Tokyo Stock Exchange (TSE).</p> <p>(3) Mr. Ryugo Hayano is currently an Emeritus Professor of The University of Tokyo. There are certain transactions between The University of Tokyo and the Company. However, the amount of revenue from such transactions for the current fiscal year is only approximately 122 million yen (less than 0.1% of revenue of the Company for the current fiscal year). Therefore, we believe that these transactions have no risk of conflict of interest with general shareholders.</p>				

- (Notes) 1. There are no special interests between the candidates and the Company.
2. The Company has entered into a limited liability agreement with Mr. Kunio Kawakami, Mr. Mitsuo Imai and Ms. Rieko Nishikawa, respectively. The purpose of this agreement is to limit liability as provided for in Article 423, Paragraph 1 of the Companies Act. The maximum liability amount shall be the minimum amount stipulated in applicable laws and regulations.

If the reelection of them is approved, the Company will continue the said agreements. If the election of Mr. Ryugo Hayano is approved, the Company plans to enter into the same limited liability agreement with him.

(Reference)

Independence Standards

The Company has established Independence Standards for Outside Executive Directors and Outside Audit & Supervisory Board Members as follows, and deems that any Outside Executive Directors and Outside Audit & Supervisory Board Members who do not fall under any of following items possess independence from the Company with no risk of conflict of interest with general shareholders.

1 Persons who perform executive roles*₁ or persons who have performed executive roles in the Company or its subsidiaries, at present or in the past;

2 Parties for whom the Company is a major business partner and whose transaction amounts with the Company exceed 2% of their sales in their latest business year or persons who perform executive roles therein;

3 Major business partners of the Company with which the Company's transaction amounts exceeds 2% of the Company's sales in the latest business year or persons who perform executive roles therein;

4 Major shareholders of the Company (entities that own 10% or more of the total voting rights of the Company) or persons who perform executive roles therein;

5 Certified public accountants, attorneys and consultants, etc. who receive money or other property more than 10 million yen per year except for executive remuneration from the Company (or if the entity receiving such property is an organization, such as a corporation and association, persons belonging to such entity which receive property in excess of 2% of total annual income of the organization from the Company);

6 Persons who received donations more than 10 million yen per year from the Company in the latest business year (or if the entity receiving such donations is an organization, such as a corporation and association, persons belonging to such entity which received donations in excess of 2% of total annual income of the organization from the Company);

7 Persons who have fallen under any of items 2 through 6 above in the past three years; or

8 Spouses and relatives of up to the second degree of kinship of those who fall under any of items below:

(1) Principal persons who currently perform executive roles*₂ or principal persons who have performed executive roles in the Company or its subsidiaries in the past three years;

(2) Persons to whom any of items 2 through 4 apply;

“Persons who perform executive roles” refer to principal persons who perform executive roles.

(3) Persons to whom item 5 or item 6 apply.

“Persons belonging to such entity” refer to principal persons who perform executive roles (or persons who are deemed as important as principal persons who perform executive roles) of the entity; or, in the case that the entity is a professional body including audit corporation or law office, persons who possess professional qualifications including certified public accountants or attorneys.

*1 Persons who perform executive roles as stipulated in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act.

*2 Principal persons who perform executive roles refer to persons who perform significant executive roles such as Executive Directors (excluding Outside Executive Directors), Operating Officers, Vice Presidents or department heads.

End

Proposal 4: Payment of bonuses to Executive Directors

With consideration of the results for the current fiscal year, the Company proposes payment of bonuses which amount is 84,200,000 yen in total to five (5) Executive Directors excluding Executive Director Mr. Takahisa Kawaguchi, Executive Director Mr. Kunio Kawakami, Executive Director Mr. Mitsuo Imai and Executive Director Ms. Rieko Nishikawa out of nine (9) Executive Directors as of the end of the current fiscal year.

The decision of the specific amount, timing and payment method of the bonuses to each individual Executive Director is requested to be settled by Board of Directors.

This proposal was deliberated by the Advisory Committee.

(Attachments)

Business Report

April 1, 2017 to March 31, 2018

1. Business conditions of the Corporate Group

(1) Business activities and results

• Market environment

Recently a wide range of industries have expanded their utilization of information and communication technology (ICT). The main reasons behind this, in addition to improving operational efficiency and reducing costs, is the direct coupling of business activities to ICT, as typified by Artificial Intelligence (AI), Internet of Things (IoT: connection of anything to the internet), FinTech (financial services that use ICT), and work style innovation. Net One Group (the Group) provides the infrastructure that supports such utilization of ICT.

Currently, in the market environment surrounding the Group, there is continuous growing demand regarding the following two points.

- (i) The improvement of operational speed and optimization of investment cost through the cloud computing utilization
- (ii) The enhancement of information security measures to cope with the increasing number and sophistication of cyber-attacks

In addition to these, we are seeing the actualization of demand regarding the following three points.

- (i) The introduction of Industrial IoT (IIoT: IoT systems for manufacturing facilities) aimed at increasing productivity at manufacturing facilities
- (ii) The transition from models involving the purchase and ownership of equipment to models that use functions of equipment as a service
- (iii) The implementation of the simplified operation of increasingly sophisticated and complex ICT infrastructure

Responding to this demand is difficult for a manufacturer by itself. This is because advanced functions need to be connected and integrated, and not only technical information but also information of actual utilization relating to products, including each of their characteristics, is required to be provided.

Accordingly, the Group aims to expand business by effectively leveraging our specialist network technology, integration technology that combines the world's state-of-the-art products, and the Group employees' own know-how to utilize ICT.

• Growth strategies and mid-term plan

Based on this market environment, we are pursuing the following growth strategies.

- **Protecting existing customers' investment:**
Steadily secure business in existing fields and maintain and expand revenue
- **Expansion of existing customers' investment and development for new markets:**
Expand revenue in response to expanding new areas of demand
- **Accelerate service business:**

Shift to a service-based business model to improve profitability and customer satisfaction

We will also proceed with action based on our three-year Mid-Term Business Plan (“the Plan”), which started in the fiscal year ended March 31, 2017. Our specific numerical objectives for the final year of the plan (fiscal year ending March 31, 2019) are revenue of 170 billion yen, operating income of 11 billion yen, and operating margin of 6.5%.

Within the final year revenue of 170 billion yen, we plan to create new revenue worth 24 billion yen under the strategies of “expansion of existing customers’ investment” and “development for new markets.” Specifically, in “expansion of existing customers’ investment” we plan to create 10 billion yen through our new Cloud system with security plan, and in “development for new markets” we plan to create 4 billion yen through the IIoT market, 4 billion yen through the global market, and 6 billion yen through the corporate market.

• Results for the fiscal year under review (fiscal year ended March 31, 2018)

In the fiscal year ended March 31, 2018, primarily by advancing the strategies described below, we achieved revenue of 157 billion yen and operating income of 7.2 billion yen as stipulated in the objectives for the second year of the Plan and were able to lay a foundation for the final year of the Plan.

Protecting existing customers’ investment

Under this strategy, the Group provides support that establishes cloud infrastructure while leveraging its existing network infrastructure. In the fiscal year under review, we acquired business in accordance with the plan.

Expansion of existing customers’ investment

Through the new Cloud system with security plan, we are supporting the promotion of cloud implementation and the enhancement of information security. In the fiscal year under review, we achieved steady performance, primarily through the cloud infrastructure business for the enterprise sector and telecommunications carriers, the unified platform infrastructure for large-scale hospitals, and the security business for local governments.

Development for new markets

New markets cover the IIoT market, global market, and corporate market.

In the IIoT market, we have entered the actual introduction stage for IoT systems aimed at improving productivity at manufacturing facilities. In the fiscal year under review, we achieved steady performance, primarily through establishing network infrastructure connecting various production machines.

In the global market, we mainly support ICT infrastructure for domestic customers who are expanding overseas. In the fiscal year under review, in addition to expanding business in the ASEAN region, maintenance service response system collaboration was realized in North America and the creation of a system for business collaboration in Europe progressed.

In the corporate market, we are working on developing effective business schemes for providing cloud-based services to new customer strata. In the fiscal year under review, creation of a market for cloud-based services for wireless LAN, virtual desktops, storage, collaboration, security, and the like, steadily progressed.

Accelerate service business

Under this strategy, we are shifting from the previous business model based on equipment sales to a business model centered on the provision of services with the aim of increasing customer satisfaction as well as improving profitability.

Cloud HUB service, which we developed in the previous fiscal year to securely connect multiple

clouds, and our managed security service, which provides round the clock monitoring of a customer's security status, have led to steady orders. Additionally, in the fiscal year under review we developed multiple new services, including a Managed Detection and Response (MDR) service which prevents data leaks through cyber-attacks, a Cloud Access Security Broker (CASB) service which facilitates safe cloud service use, and a cloud access visualization service that makes using cloud services comfortable. These new developments enhance our line-up of service products that provide the Group's unique added value.

Furthermore, to support the shift to "utilization from possession," we have started providing the NetOne "all in" Platform, a subscription-style capital service (fees are paid according to usage length of service) developed in collaboration with multiple lease companies. We have also started sales of Artimate Package, software developed by Net One Connect G.K. (a new subsidiary established in April 2017) that makes the operation of increasingly sophisticated and complex ICT infrastructure simple, thereby successively expanding our functions.

Human resources development

We continuously develop human resources in growth areas. Particularly in the cyber-security area, where we dispatched engineers of the Group to some of the world's most advanced security analysis centers owned by overseas vendors. By sharing the expertise gained through this hands-on training within the Group, we are systematically improving our security technology.

Also, the Group is taking the lead regarding work style innovation, and in November 2017, we were presented an Award of the Minister for Internal Affairs and Communications for Excellent Pioneers among Top Hundred Telework Pioneers. We are leveraging this expertise in our proposals for customers.

Thorough profit control

Continuing from the previous fiscal year, we have made efforts to improve awareness of profit raised by the entire Company and improve profitability through systematic project-by-project examinations.

As a result of the above, overall bookings accepted in FY2017 were 170,164 million yen (up 3.8% year-over-year). Meanwhile, revenue the Company generated during FY2017 was 161,107 million yen (up 2.5% year-over-year).

Regarding the profit and loss, due to thorough profit control, the Company's gross profit stood at 37,829 million yen (up 7.4% year-over-year). Selling, general, and administrative expenses increased to 29,587 million yen (up 0.4% year-over-year), operating income stood at 8,241 million yen (up 43.4% year-over-year), ordinary income stood at 8,418 million yen (up 47.7% year-over-year), and profit attributable to owners of parent was 5,682 million yen (up 48.6% year-over-year).

■Overview by product category

In the fiscal year under review, bookings accepted, revenue and backlog by product category were as follows.

(unit: million yen)

	Equipment products	Service business
Bookings accepted	98,555 (down 1.4% YoY)	71,609 (up 11.9% YoY)
Revenue	97,320 (down 0.4% YoY)	63,787 (up 7.2% YoY)
Backlog	17,221 (up 7.7% YoY)	51,900 (up 17.7% YoY)

<Reference: Business description by product category>

The Group carries out verification and operation testing of new products from vendors inside and outside Japan using the Company's technology to deliver the optimum solution in line with customer needs. Based on the experience and know-how obtained from its own practical application of next generation ICT infrastructure combining state of the art products and technology, the Company will provide further support for the business of its customers by raising its own unique value added.

■ Overview by market sector

Amidst diversification of customer needs, the characteristics of the ICT market vary depending on the region and the company. In order to closely observe the market and deliver the optimum solution tailored to the customer, the Group has broadly classified the market into four. During the fiscal year under review, bookings accepted, revenue, and backlog by market sector were as follows.

Enterprise – Enterprise (ENT) market

—— Composition ratio in 31st term: **30.8%**

<Main business description>

The Company engages in business targeting manufacturing industry (automobiles, electrical machinery, etc.), non-manufacturing industry (transport, services), Japanese financial institutions and foreign affiliates. We provide support for customers requiring large-scale ICT systems, seeking to cut time and cost, and improve work style, etc., by utilizing advanced ICT.

<Highlights of fiscal year under review>

Demand for security measures, cloud infrastructure, and work style innovation related systems expanded. As a result, bookings accepted and revenue increased compared with the previous fiscal year.

(unit: million yen)

Bookings accepted	51,262 (up 2.6% YoY)
Revenue	49,680 (up 4.0% YoY)
Backlog	22,535 (up 7.5% YoY)

Telecom carrier – Telecom carrier (SP) market

—— Composition ratio in 31st term: **19.1%**

<Main business description>

The Company engages in business targeting fixed and mobile telecommunication carriers. We established social infrastructure in partnership with customers providing services related to network platforms and networks as infrastructure.

<Highlights of fiscal year under review>

Although the cloud service infrastructure business progressed firmly, companies continued to curtail network investments. As a result, bookings accepted and revenue decreased compared with the previous fiscal year.

(unit: million yen)

Bookings accepted	34,279 (down 8.3% YoY)
Revenue	30,846 (down 17.2% YoY)
Backlog	14,407 (up 31.3% YoY)

Public – Public (PUB) market—— Composition ratio in 31st term: **30.3%**

<Main business description>

The Company engages in business targeting government, local government, the education sector, and corporations that provide social infrastructure (cable television, power, etc.). We provided technical support for utilization of national telecommunications infrastructure, integration of campus infrastructure as well as joint public-private sector projects.

<Highlights of fiscal year under review>

Projects of security measures and the cloud infrastructure targeting local government, healthcare industry, universities, and research centers and the like proceeded firmly. As a result, bookings accepted and revenue increased compared with the previous fiscal year.

(unit: million yen)

Bookings accepted	52,873 (up 4.2% YoY)
Revenue	48,751 (up 4.4% YoY)
Backlog	25,678 (up 19.1% YoY)

**Partners – Partner Business
(Net One Partners Co., Ltd.)**—— Composition ratio in 31st term: **19.2%**

<Main business description>

The Company developed new value added solutions with partner companies using the resale business model as the prototype rather than direct sales in order to develop new markets. We joined the resources of the Group to system solutions that partner companies specialize in with the aim of acquiring new customers.

<Highlights of fiscal year under review>

Business for major partners, as well as managed services via telecommunications carriers proceeded strongly. As a result, bookings accepted and revenue increased compared with the previous fiscal year.

(unit: million yen)

Bookings accepted	30,787 (up 21.7% YoY)
Revenue	30,985 (up 24.4% YoY)
Backlog	6,352 (down 3.0% YoY)

(2) Issues to be addressed

Currently, Japanese companies are tackling a wide range of issues, such as improving productivity, work style innovation, and a declining birthrate and aging population. Within this environment, customer's needs have changed significantly from ownership of ICT equipment to solutions for business challenges that utilizing ICT to innovate business models and increase competitiveness.

In order to meet these changing needs, and realize continuous growth, the issues that should be tackled by the Group are as follows.

- Change the style of services offered from “ownership-based” to “usage-based”
- Shift awareness and human resources development from “hardware-centric” to “software-centric”
- Develop a framework that makes “simple management and control” possible for “increasingly complex infrastructure”

The Group will advance business that provides customers with our unique value by tackling these issues through the following initiatives.

1. Sustained promotion of “expansion of existing customers’ investment” and “development for new markets”
2. Human resources development and thorough profit control
3. Accelerate service business
4. Capital (finance) service business expansion

1. Sustained promotion of “expansion of existing customers’ investment” and “development for new markets”

We will continue “protecting existing customers’ investment” and support problem-solving by utilizing ICT to develop the areas of “expansion of existing customers’ investment” and “development for new markets.”

Regarding Cloud system with security plan, we will respond to continuously growing demand for cloud usage and security enhancement. We will also drive forward the shift to service-based business.

Regarding the IIoT market, we will expand business by collecting and managing mass data in addition to network infrastructure for manufacturing facilities. Also, we will investigate possible markets where this can be applied outside of the manufacturing industry to expand the markets we cover.

Regarding global markets, based on the business collaboration with local partners with proven track record in the ASEAN region, we will consider new business development in North America and Europe.

Regarding the corporate market, we will further increase the number of products that handle cloud-based services, as well as create projects that can act as model cases for horizontal expansion.

2. Human resources development and thorough profit control

We will continue to develop human resources in growth areas. Through this, we will quickly and accurately obtain the latest information from overseas vendors and, by adding the know-how available to the Company, we will reflect it in the Group’s unique solutions and services that are suitable for the Japanese market. We will also continue systematic profit examinations.

3. Accelerate service business

The Group will shift our business model from equipment sales-centric activities to service-centric activities that coordinate a customer’s entire ICT infrastructure.

In order to become service-centered, we will develop activities based on our safe, simple, and high-performance hybrid-cloud infrastructure Software Defined Hyper Converged Infrastructure (SD-HCI) framework.

This provides a combination of many functional elements through a complete life cycle of “planning,” “introduction,” “operation,” and “optimization.”

These functional elements include the Group's all activities. Specifically, this includes professional services comprising information provision, consulting, project management, proposals, design and integration, and operation and maintenance; capital service that realizes subscription-style fee payments; state-of-the-art vendor products in the world; the Group's unique value adding service products; and software products developed by Net One Connect G.K.

In this way, we will propose ICT infrastructure based on the Company's experience utilizing ICT and technical expertise, design systems that maximize the value of the proposed ICT infrastructure, and provide ICT infrastructure functions based on advanced technology, making the realization of an integrated service business package possible.

4. Capital (finance) business expansion

We will further expand our NetOne“all in”Platform, a capital service that realizes fee payments according to usage length of service, which we started providing in the previous fiscal year. There is increasing demand from customers who do not want to purchase and own equipment but would rather pay for the period they use the functions they need.

The NetOne“all in”Platform service meets this demand and its application does not stop at conventional systems provision and financial services. It also provides unique value for assembling usage models in addition to creating required functions. In this way, it supports customers' “shift from possession to utilization,” as well as strengthening long-term relationships and improving customer satisfaction.

With its management philosophy of “contributing to social innovation by leveraging ICT,” the Group aims to be “a company trusted and supported by all stakeholders” and will strive to raise its corporate value by continuing to take on the challenge of creating new added value.

(3) Status of income and assets**I. Status of consolidated financial results**

Segment	28 th FY (April 1, 2014 to March 31, 2015)	29 th FY (April 1, 2015 to March 31, 2016)	30 th FY (April 1, 2016 to March 31, 2017)	31 st FY (current FY) (April 1, 2017 to March 31, 2018)
Revenue (million yen)	143,173	145,180	157,236	161,107
Ordinary Income (million yen)	4,249	2,594	5,701	8,418
Profit attributable to owners of parent (million yen)	2,457	1,508	3,822	5,682
Basic Earnings per Share (yen)	29.07	17.85	45.20	67.16
Total Assets (million yen)	103,623	102,613	103,365	106,827
Net Assets (million yen)	57,113	55,533	57,328	60,363
Equity Ratio (%)	55.0	54.0	55.3	56.4
Net Assets per Share (yen)	674.49	655.43	676.30	711.48

II. Status of non-consolidated financial results

Segment	28 th FY (April 1, 2014 to March 31, 2015)	29 th FY (April 1, 2015 to March 31, 2016)	30 th FY (April 1, 2016 to March 31, 2017)	31 st FY (current FY) (April 1, 2017 to March 31, 2018)
Revenue (million yen)	123,842	127,655	134,043	130,753
Ordinary Income (million yen)	3,278	2,297	5,318	6,682
Profit (million yen)	1,862	1,437	3,580	4,499
Basic Earnings per Share (yen)	22.03	17.00	42.34	53.18
Total Assets (million yen)	96,543	95,770	96,525	98,947
Net Assets (million yen)	54,136	52,683	54,061	56,008
Equity Ratio (%)	56.0	54.9	55.9	56.4
Net Assets per Share (yen)	639.27	621.72	637.68	660.02

(4) Status of financing

No special matters to report.

(5) Status of capital expenditures

The Company spent a total of 2,306 million yen for capital expenditures during FY2017 mainly on equipment improvement for the purpose of developing new products, and improving the evaluation system and the customer support framework.

(6) Status of parent company and significant subsidiaries

I. Status of the parent company

Not applicable.

II. Status of significant subsidiaries

Company name	Investments in capital	Ratio of the Company's capital contribution	Main business activities
	Million yen	%	
Net One Partners Co., Ltd.	400	100.0	Sales, installation and maintenance service related to network equipment
Xseed Co., Ltd.	74	100.0	Planning, design and integration services for information system infrastructure, and provision of server services

(Note) At the Company's Board of Directors meeting held on March 28, 2018, the Company passed a resolution to absorb Xseed Co., Ltd. by absorption-type merger. The scheduled effective date for said merger is June 1, 2018.

(7) Main offices (as of March 31, 2018)

Company name	Office name	Location
Net One Systems Co., Ltd.	Head Office	Chiyoda-ku, Tokyo
	Kansai Branch	Yodogawa-ku, Osaka
	Tennoz Office	Shinagawa-ku, Tokyo
	Hokkaido Branch	Chuo-ku, Sapporo
	Tohoku Branch	Aoba-ku, Sendai
	Tsukuba Office	Tsukuba-shi, Ibaraki
	Chubu Branch	Naka-ku, Nagoya
	Toyota Office	Toyota-shi, Aichi
	Hokuriku Office	Kanazawa-shi, Ishikawa
	Hiroshima Office	Naka-ku, Hiroshima
	Takamatsu Office	Takamatsu-shi, Kagawa
	Kyusyu Branch	Hakata-ku, Fukuoka
	Okinawa Office	Naha-shi, Okinawa
	Technical Center	Shinagawa-ku, Tokyo
	Quality Assurance & Management Center	Ota-ku, Tokyo
	Quality Assurance & Management Center West Branch	Joto-ku, Osaka
Net One Partners Co., Ltd.	Head Office	Chiyoda-ku, Tokyo

Company name	Office name	Location
Xseed Co., Ltd.	Head Office	Shinagawa-ku, Tokyo

(8) Status of employees (as of March 31, 2018)

I. Number of employees of the Corporate Group

Name of segment, etc.	Number of employees	Comparison to end of previous FY
ENT Sector	389	Decrease of 20
SP Sector	156	Decrease of 8
PUB Sector	355	Increase of 17
ENT/SP/PUB common business	466	Increase of 62
Partner Sector	146	Decrease of 13
Other	58	Decrease of 2
Support services for maintenance and operation	292	Decrease of 1
Unallocable (Common)	455	Decrease of 2
Total	2,317	Increase of 33

(Note) The number of employees includes individuals dispatched to the Group from outside the Group but excludes individuals dispatched outside the Group from the Group.

II. Number of employees of the Company

Name of segment, etc.	Number of employees	Comparison to end of previous FY
ENT Sector	389	Decrease of 20
SP Sector	156	Decrease of 8
PUB Sector	355	Increase of 17
ENT/SP/PUB common business	466	Increase of 62
Partner Sector	—	—
Other	—	—
Support services for maintenance and operation	292	Decrease of 1
Unallocable (Common)	455	Decrease of 2
Total	2,113	Increase of 48

(Note) The number of employees includes individuals dispatched to the Company from other companies but excludes individuals dispatched from the Company to other companies.

(9) Other significant matters related to the status of the Corporate Group

Not applicable.

2. Status of shares of the Company (as of March 31, 2018)

- (1) Number of authorized shares to be issued 200,000,000 shares
- (2) Total number of shares issued 86,000,000 shares
(including 1,384,268 shares of treasury stock)
- (3) Number of shareholders 15,211

(4) Distribution of shares by shareholder type

Financial institutions	43.91%
Foreign institutions and others	33.85%
Individual shareholders, etc.	18.40%
Securities companies	1.83%
Net One Systems Co., Ltd.	1.61%
Other institutions	0.40%

(5) Major shareholders (Top 10)

Name of shareholder	Number of shares held	Percentage of ownership (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	15,395,900	18.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,515,600	5.3
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,792,200	4.5
GOVERNMENT OF NORWAY	2,091,361	2.5
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1,794,300	2.1
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	1,617,483	1.9
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,530,300	1.8
Meiji Yasuda Life Insurance Company	1,440,000	1.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,324,800	1.6
Association of Net One Systems Employees participating the Employee Stock Ownership Program	1,195,553	1.4

(Notes) 1. Although the Company owns 1,384,268 shares of treasury stock, it is excluded from the major shareholders above.

2. The calculation of the percentage of ownership excludes treasury stocks.

3. The Bank of Tokyo-Mitsubishi UFJ, Ltd. was renamed to MUFG Bank, Ltd. on April 1, 2018.

(6) Other important matters concerning the Company's shares

Not applicable.

3. Status of the Company's share acquisition rights, etc.

(1) Outline of share acquisition rights under the equity compensation-type stock options plan held by Executive Directors (excluding Outside Executive Directors) of the Company as of end of FY2017

Name (Date of resolution to issue)	Number of owners	Number of share acquisition rights	Class and number of shares to be issued upon the exercise of share acquisition rights	Amount to be paid in for share acquisition rights	Value of assets contributed upon the exercise of the share acquisition rights	Effective period during which the share acquisition rights are exercisable	Remarks
Net One Systems Co., Ltd. FY2012 share acquisition rights (June 14, 2012)	6 Executive Directors (excluding Outside Executive Directors)	178	17,800 shares of common share of the Company	90,000 yen per share acquisition right	1 yen per share	July 3, 2012 to July 2, 2042	(Note 1)
Net One Systems Co., Ltd. FY2013 share acquisition rights (June 13, 2013)	6 Executive Directors (excluding Outside Executive Directors)	226	22,600 shares of common share of the Company	62,700 yen per share acquisition right	1 yen per share	July 2, 2013 to July 1, 2043	(Note 1)
Net One Systems Co., Ltd. FY2014 share acquisition rights (June 17, 2014)	6 Executive Directors (excluding Outside Executive Directors)	265	26,500 shares of common share of the Company	56,400 yen per share acquisition right	1 yen per share	July 4, 2014 to July 3, 2044	(Note 2)
Net One Systems Co., Ltd. FY2015 share acquisition rights (June 16, 2015)	6 Executive Directors (excluding Outside Executive Directors)	210	21,000 shares of common share of the Company	71,700 yen per share acquisition right	1 yen per share	July 3, 2015 to July 2, 2045	
Net One Systems Co., Ltd. FY2016 share acquisition rights (June 16, 2016)	6 Executive Directors (excluding Outside Executive Directors)	314	31,400 shares of common share of the Company	53,100 yen per share acquisition right	1 yen per share	July 5, 2016 to July 4, 2046	
Net One Systems Co., Ltd. FY2017 share acquisition rights (June 15, 2017)	6 Executive Directors (excluding Outside Executive Directors)	175	17,500 shares of common share of the Company	101,400 yen per share acquisition right	1 yen per share	July 4, 2017 to July 3, 2047	

- (Notes) 1. The share acquisition rights owned by three (3) Executive Directors out of six (6) Executive Directors were granted prior to appointment as executive director.
2. The share acquisition rights owned by one (1) Executive Director out of six (6) Executive Directors were granted prior to appointment as executive director.

(2) Outline of share acquisition rights under the equity compensation-type stock options plan granted to employees, etc. during FY2017

Name (Date of resolution to issue)	Number of grantees	Number of share acquisition rights	Class and number of shares to be issued upon the exercise of share acquisition rights	Amount to be paid in for share acquisition rights	Value of assets contributed upon the exercise of the share acquisition rights	Effective period during which the share acquisition rights are exercisable
Net One Systems Co., Ltd. FY2017 share acquisition rights (June 15, 2017)	7 Vice Presidents of the Company	147	14,700 shares of common share of the Company	101,400 yen per share acquisition rights	1 yen per share	July 4, 2017 to July 3, 2047

4. Items regarding the Company's Executive Directors and Audit & Supervisory Board Members

(1) Names, etc. of Executive Directors and Audit & Supervisory Board Members (as of March 31, 2018)

Position	Name	Responsibilities at the Company and significant concurrent positions
President & CEO	Takayuki Yoshino	President and Executive Officer
Executive Director	Toru Arai	Executive Vice President, in charge of Corporate Planning & Strategy Division and Business Development Division President & CEO of Net One Systems USA, Inc.
	Shunichi Suemitsu	Executive Vice President, in charge of Engineering Division, in charge of Market Development Division, in charge of Customer Service Division President & CEO of Xseed Co., Ltd.
	Tsuyoshi Suzuki	Senior Vice President, in charge of Eastern Japan Business Division 1, in charge of Eastern Japan Business Division 2, in charge of Central Japan Business Division, in charge of Western Japan Business Division
	Takahisa Kawaguchi	Senior Vice president, in charge of Group Business Development, Corporate Planning & Strategy Division President & CEO, President and Executive Officer of Net One Partners Co., Ltd. President & CEO of Net One Systems Singapore Pte. Ltd. Director of Asiasoft Solutions Pte. Ltd.
	Norihisa Katayama	Senior Vice President, in charge of Administration & Management Division
	Kunio Kawakami	
	Mitsuo Imai	
	Rieko Nishikawa	Professor, Faculty of Law, Keio University
Audit & Supervisory Board Member (Full-time)	Toru Matsuda	
Audit & Supervisory Board Member	Masamichi Kikuchi	
	Keiichi Horii	Partner of South Toranomom Law Offices Member, Operating Committee of the Arbitration Center of the Daiichi Tokyo Bar Association
	Hideki Suda	Advisor, Asahi Building Kanzai K.K.

- (Notes) 1. Executive Director Mr. Shunichi Suemitsu retired from the position of Chairman and Representative Director of Xseed Co., Ltd. on August 31, 2017 and assumed the position of President & CEO of the company on September 1, 2017.
2. Executive Directors Mr. Kunio Kawakami, Mr. Mitsuo Imai and Ms. Rieko Nishikawa are Outside Executive Directors as stipulated by Article 2, Item 15 of the Companies Act. The Company has notified Tokyo Stock Exchange (TSE) of the status of Mr. Kunio Kawakami, Mr.

Mitsuo Imai and Ms. Rieko Nishikawa as Independent Executive Officers pursuant to the provisions of the exchange.

3. Audit & Supervisory Board Members Mr. Masamichi Kikuchi, Mr. Keiichi Horii, and Mr. Hideki Suda are Outside Audit & Supervisory Board Members as stipulated by Article 2, Item 16 of the Companies Act. The Company has notified Tokyo Stock Exchange (TSE) of the status of Mr. Masamichi Kikuchi, Mr. Keiichi Horii, and Mr. Hideki Suda as Independent Executive Officers pursuant to the provisions of the exchange.
4. Audit & Supervisory Board Member Mr. Masamichi Kikuchi is a certified public accountant and has a respectable degree of knowledge in finance and accounting. Mr. Masamichi Kikuchi retired from the position of Advisor of Natsume Auditor Corporation on June 30, 2017.
5. The Company has entered into a limited liability agreement with each of Outside Executive Directors and Audit & Supervisory Board Members. The purpose of this agreement is to limit liability as provided for in Article 423, Paragraph 1 of the Companies Act.

(2) Remuneration, etc. for Executive Directors and Audit & Supervisory Board Members

I. The amount of remuneration, etc. for Executive Directors and Audit & Supervisory Board Members

Classification	Executive Directors (Of which Outside Executive Directors)		Audit & Supervisory Board Members (Of which Outside Audit & Supervisory Board Members)		Total (Of which Outside Executive Directors and Audit & Supervisory Board Members)		Remarks
	Number of persons paid	Amount paid	Number of persons paid	Amount paid	Number of persons paid	Amount paid	
Basic Remuneration	9 (3)	Million yen 225 (42)	4 (3)	Million yen 44 (20)	13 (6)	Million yen 270 (63)	(Note 1)
Bonuses	5 (-)	84 (-)	- (-)	- (-)	5 (-)	84 (-)	(Note 2)
Equity compensation-type stock options	6 (-)	17 (-)	- (-)	- (-)	6 (-)	17 (-)	(Note 3)
Total		327 (42)		44 (20)		372 (63)	

- (Notes) 1. The maximum amounts of remunerations was decided as 470 million yen per year for Executive Directors (of which, maximum amount for Executive Directors excluding Outside Executive Directors is 400 million yen per year and maximum amount for Outside Executive Directors is 70 million yen per year), based on a resolution passed at the 28th Annual Shareholders Meeting on June 16, 2015, while 100 million yen per year for Audit & Supervisory Board Members, based on a resolution passed at the 17th Annual Shareholders Meeting on June 25, 2004.
2. Number of persons paid and amount paid based on “Payment of bonuses to Executive Directors” scheduled for resolution at the 31st Annual Shareholders Meeting to be held on June 14, 2018.
3. Remuneration, etc. through share acquisition rights under equity compensation-type stock option plan was decided as not exceeding 50 million yen per year for Executive Directors (excluding Outside Executive Directors) based on a resolution passed at the 25th Annual Shareholders Meeting held on June 14, 2012. In the columns of “Equity compensation-type stock options,” expenses for the current fiscal year are presented.

II. Policy for determining the amount of remuneration, etc. for Executive Directors and Audit & Supervisory Board Members

For its executive remuneration system, the Company adopts basic policies to continue its growth and enhance the corporate value of the Company continuously by strengthening the link between executive remuneration and the Company's business performance, and to ensure fairness and objectivity in the process of determining executive remuneration, etc.

1) Remuneration, etc. for Executive Directors (excluding Outside Executive Directors)

Remuneration, etc. for the Company's Executive Director (excluding Outside Executive Directors) consists of a basic remuneration, which is fixed, bonuses, which is a corporate performance-linked compensation over the short term offered annually based on performance, and equity compensation-type stock options, which is a corporate performance-linked compensation over the medium to long term.

The basic remuneration is determined according to the position and title of each Executive Director, and a basic amount is set for each rank.

Bonuses for each Executive Director are determined by considering the business target achievement rate and other factors for both the Company on a consolidated basis (productivity per employee in terms of revenue and operating income) and the department that the Executive Director is in charge of (productivity per employee in terms of revenue and bookings accepted).

The amounts of share acquisition rights under equity compensation-type stock option plan are decided in consideration of the Company's operation results as well as each Executive Director's discharge of duties and contribution to the Company's performance. The Company believes that linking Executive Directors' compensations to the value of the Company's stocks will encourage the Executive Directors to enhance the corporate value over the medium to long term and further increase incentives and motivation to increase the share price in the context of sharing with its shareholders the benefits and risk from a stock price's rise or fall.

With a view to ensuring fairness and objectivity in determining the amounts of remuneration, etc. for Executive Directors (excluding Outside Executive Directors), the determination of specific amounts of remuneration must follow the deliberations by the Advisory Committee, and must be set within the ceiling of remuneration, etc. resolved at the Shareholders Meeting. Determining the amount of basic remuneration and equity compensation-type stock options require resolution of the Board of Directors, while determining the amount of bonuses requires resolution of the Shareholders Meeting.

2) Remuneration, etc. for Outside Executive Directors and Audit & Supervisory Board Members

Remuneration, etc. of Outside Executive Directors and Audit & Supervisory Board Members consists only of a basic remuneration from the perspective of securing their independence. Amounts of remuneration, etc. for Outside Executive Directors are determined along with those for other Executive Directors by the resolution of the Board of Directors within the ceiling of Executive Directors remuneration resolved at the Shareholders Meeting. Amounts of remuneration, etc. for Audit & Supervisory Board Members are determined by deliberations among Audit & Supervisory Board Members within the ceiling of Audit & Supervisory Board Members remuneration resolved at the Shareholders Meeting.

(3) Items regarding Outside Executive Directors and Outside Audit & Supervisory Board Members

I. Significant concurrent positions and relationships with organizations where concurrent positions are held

Classification	Name	Significant concurrent positions	Remarks
Executive Director	Rieko Nishikawa	Professor, Faculty of Law, Keio University	(Note 1)
Audit & Supervisory Board Member	Masamichi Kikuchi		(Note 2)
	Keiichi Horii	Partner of South Toranomon Law Offices Member, Operating Committee of the Arbitration Center of the Daiichi Tokyo Bar Association	(Note 3) (Note 4)
	Hideki Suda	Advisor, Asahi Building Kanzai K.K.	(Note 5)

- (Notes) 1. There are certain transaction between Keio University and the Company. However, the amount of revenue from such transactions for the current fiscal year is only approximately 54 million yen (less than 0.1% of revenue of the Company for the current fiscal year). Therefore, we believe that these transactions have no risk of conflict of interest with general shareholders.
2. Audit & Supervisory Board Member Mr. Masamichi Kikuchi retired from the position of Advisor of Natsume Auditor Corporation on June 30, 2017. There are no special relationship between Natsume Auditor Corporation and the Company.
3. There are no special relationship between South Toranomon Law Offices and the Company.
4. There are no special relationship between the Daiichi Tokyo Bar Association and the Company.
5. There are no special relationship between Asahi Building Kanzai K.K. and the Company.

II. Significant activities during the current fiscal year

1) Status of attendance at Board of Directors meetings and Audit & Supervisory Board meetings

Classification	Name	Board of Directors meetings (held 12 times)		Audit & Supervisory Board meetings (held 13 times)	
		Number of meetings attended	Percentage of attendance	Number of meetings attended	Percentage of attendance
Executive Director	Kunio Kawakami	12	100.0%	—	—%
	Mitsuo Imai	12	100.0%	—	—%
	Rieko Nishikawa	12	100.0%	—	—%
Audit & Supervisory Board Member	Masamichi Kikuchi	12	100.0%	13	100.0%
	Keiichi Horii	12	100.0%	13	100.0%
	Hideki Suda	12	100.0%	13	100.0%

- (Note) In addition to the number of Board of Directors meetings held above, four (4) resolutions were adopted in writing which are regarded as having been resolved by the Board of Directors in accordance with the provisions of the Companies Act and of the Company's Articles of Incorporation.

2) Status of remarks made at Board of Directors meetings and Audit & Supervisory Board meetings

Classification	Name	Status of remarks made at Board of Directors meetings and Audit & Supervisory Board meetings
Executive Director	Kunio Kawakami	Based on his knowledge and experience in the information and communication business as well as experience as director of other companies, Kunio Kawakami expresses opinions and makes comments regarding the Company's business.
	Mitsuo Imai	Based on his knowledge and experience in the information and communication business as well as experience as a corporate manager of other companies, Mitsuo Imai expresses opinions and makes comments regarding the Company's business.
	Rieko Nishikawa	Based on her ample knowledge and experience as a university professor specializing in legal research, Rieko Nishikawa expresses opinions and makes comments regarding the Company's business.
Audit & Supervisory Board Member	Masamichi Kikuchi	From his standpoint as a certified public accountant, Masamichi Kikuchi expresses opinions and makes comments regarding the Company's business.
	Keiichi Horii	From his standpoint as an attorney, Keiichi Horii expresses opinions and makes comments regarding the Company's business.
	Hideki Suda	Based on his knowledge and experience in the information and communication business as well as experience as a corporate manager of other companies, Hideki Suda expresses opinions and makes comments regarding the Company's business.

5. Items regarding Accounting Auditors

(1) Name of Accounting Auditor

Deloitte Touche Tohmatsu LLC

(2) Amount regarding remuneration, etc. for Accounting Auditor during the current fiscal year

I. The amount of remuneration, etc. for the Accounting Auditor during the current fiscal year	52 million yen
II. Total amount of money and other property benefits to be paid by the Company and its subsidiaries	52 million yen

- (Notes)
1. The audit contract between the Company and the Accounting Auditor does not separate the audit remuneration for audits based on the Companies Act and audits based on the Financial Instruments and Exchange Act, and as they cannot be separated in practice, the total amount is shown in I. above.
 2. The Audit & Supervisory Board obtained necessary materials and received reports from Executive Directors, relevant internal departments, and the Accounting Auditor, and performed verification to confirm that the auditing performance in the previous fiscal year, the content of the Accounting Auditors' accounting plan for the current fiscal year, and the basis for calculation of the remuneration estimate, were appropriate. Based upon this verification, the Audit & Supervisory Board determined that the amount regarding remuneration, etc. for the Accounting Auditor is reasonable, and gave consent to it.

(3) Description of non-audit service

Not applicable.

(4) Policy on resolution of dismissal or non-reappointment of Accounting Auditor

When the Audit & Supervisory Board deems it necessary such as when there is an impediment to the execution of the Accounting Auditor's duties, the Audit & Supervisory Board will determine the content of a proposal on the dismissal or non-reappointment of the Accounting Auditor, and the Board of Directors will submit the proposal to the Shareholders Meeting on the basis of that decision.

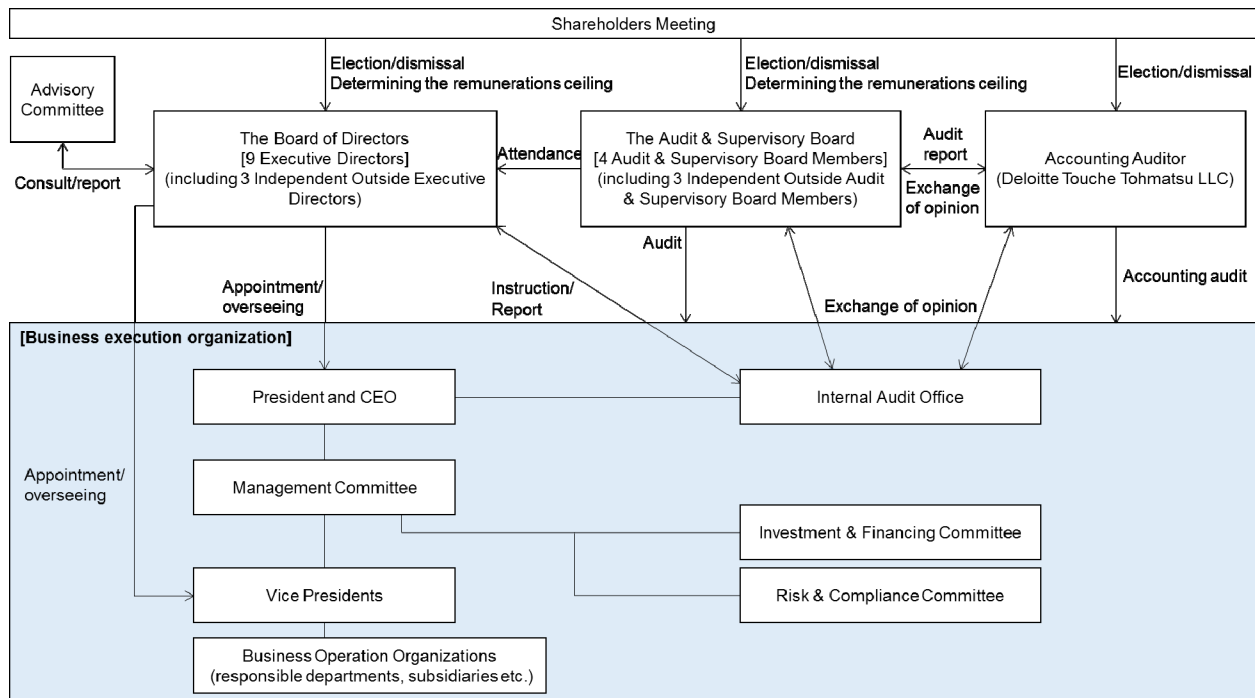
In addition, when it is deemed that the Accounting Auditor falls into the categories stipulated under each item of Paragraph 1, Article 340 of the Companies Act, the Accounting Auditor will be dismissed based on the unanimous agreement of the Audit & Supervisory Board Members. In this event, the Audit & Supervisory Board Member appointed by the Audit & Supervisory Board shall report the fact of the dismissal of the Accounting Auditor and the reasons for it to the first Shareholders Meeting to be convened following the dismissal.

6. Corporate Governance

(1) Basic matters regarding corporate governance (as of May 1, 2018)

Based on a management vision of “to be a company trusted and supported by all stakeholders (an admired company),” the Company advocates “sustainable growth” as its foremost priority. In order to attain the objective and to enhance its corporate value over the medium to long term, the Company continuously strives to enhance and strengthen corporate governance to realize fair and transparent decision-making in a swift and decisive way.

The Company adopts the following mechanism to establish a highly effective corporate governance system: The Company has in place an Audit & Supervisory Board system, which, with more than half of its members being independent Outside Audit & Supervisory Board Members, audits the execution of duties by the Executive Directors; in addition, independent Outside Executive Directors who constitute more than thirty percent (30%) of the members of the Board of Directors oversee management and execution of duties. The Company also employs the Vice President System to beef up its management control and overseeing function by the Board of Directors, and to execute business more efficiently and promptly. Moreover, by establishing the Advisory Committee the Company adopts a fair and objective way of electing or dismissing the Company’s Executive Directors and Vice presidents as well as determining their remuneration, etc.



I. Executive Directors and the Board of Directors

The Company's Board of Directors consists of nine (9) members (male: 8, female: 1) including three (3) independent Outside Executive Directors (a notification has been filed with the Tokyo Stock Exchange explaining that all of which are Independent Executive Officers), and meets once a month in principle to decide on matters stipulated by laws and regulations, or the Company's Articles of Incorporation, as well as significant matters relating to management or business execution including the vision and policy for management and Mid-Term Business Plan. The Board of Directors also oversees overall management of the Company through reports on status of Executive Directors' execution of duties, etc.

In addition, in order to increase fairness and transparency in management and to strengthen corporate governance, the Company has established an Advisory Committee, which consists of Representative Directors, Outside Executive Directors, Full-time Audit & Supervisory Board Members and Outside Audit & Supervisory Board Members, and chaired by one of Outside Executive Directors as a consultative body to the Board of Directors to discuss matters related to the election or dismissal of candidates for Executive Directors and Vice Presidents and their remuneration, etc.

II. Business Execution System

The Company constructed a system which enables prompt and efficient business execution, securing fairness and transparency in management, by way of concentrating the function of the Board of Directors on control and overseeing of management through delegation of decision-making authority on matters not requiring resolution of the Board of Directors as stipulated by internal regulations to the Management Committee (which meets approximately twice a month) under the President & CEO, or Vice Presidents, etc.

III. Audit & Supervisory Board Members and the Audit & Supervisory Board

The Company's Audit & Supervisory Board consists of four (4) members (male: 4, female: 0) including three (3) independent Outside Audit & Supervisory Board Members (a notification has been filed with the Tokyo Stock Exchange explaining that all of which are Independent Executive Officers), and it meets once a month in principle to audit the execution of duties by Executive Directors as well as to exercise the authority relating to the appointment or dismissal of Accounting Auditors and audit remuneration, among other matters.

The Audit & Supervisory Board Members also attend notable meetings including the Board of Directors meetings, the Management Committee, the Advisory Committee, the Risk & Compliance Committee, and the Investment & Financing Committee to express their opinion from time to time when discussing significant matters related to management and business execution and to listen to reports on the status of management and business execution.

(2) System for ensuring appropriateness of operation and overview of system operation

The Board of Directors has established the "Basic Policy of Internal Control System" and is operating based on it.

An overview of the system is as follows.

【Basic Policy of Internal Control System】

- I. System for ensuring that Executive Directors' execution of duties comply with laws and regulations, and Articles of Incorporation
 - 1) Matters requiring resolution of the Board of Directors as stipulated by laws and regulations, or Articles of Incorporation, as well as significant matters relating to management or business execution, are discussed and decided at Board of Directors meeting.
 - 2) Outside Executive Directors are elected to strengthen the overseeing functions of the Board of Directors, while the Advisory Committee is established to discuss matters relating to the election or dismissal of candidates for Executive Directors and their remunerations, etc.
 - 3) Audit & Supervisory Board Members audit the execution of duties by the Executive Directors to ensure compliance with laws and regulations, and Articles of Incorporation. Also, the Audit &

Supervisory Board receives reports from Executive Directors with regard to significant matters relating to audits, and discusses and resolves the matters amongst the Audit & Supervisory Board Members.

II. System for retention and management of information related to Executive Directors' execution of duties

The Company's document retention and management shall be as stipulated by "Document Management Rules."

III. Policy and other system regarding management of risks of loss

- 1) Business risks related to changes in the economic environment and market needs are managed by the principal departments in charge of business and investments with the support and cooperation of the departments involved to comprehend and evaluate risks and provide a timely and appropriate response. With regard to new businesses and investments, subsequent to research and review of business risks by each principal department with the support and cooperation of the departments involved followed by deliberation by the Investment & Financing Committee, actions are taken upon determination of the Board of Directors or the Management Committee.
- 2) With regard to operational risks to the Company, including business interruption risks caused by natural disasters and diseases such as major earthquakes, wind and flood damage and infectious diseases, etc., and business cessation risks caused by the loss of credibility for the Company due to misconducts of the Company's Executive Directors or employees or leakage of confidential information, the Company implements corporate-wide risk management activities after deliberations at Risk & Compliance Committee, while determining at the Management Committee the significant risks being managed for each fiscal year and holding the meetings of Risk & Compliance Committee regularly. The Company also formulates and improves risk management regulations and related rules that establish basic policies and systems for the Company's risk management.

IV. System for ensuring efficiency of execution of duties by Executive Directors

- 1) The Company has employed the Vice President System and, by concentrating the function of the Board of Directors on control and overseeing of management, the Company aims to strengthen corporate governance and has constructed a system which enables prompt and efficient business execution separate from control and overseeing function of management.
- 2) The Management Committee discusses and decides on significant matters related to management and business execution other than matters to be resolved for discussion at Board of Directors meeting.
- 3) Decision to execute and the process of executing significant matters are as stipulated by the Administrative Authority Standard Table.
- 4) From the viewpoint of improving operational efficiency, the Company continually revises and improves its operational system and formulates and expands the information system infrastructure that supports it.

V. System for ensuring execution of duties by employees comply with laws and regulations, and Articles of Incorporation

- 1) Risk & Compliance Committee discusses and decides on significant matters regarding compliance system and reviews its operational status. In the case of a material compliance violation, Risk & Compliance Committee identifies facts based on investigation and discusses and determines the appropriate measures to prevent recurrence. In the event Risk & Compliance Committee discovers that a compliance violation has been committed by an employee, the Company will take disciplinary action against the relevant employee according to the rules of employment.
- 2) The Company, upholding "integrity and trust" as its common corporate value, establishes a

group compliance manual that indicates the specific code of conduct to be adhered by the Executive Directors and employees and a code of ethics that indicates the ethical standard for executives and employees. The Company also provides systematic compliance training to all Executive Directors and employees on an ongoing basis based on the understanding that compliance forms the basis for sustainable growth and the enhancement of the corporate value of the Company.

- 3) At least one (1) hotline for reporting and inquiring about compliance violations is established both inside and outside the company, and a hotline connecting to a Full-time Audit & Supervisory Board Member is established for reporting and inquiring regarding violations of compliance by Executive Directors or Vice Presidents. Hotline outside of the Company also accepts reports and inquiries anonymously. The Company ensures that employees are fully aware of the availability of such hotline and establishes an environment in which employees can use the hotline/consultation contact with a sense of security.

VI. System for ensuring appropriateness of operation of the Corporate Group comprised of the Company and its subsidiaries

- 1) In addition to establishing the principal department for the management of Group companies and receiving regular reports based on the Investment and Financing Control Regulations, the Company discusses key decisions in advance. Moreover, Group Business Liaison Meetings are held regularly to share various issues at each Group company.
- 2) With regard to Group-wide risk management, the Company has formulated Risk Management Regulations and promotes Group-wide risk management activities in addition to appointing members from subsidiaries to Risk & Compliance Committee in order to operate on a Group basis. Moreover, in the event of an event with a serious impact on the Group, the Company implements a prompt and smooth response based on the Emergency Countermeasure Regulations.
- 3) The Company has formulated a Mid-Term Business Plan with the participation of subsidiaries, and manages the progress of the plan while regularly receiving reports on the status of management at subsidiaries.
- 4) In addition to having common values and code of conduct as a Group through the Group Compliance Manual, Risk & Compliance Committee discusses and decides on significant matters regarding the Group's compliance. In addition, the Company's whistleblower hotline also handles reports and inquiries from officers and employees of Group companies.
- 5) The Company's Executive Directors and employees are appointed and seconded as Executive Directors and Audit & Supervisory Board Members at subsidiaries to oversee and audit the execution of business at subsidiaries.
- 6) With regard to ensuring credibility of financial reporting based on the Financial Instruments and Exchange Act, through coordination with the subsidiaries, the Company undertakes periodical review and evaluation of the maintenance and operational status of internal control of the Group, as well as striving for its maintenance and improvement.

VII. Matters relating to employees involved when Audit & Supervisory Board Members request the placement of employees to assist in their duties

Employee(s) to assist in Audit & Supervisory Board Members' duty shall be placed at Internal Audit Office.

VIII. Matters concerning the independence from Executive Directors of employees assisting in the duties of Audit & Supervisory Board Members and matter related to ensuring the effectiveness of the instructions from Audit & Supervisory Board Members to the employees involved

- 1) Internal transfers and evaluations for employees assisting in the duties of Audit & Supervisory Board Members require the consent of Audit & Supervisory Board Members to ensure the independence of the employee involved from the Executive Directors.
- 2) When the employees assisting in the duties of Audit & Supervisory Board Members receive the

necessary instruction related to those duties, the system required to enable them to follow the relevant instructions is established.

IX. Systems for reporting to Audit & Supervisory Board Members and systems for ensuring that a person who made a report to Audit & Supervisory Board Members does not receive disadvantageous treatment as a result of the report in question

- 1) When an Executive Director discovers a fraudulent act by another Executive Director, an act by an Executive Director in violation of laws and regulations and/or the Articles of Incorporation, or a fact that may cause significant damage to the Company, the Executive Director must report it to Audit & Supervisory Board Members at once.
- 2) The Internal Audit Office reports plans for internal audits and the results of internal audits to Audit & Supervisory Board Members.
- 3) When Audit & Supervisory Board Members request reports on the execution of duties, officers and employees of the Group must provide reports on the relevant matters without delay.
- 4) The Group Audit & Supervisory Board must be convened regularly and receive reports on the implementation status of audits at subsidiaries from Audit & Supervisory Board Members of subsidiaries.
- 5) When officers and employees of the Group discover a fact that may cause significant damage to the Group, they must immediately report to the Company's Audit & Supervisory Board Members.
- 6) In addition to prohibiting disadvantageous treatment of a Group officer or employee who has made a report to an Audit & Supervisory Board Member for the reason of having made the relevant report, the Company actively publicizes the role played by the whistleblower hotline and the strict confidentiality of reporting and inquiries and establishes an environment that enables officers and employees of the Group to be relaxed about making reports and inquiries.

X. Matters concerning procedures for prepayment or refund of expenses arising in connection with the execution of the duties of Audit & Supervisory Board Members, matters concerning policy for processing expenses or obligations arising in connection with the execution of other duties and other systems for ensuring that the audits by Audit & Supervisory Board Members are implemented effectively

- 1) Audit & Supervisory Board Members share information and exchange opinions with Executive Directors by attending meetings of the Board of Directors and Management Committee.
- 2) Audit & Supervisory Board Members exchange opinions with the Accounting Auditors at least once every six months and, when necessary, exchange opinions with relevant departments and corporate attorneys of the Company.
- 3) When an Audit & Supervisory Board Member claims prepayment or refund of expenses arising in connection with execution of their duties, the Company processes the expense or obligation concerned, except for when it is deemed that the expense or obligation related to the claim in question is not necessary for the execution of the duties of the Audit & Supervisory Board Member concerned.

XI. Basic policy and system towards antisocial forces

- 1) The Company adopts a basic policy not to have any relationship, including business transactions, with antisocial forces that threaten the order and safety of community, by stipulating "the prohibition of associating with antisocial forces" as a code of conduct in the Group Compliance Manual.
- 2) In close coordination with outside specialized agencies such as The Federation for Prevention of Special Violence under Jurisdiction of the Metropolitan Police Department ("Tokubouren") and its regional council, of which the Company is a member, police stations under the jurisdiction, and corporate attorneys, the Company will develop and strengthen a system to ensure the collection of information related to antisocial forces and to secure access to appropriate advice

and cooperation, while raising awareness and alertness to ensure the Group has no relationships with antisocial forces through compliance training programs within the Group.

【Overview of Internal Control System operation】

I. Risk and compliance system

1) Meetings of Risk & Compliance Committee

In the current fiscal year, the Committee, which consists of Executive Directors, Senior Vice Presidents and General Managers of the Company and its subsidiaries and is chaired by the Executive Director in charge of Administration & Management Division, has been held total 11 times.

2) Measures relating to compliance

Measures implemented by the Company include operation of whistleblower hotline for reports and inquiries, survey targeting employees of the Company and its partner companies, and educational activities (including e-learning, oath, compliance lecture targeting all employees, trainings for new employees and mid-career workers).

Furthermore, Risk & Compliance Committee has reviewed the utilization status of whistleblower hotline for reports and inquiries, and the results of the survey, among other matters.

In the current fiscal year, no material report or inquiry relating to the breach of laws and regulations has been made.

3) Measures relating to risk management

Risk & Compliance Committee has engaged in improving and strengthening risk management activities by means of determining the Group's significant risks being managed in the current fiscal year as well as conducting monitoring, analysis and evaluation on the risk management activities by the principal departments responsible for each risk, while reporting the Management Committee on a quarterly basis and seeking its instructions as appropriate.

Furthermore, we have held business continuity plan training (companywide safety confirmation training and training for switching core tasks to alternative locations) twice in anticipation of the occurrence of a major earthquake in the current fiscal year

In the current fiscal year, no risk incident that could have a significant impact on the Group's management has occurred.

II. System for effective business execution

In accordance with decision-making rules including matters to be resolved at the Board of Directors and Management Committee as stipulated by internal regulations, the Board of Directors (held 12 times in the current fiscal year in addition to four resolutions adopted in writing which are regarded as having been resolved by the Board of Directors) and Management Committee (held 22 times in the current fiscal year) conduct deliberations on matters to be discussed in their meetings and efficient decision-making.

III. System for management of subsidiaries

The Company's Executive Directors or employees are appointed as the President & CEO and Audit & Supervisory Board Members at subsidiaries.

As stipulated by internal regulations, the principal department for the management of Group companies submits business plans of subsidiaries, etc., to the Management Committee for its approval, and reports on the status of management at subsidiaries to the Board of Directors, Management Committee and Investment & Financing Committee. Moreover, Group Business Liaison Meetings have been held 11 times in the current fiscal year.

IV. System for audit by Audit & Supervisory Board Members

In addition to attending notable meetings such as those of the Board of Directors, the Management Committee, the Advisory Committee, the Risk & Compliance Committee, and the Investment & Financing Committee, Audit & Supervisory Board Members convened meetings

for mutual exchange of opinions with the President & CEO of the Company (held twice in the current fiscal year) and the Group Audit & Supervisory Board (held twice in the current fiscal year), and conducted interviews with officers and employees of the Group.

Furthermore, the Audit & Supervisory Board Members received results of the audit relating to the fiscal years as stipulated by laws and regulations from Accounting Auditor on regular basis and exchanged opinions and information regarding Internal Control System operation.

(Note) Figures stated in this Business Report are rounded down to the nearest unit.

Consolidated balance sheet

(unit: million yen)

Account title	31 st FY (As of March 31, 2018)	30 th FY (Reference) (As of March 31, 2017)	Account title	31 st FY (As of March 31, 2018)	30 th FY (Reference) (As of March 31, 2017)
Assets			Liabilities		
Current assets	96,559	92,425	Current liabilities	41,544	41,009
Cash and deposits	21,953	16,236	Accounts payable-trade	17,551	17,732
Notes and accounts receivable-trade	41,755	44,530	Lease obligations	2,767	2,341
Lease investment assets	4,139	3,668	Accounts payable-other	1,463	1,162
Short-term investment securities	1,999	999	Income taxes payable	1,556	2,273
Merchandise	1,904	1,919	Advances received	12,477	11,904
Goods in transit	229	761	Provision for bonuses	2,907	3,479
Costs on uncompleted construction contracts	10,992	13,942	Provision for directors' bonuses	99	121
Supplies	10	19	Other	2,721	1,993
Prepaid expenses	8,642	6,134	Noncurrent liabilities	4,919	5,027
Deferred tax assets	1,394	1,618	Lease obligations	4,539	4,652
Other	3,539	2,594	Asset retirement obligations	380	374
Allowance for doubtful accounts	(1)	(1)	Other	—	0
			Total liabilities	46,464	46,037
Noncurrent assets	10,267	10,940	Net assets		
Property, plant and equipment	5,125	5,505	Shareholders' equity	60,369	57,186
Buildings	1,221	1,344	Capital stock	12,279	12,279
Tools, furniture and fixtures	3,904	4,161	Capital surplus	19,462	19,453
Intangible assets	1,801	2,142	Retained earnings	29,716	26,571
Goodwill	20	41	Treasury stock	(1,088)	(1,118)
Other	1,780	2,101			
Investments and other assets	3,341	3,291	Accumulated other comprehensive income	(167)	13
Investment securities	427	309	Valuation difference on	0	0
Long-term loans receivable	6	10	available-for-sale securities		
Deferred tax assets	957	1,030	Deferred gains or losses on hedges	(168)	13
Other	1,949	1,942			
Allowance for doubtful accounts	—	(1)	Share acquisition rights	160	128
			Total net assets	60,363	57,328
Total assets	106,827	103,365	Total liabilities and net assets	106,827	103,365

Consolidated statement of income

(unit: million yen)

Account title	31 st FY (April 1, 2017 to March 31, 2018)	30 th FY (Reference) (April 1, 2016 to March 31, 2017)
Revenue	161,107	157,236
Cost of revenue	123,278	122,013
Gross profit	37,829	35,223
Selling, general and administrative expenses	29,587	29,475
Operating income	8,241	5,747
Non-operating income	236	193
Interest income	0	2
Miscellaneous income	235	190
Non-operating expenses	59	239
Interest expenses	53	64
Foreign exchange losses	—	162
Miscellaneous loss	6	12
Ordinary income	8,418	5,701
Extraordinary loss	36	35
Loss on retirement of noncurrent assets	32	29
Loss on valuation of investment securities	3	4
Other	—	1
Profit before income taxes	8,382	5,665
Income taxes-current	2,322	2,265
Income taxes-deferred	377	(422)
Profit	5,682	3,822
Profit attributable to owners of parent	5,682	3,822

Consolidated statement of changes in net assets

(April 1, 2017 to March 31, 2018)

(unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2017	12,279	19,453	26,571	(1,118)	57,186
Changes of items during the period					
Dividends from surplus			(2,537)		(2,537)
Profit attributable to owners of parent			5,682		5,682
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock		8		30	39
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	8	3,144	30	3,183
Balance as of March 31, 2018	12,279	19,462	29,716	(1,088)	60,369

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total accumulated other comprehensive income		
Balance as of April 1, 2017	0	13	13	128	57,328
Changes of items during the period					
Dividends from surplus					(2,537)
Profit attributable to owners of parent					5,682
Purchase of treasury stock					(0)
Disposal of treasury stock					39
Net changes of items other than shareholders' equity	0	(182)	(181)	32	(148)
Total changes of items during the period	0	(182)	(181)	32	3,034
Balance as of March 31, 2018	0	(168)	(167)	160	60,363

Non-Consolidated balance sheet

(unit: million yen)

Account title	31 st FY (As of March 31, 2018)	30 th FY (Reference) (As of March 31, 2017)	Account title	31 st FY (As of March 31, 2018)	30 th FY (Reference) (As of March 31, 2017)
Assets			Liabilities		
Current assets	87,499	84,448	Current liabilities	38,019	37,436
Cash and deposits	18,943	15,123	Accounts payable-trade	17,165	17,341
Notes receivable-trade	246	152	Lease obligations	2,767	2,341
Accounts receivable-trade	35,421	38,492	Accounts payable-other	1,702	1,265
Electronically recorded monetary claims - operating	167	78	Accrued expenses	878	748
Lease investment assets	4,139	3,668	Income taxes payable	1,020	2,127
Short-term investment securities	1,999	999	Accrued consumption taxes	971	640
Merchandise	305	663	Advances received	10,271	9,257
Goods in transit	177	497	Deposits received	263	120
Costs on uncompleted construction contracts	9,144	11,979	Provision for bonuses	2,614	3,156
Supplies	7	15	Provision for directors' bonuses	84	94
Prepaid expenses	8,150	5,872	Other	280	340
Deferred tax assets	1,199	1,486	Noncurrent liabilities	4,919	5,027
Short-term loans receivable	3,503	2,404	Lease obligations	4,539	4,652
Other	4,093	3,013	Asset retirement obligations	380	374
Allowance for doubtful accounts	(1)	(1)	Other	—	0
			Total liabilities	42,939	42,463
Noncurrent assets	11,447	12,077	Net assets		
Property, plant and equipment	5,049	5,405	Shareholders' equity	55,932	53,591
Buildings	1,192	1,309	Capital stock	12,279	12,279
Tools, furniture and fixtures	3,856	4,095	Capital surplus	19,462	19,453
Intangible assets	1,772	2,093	Legal capital surplus	19,453	19,453
Software	1,762	2,081	Other capital surplus	8	—
Other	10	12	Retained earnings	25,278	23,316
Investments and other assets	4,625	4,577	Legal retained earnings	86	86
Investment securities	29	33	Other retained earnings	25,191	23,229
Stocks of subsidiaries and affiliates	1,738	1,617	General reserve	19,410	18,380
Investments in capital	1	0	Retained earnings brought forward	5,781	4,849
Investments in capital of subsidiaries and affiliates	10	—	Treasury stock	(1,088)	(1,118)
Long-term loans receivable	6	10	Valuation and translation adjustments	(84)	2
Long-term prepaid expenses	5	6	Valuation difference on available-for-sale securities	0	0
Deferred tax assets	939	1,013	Deferred gains or losses on hedges	(85)	2
Lease and guarantee deposits	1,765	1,763	Share acquisition rights	160	128
Other	127	133	Total net assets	56,008	54,061
Total assets	98,947	96,525	Total liabilities and net assets	98,947	96,525

Non-Consolidated statement of income

(unit: million yen)

Account title	31 st FY (April 1, 2017 to March 31, 2018)	30 th FY (Reference) (April 1, 2016 to March 31, 2017)
Revenue	130,753	134,043
Cost of revenue	98,451	103,000
Gross profit	32,301	31,042
Selling, general and administrative expenses	27,079	27,430
Operating income	5,222	3,612
Non-operating income	1,516	1,818
Interest income	13	16
Operations consignment fee from subsidiaries and associates	1,338	1,575
Miscellaneous income	163	226
Non-operating expenses	56	111
Interest expenses	53	64
Foreign exchange loss	—	34
Miscellaneous loss	3	12
Ordinary income	6,682	5,318
Extraordinary loss	34	35
Loss on retirement of noncurrent assets	31	29
Loss on valuation of investment securities	3	4
Other	—	1
Profit before income taxes	6,647	5,283
Income taxes-current	1,748	2,103
Income taxes-deferred	399	(400)
Profit	4,499	3,580

Non-consolidated statement of changes in net assets

(April 1, 2017 to March 31, 2018)

(unit: million yen)

	Shareholders' equity									Valuation and translation adjustments (Note 2)	Share acquisition rights	Total net assets
	Capital stock	Capital surplus			Retained earnings			Treasury stock	Total share-holders' equity			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings (Note 1)	Total retained earnings					
Balance as of April 1, 2017	12,279	19,453	—	19,453	86	23,229	23,316	(1,118)	53,931	2	128	54,061
Changes of items during the period												
Dividends from surplus						(2,537)	(2,537)		(2,537)			(2,537)
Profit						4,499	4,499		4,499			4,499
Purchase of treasury stock								(0)	(0)			(0)
Disposal of treasury stock			8	8				30	39			39
Net changes of items other than shareholders' equity										(86)	32	(53)
Total changes of items during the period	—	—	8	8	—	1,961	1,961	30	2,000	(86)	32	1,947
Balance as of March 31, 2018	12,279	19,453	8	19,462	86	25,191	25,278	(1,088)	55,932	(84)	160	56,008

(Note) 1. Details of Other retained earnings

(unit: million yen)

	General reserve	Retained earnings brought forward	Total
Balance as of April 1, 2017	18,380	4,849	23,229
Changes of items during the period			
Reversal of general reserve	1,030	(1,030)	—
Dividends from surplus		(2,537)	(2,537)
Profit		4,499	4,499
Purchase of treasury stock			
Disposal of treasury stock			
Total changes of items during the period	1,030	931	1,961
Balance as of March 31, 2018	19,410	5,781	25,191

(Note) 2. Details of Valuation and translation adjustments

(unit: million yen)

	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total
Balance as of April 1, 2017	0	2	2
Changes of items during the period			
Net changes of items other than shareholders' equity	0	(87)	(86)
Total changes of items during the period	0	(87)	(86)
Balance as of March 31, 2018	0	(85)	(84)

Independent auditor's reports

(not attached)

Audit report from Audit & Supervisory Board

Audit Report

We the Audit & Supervisory Board received reports on 31st period, April 1, 2017 to March 31, 2018 from each Audit & Supervisory Board Member with regard to the procedure and results of audit over the execution of duties by Executive Directors. We examined them, prepared this Audit Report and report to you as follows.

1. Auditing procedure employed by Audit & Supervisory Board Members and the Audit & Supervisory Board, and contents of the audit
 - (1) The Audit & Supervisory Board established auditing policy and division of responsibilities. In addition to receiving status and results of the audit from each Audit & Supervisory Board Member, the Audit & Supervisory Board received reports from Executive Directors, etc. and Accounting Auditors regarding execution of their duties and requested for explanations as necessary.
 - (2) In addition to complying with the standard established by the Audit & Supervisory Board, following the auditing policy and division of responsibilities, communicating with Executive Directors, internal audit division and other employees, and collecting information and developing the structure for auditing, each Audit & Supervisory Board Member performed the audit in the following methods.
 - a. The Audit & Supervisory Board attended Board of Directors meetings and other notable meetings, received reports from Executive Directors and employees on execution of their duties, received further explanations from Executive Directors and employees as necessary, reviewed important documents regarding significant decisions, and researched the status of business and finance at the head office and other significant offices. With regard to subsidiaries, the Audit & Supervisory Board communicated with Directors and Audit & Supervisory Board Members of subsidiaries and exchanged information and received business reports from subsidiaries as necessary.
 - b. With regard to the Board of Directors' resolutions regarding the development of systems necessary to ensure that the execution of the duties by the Executive Directors complies with the laws and regulations and the Articles of Incorporation, which is described in the Business Report, and other systems prescribed by Article 100, Paragraphs 1 and 3 of Ordinance for Enforcement of the Companies Act as systems necessary to ensure the properness of operations of the corporate group consisting of the Company and its subsidiaries and status of systems (internal control system) established by such resolutions, as well as the status of the establishment and operations of those systems, the Audit & Supervisory Board received reports from Executive Directors and other employees of the Company, requested their explanations, and expressed its opinions.
 - c. The Audit & Supervisory Board monitored and examined that Accounting Auditors are maintaining their independency and are performing proper audit, and received reports on status of execution of duties and requested for explanations as necessary. Based upon notice from the Accounting Auditors that "system for ensuring proper execution of duties" (the matters listed in each item of Article 131 of Corporate Accounting Rules) are maintained in accordance with "Quality Control Standard for Audit" (Business Accounting Council dated October 28, 2005), the Audit & Supervisory Board requested for explanations as necessary.

Based on the above methods, the business reports and supporting schedules, non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to non-consolidated financial statements) and supporting schedules as well as consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and notes to consolidated financial statements) for the current business year were examined.

2. Results of the audit

(1) Results of audit related to business reports

- a. We confirm that business reports and supporting schedules are in accordance with laws and regulations, and the Articles of Incorporation and correctly indicate the corporate status.
- b. We could not confirm unlawful acts or significant events indicating breach of laws and regulations or the Articles of Incorporation related to execution of duties by Directors.
- c. We confirm that contents of resolution by the Board of Directors relating to internal control system are suitable. In addition, there are no matters to report regarding the business reports and Directors' execution of duties related to the internal control system.

(2) Results of audit related to non-consolidated financial statements and supporting schedules

We confirm that Deloitte Touche Tohmatsu LLC's auditing procedures and results are correct.

(3) Results of audit related to consolidated financial statements

We confirm that Deloitte Touche Tohmatsu LLC's auditing procedures and results are correct.

May 16, 2018

Audit & Supervisory Board

Net One Systems Co., Ltd.

Audit & Supervisory Board Member (Full-time)	Toru Matsuda
Audit & Supervisory Board Member	Masamichi Kikuchi
Audit & Supervisory Board Member	Keiichi Horii
Audit & Supervisory Board Member	Hideki Suda

(Note) Pursuant to Article 2, Item 16 and Article 335, Paragraph 3 of the Companies Act, Masamichi Kikuchi, Keiichi Horii and Hideki Suda are Outside Audit & Supervisory Board Members.

Toward the unique added value we can create as an independent integrator

February 1, 2018, marked the 30th anniversary of our company.

Under our management philosophy of “contributing to social innovation by utilizing ICT,” and as a group of professionals aiming for the artisan’s (takumi) skills in “Charge, Channel and Change,” we combine advanced solutions and original technical capabilities to evolve as a company unique in the world that creates optimum system architecture for using the cloud.

Takayuki Yoshino

President & CEO

Net One Systems Co., Ltd.

<Review of FY2017 and direction for FY2018>

In our three-year Mid-Term Business Plan that started in FY2016 (“the Plan”), we have taken up the growth strategies of attempting to “accelerate service business” in addition to the “expansion of existing customers’ investment” and “development for new markets” to make the Group’s direction toward differentiation even clearer. In FY2017, the second year of the Plan, we have been putting these into practice.

■ Expansion of existing customers’ investment

Cloud systems with security

In FY2017, primarily in the Public market (for public sector) and the Enterprise market (for private sector) which centers on large companies, business was robust for our solutions providing measures in response to the major trends of cloud usage and cyber-security.

Going forward, we think these needs will grow further. In order to respond to the needs, we will strive to quickly ascertain new technologies within our collaborative network of overseas vendors concerning areas such as servers, storage, and security, and reflect these technologies in our solutions to further support customers.

In FY2018, we will drive forward our transformation into a service provider that realizes “integrated service business,” as explained further down, and aim to continuously contribute to solving customers’ business challenges.

■ Development for new markets

• Corporate market

In FY2017, we expanded managed services business by leveraging a community-based sales outlet network through a partnership with a telecommunications carrier.

Going forward, we expect that rather than the purchase and ownership of various kinds of equipment, we will see a further increase in payment according to usage length of a service or piece of equipment, or in other words, subscription models. In FY2018, we will further expand our product line-up and we also want to significantly enhance the provision of added value services in order to penetrate the market.

• Global market

Net One Systems Singapore Pte. Ltd. was established in Singapore in 2013. In 2016, we entered a capital alliance with Asiasoft Solutions Pte. Ltd. to support outbound*1 business for Japanese companies in the ASEAN region. Although our progress in this market has tended to fall behind schedule to a certain extent, we will continue to invest in the ASEAN region and plan to collaborate with local companies.

In the North American region in FY2018, we expect to form partnerships with local companies and will begin considerations for business investment that supports Japanese companies.

*1: Outbound: demand arising from overseas business expansion of Japanese companies

• IIoT market

In the IIoT*2 area, we have been advancing IIoT for the manufacturing industry for several years and have produced steady results. Going forward, we think the importance of data analysis will increase. Analysis based on manufacturing industry operational technology differs from analysis of operational system applications and therefore requires unique algorithms. Accordingly, we will collaborate with venture companies, universities, and others who specialize in such algorithms to develop technology.

*2: Internet of Things (IIoT): Systems and technology connected to the internet that digitalize various things, such as the status and installation environment of things.

On a different topic, Net One Partners Co., Ltd. (NOP), a subsidiary which handles partner-orientated business, significantly expanded its operations in FY2017. An alliance with a major systems integrator

that is a reseller is on track, and the dynamism created by this move has been a major factor. The reason for this is the implementation of “choice and focus” process conducted by resellers under the current business environment, and in regard to the infrastructure parts, the reseller’s management has judged that there is a big advantage to outsourcing support and the like to NOP. In FY2018, NOP aims to further expand its operations.

<Creating a unique global presence through “choice and focus”>

The Company is an integrator that supports not only networks, but also ICT infrastructure as a whole that consists of multiple technologies, such as servers, storage, security, and virtualization. Ultimately, our “choice and focus” led us to focus on the ICT infrastructure area, so we have been proceeding with “choice and focus” for the globally advanced vendor companies which understand our uniqueness, and client companies which leverage the Group’s strengths.

Within this flow, in April 2017 we established Net One Connect G.K. and it began development of Artimate Package, software that has become the core component of the cloud converged infrastructure SD-HCI framework proposed by the Company.

You could say that Artimate Package is the success of our “choice and focus,” and it is greatly reducing the cost of security measures and cloud system operations control for our customers.

Under our concept of Architectural Approach, the Group, which as an independent ICT integrator goes beyond the scope of a vendor and occupies a position where we can integrate required functions, combines advanced solutions with unique technical capabilities to provide optimized ICT infrastructure services for customers from verification through to introduction and operation, with the aim of being a globally unique service provider.

<All of the Group’s activities as an “integrated service”>

With the aim of continuous growth and improved customer satisfaction, the Company is moving away from our previous “things” sales-based model and strategically shifting toward a “concepts” service-based model which coordinates a customer’s entire ICT infrastructure. To achieve this, we have defined all of the Group’s activities as “integrated service business.”

This supports a continuous life cycle of “planning, introduction, operation, and optimization,” based on our cloud converged infrastructure SD-HCI framework. By strengthening consulting for the optimization and next step planning phase in particular, we aim for continuous support and business acquisition.

This integrated service business provides a combination of functional elements that the Company can provide, including professional services, capital services, software products, value adding products, and vendor products, while always maintaining a service focus.

Building a business base to support the acceleration of integrated service business will require a root and branch review of organizational structure, work processes, human resources systems, and others. By clarifying organic coordination among organizations, we will proceed toward a full shift from the area of “things” to the area of “concepts” through improvement measures that are separate from previous initiatives.

In closing

Entering the thirtieth year since the founding of the company, we have built up a track record and steadily won the trust of our customers, and I feel that this has changed what is expected of the Group. The ICT industry is said to have a cycle of no more than five years. With this in mind, in order to continue to grow we need to create the added value that we can achieve because we are an independent integrator and maintain our unique presence.

We humbly ask for your continued support and encouragement for the new challenge of the Group.