

Net One Systems Websites

This Annual Report is also available on the Net One Systems website.

<https://report.netone.co.jp/en/index.html>



Please visit the following websites for more information about Net One Systems.

■ IR Information

<https://www.netone.co.jp/english/ir.html>

IR documents such as earnings release materials and securities reports, as well as the latest IR news



■ CSR Information

<https://www.netone.co.jp/english/company/csr.html>

Net One Systems' basic approach to social and environmental issues and an overview of related initiatives



■ Corporate Governance

<https://www.netone.co.jp/english/ir/policy/corporate-governance.html>

Corporate governance basic approach and governance structure



charge ∠ channel ∠ change



Annual Report 2019

Net One Systems Co., Ltd.

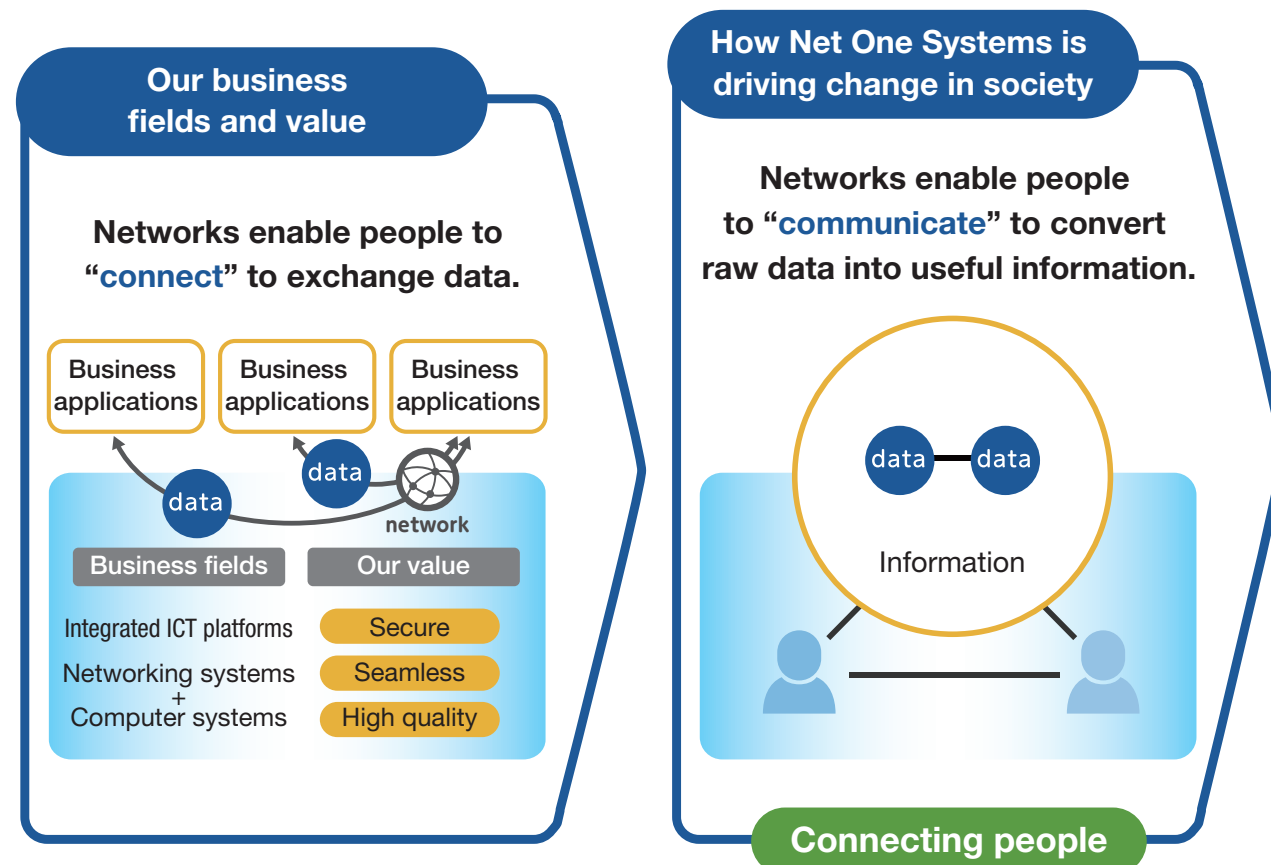
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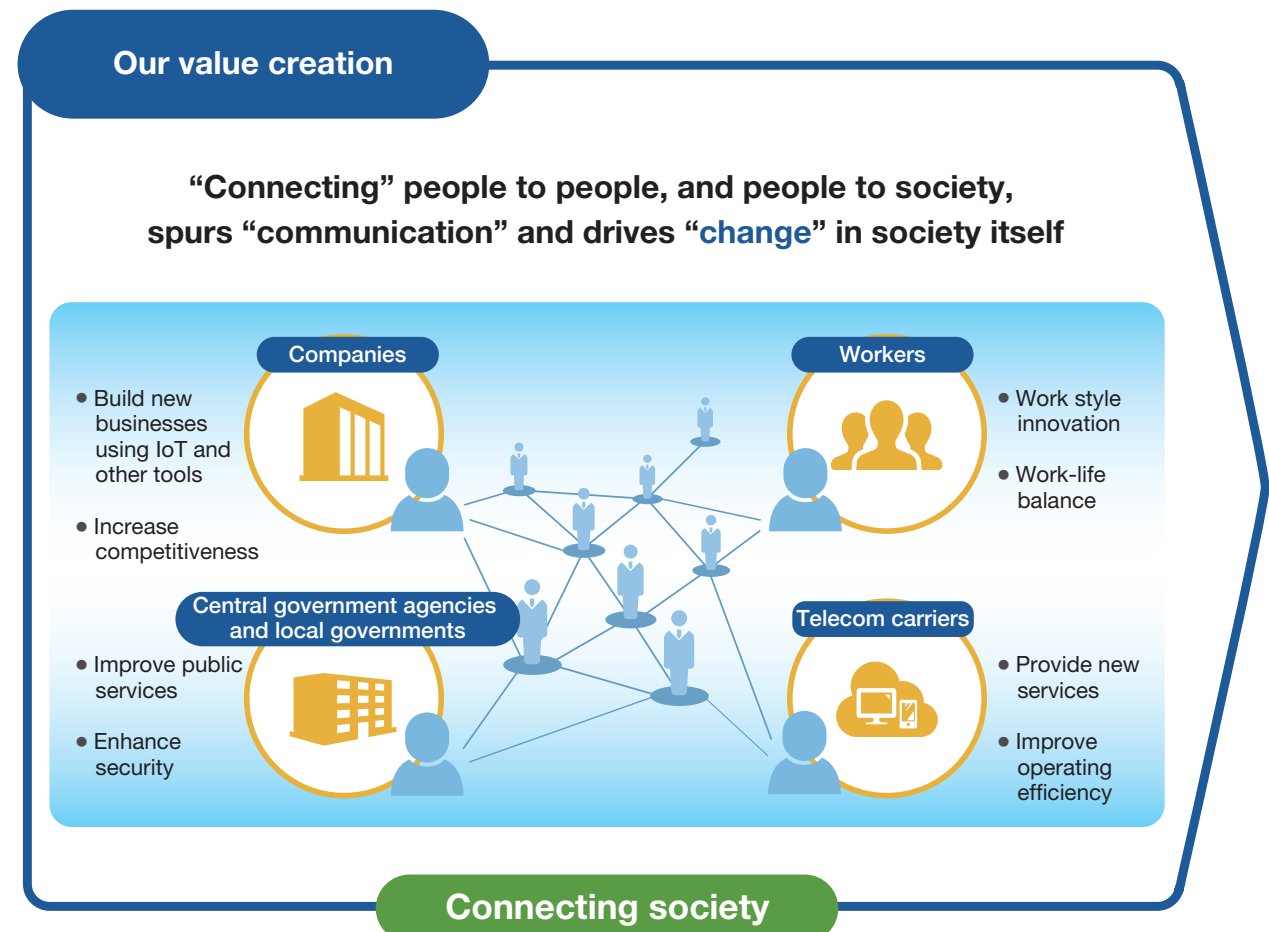
Net One Systems Co., Ltd.



Net One Systems provides support for utilizing and leveraging ICT, helping people and companies to “connect” and “communicate” and ultimately drive “change” in society.



Networks enable people to “connect” to exchange data and to “communicate” to convert raw data into useful information. By connecting people to people, and people to society, we can spur communication and propel “change” in society itself. Net One Systems provides support for utilizing and leveraging ICT, helping people to “connect” and “communicate” and ultimately drive “change” in society.



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Editorial Policy

Our management vision is to be “a company trusted and supported by all stakeholders (an Admired Company).” For this report, we have selected key information from Net One Systems’ value creation process, business strategy and non-financial data and presented it in a clear and integrated manner. We have designed the report to be used in conjunction with the Net One Systems website as part of our efforts to communicate effectively with shareholders, investors and all other stakeholders.

Forward-looking Statements

This report contains forward-looking statements that involve inherent risks and uncertainties and therefore may differ materially from actual results. Forward-looking statements are based on information currently available to the Company and investors should not place undue reliance on them. The Company undertakes no obligation to update or revise current forecasts in this report to reflect events, changes in the operating environment or other unforeseen developments that may occur in the future.



Skills and Spirit of TAKUMI

Net One Systems is one of Japan’s leading companies involved in the integration of systems for the information network society. To address expected changes in our market, all our engineers are enhancing their skills, aiming to transform themselves from system integration professionals to experts in utilizing and leveraging all aspects of ICT. We will remain focused on our roles as TAKUMI (“masters” or “experts” in English) in the network field, while also aiming to be a company that helps to change society by taking on the challenge of creating next-generation ICT platforms.

1 Company Overview and Value Creation

Management Vision

Aiming to be “a company trusted and supported by all stakeholders (an Admired Company)”

Guided by our management philosophy, “Contribute to innovation in society by utilizing ICT,” our management vision is to be “a company trusted and supported by all stakeholders (an Admired Company).” Based on that management philosophy and vision, our management strategy is to transform Net One Systems into a company capable of providing new value for future generations by driving “Three growth steps” – customer and partner growth, company growth and employee growth.

We have also set out “seven missions” for our business – fulfill our responsibilities to customers, partners, shareholders and employees, and contribute to the ICT market, civic society and the global environment. We will strive passionately and tirelessly to win the highest levels of approval from stakeholders as an Admired Company.

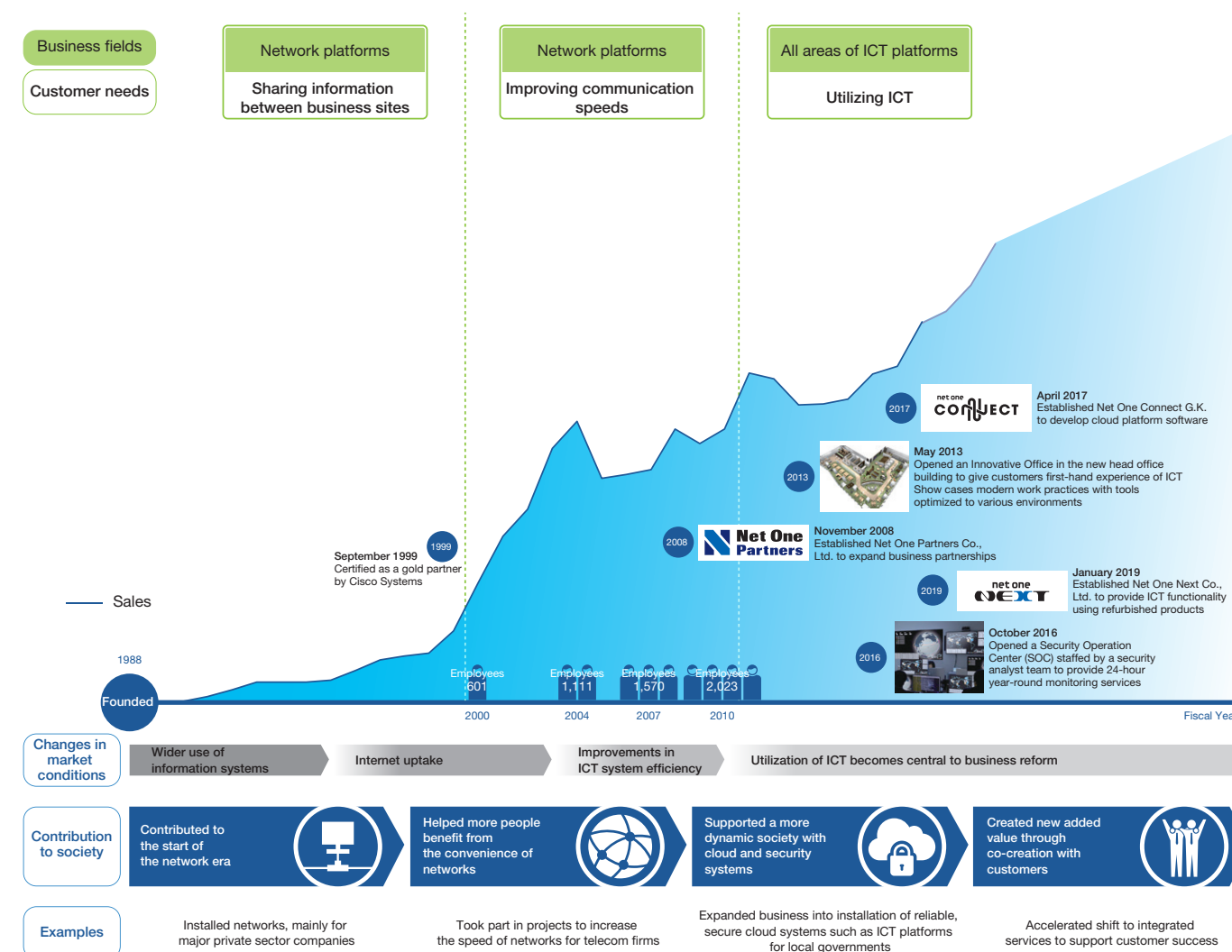


Corporate History

Networks have been our core technology since the first days of the Company. The network business field continues to expand as connectivity technologies become more important.

Net One Systems was established in 1988 as a specialist network installation company, focusing initially on the procurement and sale of routers, switches and other ICT equipment. Net One Systems has grown by enhancing its technical skills as a pioneer in the industry and by using its independent industry perspective backed by testing and verification to supply advanced technologies that anticipate change.

Today, companies now see cloud systems, IoT, AI and other ICT assets as vital to business and organizational reforms. That means network technologies that securely connect all types of physical assets and functions are also becoming increasingly important, driving growth in the network business field.



Growth in the Network Business Field

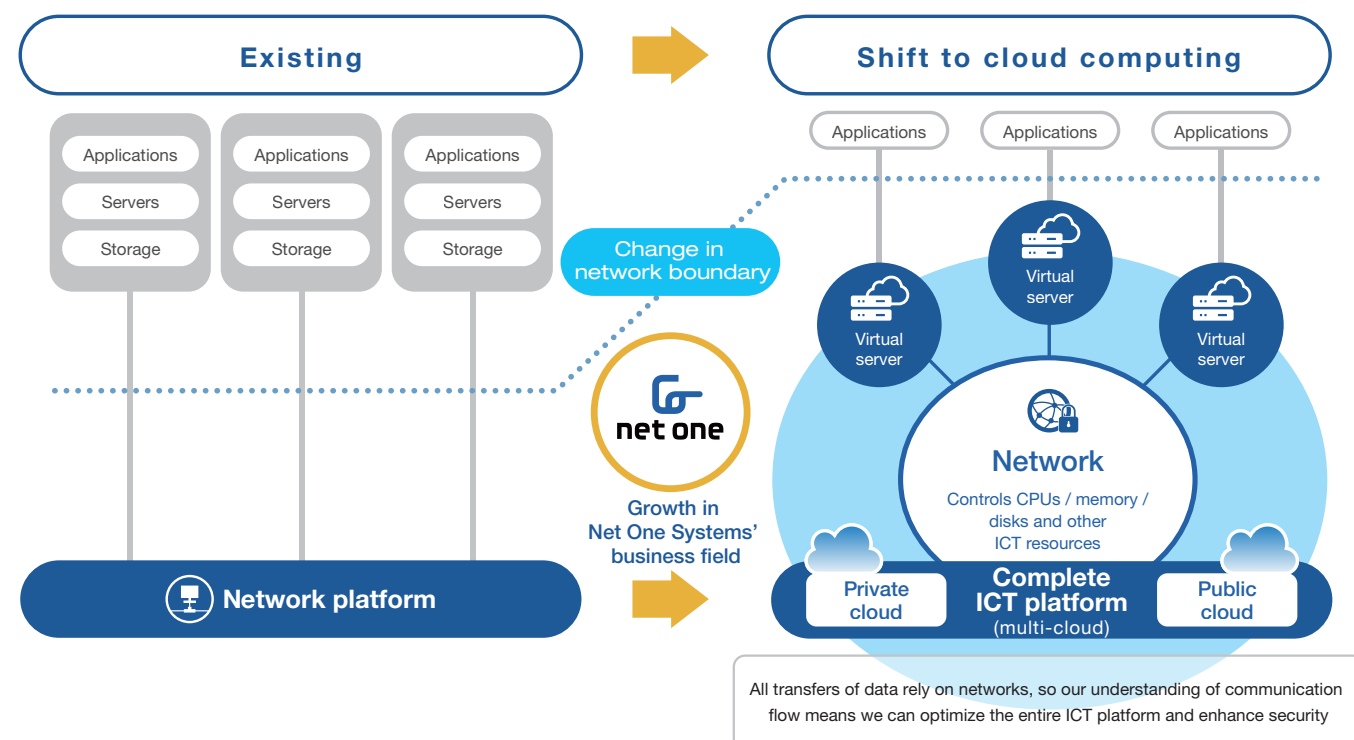
Using our advanced network technologies as a point of difference, we are extending our business reach from networks into all areas of ICT, such as cloud systems, security and IoT.

Cloud systems and security are leading to an even bigger role for networks and Net One Systems.

The main benefit of cloud systems is that servers and storage can be used efficiently in line with actual needs. The emergence of cloud systems in recent years has created a new role for networks. Cloud systems can provide ICT resources such as CPU, memory and disk capacity in servers and storage systems based on user requirements. That has led to growth in the provision of server and storage functions over networks, leading to expansion in Net One Systems' business fields. Meanwhile, deploying cyber security measures to identify and contain intruders on the network is an effective way of stopping the spread of computer viruses and preventing unauthorized data leaks. Put simply, thanks to cloud systems and security, networks are now a key technology in making all ICT infrastructure more efficient and secure. As a company with expertise in advanced network technology, that trend is opening up more possibilities for us to create unique value that helps Net One Systems stand out in the market.

ICT platforms are continuing to evolve, with multi-cloud systems that combine elements of the private cloud and public cloud becoming more widespread. Networks are needed to securely and effectively connect the different parts of those cloud systems, which is also spurring growth in our business fields. As the use of digital technology and IoT gathers pace, we are likely to see greater use of networks to connect all types of assets in society. That will create even more opportunities for Net One Systems to contribute to innovation in society.

Shift to cloud computing – driving growth in our business fields and allowing us to create unique value



Value Creation Story

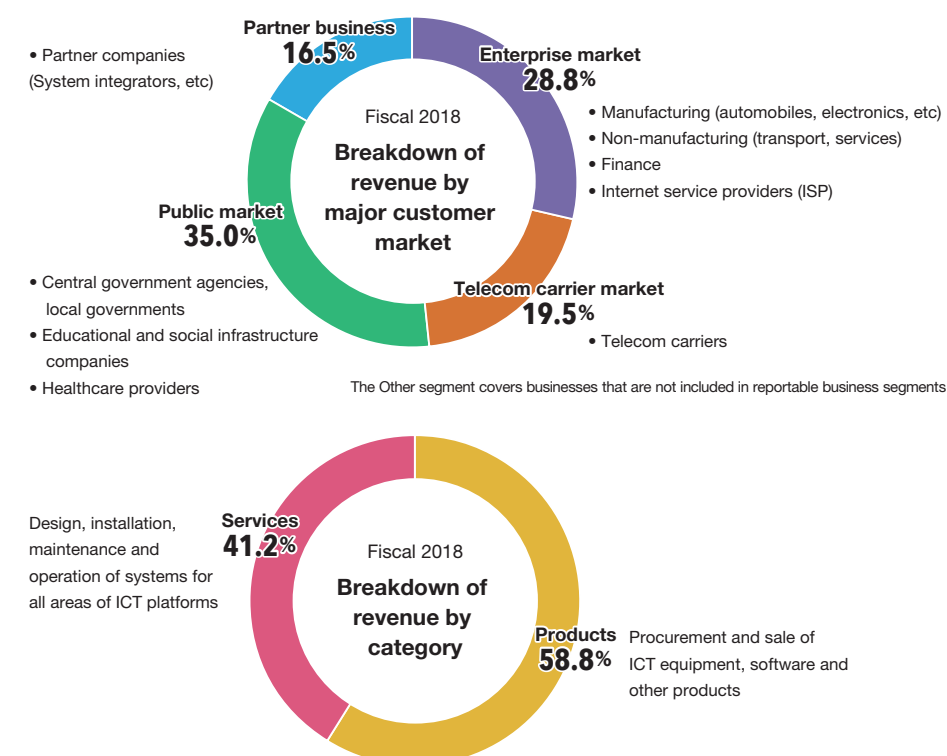
1 Business Overview

Net One Systems will "Contribute to innovation in society by utilizing ICT."

Net One Systems is growing its business by providing support for all areas of ICT platforms, which bring together all the networks and computing systems that customers need to run business applications. We provide network infrastructure, cyber security measures, cloud computing, communication tools to support work style innovation, IoT and a range of other systems and services in our main network business field.

Net One Systems also provides comprehensive system and support solutions to accelerate the application of new ICT tools. We target major companies and government agencies that are working to increase competitiveness by using AI, FinTech, IoT, Big data, cloud systems and other ICT to drive innovation in business models and work practices.

Business overview



1 Company Overview and Value Creation

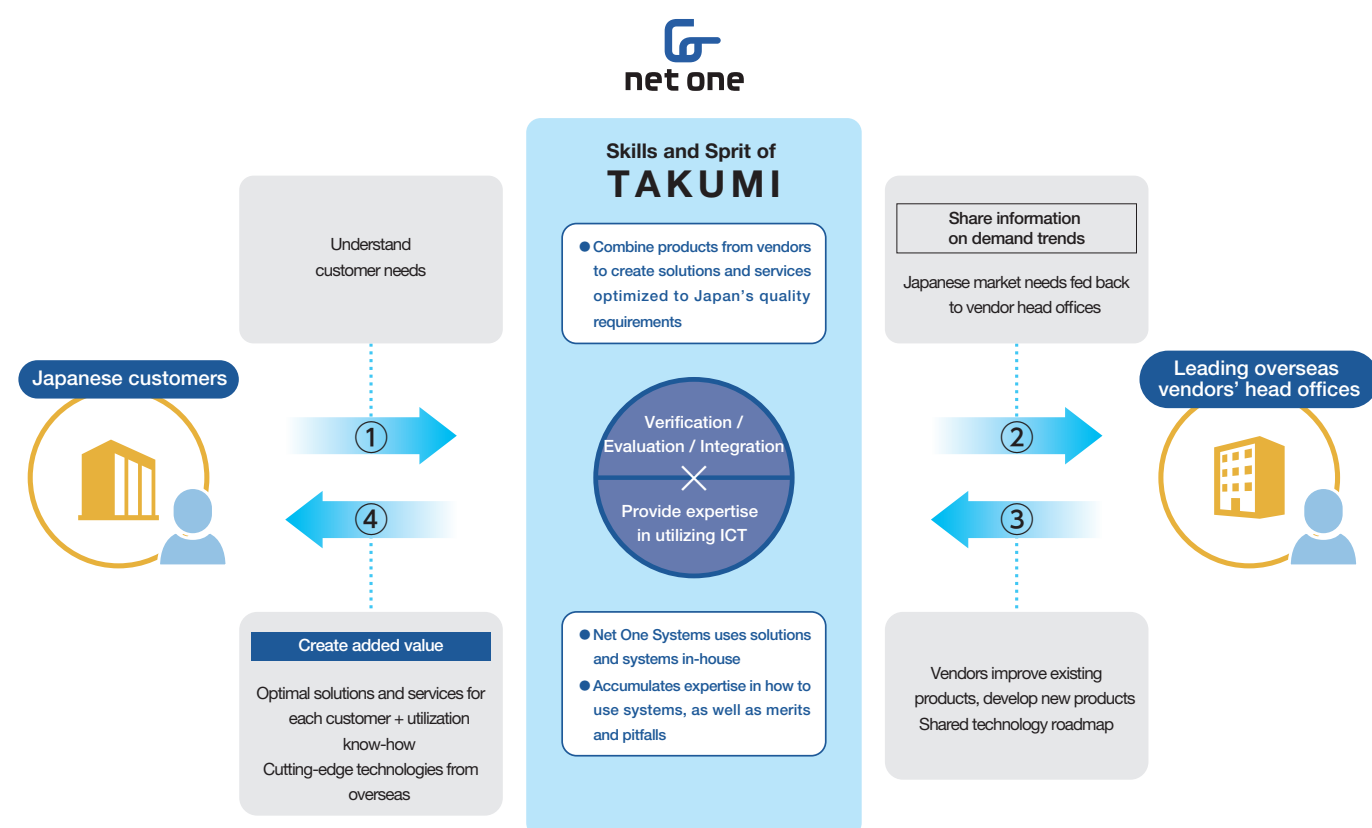
Value Creation Story

2 Business Characteristics

We communicate closely with customers and ICT vendors, allowing us to deploy optimal solutions and create the kind of added value that only Net One Systems can provide.

Net One Systems focuses on communication with both customers and ICT vendors. Through close cooperation with leading overseas vendors, we access the latest information about the global network industry and provide feedback to vendors about the needs of the Japanese market, resulting in a shared technology roadmap with a horizon of several years. Net One Systems does much more than provide solutions for customers' technical issues. To address diverse needs, we run a program that allows customers to see first-hand the benefits of fully deployed cutting-edge technologies, giving them an insight into how ideal ICT environments will look in the future. Net One Systems also installs, uses and evaluates next-generation ICT solutions and services in-house before providing them to customers. The know-how we gain is then used to provide ideas and suggestions to customers about how to deploy new ICT. We also proactively learn from our failures, as well as our successes, to help customers reduce the time they need for trial and error in system deployment. That is part of our rigorous customer-oriented approach in all phases of projects – from ICT platform design through to operation – helping Net One Systems to create unique added value.

Business characteristics



Value Creation Story

3 Our Value Creation Process

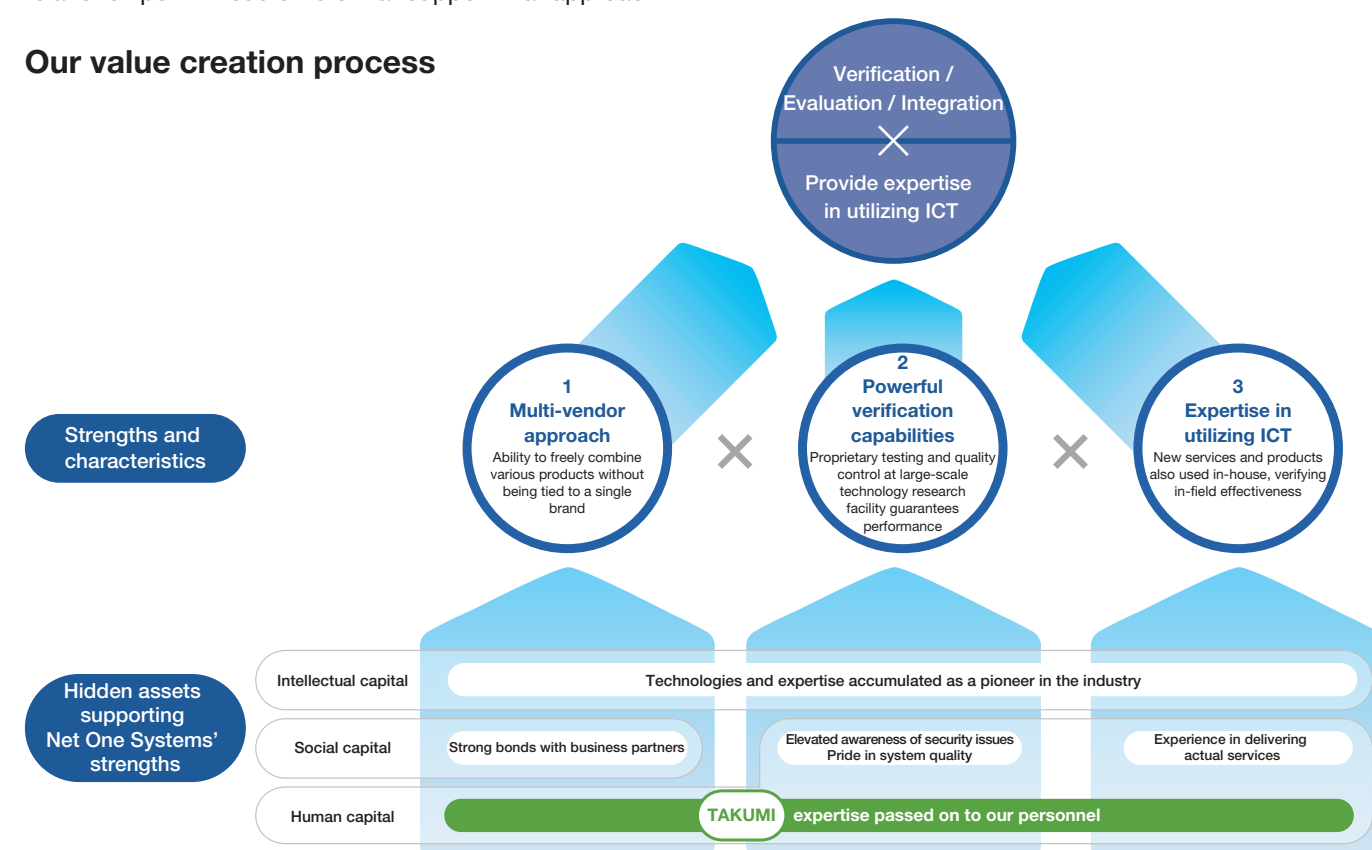
Our multi-vendor approach and expertise in utilizing ICT, backed by powerful verification capabilities, allow us to provide high-quality, high-value-added optimized solutions.

Net One Systems has no affiliations to a single vendor or corporate group. Using the benefits of our multi-vendor approach, we can propose optimal systems from an objective standpoint by combining the best products from vendors in Japan and overseas. We also independently assess new technology at our technology research facility – one of Japan's largest. Using those powerful verification capabilities, we can provide full support to customers during the deployment of new systems, such as predicting potential issues based on the method of system migration and developing measures for any issues that may occur.

Using know-how gained from installing systems in-house prior to offering them to customers, we can also propose solutions and services that incorporate ideas about potential applications after installation. Those three strengths are anchored by human resources instilled with our TAKUMI expertise – the ability to leverage advanced technologies to meet the demands of customers – and by strong bonds with business partners and our skills and know-how as a pioneer in the industry.

In our business field, we compete with manufacturers that have significant capital resources, but Net One Systems is able to create unique value by using its multi-vendor approach, powerful verification capabilities and expertise in utilizing ICT to provide high-quality, high-value-added optimized solutions. We aim to continue growing by cultivating close relationships with customers that support that approach.

Our value creation process



Chairman's Message



Our new management team's first year: strengthening systems to lift productivity

One year has passed since we overhauled our management team in June 2018. A new generation is moving into senior roles across the Company. They are targeting further gains in productivity by improving business processes, including work style innovation using ICT tools. As expected, the new team has spurred some positive changes over the last year. Discussions by the Board of Directors have been energized and newly appointed directors, including our president, are working very hard in their new roles.

Our outside executive directors, who come from diverse business backgrounds, are also actively providing their advice and input about the Company's goals at board meetings and in other situations. When we formulated the new Medium-Term Business Plan, we received valuable advice from them about the financial aspects of business development, but also about developing our personal and professional relationships through work practices and communication.

Pursuing added value with customers will lead to "customer success"

Japan's ICT equipment makers are struggling to move away from their product-out approach to development. From their perspective, added value is still defined by the equipment seller, not the buyer. That means we have to understand customers' objectives for introducing ICT tools. By achieving positive outcomes in line with those objectives, we can help customers capture added value from their ICT tools for the first time. Because Net One Systems does not make equipment, we can follow a market-in approach that emphasizes the needs of users, rather than the product-out approach favored by manufacturers. That is one of our strengths.

"Increase customer satisfaction" is a phrase we hear often in our business, particularly in the sales frontline. However, I think our industry sometimes falls short of that goal. We need to stop for a minute and think about why all the new technology is being developed. In terms of utilizing ICT, we have to talk with customers about how to get the most out of new technology, rather than just installing it for them and leaving them to do the rest. We need to be their dependable business partner by showing them new ways of using technology, while also remaining focused on what is important to them – simple and accurate operation of ICT systems with minimal faults. Pursuing customer success – making a positive contribution to the development of customer businesses – will remain an enduring part of our approach.

In April 2019, we established a Customer Success (CS) Department to expand sales of system operation services and provide consulting services to improve system operation. The division has been positioned as a specialist team to help customers optimize ICT utilization.

We estimate customers actually use only around 20-30% of the functionality of ICT tools, at the most. Our sales teams aim to show customers ways of using the technology, not just selling it to them. But it typically takes around three years before customers appreciate what we are trying to do. However, the knowledge and expertise we have built up over the years from numerous projects is likely to become a major point of difference in the market for Net One Systems. By creating the CS Department, we aim to work with sales teams to rapidly optimize ICT utilization for customers.

One way of verifying whether our ideas fit customer needs is by putting them into practice. In some cases, ICT systems that worked well at the time of installation lose their relevance as business conditions at the customer change. Net One Systems is fortunate to have many engineers who like communicating with customers. When highly trusted engineers communicate closely with customers, service levels improve. The CS Department also provides our engineers with new opportunities to develop their careers. Engineers attached to the CS Department monitor how customers use technology and then provide advice about how to get the most out of ICT. This is a new role for them.

Net One Systems' unique ESG – how we contribute to society and the environment

A fundamental part of our business is "reference" – sharing insights from our own success and failures in the utilization of ICT. We believe that business model has a positive impact on society and the environment. To give an example, our experience of using ICT to create working environments where employees can work wherever they want, helps customers to improve business efficiency and save energy. That unique Net One Systems' contribution reduces negative social and environmental impacts.

Another way we are having an impact is by cultivating the next-generation of human resources by providing training for high school and university students. The ICT sector faces a global labor shortage, while cyber security is a major issue. Seeing a need to foster human resources for the ICT sector as a whole, we launched a 12-month cyber security training program for students at several colleges of technology and universities in fiscal 2018.

We are also making our voice heard on social issues. For example, in summer 2018, we started supporting research and testing into security for robotics systems as part of a robotics course at a partner university, along with our insights into current security issues. We are also involved in providing ICT security courses at a college of technology. Our aim is to support the development of the ICT market by encouraging students who studied the practical aspects of cyber security to apply their skills and knowledge in careers in our industry. Those programs, which draw on Net One Systems' unique perspective, should help produce more graduates in the ICT security field, which will also benefit our business.

1 Company Overview and Value Creation

ICT has the power to make lives better

When I was appointed president in 2008, I was told that Net One Systems' business was hard to understand for an outsider. That prompted us to actively increase information disclosure to external stakeholders. We have learned a lot about information disclosure from key partners Cisco Systems, Juniper Networks and VMware – some of North America's global ICT companies – but we have also continued to provide more information about our differentiation strategy for the Japanese market. We understand that investors carefully select investment targets only after thoroughly researching and understanding individual companies. As we work to increase dialog with shareholders and investors, I hope to hear their advice on many different topics to support Net One Systems' ongoing development.

I would like to end with a small dream I have – a world with no workaholics. Japan is still grappling with the issue of overwork. For many people, work is still the central focus of their lives. The best work-life balance differs from person to person, but we need to drive a radical change in our society so that ordinary people have more time to pursue hobbies and entertainment. Demands for more leisure time, coupled with the need to complete work more efficiently and accurately, are likely to drive the creation of new services. That could also change the way ICT is used, such as making it more user-friendly. Everybody has different ideas about what makes us content. I believe ICT has the power to make all our lives better, now and in the future. That is and will remain my constant goal.



2 Growth Strategy

President's Message

To stand out as an attractive company that provides new value to customers, we have to improve in three areas – initiative, uniqueness and value co-creation.

Toru Arai
President and COO
Net One Systems Co., Ltd.



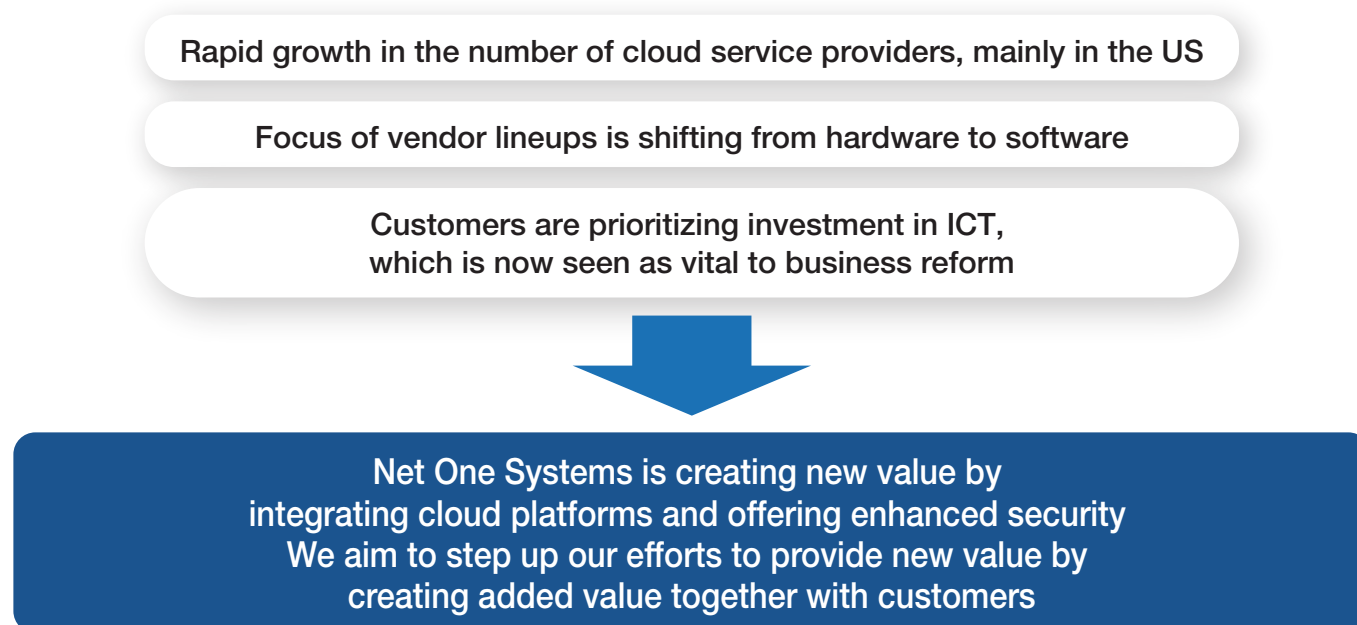
Aiming to be an attractive company with a unique Japanese take on ICT

Since my appointment as president in June 2018, I have met and spoken to many customers and investors, giving me more opportunities to hear direct feedback about our Company. I gained some useful insights during my dialog with different customers. Some told me they were serious about achieving a digital transformation (DX) – using ICT to overhaul their businesses – while others said they were struggling to get the most out of their current ICT systems. After listening to them, I'm still confident that Net One Systems is heading in the right direction. Meanwhile, the positive feedback I received about our employees shows how hard our people work to make their projects a success. That highlights one of Net One Systems' strengths – human resources.

Under our new Medium-Term Business Plan, which runs from fiscal 2019 through to fiscal 2021, our vision is to stand out as an attractive company that provides new value. For us, an attractive company means a company that is staffed by highly motivated people. Compensation, office facilities, personnel systems and workplace relationships are some ways to raise motivation. By putting all those elements in place and ensuring employees are self-motivated, we will be able to create a corporate culture that makes it easier for our people to take on the next challenge, even when things might not be going well.

The ICT sector is unique in that companies will only be successful if they can provide secure, seamless systems that can be used anywhere and that are compatible with global standards. In that environment, I want Net One Systems to show its characteristics as a Japanese ICT company. North American companies are good at standing out in the market by introducing new ideas and technologies faster than anyone else. That means they are also the first to offer “beta versions” during adjustment phases. In contrast, Japanese corporate users of ICT are more skeptical about new ideas, instead preferring to keep their familiar and reliable products and equipment.

Net One's value creation in a changing environment



It's our job at Net One Systems to close that gap. Our goal is to introduce the latest global equipment, customize it to the requirements of Japanese companies and then provide the resulting systems to international users. If we can do that, motivation will rise even further, helping Net One Systems become an attractive company.

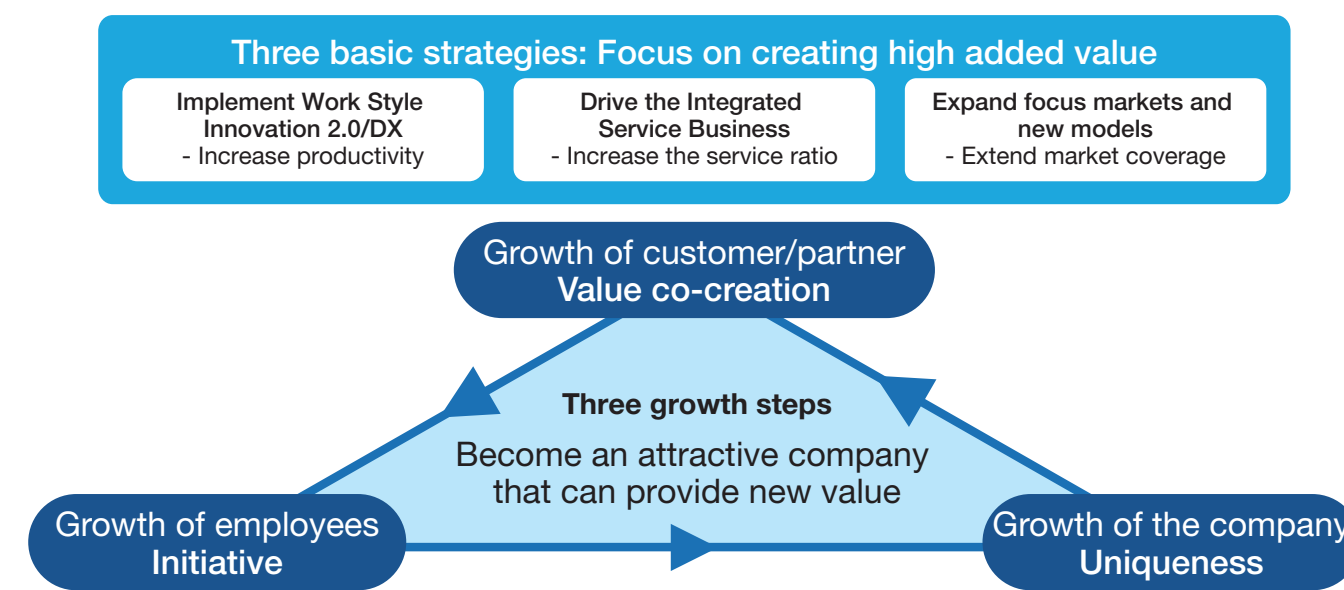
Aiming to be a company that can create new value, even when conditions are changing

Our industry is undergoing a major shift, with the leading companies switching positions. We constantly think about the kind of added value we need to provide in order to stay competitive in that kind of market. Recently, we have seen changes in what our customers want from us. Instead of simply supplying products and equipment, more customers want us to be a business partner that can help solve the issues they face. We have already worked with many customers to overcome issues in their business, so we know how to tackle any problem, and that has also given us a good insight into the potential challenges that lie ahead.

From a technology perspective, advances in multi-cloud systems, which link and combine multiple cloud services, have reduced the need for BCP and Disaster Recovery. Those advances in cloud systems are also transforming the way people and companies work. To remain competitive in our fast-changing industry, we have to offer solutions that anticipate customer needs. At the same time, we believe the trend towards multi-cloud systems is a business opportunity for companies that have a strong position in networks, like Net One Systems. That's because as connections to the cloud become more complex, the way networks are designed will become a key factor. For example, the more places that people use to connect to the cloud, the greater the need for security. As a company that understands how data flows across networks and harnesses that knowledge to design the best connections, Net One Systems is well-placed to create new value.

Medium-term growth strategy

Management Philosophy "Contribute to innovation in society by utilizing ICT"



Provide added value through initiative, uniqueness and value co-creation

We made steady progress under our previous Medium-Term Business Plan, which ran from fiscal 2016 through fiscal 2018. However, we have no intention of easing off now just because the Company is doing well. With our new Medium-Term Business Plan, we are focusing on three growth steps in order to create value with our customers and partners. Net One Systems' growth prospects will be very limited if we don't continue to provide products and services that help our customers grow. Interesting new ideas and approaches will emerge from combining our customers' businesses and the ICT products developed by our partners with our own expertise in utilizing ICT.

To implement new initiatives, we need every one of our employees to be more resourceful and independent. If they can use original, creative thinking to consistently come up with the best answers, customers will support and accept them, helping to drive Net One Systems' growth. To become a company where customer growth is aligned with employee growth, I want to create a corporate culture that actively supports employees who are motivated and ambitious. If we can encourage employees to be creative and take opportunities with both hands without fear of failure, I'm confident we can transform Net One Systems into an attractive company.

Executing our growth strategy while tackling risks and challenges

Attracting, retaining and training personnel is one of the issues we face in executing our growth strategy. Also, amid faster-than-expected developments in our market, there is a risk we will fall behind and our services will fail to resonate with customers. However, as mentioned in my introduction, Net One Systems' strength is its people. Our employees are self-sufficient, independent and creative, or as we like to say, our people have "initiative." I'm confident we can pass on that initiative to the next-generation of employees by training them to be well-versed in our corporate culture that encourages free thinking.



I will continue to nurture the importance of that “Net One Systems DNA” to ensure they take on new challenges without fear of failure.

It’s important for us to continue talking to our employees about our growth strategy so that they are personally invested in that strategy. By accurately communicating our goals based on the expected challenges in the market over the next three to five years, we can encourage employees to step up individually and work towards our shared vision. As part of that communication with employees, we stream a monthly video message to

explain our management approach, such as our thinking on the three growth steps and advice about business initiatives. To make sure our message is getting through, we survey employees after each video message and hold Q&A sessions.

Meanwhile, there is a risk that we may not be able to see all the potential issues that lie ahead. To centralize and clarify all information about risk, we have established a new Risk Management Office that reports directly to the president. Our aim is to identify risk early to mitigate any potential impact.

With earnings recovering sharply, now is the time to sustain that growth and push our performance higher, rather than be satisfied with the current position. The time when companies like Net One Systems could make a profit simply by selling equipment is over, and we now need to raise the share of services in our business to drive the next phase of growth. My main objective as president is to gradually transform Net One Systems into a company that regularly generates operating income in excess of ¥20 billion.

A final work for shareholders and investors

Net One Systems has a unique position in Japan due to the lack of companies with a strong presence in networks. Our business activities also contribute to society and the environment. I want to communicate that important role we play in society to our customers by incorporating those social and environmental elements into our growth strategy.

In the fiscal year ended March 2019, the consolidated dividend payout ratio was 35.1%. Our basic policy is to achieve a payout ratio of “at least 30%,” but our aim is return more than one-third of profits to shareholders. In terms of cash on hand, Net One Systems needs working capital of ¥15 billion. We are also budgeting around ¥10 billion for M&A activity, primarily targeting companies with strong human resources. That means we need a minimum of ¥25 billion in cash on hand, but we see no real need to hold cash above that level. If cash on hand is ¥25 billion, or regularly exceeds ¥30 billion, we will work to return it to shareholders through share buybacks and other means.

We reinforced our management structure in June 2018, putting in place the foundations for a stronger team-based approach. To drive the stable development of our business, we need to establish a service-oriented business model. Our market is changing at a rapid pace, but the approach we are taking is in line with trends in the market. If we continue to steadily implement our strategies, I’m confident we will see solid results. I hope we can count on your continued understanding and support as we work to create a company that generates value for shareholders and investors.

Review of the Fiscal 2016-18 Medium-Term Business Plan

We steadily executed our growth strategy, putting the foundations in place for the next plan

In our previous Medium-Term Business Plan, which ran from fiscal 2016 to fiscal 2018, there were four main elements to our growth strategy: ① secure investment from existing customers, ② increase business with existing customers, ③ develop new markets, and ④ drive our shift to the service business. The plan’s final year targets were revenue of ¥170 billion, operating income of ¥11 billion and an operating margin of 6.5%.

In business with existing customers, we developed proposals to upgrade ICT functions for cloud computing using their existing network platforms and provided support to help them use cloud resources more widely and enhance data security. Those efforts paid off, with the Group seeing strong demand from all customer segments – private-sector enterprises, central and local governments, and telecom carriers – lifting profit growth sharply during the plan.

In new market development, we focused on three markets, industrial IoT (IIoT), corporate and global.

In the IIoT market, we started deploying ICT for smart factories, which uses networks to link all areas of manufacturing to improve efficiency. In the corporate market, we supported telecom carriers’ strategy of providing managed services to small and medium-size enterprises (SMEs).

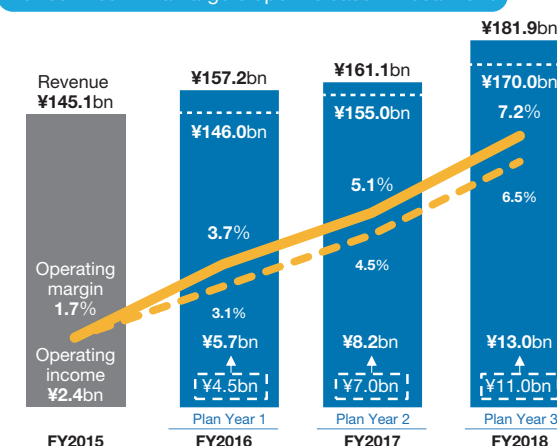
In the global market, we fell short of our targets, but we put the framework in place for business expansion in the ASEAN region with the acquisition of Asiasoft Solutions Pte. Ltd. in September 2016 (renamed Net One Asia Pte. Ltd., consolidated subsidiary).

To drive our shift to the service business, we moved the focus of our business model away from equipment sales to services, with the rollout of new solutions mainly focused on cloud services and network security, as well as the launch of capital services, which give customers access to ICT equipment and resources on a subscription basis. In fiscal 2018, we repositioned all the Group’s business activities as “Integrated Service Business,” providing support for all phases of the ICT lifecycle – from platform design and deployment to operation and optimization – to add more value for customers.

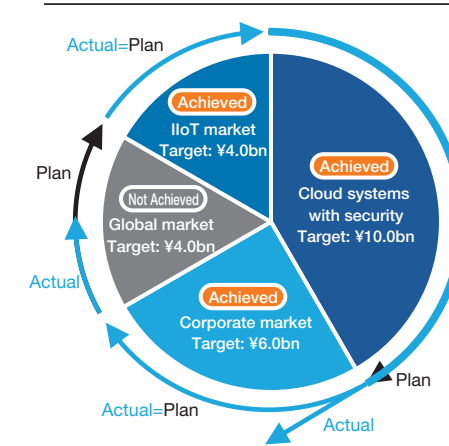
As a result, revenue, operating income and the operating margin exceeded our targets in all three years of the plan.

Medium-Term Business Plan (Fiscal 2016-18) Review: Financial Target

Dotted lines: Initial targets upon release in fiscal 2016



New markets / New solutions



2 Growth Strategy

Overview of the Fiscal 2019-21 Medium-Term Business Plan

Three growth steps and three basic strategies to create high added value in a changing ICT market

The ICT market has entered a period of major change. Cloud service companies are growing rapidly, ICT vendors are shifting focus from equipment to software, and customers are driving digital transformation (DX) in their businesses. Net One Systems has created new value by integrating cloud systems and providing network security services. Going forward, we will continue to transform our business to ensure the Group is capable of providing new added value that supports the growth of customers.

Our new Medium-Term Business Plan is designed to achieve that objective based on three growth steps. The Group will work jointly with customers and business partners to create new value that helps them raise productivity ("value co-creation"). To support that, each employee will have to be more creative and responsive ("initiative") and Net One Systems will have to become a company that is recognized by customers for creating unique value ("uniqueness").

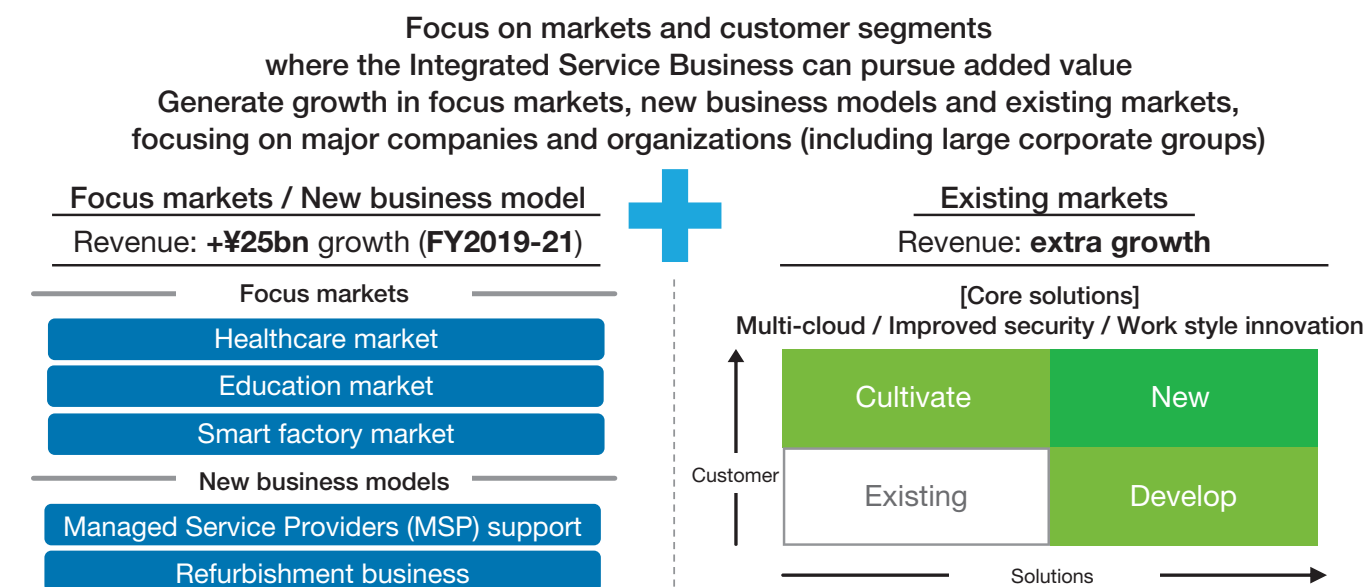
The plan also includes three basic strategies: expand focus markets and new business models, drive the Integrated Service Business, and implement a new initiative called Work Style Innovation 2.0/DX.

Basic Strategy (1):

Expand focus markets and new business models – extend market coverage

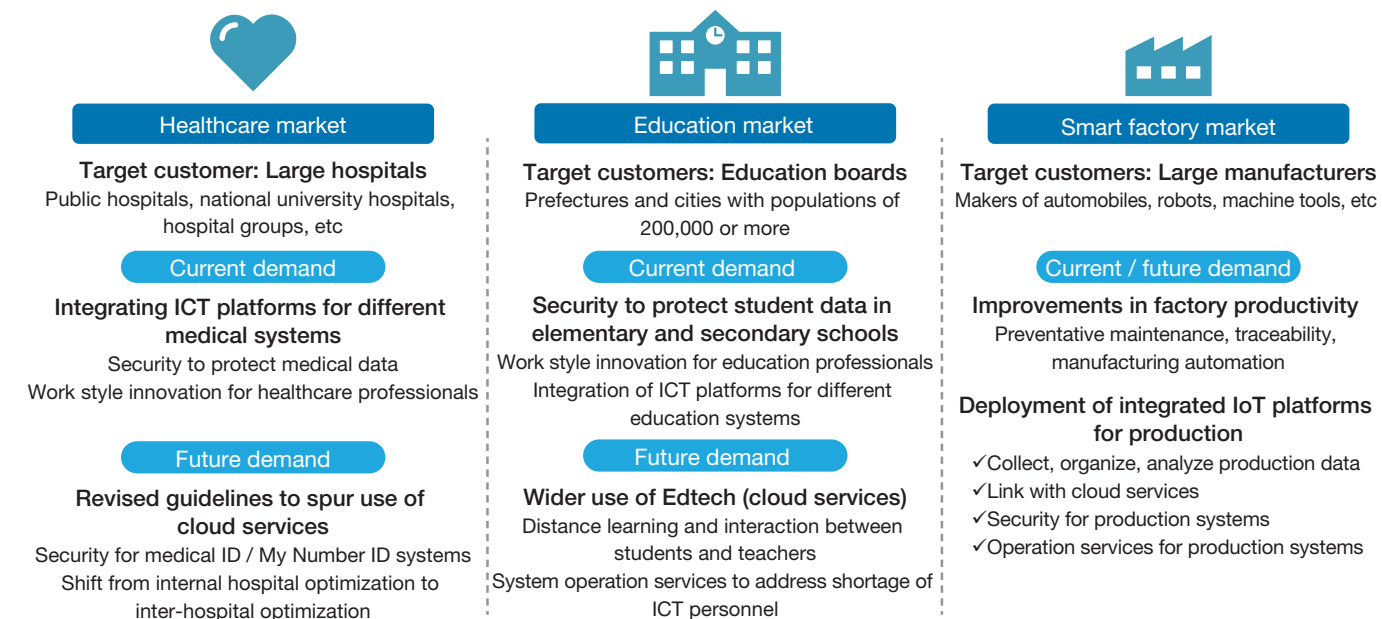
The Group will pursue growth by focusing on markets and customer segments where it can leverage the strengths of its Integrated Service Business. In existing markets, the Group will expand its business through continuous development of solutions geared toward the use of cloud systems and improvements in security. In focus markets, the Group will strengthen its proposals for three markets that are likely to see advances in the use of ICT - healthcare, education and smart factories. Additionally, the Group will implement two new business models: Managed Service Providers (MSP) support, which enables SMEs to efficiently run their businesses, and Refurbishment business, which helps companies improve price competitiveness and profitability.

Extend market coverage



Focus markets

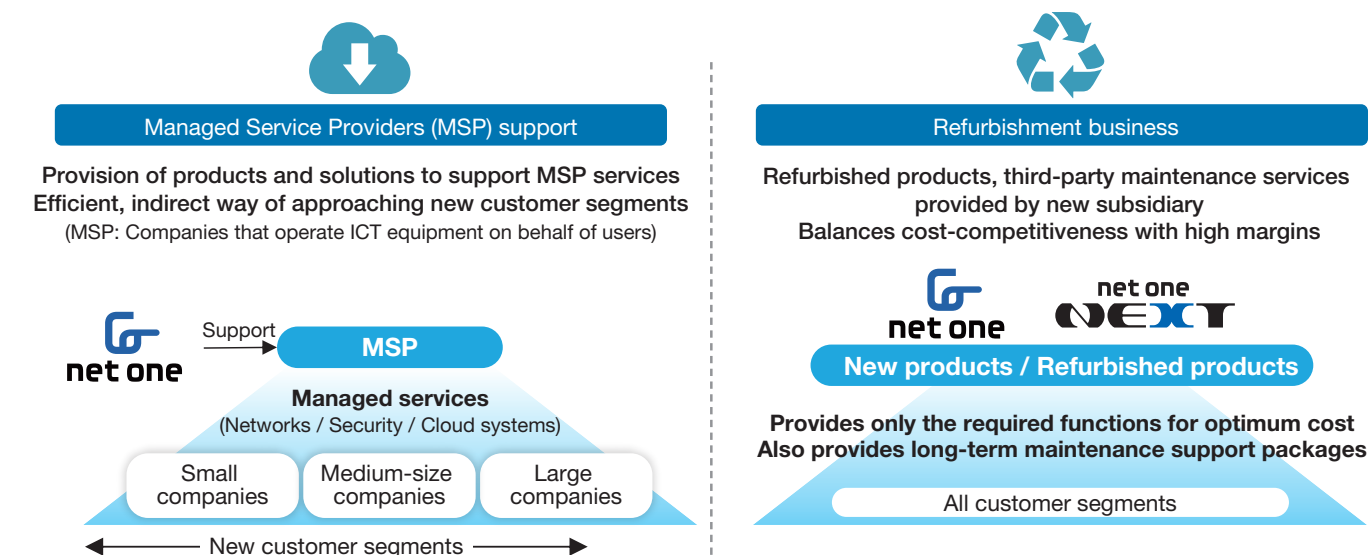
Targeting three markets likely to see advances in the utilization of ICT



Common themes in the healthcare and education markets are the integration of ICT platforms for different systems, security, and work style innovation. In the healthcare market, we will also focus on optimizing inter-hospital ICT platforms, while in the education market, we will provide support for human resources development, etc. In the smart factory market, we aim to support wider use of production facility data.

New business models

Two new business models designed to capitalize on the shift from ICT ownership to use



2 Growth Strategy

We have selected two new business models to capitalize on the shift from ICT ownership to use.

In the MSP support model, we aim to approach new customer segments or work with customers to help them manage ICT systems as part of corporate group management.

In the refurbishment model, our new consolidated subsidiary Net One Next Co., Ltd., which started operations in April 2019, will provide unique maintenance services for ICT products with expired vendor warranties to help customers effectively allocate investment.

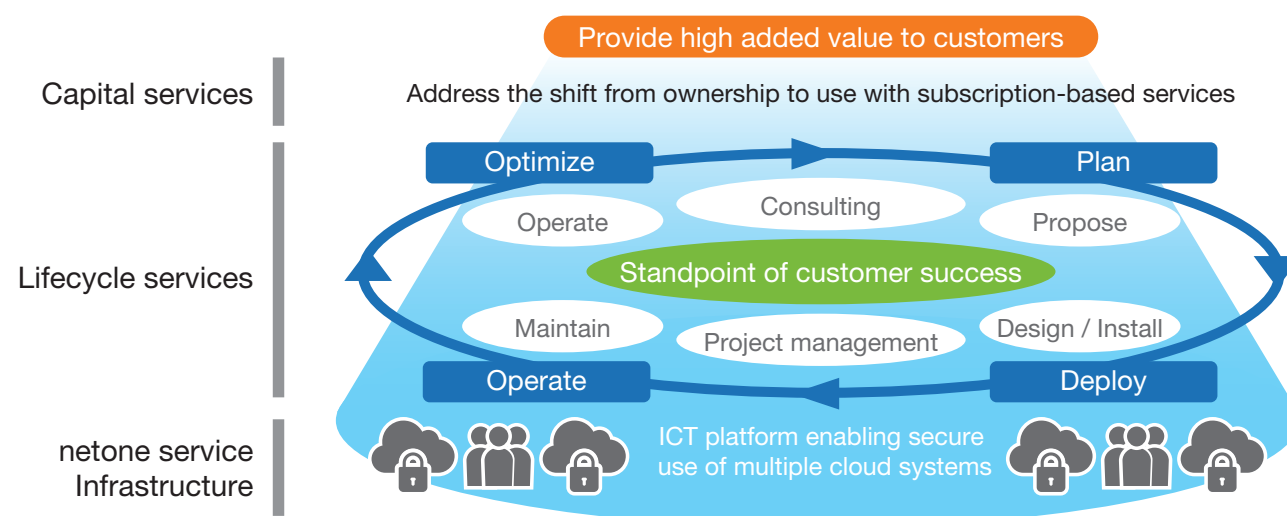
■ Basic Strategy (2):

Drive the Integrated Service Business – expand service business

As part of efforts to increase the service business ratio, we have repositioned all the Group's activities as "Integrated Services Business." Our goal is to contribute to the development of customers' businesses by pursuing added value from the standpoint of "customer success." We will create high-value-added services to address customer needs, such as developing solutions that enable customers to securely utilize multiple cloud systems, and providing capital services that allow them to use ICT platforms for a monthly fee, helping to limit initial ICT investment costs. Using this new approach, we want to forge closer links with customers as their vital partner to drive growth in the service business.

Increase the service business ratio

All Group activities repositioned as "Integrated Service Business"
Pursue added value for customers from the new standpoint of customer success



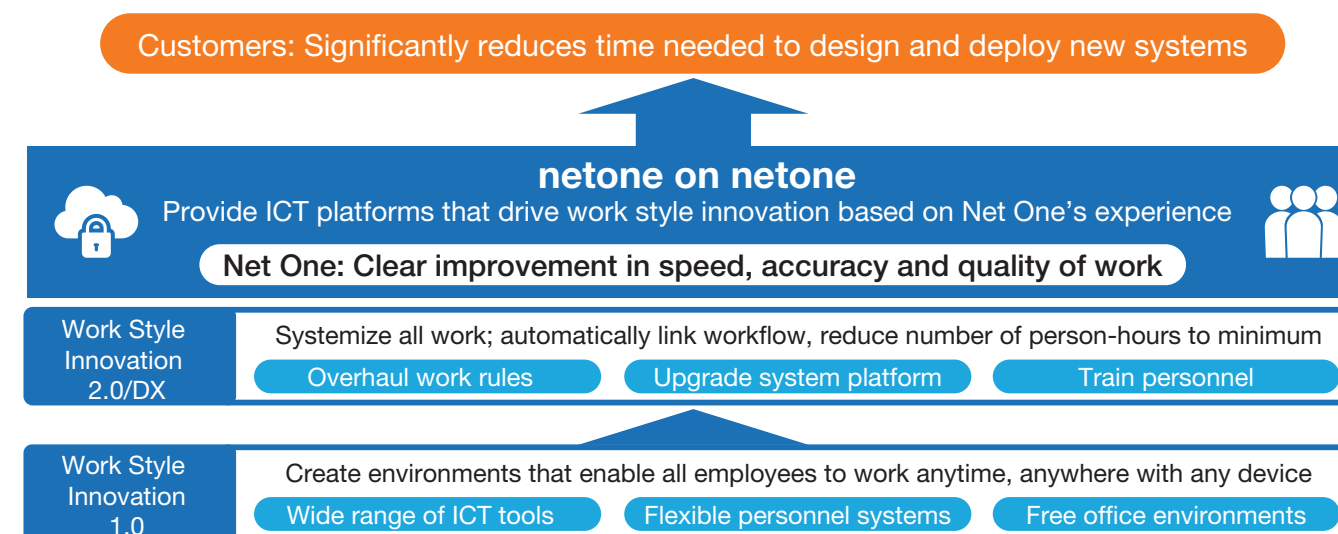
■ Basic Strategy (3):

Implement Work Style Innovation 2.0/DX – increase productivity

Since 2010, Net One Systems has been working to completely overhaul its work practices under a project called Work Style Innovation 1.0. We have upgraded ICT tools and office environments, introduced flexible personnel systems and raised awareness of new work practices. Under our new Medium-Term Business Plan, we are accelerating those efforts by implementing Work Style Innovation 2.0/DX, the plan's third basic strategy. In North American companies, digital transformation (DX) refers to practices involving the restructuring of their businesses, such as using ICT to quantify headcount in management divisions where M&A deals have led to overlap, retraining and redeploying personnel, and reducing headcount. In contrast at Net One Systems, with Work Style Innovation 2.0/DX, we are customizing DX for the business environments of Japanese companies that want to harness digital tools to visualize their operations and increase productivity. We aim to further increase customer satisfaction by providing practical solutions through our "netone on netone" approach (using Net One experiences to benefit Net One businesses), which references our own successes and failures in work style innovation.

Increase productivity

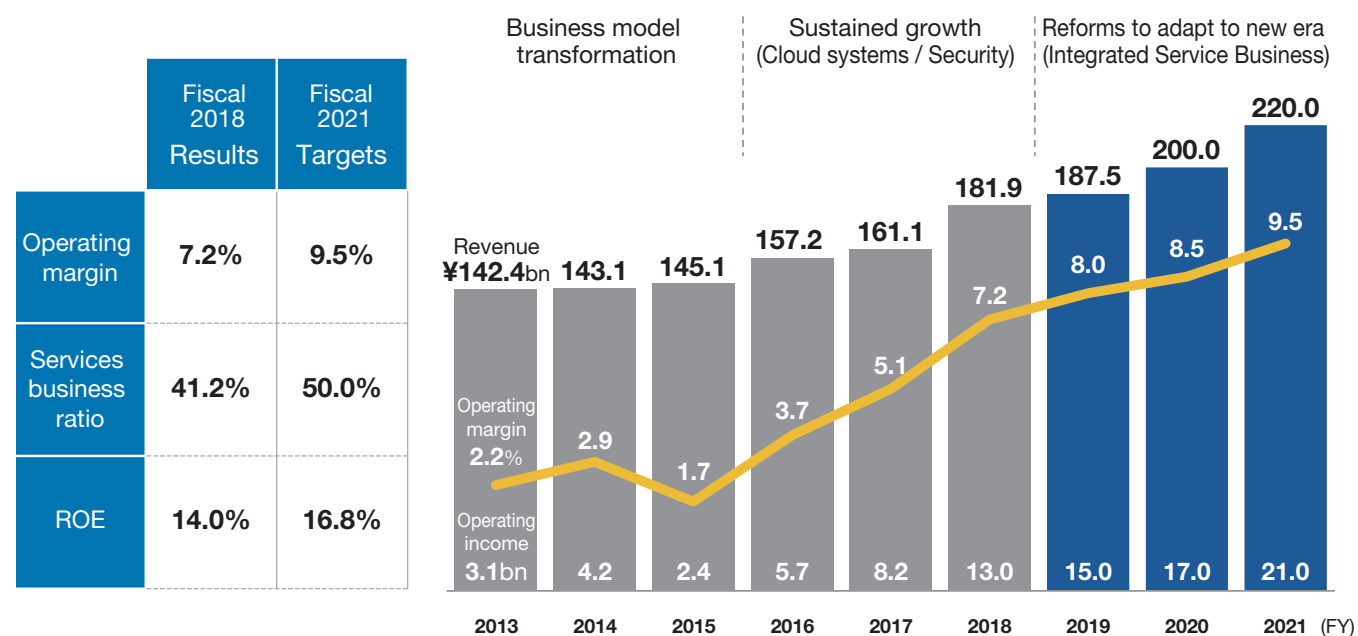
Increase companywide productivity by overhauling all operations and integrating systems
Insights from our own successes and failures provided as added value to customers



■ Medium-Term Business Plan Targets

Our goal is to transform Net One Systems into a company capable of generating high added value, based on three growth steps and three basic strategies. In the plan's third year, we are targeting revenue of ¥25 billion from focus markets and new business models. Together with expansion in existing markets, we aim to drive revenue growth and further improve profitability. In the plan's final year, we are aiming for revenue of ¥220 billion, operating income of ¥21 billion, an operating margin of 9.5%, a service business ratio of 50% and ROE of 16.8%.

Medium-Term Business Plan Targets



Market Strategy / Executive Interview



Shinji Hirakawa
Executive Vice President
In charge of East Japan Business Unit 1
In charge of West Japan Business Unit

Takafumi Takeshita
Senior Vice President
In charge of East Japan Business Unit 2
In charge of Central Japan Business Unit

Net One Systems has established a customer-oriented regional marketing structure, but business segments are divided along market lines.

In the enterprise market, which is focused on private-sector companies, we will continue to target growth with cloud systems, security solutions and support for work style innovations. To supplement those efforts, we will also extend our reach into new focus markets, primarily smart factories, and develop new business models, such as providing support for Managed Service Providers (MSP).

In the telecom carrier market, we will continue to focus on expanding the service platform business. Another new business model is refurbishment, where we plan to tap into strong underlying demand for refurbished products from customers in both the enterprise and telecom carrier markets.

In the public market, Net One Systems mainly supplies services to central government agencies, local governments and educational and public infrastructure companies. We will continue to focus on security solutions and cloud systems, while also extending our reach into new focus markets with solutions for customers in the healthcare and education fields.

In all markets, we will continue to work on expanding our business in security solutions and cloud systems to build up our position as an Integrated Service Business that supports the digital strategies of customers.



In the partner business, we will expand our solutions business aimed at partners in each sector and also deploy solutions for MSP.

In all business segments, we will tap into growth in existing markets, focus markets and new business models, aiming to increase sales in fiscal 2021 by roughly ¥38 billion compared with fiscal 2018. In this section, we talk in more detail about our strategy to achieve that target.

Business environment and basic strategy

Takeshita: Net One Systems' strong performance in recent years has been driven by enterprise and telecom

carrier customers who have adopted our proposals as core elements of their digital and management strategies.

One of the key approaches of our new Medium-Term Business Plan can be best described as “selection and concentration 2.0.” Positioning enterprise and telecom carrier customers as central to their management strategy, we want to build closer relationships with customers who can work with us to create value, or what we call “value co-creation.”

Hirakawa: Customers continue to steadily invest in network security, which is now an important management issue for customers in both the public sector market and the enterprise market. There is also rising interest in digitization and digital transformation (DX). We are seeing accelerating use of the public cloud, as it allows customers to increase investment in “offensive” ICT to drive business growth while also optimizing investment in “defensive” ICT to protect business operations, such as maintenance and system operation.

Our fundamental strategy is to target large organizations, systems and groups. Using security solutions as the entry point, we will target business opportunities for entire regions, corporate groups, supply chains and value chains.

Takeshita: Security is a common theme for cloud systems, work style innovation, DX and other trends in our industry. As customers increasingly utilize ICT, we are seeing an increase in competing demands for systems that are secure but are also easy to use. It's important to balance those needs as a first step in any project. As cloud systems and other ICT become more advanced, Net One Systems and its customers are face a growing number of questions – how to effectively control entire corporate groups, what borders to set for security systems, and how to limit the use of unauthorized cloud systems. In other words, we have to think about how to utilize ICT, not just the technology itself. That means providing insights from our own experiences (“reference”) is also becoming very valuable. We run a customer satisfaction survey every year. The results of the survey indicate customers want Net One Systems to be more proactive in providing information, not just the information they ask for. That illustrates how customers are looking to us for greater input and support, which is something we appreciate and hope to fulfill.

Focus markets / new business models

Takeshita: Our smart factory projects are where we have been able to really leverage our experience from the past few years. Working with customers onsite to drive value co-creation has given us an edge. During the three years of the previous Medium-Term Business Plan, we built up experience in this area by working with customers. That experience is now a highly useful asset. Another area where customers value our support is facility engineering, where we design cabling layouts and install equipment and systems for smart factories. With large robots operating in factories, ensuring the safety of the human workforce is of paramount importance. We therefore need expertise in safety management when upgrading facilities.



Only a handful of companies in Japan have the capability to install smart factory networks in the most challenging corners of manufacturing sites. Other network companies transferred their engineers to different businesses when the network market matured. In contrast, Net One Systems has remained focused on the network field, giving it an advantage in today's smart factory market.

Hirakawa: Education is also a promising growth market from the perspective of ICT. We are fielding a rising number of queries from educational companies and organizations that want to centralize the operation of separate learning systems and teacher support systems. They also want us to oversee their training programs to utilize ICT and raise the skills of educators.

As that market grows, we expect more competitors to emerge, but companies will need to have broad expertise in ICT platforms, as well as the capability to realize policies that change the way ICT is used in education settings and that also reflect the thinking of education boards. That is a very specific skill set that not all companies have.

In the healthcare market, we see growth opportunities beyond individual hospitals. ICT is likely to be used more widely to support regional collaboration and cooperation between hospitals and providers of diagnostic services, as well as across the healthcare supply chain. Depopulation in Japan's regional areas is undermining local healthcare provision. Against that backdrop, we expect the utilization of ICT to gain momentum as local healthcare providers seek ways to increase cooperation and use preventative healthcare more widely. We also expect to see progress with the MSP business model.

Takeshita: There are many companies in our industry with strong positions in the ICT market for small and medium-size enterprises (SMEs), a customer category that Net One Systems has not traditionally focused on. However, we serve the SME market indirectly. For example, we offer easy-to-use security packages to companies that provide ICT services to many SMEs. We plan to target the SME market more aggressively, as we have many other ideas for products and services tailored to SMEs. Refurbishment is another new business area where we are seeing considerable interest from customers. If we can encourage customers to switch the focus of ICT platform investment from purchasing equipment to acquiring only the functions they need, equipment vendors that develop those functions are likely to welcome that trend.

Prospects for growth in subscription-based services

Takeshita: Many in the industry did not expect large Japanese companies to take to the idea of subscription-based services, but conditions have changed, and I don't see any real obstacles to wider adoption. For customers that are investing heavily in their businesses or are implementing major M&A deals, subscription-based services are a useful stopgap to prevent a spike in investment costs. Given rapid advances in technology and the way that technology is utilized, subscription-based services can be a very effective tool for companies. Many customers are in fact now looking to us for ways of using subscription-based services in their businesses, and we plan to develop new proposals that satisfy their requirements.

Building our presence in the ASEAN region

Takeshita: Network needs have typically been strong in Asia as a direct extension of IT systems. However, recently, needs are becoming more diverse as companies look to utilize ICT in areas such as cloud systems and work style innovation, in addition to networks. We think now is a good time to launch services that leverage Net One Systems' powerful technical capabilities and high levels of quality. We are also starting to see many new needs emerging, such as demand for smart factories in Thailand. We anticipate growth opportunities in terms of the geographical areas we cover, not just the solutions and services we provide.

Human Resources Strategy / Executive Interview

Driving three growth steps by improving employee "initiative"

Net One Systems believes human resources strategy is one of the key components of a strong management base.

The objective of our human resources strategy is to train and attract highly motivated, productive professionals who can realize change in society. To achieve that goal, we are putting priority on helping employees develop and grow, backed by experience and extensive dialogue between managers and employees.

We overhauled our personnel systems in fiscal 2018. The focus was on (1) adjusting remuneration systems, (2) reinforcing human resources and (3) pushing ahead with work style innovation.

With (1), our aim is to attract the best possible talent to support the provision of cutting-edge, advanced ICT systems. We established four remuneration streams based on job category and set employee pay based on market rates.



Takafumi Takeshita
Senior Vice President
Chairman, Human Resources Council*

* An advisory body for the Management Committee; discusses key systems and initiatives related to organizations, personnel and human resources development



Shinji Hirakawa
Executive Vice President

With (2), the goal is to visualize our workforce and improve training. The new personnel system, which is being rolled out in 2019, will define job descriptions for each of the four remuneration streams and each employee grade, based on criteria such as work objectives, responsibilities, required skills, behavior and outcomes, in order to clearly set out what is expected of organizations and individual employees. To upgrade personnel training, we will review current programs, bring more training in-house and improve the skills of instructors. The new job descriptions, which will be the basis for autonomous career path building by employees, and upgraded training programs that encourage employees to learn from each other, will support our efforts to increase the "initiative" of employees – one of the growth strategies in the new Medium-Term Business Plan.

With (3), we want to continue driving work style innovation by introducing various personnel systems that allow for flexible work practices. Our work style innovation is also linked to efforts to create model case studies for ICT utilization in work settings, based on Work Style Innovation 2.0/DX, one of the plan's basic strategies, and our "netone on netone" approach.

In addition to reinforcing the Group's management base, our human resources strategy will be showcased to customers as a key part of efforts to improve "reference" – sharing insights about how we utilize ICT.

Net One Systems' definition of "initiative"

Takeshita: Our primary focus for human resources is to ensure every single employee feels motivated and energized. We call that "initiative." More specifically, we want each employee to be able to set their own goals and plans and develop original ways of implementing them. To help employees get into the habit of backcasting, which starts with setting desired goals and working backwards, in their work and careers, we set clear job descriptions as part of the personnel reforms in fiscal 2018.

Hirakawa: We run working groups led by employees to identify any issues in our business. This is also part of efforts to encourage "initiative." The groups look at issues such as how AI can be used to support digitization, or how we can increase productivity. One working group identified the issue of how to turn new public cloud-based solutions into "game changers" for customer businesses. Everyone in the working groups is striving to address those questions. We also need to strategically implement the "job crafting" approach, which gives frontline employees room to create their own ways of working, instead of relying on top-down plans.

Employees from the manager level up need to play a role in devising new business models. To help them, we are showing them ways of identifying and acquiring the key components for business models. Net One Systems started as a technology-focused company, so we like to see engineers develop new business models. We have many engineers that are attuned to sales, and development divisions also work closely with frontline staff.

2 Growth Strategy

Our corporate culture and style

Takeshita: Assumptions about the external environment that we use in our business strategies are not always accurate. That means, in some cases, business strategies may have different expected outcomes. While some strategies miss the mark, others can exceed expectations. However, Net One Systems' frontline operations have a strong capacity to adjust trajectory to achieve target outcomes, allowing us to change our strategies as needed. Personnel systems are the same. There's no need to have personnel systems that never change. In fact, we should adapt our systems in response to the Company's growth, business conditions and prevailing issues. It then becomes important to determine the timing of those changes.

Hirakawa: Net One Systems needs to foster a corporate culture where it's ok to express different opinions and to praise each other. I believe that ensuring "psychological safety," where people feel free to express ideas and opinions, will drive innovation. That will support the creation of a corporate culture where people can share and learn naturally.

Hiring and training human resources

Takeshita: We continue to aggressively hire mid-career personnel, but we have also made the big decision to double the number of new graduate hires from 50 to 100. We plan to use various approaches to identify and recruit new employees, such as asking for recommendations from teachers and professors at universities and colleges of technology, hiring former staff, and providing internship opportunities. In the ICT industry, some companies offer high starting salaries to attract the best talent. But we do not think that is particularly effective. Instead, we believe that the capacity to train anybody to become a top engineer is more important.

Hirakawa: There is a real battle for human resources in our industry at the moment, but we are confident prospective employees will choose Net One Systems. We are helping our people to grow and develop. Overall, I believe employee satisfaction is high and we also offer them the chance to create their own career opportunities.

Current issues and new approaches

Takeshita: We want our people to be recognized as true engineers. By giving them the same recognition as people in managerial positions, they can become specialists. In November 2018 we launched a new multi-job system, which gives our employees the opportunity to work at other companies and vice-versa. The main aim of the system is to help them gain new skills and make networking contacts in specialist fields.

Hirakawa: We are collating employee work data to improve the effectiveness of resource planning. The data is being categorized along individual project and technology lines, and can also be used to visualize team compatibility based on which personnel are involved in the same projects. Digitization is allowing us to create accurate skill maps for engineers and sales personnel, as well as give us a clear picture of project characteristics such as stress levels. Using that data, we plan to build systems that help us rapidly decide, for example, which projects to focus on at the start of each year. By sharing new data-driven approaches, our goal is to create a steady stream of new ideas and working groups.

Please refer to the next section, as we have positioned human resources as one of our key sustainability issues "Key Issue (1): Train Personnel".

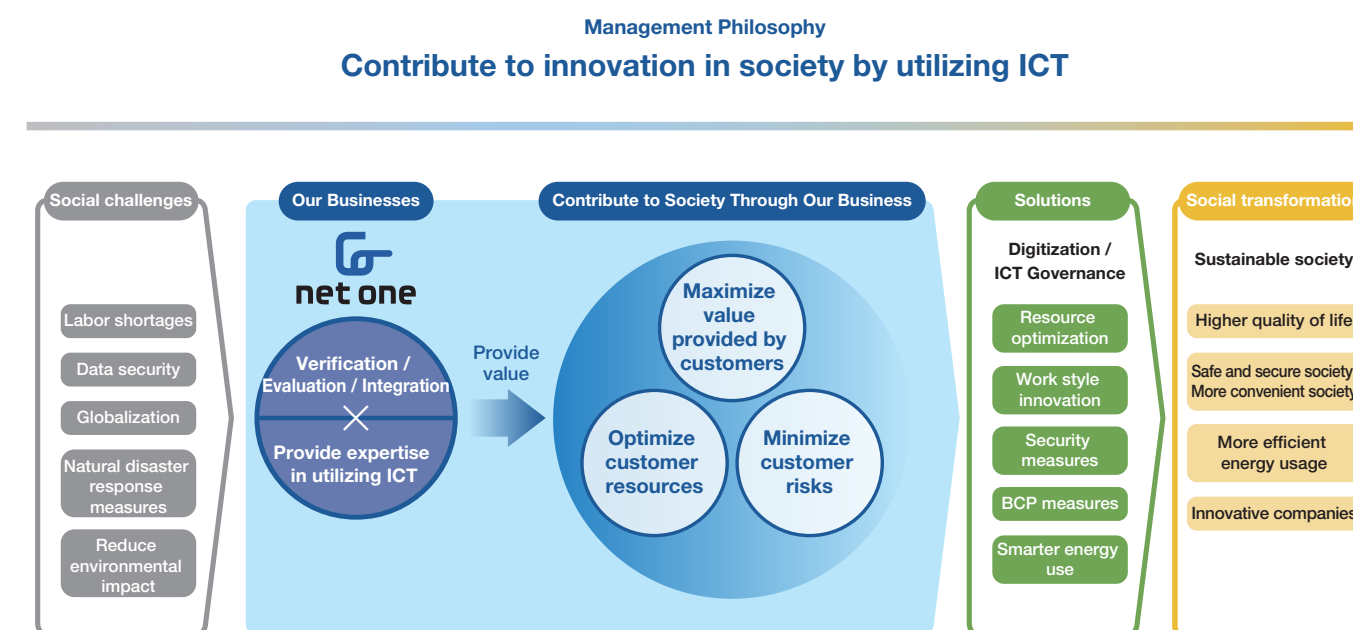
3 Sustainability

Contribute to Society Through Our Business

Leveraging our know-how about effective application of ICT to improve the sustainability of customer businesses and society

We are using our expertise in utilizing ICT and advanced ICT platforms to help customers overcome issues in their operations. We support our customers in various ways, such as helping them migrate to digital technology to enhance the value they provide their clients, solving labor shortage issues through work style innovation, improving business continuity during natural disasters, and reinforcing information security.

By maximizing value, minimizing risk and helping customers utilize their resources effectively, we improve the sustainability of our customers' operations and society as a whole. Net One Systems' own sustainability is therefore intrinsically linked to creating a sustainable society and helping customers generate sustainable growth.



Example of ICT utilization ► <https://report.netone.co.jp/en/sustainability/contribution/reference.html>

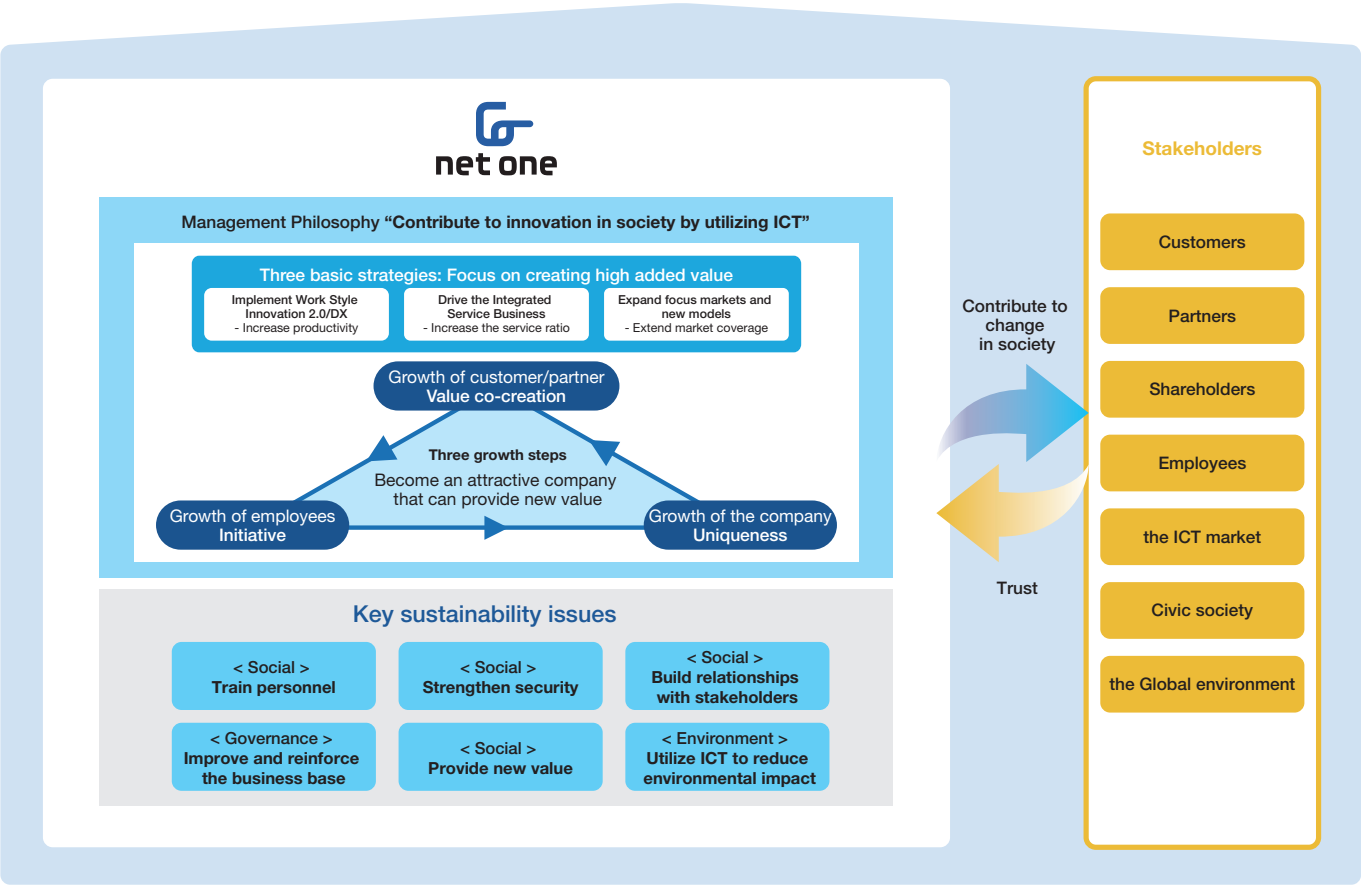


Key Sustainability Issues

Aiming to become an Admired Company by tackling key issues to grow in a sustainable manner with society

Net One Systems has identified a number of key sustainability issues related to its business activities: train personnel, strengthen security, build relationships with stakeholders, improve and reinforce the business base, provide new value, and utilize ICT to reduce environmental impact. We plan to address those issues as a matter of priority to ensure the Group grows in a sustainable manner with society. In each category, we aim to contribute to change in society and win the trust of all stakeholders to become an Admired Company.

Grow in a sustainable manner with society



Tackling Key Issues

Key Issue (1) < Social > Train Personnel

Basic approach

At Net One Systems, we strive to cultivate personnel who can put customers' ideas into practice, based on our belief that "there is an optimal solution for every customer."

Our ideal employee has three key characteristics:

- (1) The ability to address customer needs using a wealth of expertise in cutting-edge technologies and the desire to boldly take on groundbreaking new challenges
- (2) The ability to lead innovation by leveraging communication skills and building collaborative relationships with all project partners
- (3) The ability to work independently towards goals in self-designed career path scenarios

To foster those skills, we are strengthening human resources development with a range of training and education programs.

Net One Systems' training framework

Grade-based training					Goal-based training	Annual training		
Grade		Executives	Other					
E			Executive training	Future leader training	e-learning External seminars Support to gain PMP* qualifications	Orientation for mid-career hires	Work skills training	Career training
	E grade Training for promoted employees		Training for newly appointed directors / managers	Future specialist training		Management strategy Medium-term business plan Corporate vision Personnel systems Introduction of business departments ICT tools Front-office business	■ Study seminars run by each business department Product and equipment management Legal & CSR Capital services Facility technology Group procurement Finance Accounting Operation services Front-office skills improvement Technology acquisition	Diversity training Life planning Secondary careers, etc.
S	S grade Skills improvement training							
	S grade Training for promoted employees							
J	J grade Skills improvement training							
	Second- and third-year employees Follow-up training							
A	First-year employees Follow-up training							
	New employee training							

Grade-based training	Future leader training	Goal-based training	Annual training
Training courses to help employees acquire the business skills they need to execute their roles; expected for each job level skills are reinforced through repeat learning in follow-up training.	Training to identify and foster candidates for future leadership positions in the Net One Group	Training programs for employees to independently develop their own career plans and adjust behavior based on their own strengths and weaknesses	Training programs to help employees acquire the business skills and knowledge they need relevant to their age, time at the Company and job type

* Project Management Professional

Net One Systems is implementing a number of other initiatives in human resources development:

Visualizing human resources development

We believe daily experience in the workplace is the basis for employee growth. To make that experience more effective, one-on-one interviews with team managers are available to employees to encourage regular communication about what employees need to focus on to grow and develop.

Specifically, managers use a talent management system to record details about each employee's growth across a number of categories, including (1) career plans, (2) goal-setting and progress toward goals, (3) skills development plans, (4) skills inventories, and (5) competency feedback. This approach helps us to drive human resources development in the workplace based on a clearer picture of current conditions.

Designing diverse career paths

We plan to introduce a new job description system in 2019. The new system clearly sets out individual responsibilities, actions and skills expected for each role under existing job grades, in line with the specific missions of each organization.

By creating more detailed descriptions of what we want from each employee in the workplace, our aim is to give them a clearer picture of where they need to improve, helping them to set and work towards goals independently.

We believe job descriptions are important tools for employees to explore their own career paths, so we plan to integrate them into our existing internal job posting systems, etc.

Introducing multiple personnel systems

We are upgrading our employee work systems to help the Group's diverse personnel grow and develop in whatever situations they face during their lives, while also helping them balance work and life commitments.

For example, under our Work Select System, employees have access to a wide range of work style choices, including (1) time select – the option to limit working hours to pursue personal development goals or contribute to the local community, (2) area select – the option to work in a specific region without being transferred to other areas, and (3) job select – the option to choose specific roles or responsibilities based on personal circumstances.

We have also launched a Multi-Job System, which gives employees the option to take on secondary jobs at other companies to improve their career prospects. Likewise, we allow employees from other companies to take second jobs at Net One Systems, giving us access to talented people.

Under our Remote Working System, limits on working hours, days and locations are not restricted, while the Flexi Work System, removes the need to select core working hours. Together, these systems are designed to make work practices more flexible, creating more room for employee creativity and growth.

As with our existing work style innovation solutions, we aim to use the know-how gleaned from these internal personnel systems to improve productivity at customer sites as well.

Net One Systems believes human resources strategy is one of the key components of a strong management base. For more details, see "2 Growth Strategy: Human Resources Strategy / Executive Interview."

Key Issue (2) < Social > Strengthen Security

Basic approach

Net One Systems has been a pioneer in the network field since it was founded. By actively exploiting new products and technologies and supplying them to customers, we have contributed to advances in information technology in a range of fields, from industry and the economy to arts and sciences. At Net One Systems, ensuring information is handled appropriately and securely is a key responsibility to society and one of our most important management issues.

Information security is becoming increasingly important in modern society. In response, we are strengthening the Group's security stance based on internal risk management guidelines and our lineup of security products and services. We plan to reference our own experience from moves to strengthen security to improve the service menu for customers.

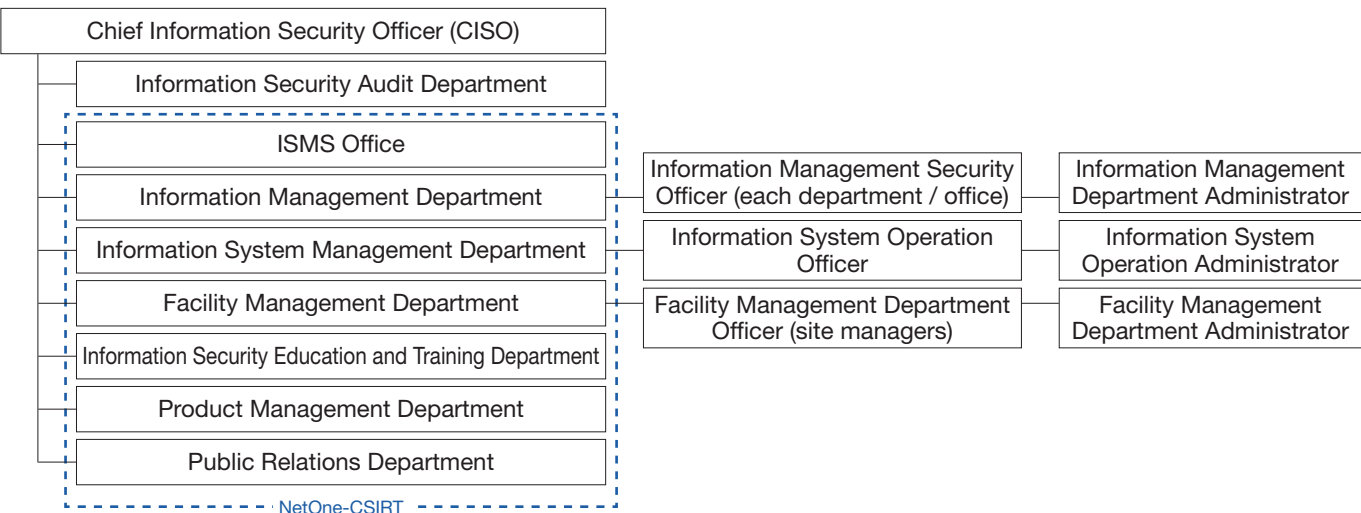
Internal risk management

Basic Policy on Information Security

To protect our information assets, we are implementing a range of measures in line with our Basic Policy on Information Security, such as ensuring compliance with and appropriate management of regulations, and conducting education and training for employees. Information security measures in all areas of the Group have received ISMS certification from an accredited third-party.

CSIRT framework

As cyber-attacks become more sophisticated, ensuring internal cyber security is one of our responsibilities to society. We have established a Computer Security Incident Response Team (CSIRT) framework covering all divisions in the Group to respond rapidly to any cyber security incidents in Net One Systems' networks and speed up decision-making.



KPIs

Major information security incidents requiring external reporting	0 incidents
Employee participation rate in information security e-learning courses	100%

Providing security services

■ Basic approach

Amid advances in ICT technology, security threats and risks are becoming more sophisticated, making existing approaches and measures increasingly obsolete. Net One Systems provides a range of security services that ensure the reliable and secure operation of public ICT platforms.

We also provide research and training for customers and run courses at universities and colleges of technology to cultivate security professionals that understand and can utilize the latest security technologies.

Cloud security: Optimized security packages tailored to the cloud development stage of customers

Network security: Comprehensive network security for entire organizations, including secure cloud access and internal LAN

IoT security: Optimal security solutions based on visualizing all IP devices, including IoT devices and PCs

Endpoint and mobile security: Protection from sophisticated attacks and rapid threat response based on activity detection, analysis and control

Physical security: Integrated physical solutions and image analysis solutions

Security services: Cutting-edge technologies to visualize security risks and achieve high-level security operations

Network academy: Cultivating information security personnel and providing security courses to customers tailored to the level of user proficiency

• KPI

Number of engineers certified by Palo Alto Networks*: Top company in Japan

*A network security vendor supplying world-class next-generation firewalls

Reference case study – reinforcing security

Installing virtual desktops that protect vital information from cyber-attack

Net One Systems provides solutions tailored to the security challenges of each customer, drawing on its own experience of using security systems in-house and its strong track record of implementation.

In June 2017, we installed a virtual desktop environment for Tokorozawa City Hall to reinforce security. As cyber-attacks become more sophisticated, local governments in particular need to put in place robust security measures to protect vital information such as data for the My Number national ID system. In the project for Tokorozawa City Hall, we deployed a view transfer-type virtual desktop environment. The system isolates the internet environment from the work system environment, ensuring data in work systems is protected from any cyber-attacks.

Net One Systems was able to optimize cost and performance for the customer by designing and configuring the virtual desktop environment after in-house system operation and verification results.

Key Issue (3)

< Social > Build Relationships with Stakeholders

■ Basic approach

Our management vision is to be “a company trusted and supported by all stakeholders (an Admired Company)”. To achieve that vision, we have set out “seven missions” for our business – fulfill our responsibilities to customers, partners, shareholders and employees, and contribute to the ICT market, civic society and the global environment. The Group’s sustained growth is dependent on building trust with our various stakeholders. Net One Systems is working to create those connections through dialogue with stakeholders.

The Net One Group’s seven missions ► <https://www.netone.co.jp/english/company/mission.html>



■ Dialogue and engagement with stakeholders

Responsibility to customers

We have set up a committee, which includes members with back-office roles, to improve customer satisfaction. As part of its activities, the committee runs customer satisfaction surveys and engages in dialogue with customers. We are also working to raise awareness of customer satisfaction among all employees with the Customer Satisfaction Improvement Day and meetings to share examples of successful sales activities.

Responsibility to partners

To become a trusted company that prospers with society based on shared values with business partners, the Net One Group has formulated Partner CSR Guidelines, which bring together all policies that partners need to understand and put into practice, such as the Net One Group Code of Conduct and our CSR Policy. We also conduct health and safety seminars for partners involved in project engineering work.

Responsibility to shareholders

Dialogue with shareholders is key to sustaining growth and increasing corporate value over the medium and long term. We promote constructive dialogue with stakeholders in line with our dialogue policy.

In fiscal 2018, the Company’s Chairman and President held meetings with shareholders in Japan six times and with shareholders overseas 19 times, while the Public Relations & Investor Relations Office held a total of 211 investor meetings.

Responsibility to employees

Net One Systems has set up training programs to support personal growth and development and ensure equal opportunities for all employees. The Company is also working to provide safe and comfortable working environments that take into account employee health. We are also promoting the concept of RCT* to underpin mutual respect, smooth communication and strong teamwork.

Our employee helpline serves as the first contact point for a wide range of topics, from compliance consultations to mental health and career counseling advice, helping to improve workplace environments and boost employee motivation.

*Respect, Communication, Teamwork: A shared communication approach designed to create strong links between the Company and employees, enhance workplace environments and improve working conditions.

Case studies: See Key Sustainability Issues “Key Issue (1): < Social > Train Personnel”

Contributions to the ICT market

ICT has the potential to create a better future for society. As a company aware of its key role in the ICT market, we aim to contribute to the development and expansion of the market by constantly monitoring the latest trends and actively introducing new technologies.

Contributions to civic society

The Net One Group is working to realize a sustainable society as a corporate citizen. We aim to contribute to society and the environment by supporting employees’ volunteer activities and implementing our own social programs. We open our doors to the public for company tours and take part in work experience programs learning through realistic role-play and explore careers and also hold employee charity events and hands-on seminars to encourage employees to become volunteers.

Contributions to the global environment

The Group's core principle of business management is to “fulfill its responsibilities to society through all business activities as a good corporate citizen.” In all our business activities, we aim to contribute to the creation of a sustainable society by using cutting-edge ICT to prevent global warming and by taking steps to save energy and resources. We also seek to be a company trusted by wider society, not just our customers, by encouraging each one of our employees to have a high level of awareness about the environment at all times.

For more information, see Key Sustainability Issues “Key Issue (6): < Environment > Utilize ICT to Reduce Environmental Impact”

Please visit our website for more detailed information about the above themes ▶

https://report.netone.co.jp/en/sustainability/issues/issues3/feature/main/05/teaserItems1/01/linkList/0/link/stakeholder_01.pdf



Key Issue (4) < Governance > Improve and Reinforce the Business Base

■ Board of Directors (As of June 13, 2019)



(Front row, from left)

- Outside Executive Director Rieko Nishikawa
- Outside Executive Director Kunio Kawakami
- Chairman & CEO Takayuki Yoshino
- President & COO Toru Arai
- Outside Executive Director Mitsuo Imai
- Outside Executive Director Ryugo Hayano

(Back row, from left)

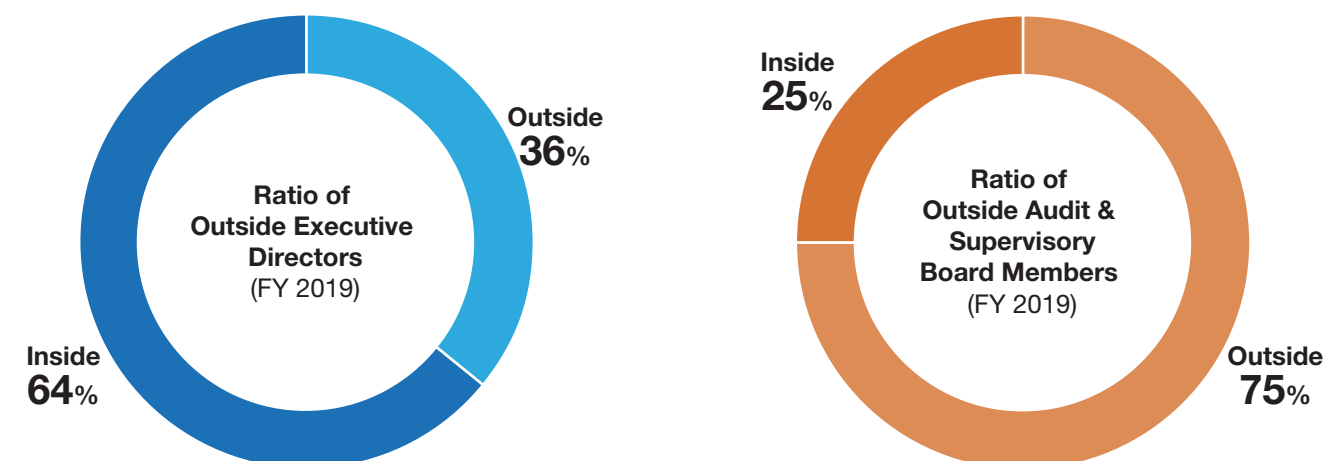
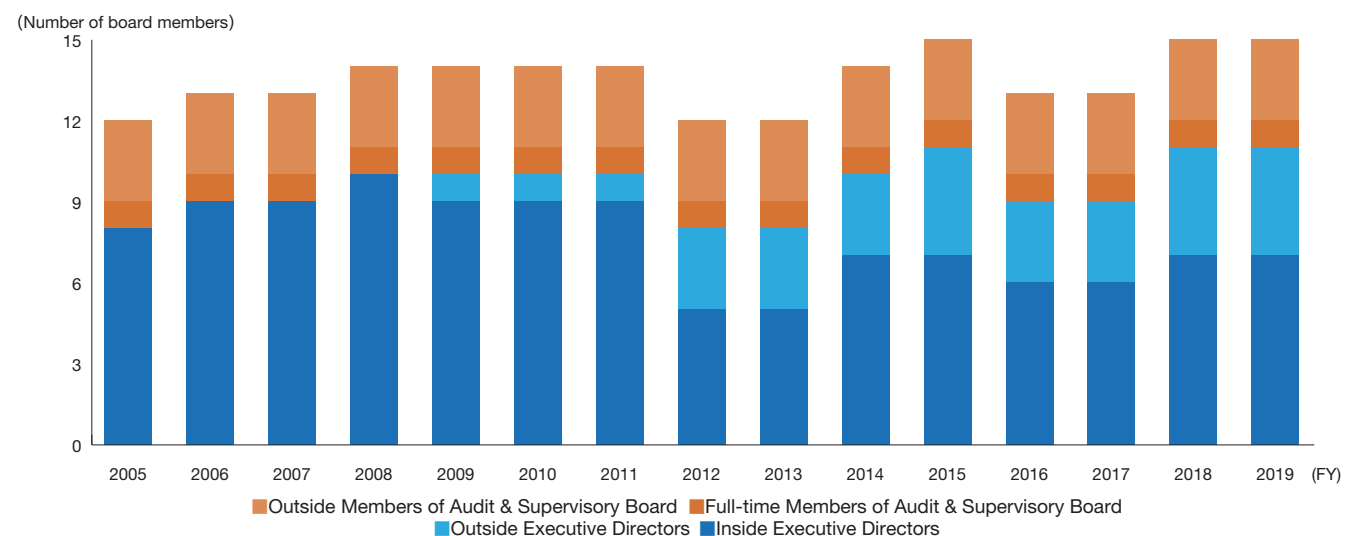
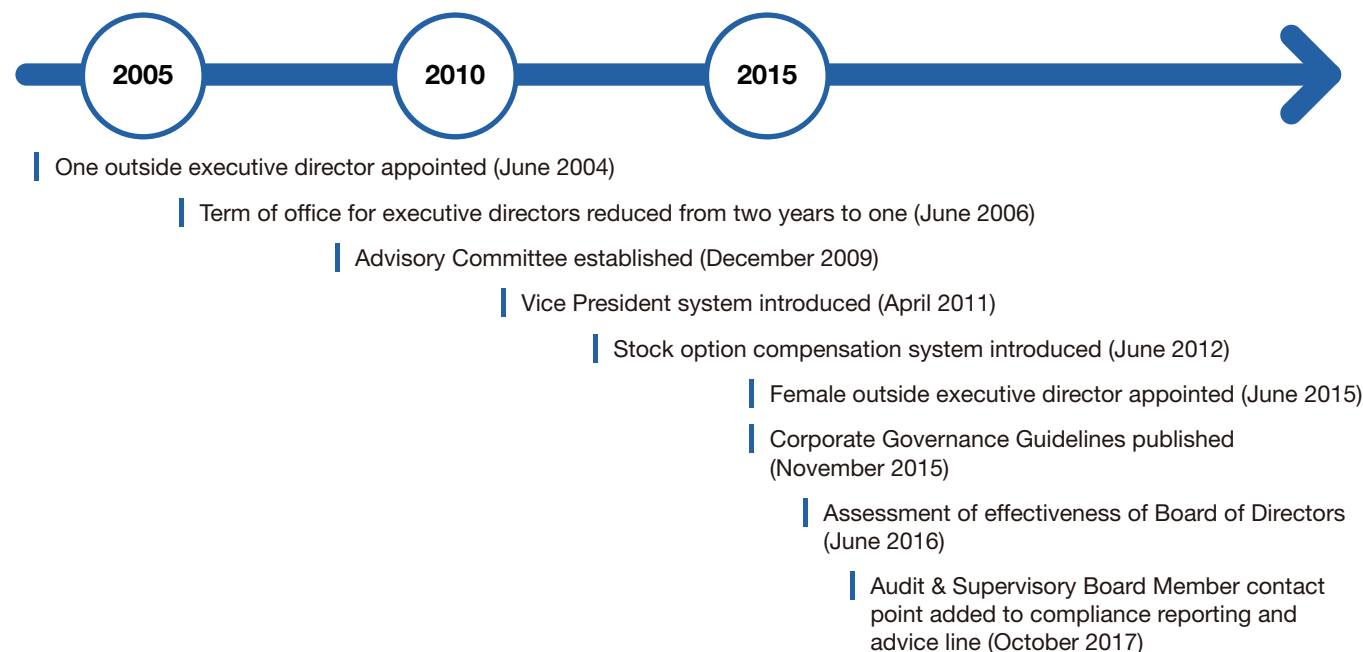
- Senior Vice President Takuya Tanaka
- Executive Vice President Shinji Hirakawa
- Senior Vice President Takahisa Kawaguchi
- Senior Vice President Takafumi Takeshita
- Senior Vice President Fumihiko Shinoura

Basic approach to corporate governance

The Company’s management vision is “to be a company trusted and supported by all stakeholders (an admired company).” The Company believes it can become an admired company by fulfilling its responsibilities to customers, partners, shareholders, and employees, and being committed to making a positive contribution to the ICT market, civic society, and the global environment. The Company also believes that third parties should decide whether or not it is a truly admired company, and is therefore committed to continuing to work and improve so that it receives the highest rating as an admired company from all stakeholders.

Based on its management vision stated above, the Company advocates sustained growth as its foremost priority. In order to attain this 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 transparent and fair decision-making in a swift and decisive way.

Corporate governance reforms



Key features of corporate governance

Fiscal 2019		
Governance structure: Company with an Audit & Supervisory Board	Term of office for Executive Directors: 1 year	Number of independent executives: 7
Number of Executive Directors: 11	Number of Outside Executive Directors: 4	Number of Board of Directors meetings: 12 * In FY2018
Number of Audit & Supervisory Board Members: 4	Number of Outside Audit & Supervisory Board Members: 3	Number of Audit & Supervisory Board Members: 13 * In FY2018
Vice President System ✓	Advisory Committee ✓	Accounting Auditor Deloitte Touche Tohmatsu LLC

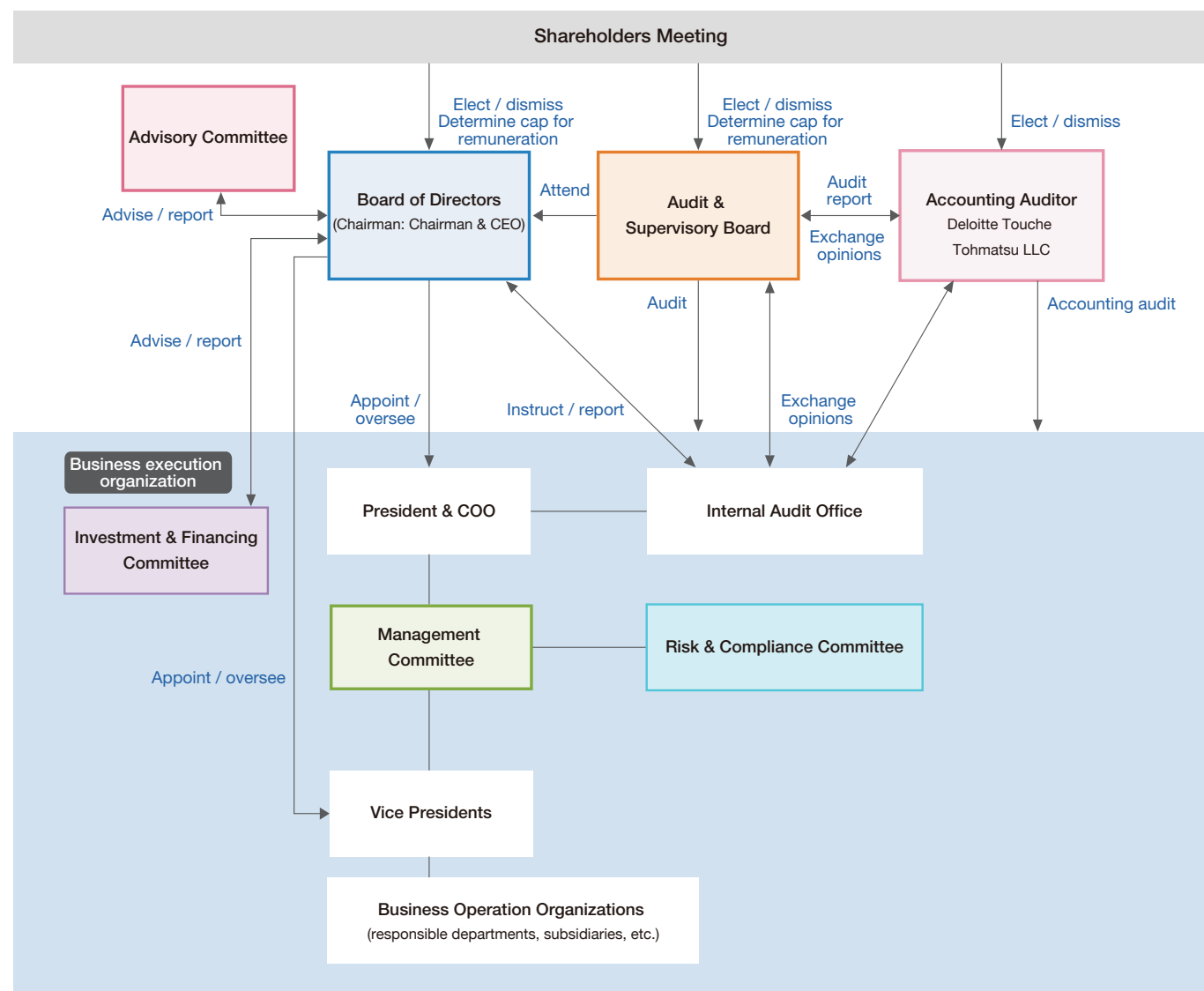
* Specialist fields of outside executive directors



The Company has appointed four outside executive directors to provide objective and impartial advice and supervision to strengthen oversight of the Board of Directors.

Governance structure

Fiscal 2019



Board of Directors

Decides important matters related to the Company's management vision, management policy, medium-term business plan and other management and operational issues; also responsible for oversight of all the Group's business activities.

Advisory Committee

Discusses and reports on matters related to executive compensation and the appointment and dismissal of executive directors and vice presidents, with the remit of increasing management transparency and fairness and reinforcing corporate governance.

Management Committee

Carries out appropriate and timely discussions and decisions with respect to fundamental and important Company matters to improve management efficiency.

Audit & Supervisory Board

Audits the execution of duties by executive directors and exercises its authority with respect to the appointment and dismissal of accounting auditors and their compensation from an independent and objective standpoint.

Investment & Financing Committee

Discusses and decides on matters related to investment and financing to ensure an appropriate and efficient decision-making framework for investment and financing matters in the Board of Directors.

Risk & Compliance Committee

Discusses and reports on important matters related to Group risk management and compliance activities in order to reinforce compliance and ensure sustained growth in corporate value.

Composition of corporate bodies and committees

Fiscal 2019

Name	Position	Execution of duties	Board of Directors	Audit & Supervisory Board	Advisory Committee	Management Committee
Takayuki Yoshino	Chairman & CEO		Chairman		○	○
Toru Arai	President & COO	○	○		○	Chairman
Takahisa Kawaguchi	Senior Vice President	○	○			○
Shinji Hirakawa	Executive Vice President	○	○			○
Takafumi Takeshita	Senior Vice President	○	○			○
Takuya Tanaka	Senior Vice President	○	○			○
Fumihiko Shinoura	Senior Vice President	○	○			○
Kunio Kawakami	Outside Executive Director	Independent	○		Chairman	Observer
Mitsuo Imai	Outside Executive Director	Independent	○		○	Observer
Rieko Nishikawa	Outside Executive Director	Independent	○		○	Observer
Ryugo Hayano	Outside Executive Director	Independent	○		○	Observer
Toru Matsuda	Full-time member		Attend	Chairman	○	Observer
Masamichi Kikuchi	Outside member	Independent	Attend	○	○	Observer
Keiichi Horii	Outside member	Independent	Attend	○	○	Observer
Hideki Suda	Outside member	Independent	Attend	○	○	Observer

Board of Directors meetings

Fiscal 2018

		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total (average)
Attendance	Executive directors	9/9	9/9	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	—
	Audit & Supervisory Board members	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	—
	Attendance rate	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
No. of proposals	Resolutions	3	6	17	4	—	6	4	2	6	4	1	10	63 (5.7)
	Reports	3	4	3	6	6	5	5	5	6	4	5	6	58 (4.8)
Time required	Explanation (min)	35	35	35	70	60	75	50	40	60	45	65	55	625 (52)
	Q&A (min)	20	5	15	25	45	55	10	15	25	35	40	10	300 (25)

* Rough estimates used for "time required"

* The number of board members increased to 11 from June 2018 after a number of appointments and retirements approved at the 31st Annual General Meeting of Shareholders in the same month

* Details of main proposals discussed by the Board of Directors in fiscal 2018:

Assessment of board effectiveness, medium-term business plan, response to revisions to Japan's Corporate Governance Code, establishment of subsidiaries and other companies and additional investments in those companies

Discussion with Outside Executive Directors



Outside Executive Director
Ryugo Hayano

Mr. Hayano is a professor emeritus of the University of Tokyo. He has gained a wealth of knowledge and experience as a university professor specializing in physics, as well as considerable insights from his roles in various agencies and foundations. He was appointed to his current post in June 2018.

Outside Executive Director
Rieko Nishikawa

Ms. Nishikawa is a professor in the Faculty of Law at Keio University. She has considerable expertise and experience as a university professor specializing in the legal field. She was appointed to her current post in June 2015.

Outside Executive Director
Mitsuo Imai

Mr. Imai built up considerable expertise and experience in the information and communications business field during his career at Hitachi Cable, Ltd. (now Hitachi Metals, Ltd.). He also has experience in managerial roles. He was appointed to his current post in June 2012.

Outside Executive Director
Kunio Kawakami

During his time at Kanto Denki Koji Co., Ltd. (now Kanden Co., Ltd.), Mr. Kawakami gained considerable expertise and experience in the information and communications business field. He has also served as an executive director at other companies. Mr. Kawakami was appointed to his current post in June 2009.

Views on the role of outside executive directors

Kawakami: In the roughly 10 years since I was appointed, I've seen that Net One Systems is a company where things get done easily. Net One Systems is a very young company. Management is willing to make major changes, taking advice from outside executive directors if needed. That openness to change has led to dramatic improvements in the Company's workplace regulations and internal rules. In turn, that framework is leading to the creation of a more flexible workplace for employees.

I believe our role as outside executive directors is to draw on our experience and expertise to provide advice to the Company in our specialist fields. In the business execution decision-making process, we focus on transparency, objectivity and appropriateness, while also preventing conflicts of interest, monitoring compliance and developing succession plans. We have a broad remit, but our most important job is to protect the interests of shareholders.

Imai: I agree. Companies obviously have to grow profits to achieve their earnings targets, but they also have to keep shareholder interests in mind. Decisions need to be based on whether outcomes are positive or negative for shareholders. An outside executive director who neglects shareholder interests would not be doing their job properly.

Nishikawa: As the only outside executive director with a humanities background, I see my role as reminding the Company about the human angle of its business, which can sometimes be forgotten in the race to develop new technology. Cultivating employees with "initiative" is one of the three growth steps in the new Medium-Term Business Plan. I think "initiative" will be the most important skill that people need to compete against AI in the job market.



Hayano: Succession planning has already come up in this discussion. As somebody who has been involved in the education field for many years, I believe it is vital for companies to develop human resources and identify future leaders to ensure their businesses continue to develop and remain competitive over the long term. To assess whether a company has organizational longevity, I look at whether the company is cultivating future leaders and what specific steps it is taking, in addition to its prospects for growth. To shift its business towards services, Net One Systems also needs to transform how its engineers think and the way it trains them. I'm keeping a close eye on the Company's progress in that area.

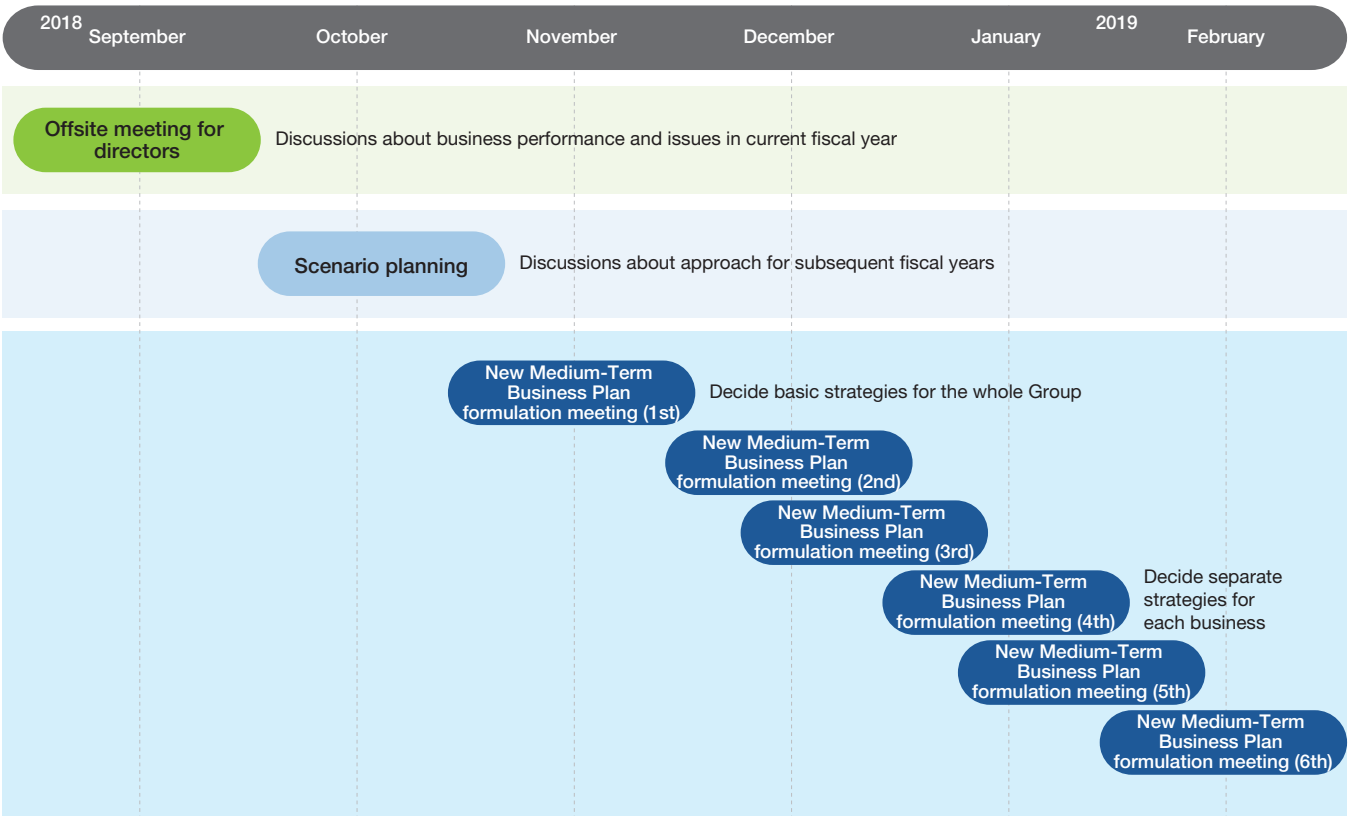
New Medium-Term Business Plan

How outside executive directors helped develop the plan

Kawakami: Outside executive directors were observers in meetings held to discuss the formulation of the new plan. The Company conducted intense talks in the fiscal year that the plan was announced, while meetings in subsequent fiscal years will be focused on follow-up reports and discussions about updates to the plan. Based on our close relationship with the company's management side we provide input when our opinions differ, or when we think further examination of a topic is necessary or responsibilities need to be clarified, helping to improve mutual understanding that ultimately leads to a plan we can all agree on.

Imai: Essentially, our job is to be observers in the process, while ensuring everybody has a chance to express their opinions, including younger employees. The more meetings we attend, the more we learn about the Company's employees and as well as its specialist terminology. Sometimes, we have to answer questions, instead of asking them. Some people have asked me how my previous company approached certain issues, or my opinion on Net One Systems' characteristics as a company.

New Medium-Term Business Plan formulation process



Nishikawa: We attend the meetings to get information about the business plan, but we have to avoid getting directly involved in formulating the plan. Of course, if we see something that could have a negative impact on the Company, we have to try and stop it, but it can be hard to judge our involvement as observers in the process.

Hayano: During the plan's formulation period, I made an effort to attend offsite meetings. Taking part in site visits and meetings away from head office was useful, because it gave me greater insights into the discussions and it also allowed me to meet the Company's potential future business leaders, not just the directors who attend board meetings.

Kawakami: In addition to meetings to formulate the Medium-Term Business Plan, we attend twice-monthly meetings of the Management Committee. These meetings give us an opportunity to meet and get to know other Net One Systems employees. Our role at the meetings is to put forward the opinions of ordinary shareholders.

Net One Systems also holds a semiannual event for senior managers at customer companies, which gives us a chance to meet customers. The event allows us to talk directly with them and take part in seminars about the latest trends in the industry.

Nishikawa: It's hard to get an accurate picture of corporate governance just by attending board meetings. That's why outside executive directors also attend other meetings as observers to gain more detail about the Company's current position and its position for the future.

Issues and risks related to the new plan

Kawakami: The biggest challenge we face is human resources. Above all, Net One Systems needs to implement human resources training that puts priority on the needs of its people, cultivate highly skilled and considerate employees, and make its workforce more international. We have to win the trust of customers as a service business while keeping up to speed with constant advances in technology. To that end, it is important for every employee to have their own skills and expertise.

Imai: Looking back over the last 10 years, I think the previous Medium-Term Business Plan was a success. In the past, Net One Systems relied to a great extent on investment by telecom carriers and lacked the capability to supply entire ICT platform systems to customers. In recent years, Net One Systems has made some progress in moving away from product and equipment sales to systems solutions. The Company will need more time to develop its business further, but I think employees are now changing their approach. I don't think we have enough momentum yet in the business to drive the new Medium-Term Business Plan, as probably only about 30% of the workforce is on board with the new approach. So, if such workforce will increase to 70 or 80%, I think Net One Systems can achieve the plan's final-year operating income target of ¥21.0 billion.



Nishikawa: My background is law, so I tend to focus on risk management. While the Company does seem to be doing well at the moment, I think management's stance on risk management lacks sufficient awareness of external factors. That's because developments in the real world do not always dovetail nicely with the growth and development of companies and employees. To what extent has Net One Systems taken political and economic trends into account when formulating its targets? Depending on market conditions, customers could stop buying Net One Systems' products and services, which would require a major revision to the Company's targets.

Hayano: I think there are three main risks. First, customers in Japan. In the US, companies have embraced the move to subscription-based service models such as Software as a Service (SaaS), which allow them to use ICT services without the need to own software or hardware. However, Japanese companies, particularly those that Net One Systems deals with, have been more cautious about following the trend in the US. We think they will need more time to adopt the subscription-based service approach. We therefore need to keep an eye on whether Net One Systems' drive to increase the ratio of services in its business will coincide with a change in mindset at Japanese corporations.

The second risk is recruitment. Net One Systems needs to hire more employees, but competition for people, particularly new recruits, is very tough at the moment.

The third risk is growth in Asia. The new Medium-Term Business Plan assumes strong growth in Asia, but we think the targets will be hard to achieve unless head office becomes more proactive and invests more aggressively in the Asia business.

Kawakami: In Asia, we are targeting Japanese companies that have expanded their business in the ASEAN market. Until now, affiliated local companies have been actively engaged in overseas business, but we will now need to work closely with people from affiliated local companies that have become part of the Net One Group, which could raise some challenges.

Our approach during the plan

Kawakami: Now that the Medium-Term Business Plan has been launched and the Company is implementing its initiatives, we naturally have to oversee various aspects of the plan – progress with implementation, compliance, risk management, monitoring from the perspective of sustainability, and checking for conflicts of interest. In terms of project management – my area of expertise – I will be focusing on project estimates, costs and processes amid an increase in the ratio of services in Net One Systems’ business. As somebody with an engineering background, I’m interested in how the Company trains its engineers. I look forward to taking part in training programs with employees to gain a deeper understanding.

Imai: Medium-term business plans don’t always progress smoothly, so it is important for a company to be prepared to respond when something goes wrong. If it does encounter a problem, Net One Systems will need to face up to any issues and adjust its approach, in addition to galvanizing its employees. Our role as outside executive directors is to calmly point out what the Company should do.

Nishikawa: Because we are outside executive directors, we need to keep the right distance from the Company. As a company in the ICT sector, Net One Systems has a responsibility to look after the employees of its customers, as well as its own employees. During the plan, I will be watching to see if the Company considers these aspects, and more.

Hayano: The ICT sector is going through a period of major change. Similar to the transformation that occurred when the



industry moved from mainframe computing to servers, we are now seeing a radical shift away from ownership to use. New services are starting to emerge. For example, in applications, the SaaS model is rapidly gaining ground, and, in transportation, the concept of Mobility as a Service (MaaS) is now becoming a reality. One of the key elements in the new Medium-Term Business Plan is the Company’s decision to redefine all the Group’s activities as “Integrated Service Business.” The financial targets in the plan also underscore the Company’s shift in focus to services. To achieve those targets, Net One Systems needs to train its employees and change their approach, but it also needs to persuade companies about the merits of service-based models. It’s unclear at this point whether that view will be widely accepted by Japanese ICT companies. That will depend on whether customers support the new approach, not just Net One Systems’ own efforts to persuade them. Net One Systems needs

to grow with customers, so we will be watching closely to see if it heads in the same direction as them. Specifically, I want to see the Company cultivate personnel who can explain the new approach to customers and grow with them, and whether the company properly evaluates and commends such employees.

A message to shareholders, investors and other stakeholders

Kawakami: The Company has to constantly think about how to support shareholders and investors. Net One Systems raised its dividend per share for the fiscal year ended March 2019, and it plans to raise the dividend again for the fiscal year ending March 2020. The Company’s executives travel the world meeting investors as part of the Group’s investor relations dialogue. I think those efforts have fostered a good level of understanding between the Company and its shareholders and investors.

Imai: Net One Systems has four outside executive directors, which is more than many other companies. We also have one female outside executive director. Overall, I think Net One Systems is taking a proactive approach to corporate governance. That kind of robust corporate governance framework is not cheap, so we need to ensure the Company derives benefits from its investment. Two outside executive directors are better than one, so four should allow us to provide even more advice and oversight. I hope to make an even greater contribution to Net One Systems going forward.

Nishikawa: Appointing women to the role of outside executive director is important to introduce different perspectives. As a company that has taken the lead in that respect, Net One Systems shows it has a forward-looking culture. Appointing female executive directors is important, but it’s also important to not put too much emphasis on gender inside the Company. For women to work at Net One Systems, we need to show them that women are simply part of who we are as a company. I see that as one of my roles as a female outside executive director.

Hayano: The industry has changed dramatically over the years, but since it was founded, Net One Systems has always sought out new opportunities and tested their business potential. I think it’s important to create a corporate culture where young employees have the freedom to seek new challenges and develop them into new businesses. That’s where Net One Systems shows its strengths. Net One Systems is the kind of company where new employees can grow and develop. Supporting that, the Company is putting in place the necessary training and evaluation systems and is preparing to implement a package of work style innovations. Those efforts send out a powerful message to shareholders and investors, as well as to young people who might want to work here in the future.



Key Issue (5) < Social > Provide New Value

■ Basic approach

Net One Systems has been active in the ICT field since the dawn of networks. That has given us early access to the latest technologies, which has enhanced our expertise and our unique role in connecting various types of networks, while also supporting the Group's own transformation.

Under our new Medium-Term Business Plan, we also are aiming to "Become an attractive company that can provide new value." Utilizing ICT to provide new value is our management vision and has been an integral part of our corporate history.

■ New Business Promotion Office tasked with accelerating the creation of new businesses

We established the New Business Promotion Office in April 2017 as a specialist department tasked with developing new businesses. The office's mission is to spur wider use of ICT by creating new businesses based on completely new approaches. The office is also responsible for trialing new businesses and using "Ideathons" and a wide range of other initiatives to drive innovation.

Internal venture company system

Employees with new business ideas can present them to the Company. After a screening process, Net One Systems selects promising ideas for further development through its internal venture company system, which can lead to the establishment of new subsidiaries or departments. Once an idea passes the first stage of screening the employee who presented the idea is transferred to the New Business Promotion Office, the Company's specialist department tasked with developing new businesses, for six months to focus on making the new business idea a success. In the fiscal year under review, the Company received 18 proposals. Of those, one passed the first stage of screening. The business idea has been tested and we are now seeking to take it to the next level through a joint venture with multiple partners.

Ideathons

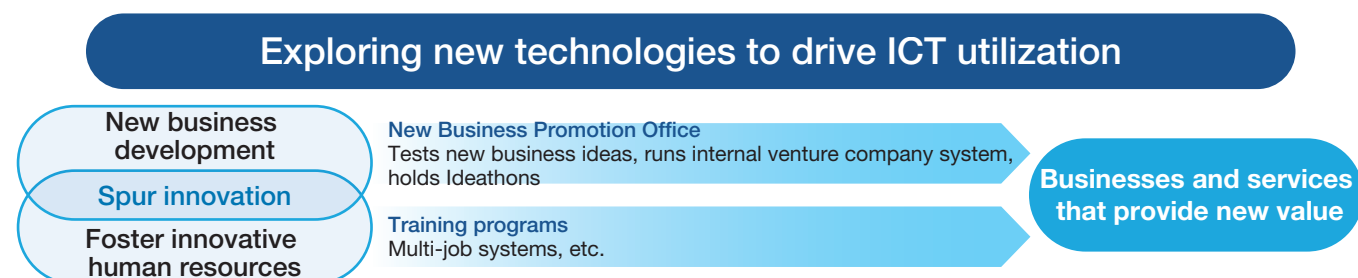
We held an Ideathon for employees in 2017 as a way to get them involved in the creation of new business ideas. Since 2018, we have also been holding joint Ideathons with other companies and students, spurring the creation of a wide range of new ideas.

■ Training programs to foster innovative human resources

To help our employees acquire "initiative" so that each one of them can independently drive innovation, we are developing and running training programs designed to enhance creativity and adaptability.

Multi-job system

We introduced a multi-job system in November 2018 to help employees acquire skills in new fields, support networking and accelerate the development of future human resources. Under the system, Net One Systems employees can work at other companies and vice-versa. In fiscal 2019, two employees have been hired by other companies.



Key Issue (6) < Environment > Utilize ICT to Reduce Environmental Impact

■ Basic approach

The Net One Group is committed to environmental protection as part of its corporate social responsibility, underscored by one of the Group's stated missions – "Contributions to the Global Environment."

As a global corporate citizen, Net One Systems aims to ensure the world's rich environment is preserved for future generations through various measures in its daily business activities designed to create an environmentally friendly society. Specifically, we aim to prevent global warming, reduce energy consumption, eliminate the use of paper and reduce industrial waste and CO₂ emissions. We are also utilizing ICT – our core business – to provide and drive the uptake of environmental solutions.

■ Environmental policy and framework

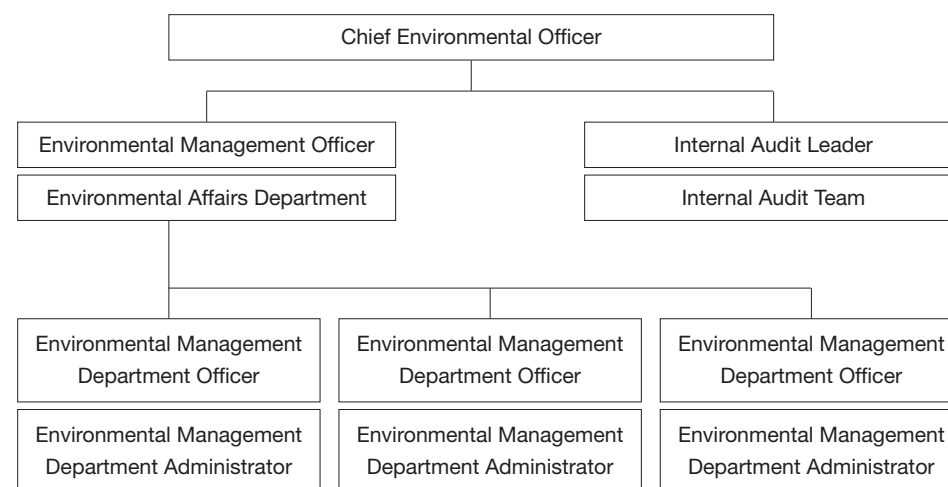
Basic philosophy

Net One Systems' core principle of business management is to "fulfill its responsibilities to society through all business activities as a good corporate citizen." In all our business activities, we aim to contribute to the creation of a sustainable society by using cutting-edge ICT to prevent global warming and by taking steps to save energy and resources. We also seek to be a company trusted by wider society, not just our customers, by encouraging each one of our employees to maintain a high level of awareness about the environment at all times.

■ Basic policy

- Reduce CO₂ emissions with green ICT technologies
- Implement activities to reduce energy and resource use
- Comply with all environmental regulations
- Maintain and improve the environmental management system
- Conduct environmental training
- Disclose environmental data

EMS* structure



*All departments have an environmental management officer and administrator

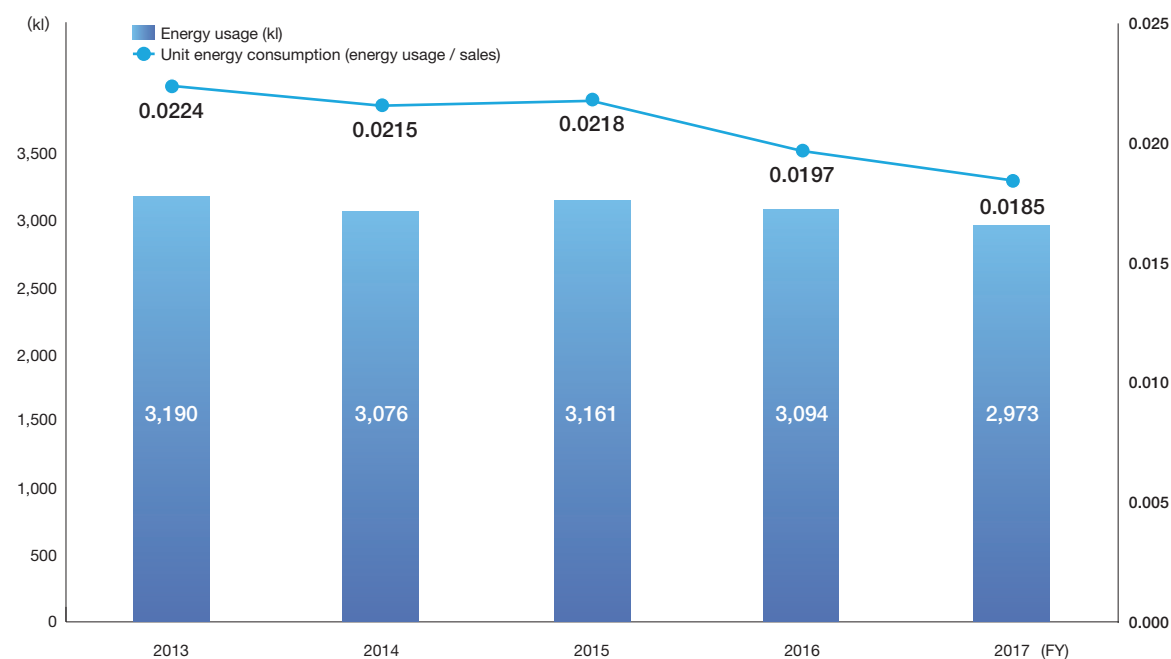
* Environmental Management System

3 Sustainability

KPI

Medium- and long-term environmental target: Reduce unit energy consumption by an average of 1% each year over five years
Target achieved, with average change in unit energy consumption below 99.0; average change for fiscal 2013-17 is 95.3.

Unit energy consumption



Using an electricity monitoring system to control data center electricity usage

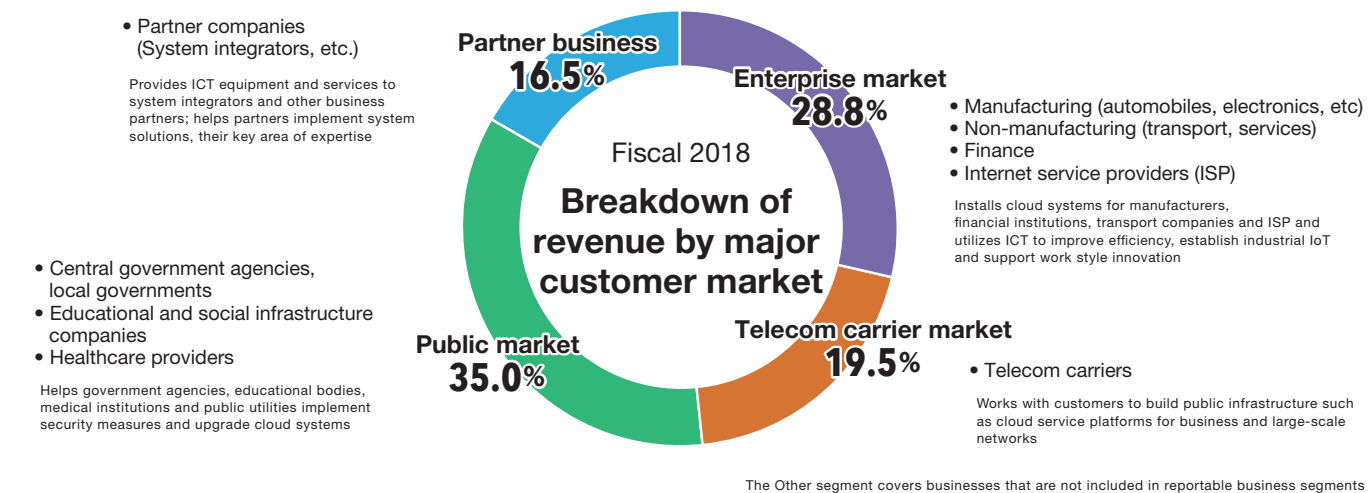
Net One Systems has introduced an electricity monitoring system (temperature based) at its data center. Electricity flow is monitored on an individual outlet basis and alerts are displayed when electricity usage exceeds set values. The system also allows us to manage power use in the whole data center by remotely controlling power sources. Verification equipment, which accounts for roughly 70% of all power usage in the data center, is automatically shut down when not in use, helping to save energy.

4 Review of Operations

Business Overview

Our business is broadly divided into four segments based on the type of customers they serve.

In the enterprise, telecom carrier and public markets, we supply solutions directly to customers. In the partner business, we sell products and services through our business partners. We support all aspects of ICT infrastructure, including cloud systems and cyber security solutions. In all the markets where the Net One Group operates, we install efficient systems by optimally configuring networks, cloud systems and security solutions. We also show customers how to get the best out of their systems. Going forward, we will step up efforts to transform the Net One Group into an organization that can provide new added value by working with customers to support their growth.



Fiscal 2018 consolidated revenue ¥181,935 million, consolidated operating income ¥13,012 million

*From fiscal 2019, Industrial IoT (IIoT) has been renamed "Smart factories" to clearly define one of the Group's focus markets.

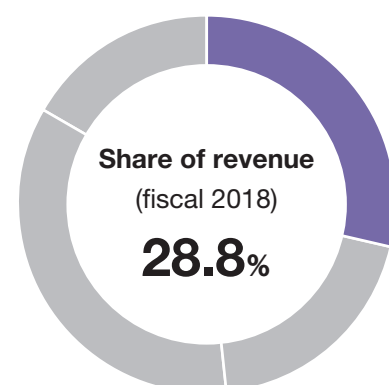
4 Review of Operations

Enterprise Market

Business Overview

Objectives
Utilize ICT to expand the use of cloud systems and security solutions and drive work style innovation

■ Share of revenue (fiscal 2018)



Revenue ¥52,329 million Operating income ¥3,263 million

Key markets / sectors

■ Large enterprises in the financial, manufacturing, non-manufacturing and Internet service providers (ISP) sectors

Operating environment

■ Sustained strong demand related to cloud systems, security and work style innovation

Strengths and characteristics

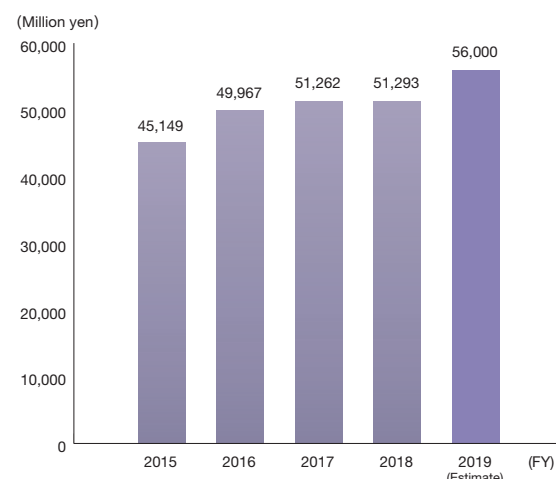
■ The enterprise business has built up a high level of trust with customers after many years of providing high-quality network infrastructure.
■ Backed by that trust, we share with customers the Group's knowledge and experience of utilizing ICT. Our flexible approach allows customers to install practical cloud systems, reinforce security and implement work style innovation.

Key growth themes

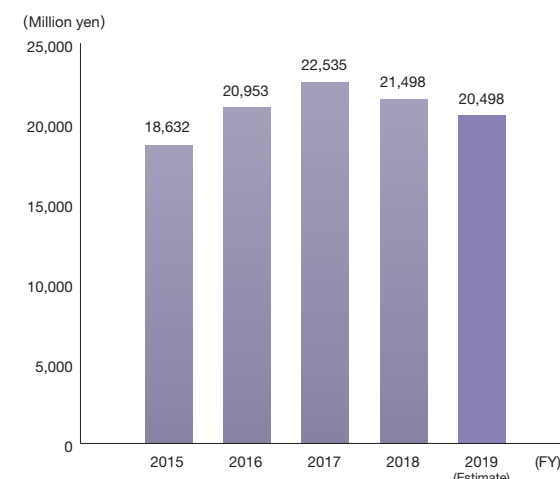
■ Work Style Innovation 2.0/DX
■ Smart factories
■ Solutions for MSP
■ Develop the refurbishment business
■ Prediction and detection of cyber-attacks and system failures

Segment performance (reference only)

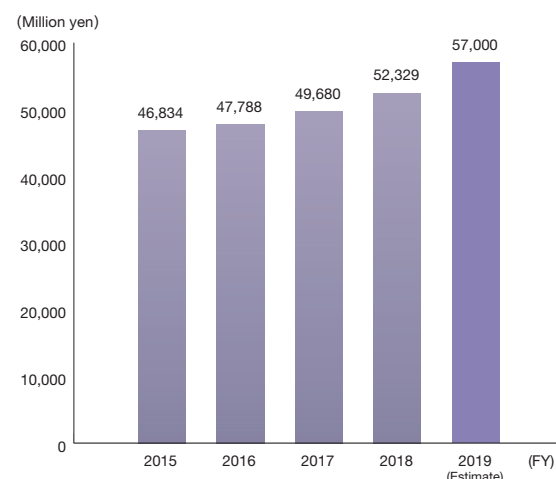
■ Bookings



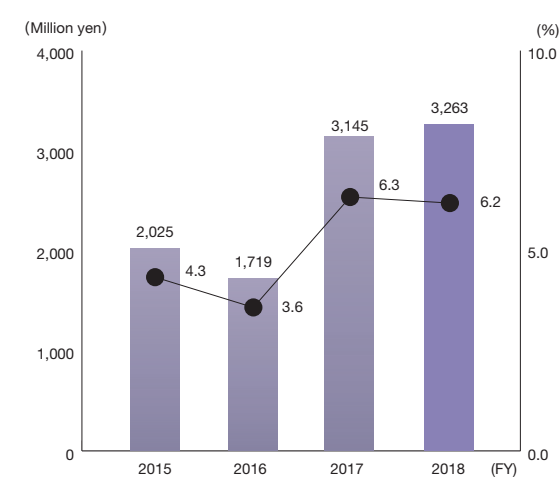
■ Order backlog



■ Revenue



■ Operating income / operating margin



Enterprise Market

Strategy and Vision

Performance in fiscal 2018

Demand for security solutions and cloud systems remained strong in fiscal 2018 across all sectors, and business related to work style innovation was firm. IIoT-related business was also strong. Those trends supported growth in bookings and revenue, with bookings rising 0.1% year on year to ¥51,293 million and revenue increasing 5.3% to ¥52,329 million. Operating income rose 3.8% year on year to ¥3,263 million but the operating margin declined 0.1 of a percentage point to 6.2%.

Initiatives for fiscal 2019

In fiscal 2019, we forecast steady demand for security solutions, the installation of multi-cloud and other cloud systems, and work style innovation. We also anticipate growth in the new fields of smart factories and solutions for MSP. We see those trends supporting growth in bookings and revenue compared with fiscal 2018. We forecast bookings of ¥56.0 billion, up 9.2% year on year, and revenue of ¥57.0 billion, up 8.9% year on year.

A common capital investment theme for customers in the enterprise market is digital transformation (DX) – investing in ICT to drive business innovation. Meanwhile, there is a growing need for system maintenance and operation to help customers optimize their business operations. Grand designs for network infrastructure and cloud systems are becoming more important, and we are also fielding more inquiries from customers about using ICT in personnel training. We see these trends as major opportunities, supporting the Group's shift to an "Integrated Service Business" that references its own experiences to provide added value to customers.

Medium-and long-term outlook

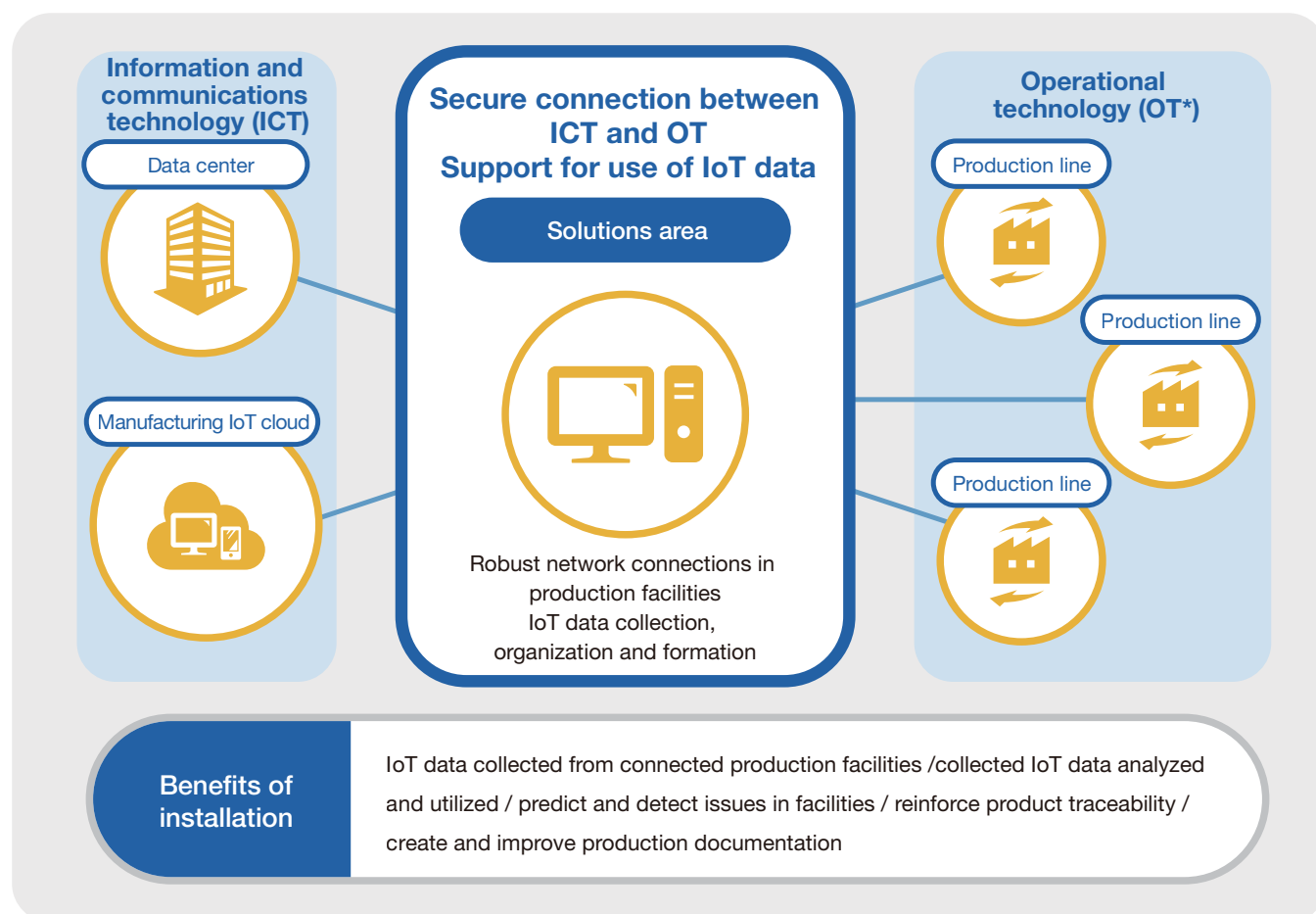
We need to constantly communicate with customers to understand the issues they face and their requirements, which will help us to continue providing solutions in line with their needs. That approach is vital to ensure sustained growth in the enterprise business. For example, customers have shown strong interest in our Work Style Innovation 2.0/DX strategy, which is designed to support work style innovation, and the launch of our refurbishment business, which provides support for products and equipment when manufacturer after-sales support contracts expire. In the smart factory field, manufacturers are increasingly utilizing data in production activities. IoT systems to manage and visualize factory production lines are gradually gaining momentum in the manufacturing sector, but going forward, IoT is likely to be used even more widely to centrally control and optimize entire factories.

In the mid-size company market segment, we will provide solutions to MSP, allowing us to efficiently roll out services for MSP customers. We will also use our MSP solutions to target large enterprises, aiming to help them manage and control their corporate groups.

In the ASEAN market, subsidiary Net One Asia Pte. Ltd. will lead efforts to increase business proposals for Japanese companies in the region and local companies. In security solutions, our basic approach will be to utilize ICT. Going forward, Net One Systems will continue to provide support for all areas of ICT platforms, including developing proposals for cutting-edge security systems that utilize AI and deep learning.

4 Review of Operations

An accelerating digital revolution in manufacturing – centrally managing and visualizing production activities to increase factory productivity



* Operational Technology

Telecom Carrier Market

Revenue ¥35,552 million Operating income ¥3,454 million

Business Overview

Objectives

Explore new business opportunities through collaboration with telecom carriers

Key markets / sectors

■ Leading domestic telecom carriers

Operating environment

■ Telecom carriers continue to invest heavily to expand their corporate businesses.

■ Carriers are shifting their focus to the installation of cloud systems and other service platforms.

Strengths and characteristics

■ Extensive track record in the design and installation of large-scale networks

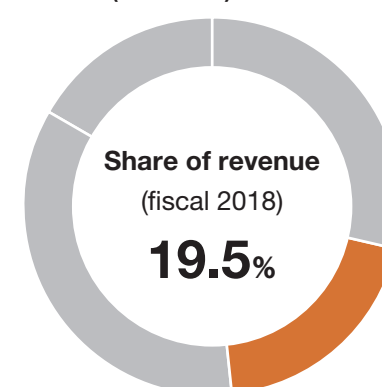
■ Strong position in multivendor product integration and automated system operation, backed by advanced network design capabilities

Key growth themes

■ Work with telecom carriers to strengthen their corporate business

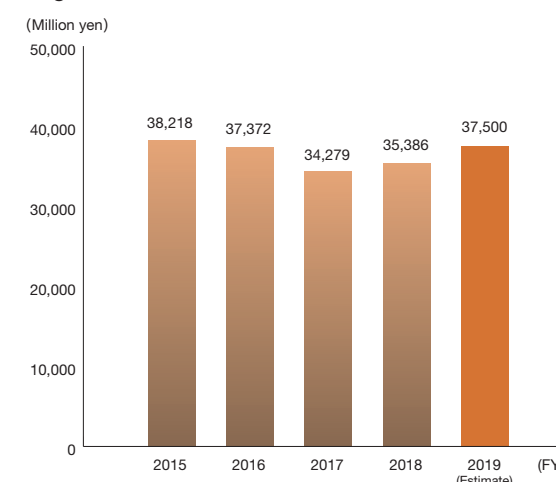
■ Set up joint businesses in other markets and expand solutions for MSP

■ Share of revenue (fiscal 2018)

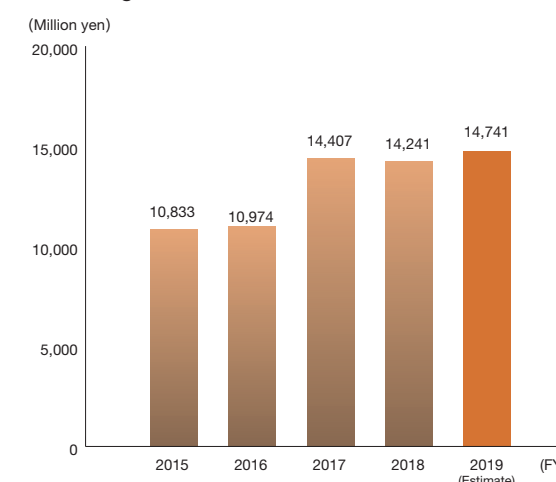


Segment performance (reference only)

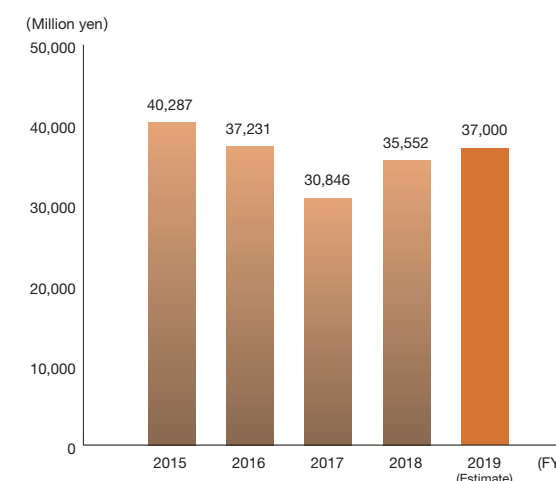
■ Bookings



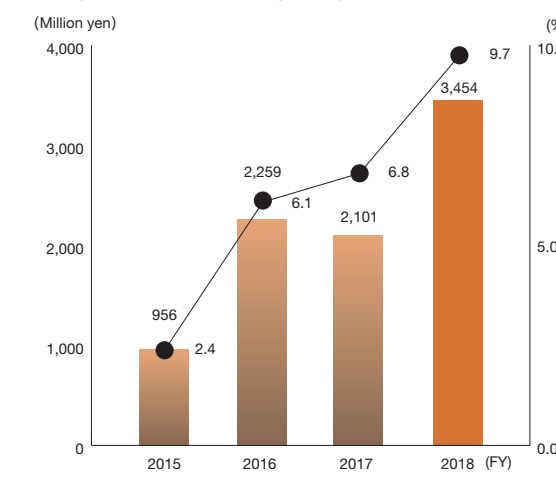
■ Order backlog



■ Revenue



■ Operating income / operating margin



4 Review of Operations

Telecom Carrier Market

Strategy and Vision

Performance in fiscal 2018

In fiscal 2018, the service platform business for cloud and other services was firm, with bookings rising 3.2% year on year to ¥35,386 million and revenue increasing 15.3% to ¥35,552 million. Operating income rose sharply, increasing 64.4% year on year to ¥3,454 million on strong growth in the service platform business, which achieves higher profit margins than product and equipment sales. As a result, the operating margin improved 2.9 percentage points to 9.7%.

Initiatives for fiscal 2019

Telecom carriers are likely to continue expanding their service platform businesses in fiscal 2019. We forecast bookings of ¥37.5 billion, up 6.0% year on year, and revenue of ¥37.0 billion, up 4.1% year on year, supported by efforts to capture demand for service platforms.

In cloud service platforms, we will sell optimized configurations of the latest products, such as network equipment for data centers, servers, storage equipment, virtualization software and automation systems. Product sales will also be combined with design, installation and maintenance support as part of a package of high-value-added services. We will also develop our position as an “Integrated Service Business” targeting telecom carriers, as well as work with them to look at ways of providing services to end-users.

We also see continued strong demand for network-based security solutions. We are targeting further growth in fiscal 2019 by helping telecom carriers to build more robust security infrastructure.

Medium- and long-term outlook

Telecom carriers have a large number of corporate customers and are stepping up efforts to reinforce their business with those customers. In the corporate market, Net One Systems can provide high-level technological support for ICT platforms, potentially creating win-win relationships with telecom carriers and corporate users. We believe these solutions for MSP open up a range of possibilities. Telecom carriers are also increasingly interested in using refurbishment business as they have a lot of facilities and equipment.

We are not actively expanding business in the 5G facility market, as we are currently putting priority on profit margins. However, 5G-enabled systems have the potential to create a range of new business opportunities and markets. Companies are now stepping up research and development into solutions and services that take advantage of 5G technology. As 5G technology develops, we anticipate more opportunities to sell 5G solutions and we plan to focus on providing services that use 5G networks.

Going forward, we will continue to develop proposals that win the trust of customers, helping to support the development of their businesses with cloud services, security and corporate services anchored by the Group’s technologies.

Cloud service platform business – example



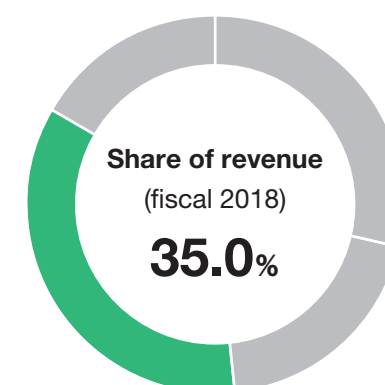
Public Market

Business Overview

Objectives

Provide reliable and secure ICT platforms for public infrastructure to support the sustainable development of society and Net One Systems’ growth

■ Share of revenue (fiscal 2018)



Revenue ¥63,666 million Operating income ¥4,688 million

Key markets / sectors

■ Central government agencies, local governments, universities, research centers, public infrastructure companies such as electricity and gas firms, and hospitals

Operating environment

■ Strong demand for security solutions and cloud systems

Strengths and characteristics

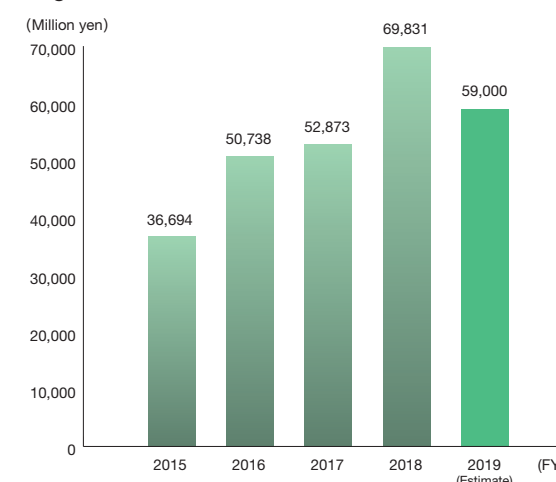
■ Consulting services that help customers clearly identify the issues they face
■ Optimization of the full ICT lifecycle, from design, installation and maintenance to operation, optimization and in-field improvement of ICT platform

Key growth themes

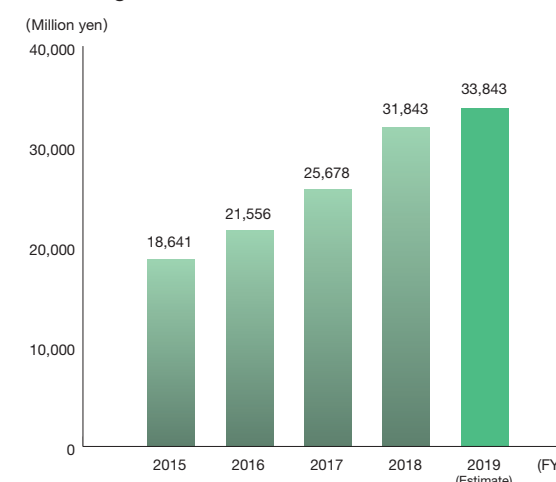
■ Trend towards cloud-based ICT platforms and increased security
■ Growth in the healthcare market and education market

Segment performance (reference only)

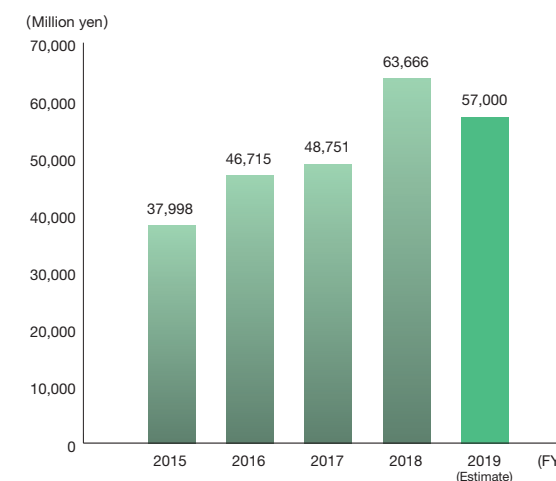
■ Bookings



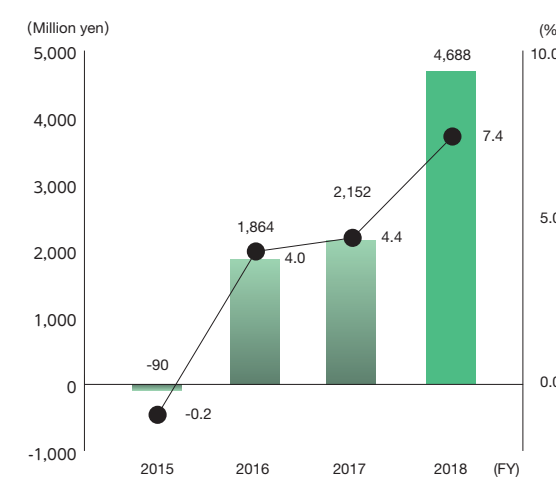
■ Order backlog



■ Revenue



■ Operating income (loss) / operating margin



4 Review of Operations

Public Market

Strategy and Vision

Performance in fiscal 2018

In the public market, revenue and profits increased sharply, supported by strong demand for security solutions and cloud systems, as well as some large orders. Bookings increased 32.1% year on year to ¥69,831 million, revenue rose 30.6% to ¥63,666 million, operating income increased 117.8% to ¥4,688 million and the operating margin improved 3.0 percentage points to 7.4%.

Initiatives for fiscal 2019

In fiscal 2019, we will continue to focus on security solutions and cloud systems. We will also roll out new solutions for the healthcare and education markets. However, with a number of large projects booked in fiscal 2018 set to drop out, we forecast bookings will decline 15.5% year on year to ¥59.0 billion and revenue will drop 10.5% to ¥57.0 billion.

In the public market, each customer faces unique issues in their operations, but strong demand for security solutions and cloud-based ICT platforms is a common theme across the market, giving Net One Systems an opportunity to leverage its strengths in network security. In the healthcare market, we will address demand for ICT platform integration at large-scale hospitals, which tend to use separate platforms for different medical systems, as well as demand for security to protect medical data and work style innovation for healthcare employees. We will also target demand for cloud service use by revised guidelines, for security solutions to medical IDs and the My Number ID system. In the education field, we are seeing rising demand in a number of areas – security solutions to protect child and student data, work style innovation for education professionals, and the integration of ICT platforms for different education systems. We will target that demand with proposals for integrated ICT environments that include security solutions, virtual desktop infrastructure (VDI) and other functions.

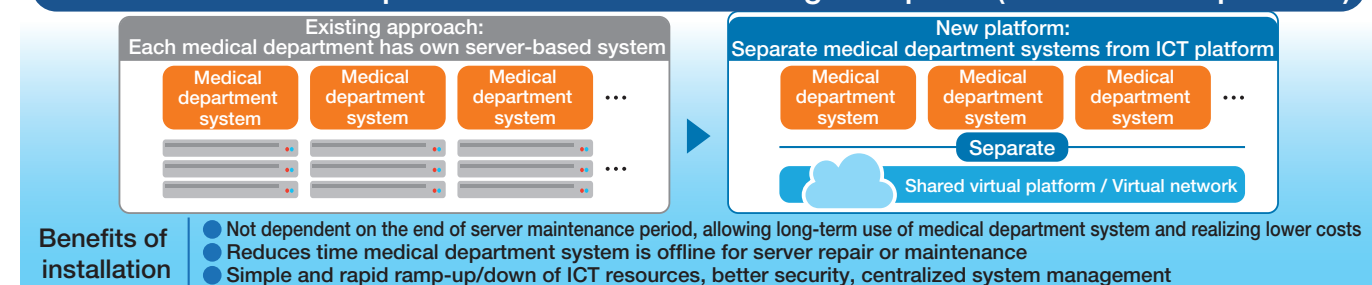
Medium- and long-term outlook

The Group's business strategy of offering cloud-based ICT platforms and improved security has gained the most traction in the public market. Customers are investing in "offensive" ICT and DX to transform their business models. We aim to help them achieve that transformation with the use of AI, deep learning and other new technologies.

We see a range of possibilities in the healthcare market. The focus of optimization is moving away from standalone hospitals to cooperation between hospitals to maintain regional healthcare services. Pharmacy supply chains and preventive healthcare are other areas where ICT can be applied in the healthcare market. In the education market, we anticipate growing demand for ICT in areas such as Edtech, distance learning and interaction between students and teachers, as well as system operation services to address a shortage of ICT personnel in the sector.

In the public market, which covers public infrastructure, the Group can provide unique value that ensures the secure and reliable utilization of ICT and that also helps to revitalize Japan's regions. That approach will support the creation of a sustainable society, and also help to transform Net One Systems.

How cloud-based ICT platforms can be used at large hospitals (shared virtual platform)



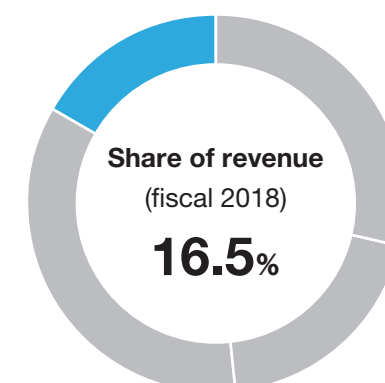
Partner business

Business Overview

Objectives

Explore the potential of new added-value collaborative business formats that utilize the latest technologies

Share of revenue (fiscal 2018)



Revenue ¥30,028 million Operating income ¥2,117 million

Key markets / sectors

- Specializes in business partner collaboration
- Uses partner companies to increase the Group's market coverage

Operating environment

- Strong demand from system integrators

Strengths and characteristics

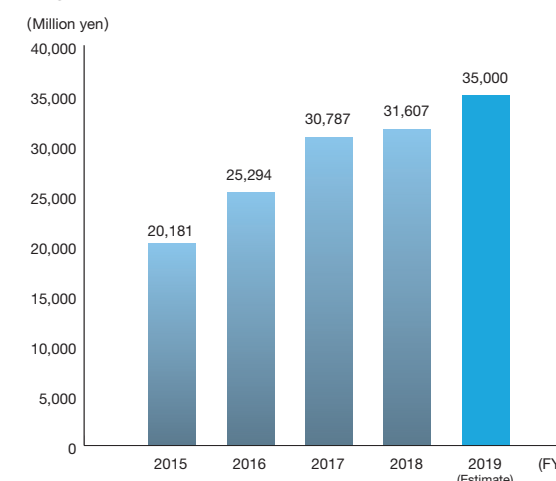
- Handles a wide range of products from overseas
- Provides quality assurance, technology verification and value-added services such as proposal support, system maintenance and operation
- Identifies cutting-edge ICT equipment and solutions in overseas markets and helps introduce them into Japan

Key growth themes

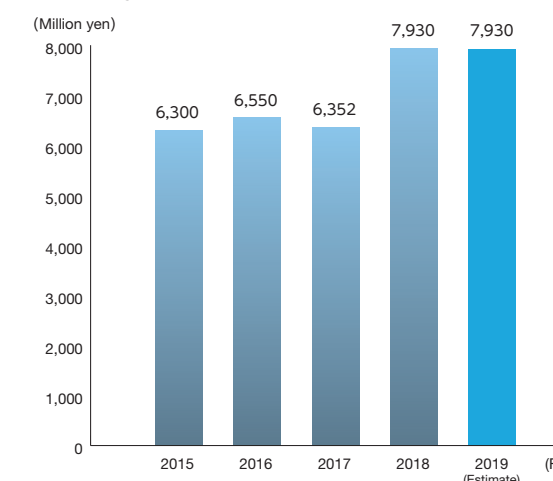
- Expand the solutions business aimed at partner companies
- Develop and launch solutions for MSP
- Leverage Group synergies with Net One Systems

Segment performance (reference only)

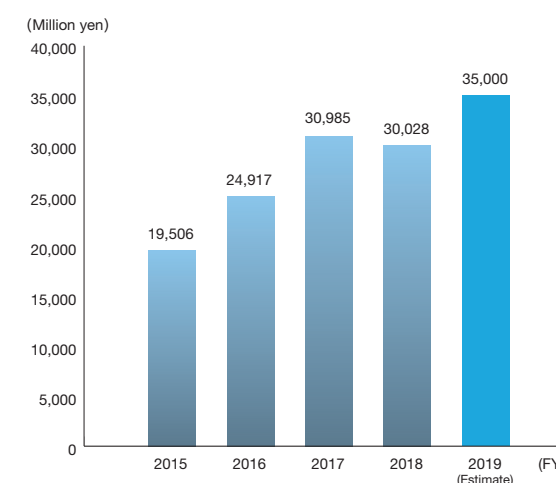
Bookings



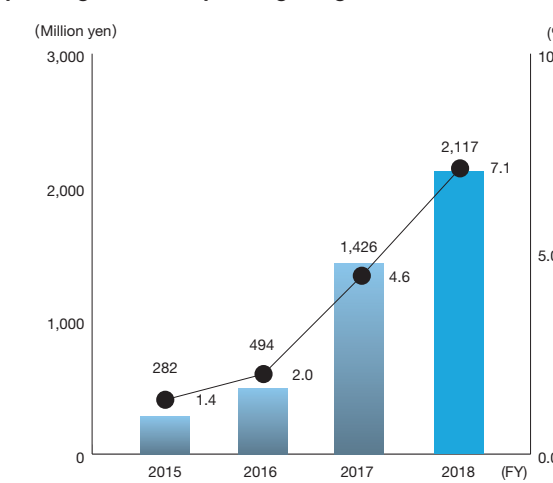
Order backlog



Revenue



Operating income / operating margin



4 Review of Operations

Partner business

Strategy and Vision

Overview of the Partner Business

Founded as a Net One Group company in 2008, Net One Partners marked its tenth anniversary last year. In the year after Net One Partners was founded, we concluded the world's first "solutions distributor" contract with Cisco Systems, Inc., kicking off our involvement in the provision of value-added network solutions. Over the years, we have focused on working with partner companies with strong positions in system solutions for specific industries and sectors, helping to expand the Net One Group's reach into business fields covering major companies and SMEs.

Our strength is the technical backup we provide to partner companies, who can select equipment from a wide range of overseas products and sell them with confidence to their customers, as well as the support we give partner companies right through to their end-users. Specifically, we ensure equipment meets the quality assurance standards of Japanese end-users, carry out technology verification, help partner companies market products to their customers, and provide system maintenance and operation services. We also rapidly identify and gain access to cutting-edge ICT equipment developed by overseas venture companies and other suppliers, configure it for the needs of the Japanese market and supply it promptly to our partner companies.



Takuya Tanaka
President & CEO
Net One Partners Co., Ltd.

Performance in fiscal 2018

In fiscal 2018, we deployed solutions with a focus on profitability, including unique products and services such as cloud management solutions and face-recognition software. Internally, we improved the management of transactions in foreign currencies and overhauled business processes. Those initiatives, along with the streamlining of backoffice processes, helped lift operating income 48.5% year on year to ¥2,117 million, despite a 3.1% decline in revenue to ¥30,028 million. The operating margin improved 2.5 percentage points to 7.1%. Efforts to expand and strengthen the customer base paid off, with bookings rising 2.7% to ¥31,607 million.

Initiatives for fiscal 2019

In fiscal 2019, we will work to expand our solutions business with all types of partners and deploy solutions for MSP. We forecast bookings of ¥35.0 billion, up 10.7% year on year, and revenue of ¥35.0 billion, up 16.6%.

In the solutions business, we will roll out solutions that combine all types of products and equipment, from IoT and ICT infrastructure to cyber-physical security systems. Our strategy is to grow the business by working with partners to deploy solutions that address the specific needs and concerns of each sector based on industry-wide trends, not just the viewpoint of partners. One example is solutions for distributors and retail stores that help them to attract more customers and drive sales. Using Wi-Fi and monitoring cameras, our solutions can help retailers understand how shoppers behave in store, while our omnichannel solutions enable consumers to buy and receive the products they want anytime, anywhere.

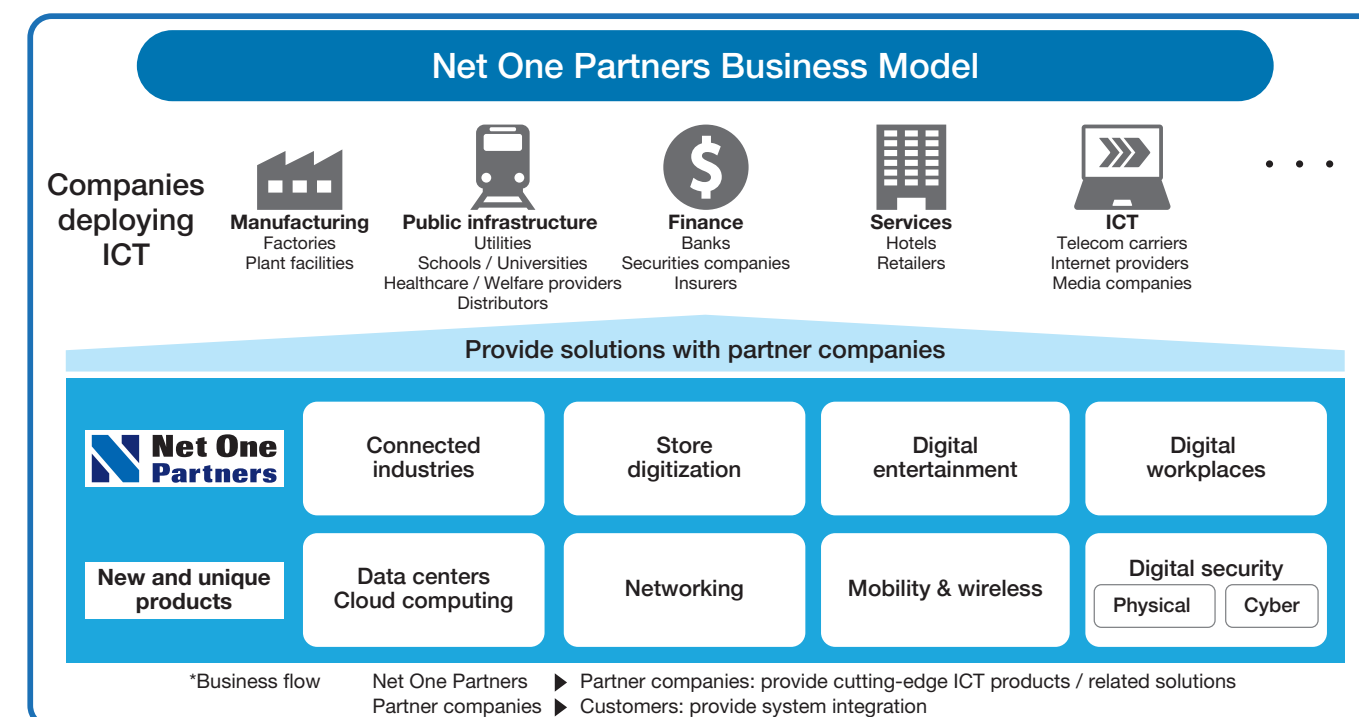
In the MSP market, we will target demand from SMEs by supplying partners with solutions that allow their users to easily install and manage equipment. Our user-friendly solutions reduce equipment deployment costs and help users rapidly restore systems if an issue arises.

Effective from April 2019, Net One Partners took over responsibility for the New Business Promotion Office from Net One Systems. Since Net One Partners was founded, we have rapidly supplied our partners with new products from vendors in Japan and overseas. Building on that relationship, we will work with them to create new businesses, backed by new technologies and their expertise.

Medium- and long-term outlook

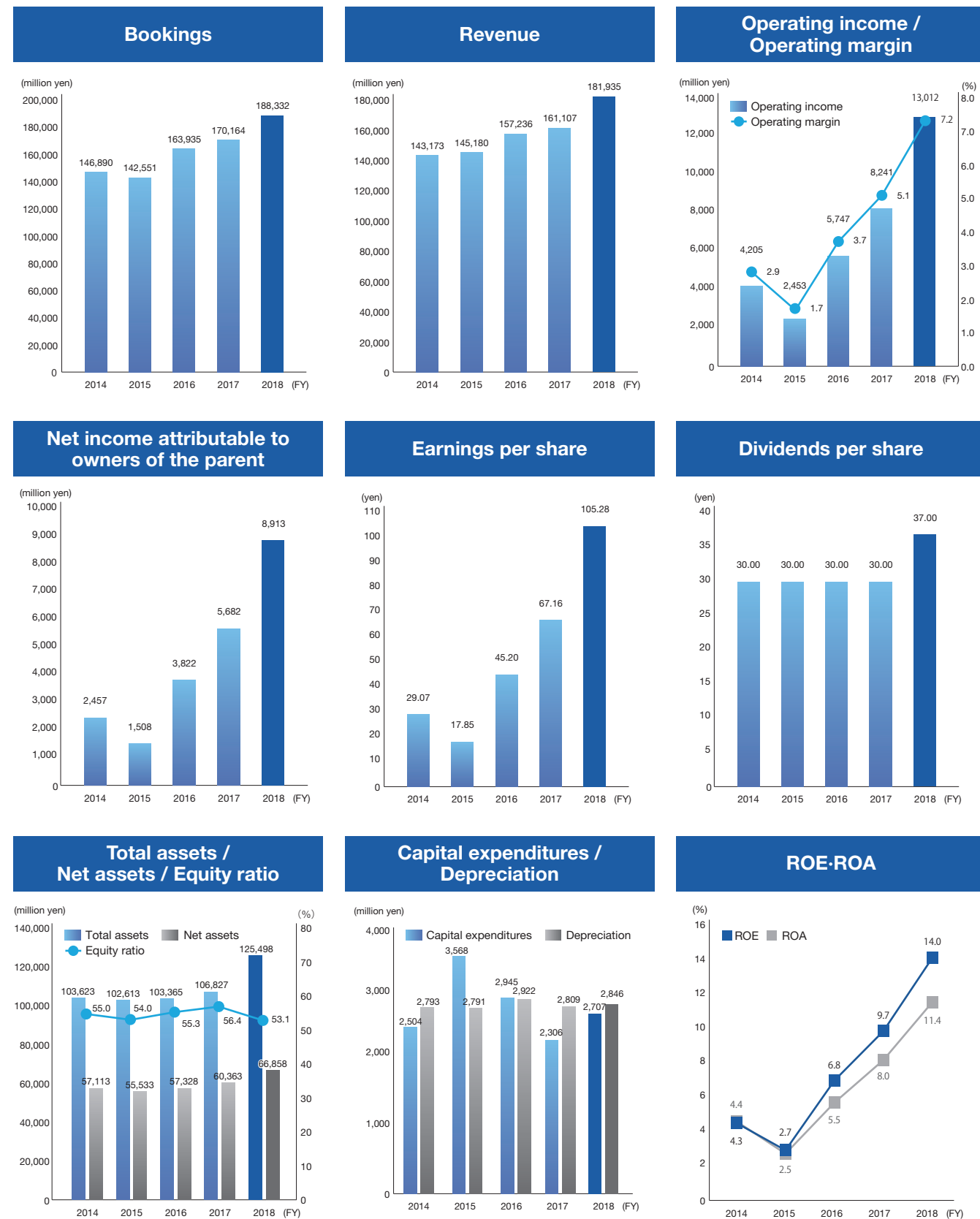
In the partner business, we will continue to deploy solutions tailored to the specific needs of each sector and step up cooperation with Net One Systems as a member of the Net One Group. We will provide sales support to Net One Systems to help it expand sales channels for the unique products and equipment in our portfolio. We will also generate Group synergies by working closely with Net One Systems – mainly through a direct sales approach – to improve our ability to propose new solutions that are in tune with end-user trends and market characteristics.

We will collaborate with Net One Systems USA, Inc., the Group's US subsidiary, to create new businesses by investing in overseas venture companies with promising technologies and human resources. To reinforce our organization, we will overhaul business processes by using automation, and recruit and train personnel with unique skills. We will also strengthen systems that allow us to rapidly identify cutting-edge ICT technologies, including new business formats, configure them for the needs of the Japanese market and deliver them to partner companies as soon as possible. Our goal is to reinforce Net One Partners' position as a "high-value distributor" that can quickly adapt to the latest technologies and shifts in business models without being constrained by existing ICT business approaches.

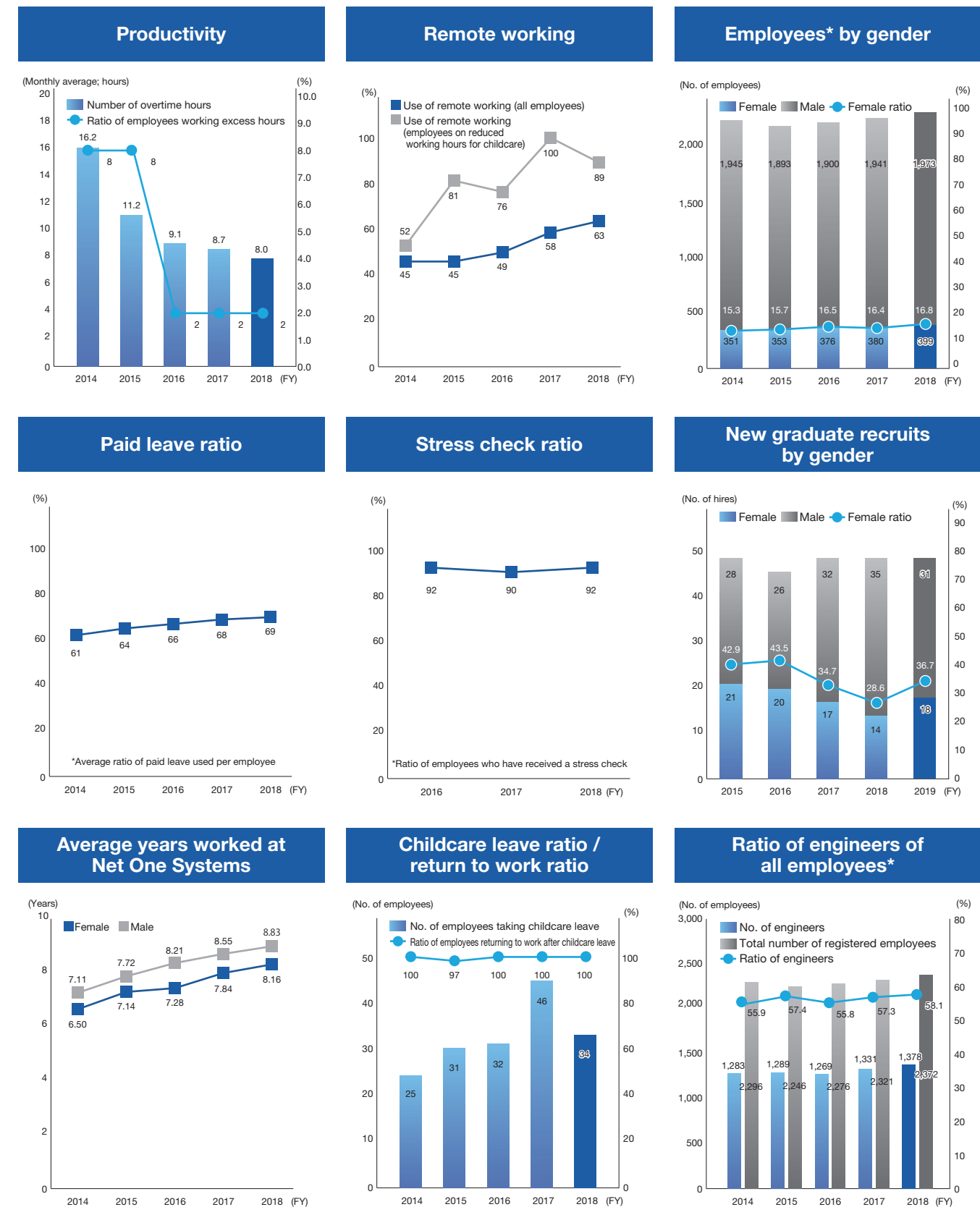


5 Key Data

Financial Highlights



Non-financial Highlights



*Employees (registered at Net One Systems) excludes staff seconded from external partners, includes employees seconded to subsidiaries and employees on short- and long-term leave

Term	Meaning
Capital services	A type of financial service that allows customers to continue using new ICT systems by reducing CAPEX.
Customer success	A technical support process that involves working with customers to help them achieve optimum system utilization. Through ongoing monitoring of ICT system usage post-installation, gaps in expected system performance can be identified and rectified. Proposals can also be made to update existing systems in line with advances in technology.
Digital transformation (DX)	The utilization of ICT to create new earnings models or deliver substantial improvements in business efficiency.
Game changer	Refers to changes to existing approaches or rules that can spur competition between companies in different sectors and transform industry structures, leading to the creation of new business models.
Industrial IoT (IIoT)	The use of IoT in industrial settings. IIoT is being used to improve efficiency in various industries through the visualization of site information, such as digitizing the condition and operating environment of machinery and devices, and supporting automation.
Integrated service business	A type of business that provides integrated support for all phases of the ICT lifecycle, from ICT platform design and installation to operation and optimization. Service provision is focused on combining multiple functions to help customers utilize ICT to solve business challenges.
Job crafting	A process that empowers individual employees to creatively redesign their own jobs and actions to improve job satisfaction.
Managed services	Support services covering all areas of ICT, from network connectivity through to system operation, provided by managed service providers (MSP). As part of the service menu, specialist engineers conduct a number of analytical processes when ICT systems and equipment are installed. Users pay a monthly fee for management services, making ICT as accessible as consumer electronics.
MaaS (Mobility as a Service)	The provision of seamless mobility services across a wide area to improve convenience for users, based on new cooperation between companies in various industries.
Multi-cloud	The provision of optimal cloud services by using and linking up public cloud services provided by multiple companies for different applications.
netone on netone	A customer support model that promotes the active deployment of ICT at customers based on Net One Systems' utilizing model, mitigating customer concerns about new system installation and helping them rapidly derive benefits from ICT.
Private cloud	The provision of internal cloud computing environments as a service by companies to business divisions, group companies and other areas of their organization.
Psychological safety	A condition where individuals are not excessively concerned about the opinions of others with respect to their actions, creating an environment that facilitates candid opinions without fear of negative consequences.
Public cloud	The provision of cloud computing environments as a service to companies and individuals.
Reference	A process conducted by customers to assess projects implemented by other companies prior to installing their own ICT systems. Net One Systems typically uses examples of its own systems as reference points for customers.
Refurbishment	ICT systems are typically comprised of the latest technologies and products. However, as more customers source functions externally to utilize, guaranteeing the reliability of those functions is becoming increasingly important. Amid rapid technological advances at manufacturers, ensuring continuous use of ICT equipment is a growing challenge. That is spurring demand for refurbished products – equipment guaranteed to function and operate reliably – leading to business models based on the provision of those products.
Smart factories	Factories that use IoT networks to acquire and accumulate data from various devices and facilities and from the activities of onsite personnel. Data gleaned through that process is analyzed and utilized to create added value.
Software as a Service (SaaS)	The provision of software functions to users over the network. SaaS allows users to select only the software functions they require for each application, minimizing usage.
Subscription / subscription-type services	Functions or services for which users pay a recurring fee based on period of use. Subscription and subscription-type services allow users to pay a monthly fee to utilize assets, instead of acquiring them outright, avoiding the need for significant initial investment and complicated asset management.
Virtual Desktop Infrastructure (VDI)	An approach that integrates the management and use of PC resources. VDI improves control of ICT by making resources easier to manage. Users operate networked terminals with desktop PC interfaces, but no data is stored on the terminal itself, helping to improve data security.

Overview of the Company

Company name	Net One Systems Co., Ltd.
Website	https://www.netone.co.jp/english.html
Established	February 1, 1988
Paid-in capital	¥12,279 million (as of March 31, 2019)
Number of employees	2,294 (Consolidated as of March 31, 2019)
Business activities	Net One Systems provides innovative information platform solutions and services that help the leading organizations better strategize information and communications technology (ICT).
Subsidiaries	Net One Partners Co., Ltd. Net One Connect G.K. Net One Business Operations G.K. Net One Next Co., Ltd. eXtreak, Inc. Net One Systems USA, Inc. Net One Systems Singapore Pte. Ltd. Net One Asia Pte. Ltd.

Stock Information

Stock Exchanges	First section of Tokyo Stock Exchange
Listed date	December 20, 2001
Securities code	7518
Number of shares per trading unit	100 shares
Business year	From April 1 to March 31
Number of authorized shares to be issued	200,000,000 shares
Total number of shares issued	86,000,000 shares (includes 1,328,696 treasury shares) as of March 31, 2019
Stock Transfer Agency	Sumitomo Mitsui Trust Bank, Limited