



Takafumi Takeshita

President & CEO
Net One Systems Co., Ltd.

Photo location: netone valley's VALLEY space

Message from the CEO

We are committed to creating a prosperous future by providing networks of the highest global standard

Aiming to evolve into a market-pioneering enterprise capable of leading the network-based society of tomorrow

Since its establishment in 1988, Net One Systems has specialized in networks as an expert in ICT applications, contributing to society by establishing networks that serve as the foundation for both customer business activities and efforts targeting the resolution of social challenges.

We have consistently focused on networks over the years because we have always been confident their possibilities would continue steadily expanding with the evolution of ICT. At the same time, we consistently refined our technologies to address the needs of the times, thereby establishing the unique position and advantages we now hold.

In 2022, to cast light on these advantages and leverage them for business growth, we introduced our Purpose: “Unleash the potential of people and networks, and create a prosperous future by carrying on / inheriting tradition and making innovation happen.” In keeping with this Purpose, we put people first because we realize they are the source of our corporate value; new value emerges when people unlock the potential of networks. **Our raison d'être is to create a prosperous future by preserving the network traditions we have developed thus far while continuing to pursue technological innovation that evolves with the times.**

As we consider the next big step in infrastructure innovation, we are turning our attention toward the “surge in data.” The increasing prevalence of generative AI and similar technologies has led to an exponential increase in the amount of data on networks. Moreover, as networks transition from current electrical signals to optical and quantum signals, data volume will increase significantly along with growth in transfer speeds. These shifts will contribute directly to greater power consumption, necessitating energy-saving measures. **All these changes will inevitably generate the need for network reconfiguration using new technologies. The Net One Group is determined to lead these reconstruction efforts.**

To achieve this objective, we must move away from our conventional needs-based approach and evolve into a “market-pioneering enterprise.” I believe that pioneering is all about imagination; in other words, the innovation generated through imagination is pioneering in its true form. Consistently generating innovation of this nature over time requires the interplay of diverse values that transcend all boundaries and barriers.

In May 2023, we opened our innovation center (netone valley) as a forum for the convergence of diverse viewpoints

and the creation of new value. Serving as a hub for generating new innovation, netone valley facilitates meaningful interaction with customers and external partners. Within a year of its opening, over 7,000 customers, partners, vendors, and individuals from different industries and fields have visited netone valley. Through exchanges with this diverse range of visitors, we have sharpened our imaginative skills while co-creating new value. Moving forward, **the Net One Group will achieve widespread recognition by further enhancing its unique critical assessment capabilities and execution capabilities in the field of networking. Through these efforts, we will establish a reputation as the go-to company for network solutions.**

Addressing critical objectives in pursuit of our medium- to long-term vision while fostering corporate culture reforms

Focusing on the four key themes presented in our Vision as we aim to fulfill our Vision for 2030

To support the achievement of its Purpose, the Net One Group formulated a medium- to long-term vision, “Vision for 2030.”

Our aspiration is to become a “role model” enterprise that is recognized and highly valued by other companies in a wide variety of respects. Essentially, we aim to continuously evolve, achieving standards of corporate governance, corporate culture reform, business growth, and employee satisfaction to which other companies will aspire.

Working behind the scenes, our business activities facilitate societal progress much in the way a stagehand would facilitate a theatrical performance. This approach is precisely why we must continue to take center stage as a superior company. Guided by this conviction, we are tackling the four themes set forth in our Vision (see page three for more details) as part of our corporate philosophy system.

The first of these themes concerns becoming a **leading network company**. When determining whether we have become such a company, we must rely on objective evaluations rather than self-assessments. As examples of objective appraisals identifying an organization as a leading company, I would emphasize our inclusion in both the JPX Prime 150 Index and Nikkei 225, receipt of the Corporate Governance of the Year award, and certification as an Outstanding Organization for KENKO (health) Investment in the category of employee satisfaction. The Net One Group is already moving forward with efforts aimed at obtaining these objective evaluations and accreditations.

The second theme centers on creating unique **added value**. If we continue to confine our technology and expertise

within the Group as we have to date, we will not be able to address the complex and diverse social challenges that will emerge with the progress of digitalization. Accordingly, we recognize the need to share our added value-generating technologies and expertise with other companies and collaborate with them. Through these efforts, we can enhance the convenience of our services or create automation systems for alleviating growing manpower shortages. Additionally, as a corporate group specializing in networking, we believe our role should involve exploring ever more advanced and complex technological fields.

With the third theme, we are concentrating on becoming an “**elite group**” of professionals that continuously achieves self-improvement. The Net One Group employs many talented personnel and retains a considerable number of experts across various technical domains. By emphasizing the power of collective effort, we have focused on strengthening our teamwork, gradually instilling a culture of creating value as a team. Additionally, we recognize the importance of systematizing the knowledge of our experts and transforming it into intellectual property, as we prepare to shift toward a service-oriented business model.

The fourth theme focuses on maintaining an appropriate **profit structure**. Our efforts targeting “no-surprise management,” which ensures stable earnings while avoiding excessive susceptibility to market fluctuations, require sophisticated business management cognizant of both the cost of capital and stock prices. To this end, we are pushing forward with a project promoting the “visualization” of various management indicators, and we believe that our ability to accurately understand our current circumstances has been steadily improving. With the aim of ensuring wider and stronger application of no-surprise management, we will commit to improving the projections we make based on our understanding and analysis of current circumstances.

Fostering five corporate culture practices driven by independent thinking and action capable of facilitating proactive management

As an indicator of our progress toward the objectives in our medium- to long-term vision, we aim to ensure the widespread application of five specific corporate culture practices by the end of our Medium-Term Business Plan.

Of these five cultural practices, I feel we have quite successfully inculcated the importance of “**creating value as a team**.” In the past, we occasionally observed a tendency to dismiss divergent viewpoints or ideas, but now we see extensive respect for diverse values and a widespread awareness that teamwork is meaningful precisely because of these different perspectives. I am also proud of the progress we have achieved in terms of “**showing mutual support**.”

Meanwhile, we need to further address the cultural practices of “**relishing challenges**,” “**maintaining purpose-driven attitudes**,” and “**confronting risks**.” Within the Company, I still seem to observe a substantial number of instances in which employees lack a purpose-driven mindset and therefore fail to face risks or take on challenges. Granted, the Net One Group has established a variety of rule-based

systems in response to past incidents of misconduct*1. However, to fulfill our Vision for 2030, we need to adopt a principle-based system under which each and every employee thinks and acts independently in accordance with a rule-based framework.

I believe the Net One Group must instill these five cultural practices as it shifts toward proactive management and aims to evolve into a market-pioneering enterprise. Moving forward, we will continue striving to establish a corporate culture that encourages employees to think and act on their own initiative.

*1 Progress of measures aimed at preventing recurrence of misconduct <https://www.netone.co.jp/company/responsibility/> (Japanese Only)

We have released updates regarding the progress of measures taken in response to transactions without actual deliveries (announced in fiscal 2019) and suspicions of fund misappropriation and unauthorized cost reallocation (announced in fiscal 2020).

Enhancing governance and human capital management to establish a sustainable corporate foundation

Chief executive system and human capital management in full swing to further strengthen executive capabilities

To bolster our governance, we appointed chief executives in fiscal 2022 (see page 65 for details). Our Board of Directors, which represents the views of our shareholders, has established a strategic path forward for the Net One Group. In accordance with this strategic path, our chief executives formulate strategies for their respective areas of responsibility based on company-wide perspectives. Our vice presidents then ensure the effective implementation of these strategies. This system clarifies the responsibilities of each individual involved, allowing for the methodical execution of company-wide strategies.

When we fully launched the chief executive system in fiscal 2023, we went through a trial-and-error process to determine how to properly facilitate company-wide leadership under this system. We generated a variety of positive results through this process. For example, in terms of finance, our chief financial officer (CFO) has spearheaded the development of concepts and management methods geared toward no-surprise management. Meanwhile, with regard to human capital, our chief human resources officer (CHRO) led efforts aimed at revamping our personnel systems while establishing a human capital portfolio for 2030. These achievements have enabled company-wide discussions regarding the personnel required to execute future initiatives.

I believe effective human capital management enables all employees throughout the Company to fully leverage their diverse abilities. In other words, management is responsible for creating an environment in which employees can completely apply their personal attributes and skills, thereby generating an advantageous and self-perpetuating cycle that generates growth for the Net One Group through the achievements of its personnel.

To ensure our employees can fully demonstrate their abilities, we absolutely must foster the five cultural practices I mentioned previously. Once this foundation is in place,



the Net One Group will assuredly grow while expanding its corporate value. At the same time, profits generated through our human capital management will be proactively returned to our employees and other stakeholders. By clearly defining the return of profits secured through the application of individual employee attributes and skills as a company policy, we will raise the motivation of our personnel while simultaneously improving the transparency and openness of our management.

As a method for measuring the effectiveness of our human capital management, the rest of the management team and I heavily rely on the results of our corporate culture monitoring surveys. We have not observed significant growth in survey scores measuring “workload optimization” or “trust in management,” and I believe these two scores are connected. When optimizing workloads, managers need to fulfill their role as supervisors by proactively designing appropriate work processes. However, we recognize deficiencies in our process design itself and in the communication required to design it. Furthermore, we conclude that “trust in management” scores have not risen because the management team as a whole has thus far failed to act in the manner most employees expect. We will address these issues earnestly moving forward as we aim to create better working environments.

Examining recurrence prevention-based management skills training as a means of achieving sustainable growth

Finally, in response to previous instances of misconduct, we are continuing to strengthen our recurrence-prevention efforts. Reflecting on the three years that have passed since I became president of Net One Systems, I am pleased to see we have achieved solid progress and established a strong foundation in this regard. At the same time, to establish even stronger recurrence-prevention systems, we will need to implement corporate culture reforms that include the development of a principle-based approach toward

decision-making. Ensuring the successful realization of this approach will require all employees to be capable of making appropriate decisions while adhering to a rule-based framework. Accordingly, we are exploring the possibility of providing management skills training to all employees in the future with the aim of enhancing their viewpoints and broadening their perspectives.

Adopting a proactive management approach to put the Net One Group on a growth trajectory and achieve sustainable corporate value enhancement

The Net One Group has continuously undertaken initiatives targeting corporate culture reform and governance enhancement. I am confident we are becoming more experienced in terms of both internal management and responding to external environmental factors.

Although we plan to maintain our current defensive measures, from fiscal 2024, we will also adopt a more proactive approach to place the Net One Group on a solid growth trajectory and enable it to contribute to the resolution of an even greater number of social challenges. At the same time, we intend to further improve transparency by disclosing long-term objectives to shareholders and stakeholders while also appropriately providing updates regarding the progress and results we generate en route toward achieving these objectives.

While continuing to focus on ensuring transparent management, the Net One Group will proactively leverage its strong technical capabilities and unique market position to achieve sustainable growth in corporate value. We hope all our stakeholders will continue having high expectations for the prosperous future envisioned by the Net One Group, and I would like to express my personal gratitude in advance for their ongoing support moving forward.

Dialogue between the CEO and Chairperson of the Board of Directors

Jump-starting discussion among members of our Board of Directors to facilitate our shift toward proactive management

Enhancing discussions through the adoption of diverse perspectives and strengthening monitoring through “visualization”

Ito: Having served as an outside executive director for three years and chairperson of the Board of Directors for two, I feel that Net One Systems’ Board of Directors has become better able to engage in discussions focused on establishing proactive management. Discussions regarding our Medium-Term Business Plan were a highlight of the Board’s meetings for fiscal 2023. Initially, the Board’s outside executive directors discussed their goals and expectations among themselves before sharing the details of these discussions with the other executive directors. This process ensured that the views of outside executive directors were properly reflected through Net One Systems’ Medium-Term Business Plan.

Takeshita: I am aware that the Company’s outside executive directors have experiences and diverse perspectives that differ from ours. A prime example of how these differences are beneficial was their suggestion indicating the Company should define its strategies for success more clearly. Through our discussions in formulating the Medium-Term Business Plan, we were able to examine these strategies, determine market growth potential, and identify the bases and strengths of our business activities from a variety of perspectives. Through these efforts, I believe we succeeded in formulating a highly effective Medium-Term Business Plan.

Ito: Our Board of Directors maintains a culture that allows

outside executive directors to freely express their opinions. This culture has enabled very meaningful discussions held from angles such as “the ideal formulation of our Medium-Term Business Plan” and “actions we should take to strengthen the Group’s footing.” I am confident this is how Net One Systems’ Board of Directors should operate. Even after the Medium-Term Business Plan was formulated, several outside executive directors requested additional materials that would enable them to see the progress and evolution of all operations. Moving forward, I would like to have discussions regarding how and when these materials should be provided.

Takeshita: As you mentioned, for the Net One Group to achieve progress through proactive management, it will need to take risks as appropriate and doing so will require the “visualization” of management indicators. Accordingly, we are working to ensure the smooth delivery of materials to outside executive directors while introducing an “integrated monitoring framework” through which key management indicators and the progression of business results versus targets are displayed using a heat-map format. The creation of this framework will strengthen the monitoring capabilities of the Board of Directors and enable it to provide explanations to shareholders and other stakeholders more promptly and in greater detail. Furthermore, our adoption of a system allowing outside executive directors to set the agenda for board meetings has also helped enhance the Board’s monitoring capabilities.

Ito: As outside executive directors, we can set the Board’s agenda after discussing key monitoring points and other issues

in advance, which provides a sense of security. This approach enables us to establish agendas through which we can present proactive requests, receive suggestions from executive directors responsible for business execution, and discuss these topics collectively. I believe these attributes are what constitutes a dynamic and action-oriented Board of Directors.

Selecting a new independent outside executive director to strengthen our business base while also focusing on developing our next generation of leaders

Ito: Another important topic of discussion for fiscal 2023 was the selection of a new independent outside executive director, and we ultimately chose Ms. Yuka Uehara as the candidate. Initially, the Nomination Advisory Committee discussed which skills and qualities are necessary for our executive directors. Subsequently, the committee made recommendations to the Board of Directors, pointing out its predominantly male composition and the lack of financial expertise among members of the Board of Directors. Additionally, the committee recommended the Board of Directors include a member with an international background.

Takeshita: During the selection process, we responded to requests from shareholders and investors by focusing on finance and investor perspectives. We were confident bringing in an executive director who excels in these areas would help strengthen our business base, which is a priority for the Company. Additionally, we concluded an executive director with these attributes would improve the Board’s capacity to drive operational execution. Furthermore, the selection process included interviews with Ms. Ito and other members of the Nomination Advisory Committee, and I think these discussions had a significant positive impact as well.

Ito: Yes, we held discussions with the candidates to confirm their backgrounds and identify what they would like to achieve at the Company. Following these interviews, we examined and assessed the candidates during meetings of the Board of Directors and decided that Ms. Uehara was the best fit. Through this process, we also concluded that succession planning will be an important topic moving forward.

Takeshita: I share the same view. When developing our next-generation leaders, we shortlist candidates based on specific criteria and conduct interviews between these candidates and external experts and outside executive directors who are primarily members of the Nomination Advisory Committee. We also assign mentors to these candidates and guide their development using a succession chart. Although criteria for candidate selection vary depending on each position, we generally emphasize mental toughness, receptiveness, and willingness to learn. What points do you personally prioritize, Ms. Ito?

Ito: I believe in the importance of having the resolve and sense of responsibility to stand at the helm of the Company. From observing you closely, I feel that you truly love the Net One Group and its employees, constantly thinking about the Company both day and night. I want the Company’s next leaders to approach their roles with that same level of dedication.

Takeshita: Through ongoing corporate culture reforms, we are developing personnel capable of taking on challenges while facing risks. Once Net One Group employees understand a concept, they grow incredibly fast. I expect this trait will be advantageous when we are nurturing our next generation of leaders. Through future discussions covering a variety of topics, I look forward to gaining further insight that can be used to facilitate further growth moving forward.

Takafumi Takeshita

President & CEO

Maya Ito

Independent outside executive director
Chairperson of the Board of Directors
Attorney at law

Photo location: netone valley’s V-HALL

Message from the COO

We will steadily push forward with our shift toward services while strengthening co-creation with customers and partners

Takuya Tanaka

Executive director
Vice president
Chief operating officer (COO)

Photo location: netone valley's PARK space

Utilizing our refined integration capabilities to establish ICT platforms capable of facilitating response to environmental changes

Due to the increasing severity of Japan's declining birthrate, aging population, and labor shortages, networks and other information and communications technologies (ICT) are becoming an essential part of social infrastructure. In a society that relies on ICT, the importance of cybersecurity measures is also growing, and awareness of these issues is rising throughout society.

We believe that the decisive factor driving this trend in Japan was the spread of COVID-19, which changed the lifestyles of many people and accelerated work style innovation, such as the use of web conferencing and remote working. Adopting a global perspective, fully automated (level 4) driving has already become a commercial product within the United States, allowing professionals to eat, participate in online conferences, or otherwise effectively utilize their time while commuting, even if they are stuck in traffic. As regulations are relaxed, organizations are implementing advanced ICT-based services on a scale extending far beyond what is observable in Japan.

I view Japan's situation, which remains limited to adopting ICT practices from Silicon Valley, with a sense of alarm. However, due precisely to these circumstances, I believe the Net One Group's unique network-focused integration capabilities and critical assessment capabilities will become a major force in the Japanese market. In fact, customer demand surrounding networks and security has surged, and the Net One Group has established itself as a

trusted business partner. I sense many companies appreciate and value the wealth of expertise and practical experience the Net One Group has accumulated over the years.

Changes occurring among ICT vendors and partners are also contributing to the growth of our business. As ICT vendors consolidate and increasingly shift toward software, cloud, and subscription-based offerings, the advantages of the Net One Group's integration capabilities are becoming ever more apparent. At the same time, software and cloud services require hardware to be viable, so the integration of hardware and software remains crucial. The Net One Group's key differentiators include its multi-vendor integration capabilities and the technical support provided by its engineers, and these attributes constitute significant growth opportunities for the Company. Major manufacturer-affiliated system integrators are shifting toward service development through digital transformation and the application of AI, as well as toward consulting services facilitating the use of ICT in business. Given this context, we recognize the growing advantage represented by the Net One Group's ability to establish comprehensive ICT system designs by integrating infrastructure and services.

Steady progress in the three focus areas of our Medium-Term Business Plan and our shift toward services

The Net One Group has observed steady growth in social challenge-solving solutions within the three focus areas of the growth strategy in its Medium-Term Business Plan: smart manufacturing, digitalization of social infrastructure to realize Society 5.0, and digital government. Initially, we planned

to focus on initiatives related to these three focus areas while maintaining and developing relationships with existing customers. However, as these efforts have progressed, they have developed into a business unto themselves and continue to grow steadily.

The Net One Group is also generating steady progress through its shift toward services, another major cornerstone of its business strategy. In fiscal 2023, services generated 51.5% of our bookings and 49.1% of our revenue, with the latter figure falling slightly short of our 50% target. However, revenue secured through services is rising steadily relative to overall revenue growth. We have achieved particularly significant progress, in terms of our shift toward services, through the Public business.

Despite this progress, we are also beginning to identify issues we will need to address in the future. For example, when the customer's system includes equipment configurations designed by other companies, providing comprehensive support becomes difficult. Furthermore, preliminary assessments require considerable effort in these cases, which narrows our service recommendation options. Adopting a diverse range of perspectives, we are currently looking into how to provide services under such circumstances.

As we look ahead to future progress in our shift toward services and the path toward digital transformation, we are also reemphasizing the importance of hardware. We view the security landscape associated with the Internet of Things (IoT), which connects a wide range of devices through networks, as rife with opportunities for creating new businesses in the markets for major manufacturing industries and social infrastructure development. Additionally, in regions abroad where cloud usage is more prevalent, we are beginning to see a shift from hybrid environments, which combine cloud and on-premises systems, back to exclusively on-premises systems. The Net One Group is confident its ability to select and provide services that offer long-term value to customers in terms of both hardware and software will be a source of strength in the future.

Driving customer-facing initiatives through strategic organizational reforms

In April 2024, Net One Systems undertook organizational reforms that transferred previously centralized technical, strategic, and governance support functions to individual business divisions. By allocating these functions to individual business divisions, which typically have closer interactions with customers, we have enabled these divisions to handle entire processes—ranging from identifying customer issues to strategy formulation, sales activities, technical proposals, and corresponding verification. With our new organizational structure, we will pursue even more strategic and responsive customer-facing operations.

In anticipation of our next organizational reforms, we have inventoried the skills of our approximately 1,600 talented engineers, analyzing and cataloging each employee's technical specialties and competencies.

These reforms established an environment that has allowed the Net One Group to evolve into an organization capable of generating more comprehensive sales activities and recommendations. Accordingly, during the system design stage, engineers with knowledge of the customer's industry and business, as well as strong design skills, can participate in sales activities, enabling us to offer proposals that are closely aligned with the customer's needs. In the operational phase, our engineers can analyze prevailing circumstances to identify issues while cooperating with account managers to propose further improvements. We expect engineers who participate in sales activities to play a role in developing these value-enhancing proposals. In fiscal 2024, we plan to continue expanding our team of employees who interact with customers, thereby further enhancing our customer-facing initiatives.

Creating new core businesses through co-creation involving customers and partners

As we focus on expanding the growth of the Net One Group and ensuring a prosperous future, I recognize the key challenges we need to address are “targeting profit expansion” and “addressing staffing shortages.”

At the outset, in terms of “targeting profit expansion,” we will rigorously utilize our operations management systems to ensure we can generate revenue expansion while maintaining appropriate profit levels.

Next, with regard to “addressing staffing shortages,” we recognize the crucial first step of optimizing operational efficiency. By taking stock of current operations, we have identified many processes that can be entrusted to AI. Moving forward, we will ensure our efforts targeting improved operational efficiency include further application of AI technologies. Additionally, we aim to establish a diverse range of co-creation businesses by leveraging our strong business foundation beyond the confines of our Group and utilizing netone valley. We are already working with several companies to create new businesses and plan to continue actively engaging in co-creation while maintaining a fresh and open-minded perspective. Furthermore, by pursuing collaboration with partners from the initial phase of customer engagement, we will facilitate the discovery and creation of new needs and opportunities.

Through these initiatives, I hope to create a new core business for the Company over the three years of its next Medium-Term Business Plan. At the same time, I will ensure I fulfill my duties as COO by appropriately evaluating and executing strategic partnerships and M&A deals.

I would like to humbly request the continued support and confidence of all our stakeholders as the Net One Group targets further growth moving forward.

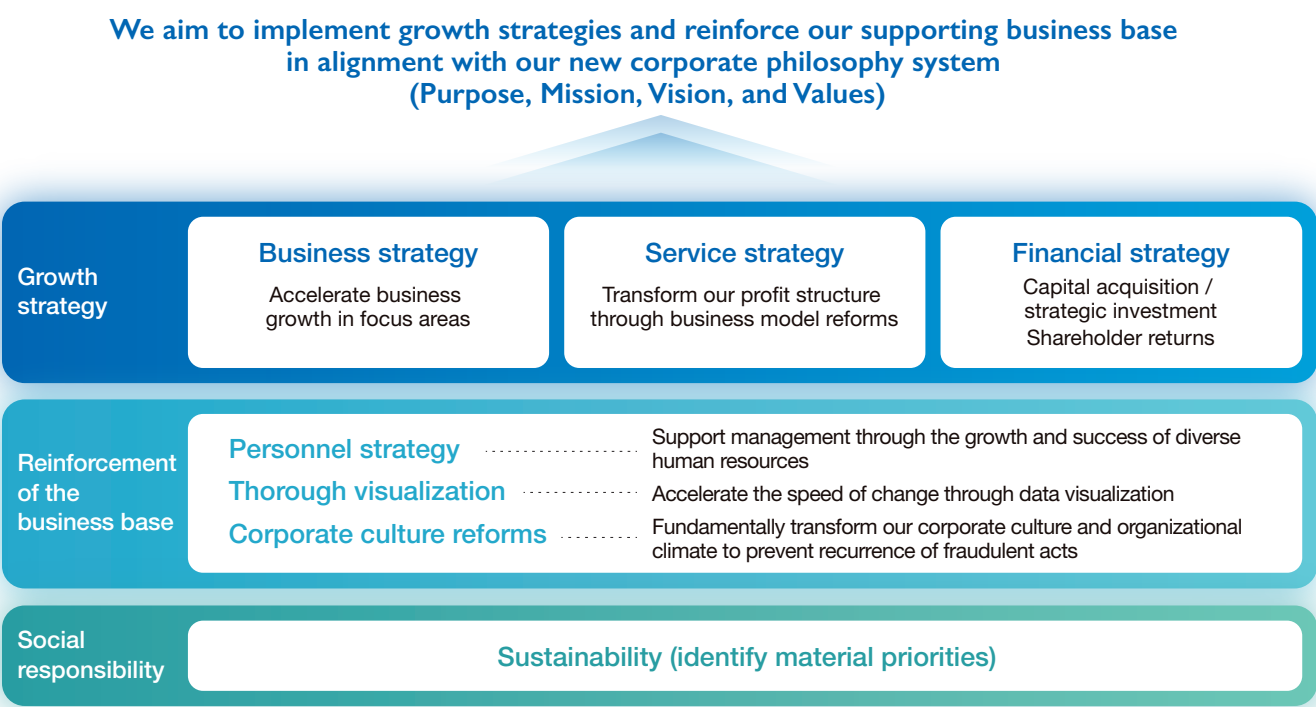
Progress of Medium-Term Business Plan (Fiscal 2022–2024)

Basic Management Policy

Under our new corporate philosophy system (see page 3 for details), we will implement growth strategies and reinforce our business base as we aim to further enhance

our corporate value and achieve sustainable growth. In addition, we will fulfill our social responsibility by promoting sustainability management.

Overview of Medium-Term Business Plan



Management Indicators and Corresponding Progress

In October 2023, we lowered our financial projections for fiscal 2023 due to stagnation in order bookings and slow improvement in profitability^{*1}. Despite growth in key focus areas within our growth strategy, we continued to observe

issues related to order intake and service profitability. In May 2024, we revised our forecast fiscal 2024, the final year of our Medium-Term Business Plan, based on bookings reported for fiscal 2023.

^{*1} Revised forecast for FY2023: Revenue of ¥201,000 million, operating income of ¥16,500 million, and operating margin of 8.2%

Projections and Results

	FY2021 result		FY2022 forecast	FY2022 result	FY2023 forecast	FY2023 result	FY2024 forecast (revised)
Operating margin	8.9%		10.5%	9.8%	11.2%	9.5%	9.5%
Revenue (million)	¥188,520		¥210,000	¥209,680	¥220,000	¥205,127	¥220,000
Service ratio	44.5%		47.6%	45.2%	50.0%	49.1%	50.0%
ROE	15.8%		19.2%	20.1%	19.5%	18.0%	20.0%

Growth strategy

Accelerating management to enhance our problem-solving solutions and improve capital efficiency and profitability P.23, 27

In terms of our business strategy, we have achieved solid growth through three key focus areas associated with response to social challenges amidst expanding demand for security enhancement and the adoption of cloud-based technologies due to advances in ICT utilization. With regard to our service strategy, we continuously strengthened our competitiveness by promoting three priority services that generate new value and building co-creation relationships

through the establishment of recurring-revenue businesses. Concerning our financial strategy, we pursued an optimal capital structure that prioritizes appropriate cost of capital in accordance with our capital allocation policy. Furthermore, we established processes for making investment decisions and carrying out investment aimed at enhancing profitability while concluding a committed credit line agreement to ensure dynamic and stable procurement of working capital.

Reinforcement of the business base

Personnel strategy

Targeting human capital management focused on developing and mobilizing human resources capable of thinking and acting independently P.53

Under our Personnel Management Policy, we introduced a new personnel system to build a framework that facilitates adaptation to changes in business operations and work styles, ensures market competitiveness, and encourages the long-term growth and development of our employees.

Additionally, we enhanced our training of “security personnel” and “cloud personnel” to accelerate our shift toward a service-based business model while strengthening our cultivation of “DX (digital transformation) personnel” to improve the capabilities of our corporate divisions.

Thorough visualization

Building information infrastructure for data visualization and analysis geared toward management reform P.45

We effectively captured timely data and information regarding business conditions and management issues, managed key indicators necessary for improving the momentum behind our management strategy, and conducted periodic monitoring of improvement proposals and their effects.

Additionally, we pushed forward with activities aimed at refining management and business administration through unified management of information, increasing operational efficiency through company-wide projects, and enhancing profitability management through integrated monitoring.

Corporate culture reforms

Targeting further corporate culture reform and improved implementation and application of recurrence prevention measures P.21

To prevent further incidents of fraudulent acts, we continued to implement company-wide initiatives and improvement measures in accordance with guidance from the Governance and Corporate Culture Advisory Committee. With the aim of strengthening governance, we held discussions regarding growth strategies, reviewed and revised optimal roles and

skills required for our Board of Directors, and carried out our first-ever third-party effectiveness assessment. Additionally, we facilitated dialogue between management and employees to foster understanding of our philosophy and conducted corporate culture monitoring survey.

Social responsibility

Promoting sustainability management aimed at achieving KPIs associated with material priorities P.49

Based on the Sustainability Policy we formulated in fiscal 2021, we have identified four material priorities as essential for sustainable growth. Thanks to the efforts we undertook in

connection with these priorities, our MSCI ESG Rating improved from A back to AA in August 2023.

Message from the CFO

We are committed to achieving improved profitability and efficiency through strategic investment

Masayuki Kitajima

Vice president
Chief financial officer (CFO)

Photo location: netone valley's NORTH OFFICE

Thorough performance management to ensure the achievement of profit targets

Since I became CFO in April 2023, we have been advancing various measures based on the financial strategy of our Medium-Term Business Plan. Among these measures, we are concentrating on business opportunities generated through the rapidly spreading prevalence of AI. For example, we anticipate the expanded application of AI technologies will lead to both growth in data loads and an increase in demand for enhanced network infrastructure, and we view these developments as major business opportunities. Furthermore, we expect AI will significantly reduce operational costs. At the same time, the shortage of ICT experts throughout Japan poses a business risk. As it increasingly books orders in association with large projects and as projects become more complex in general, the Net One Group has also experienced a growing shortage of personnel capable of handling work on the ground. In response, we are recruiting new personnel while also focusing on reducing labor requirements through the standardization and automation of operational processes.

In fiscal 2023, we responded to downward financial forecast revisions by implementing thorough performance management measures. These downward revisions were applied to reflect a decline in service profitability caused by delays in adjusting selling prices to cover rising costs. Having reflected upon these circumstances, we completely reexamined and fundamentally improved an exhaustive range of processes extending from performance forecasting to progress management.

When formulating our performance forecast, we drew on previous data to evaluate the feasibility of our targets and

executed a more in-depth evaluation of our order backlog with the specific goal of ensuring the accuracy of calculations and projections related to gross profit margins. Additionally, in terms of progress management, our corporate planning division meticulously reviewed the monthly revenues and operating incomes of all individual divisions, and we have also implemented procedures for managing price optimization and changes in additional costs—which are key to achieving our targets—on a monthly basis and for ensuring swift and immediate corrective action when issues are identified.

First and foremost, I aim to ensure the achievement of all established targets in the fiscal 2024 performance plan we formulated through these efforts. Moving forward, I will continue taking decisive steps toward fulfilling this plan while ensuring appropriate progress management throughout its term.

Steady progress achieved in association with all three pillars of our Medium-Term Business Plan's financial strategy

The financial strategy of our Medium-Term Business Plan includes three pillars. In terms of the first pillar, “strengthening profitability through strategic investment,” we are generating steady progress through efficiency-enhancing investment aimed at accelerating our shift toward services. From fiscal 2024, we will also prioritize investment in generative AI and develop our own large language model (LLM) to support the production of design documents while aiming to improve operational efficiency, reduce costs, and increase profitability. Meanwhile, we recognize that investment in M&A and other business activities will be an essential point of focus moving forward. However, finding M&A deals through which we can

achieve our internal rate of return (IRR) target of over 20% will not be easy. At the same time, we believe a consistent increase in human capital investment will be necessary each year. To cover these additional expenditures, we will aim to improve profitability by fostering service standardization and automation through efficiency-enhancing investment in projects such as the development of our own original generative AI technology and the overhaul of our business systems.

We are also achieving steady progress through efforts associated with the strategy's second pillar, “pursuing an optimal capital structure.” Our equity ratio rose from 42.3% as of March 31, 2022 to 46.5% as of March 31, 2024. Regarding financing, in preparation for orders we expect to book in connection with large projects moving forward, we finalized a ¥15 billion syndicated commitment line agreement in March 2024. The Net One Group has faced substantial funding requirements due to prolonged product procurement times caused by the 2021 global semiconductor shortage. Since similar situations could occur in the future, we believe securing stable financing through this commitment line agreement was a significant achievement.

As for the strategy's third pillar, “proactive delivery of shareholder returns,” we have at present raised our dividends for six consecutive fiscal years. Effective from fiscal 2024, we have introduced a policy of progressively increasing dividends in principle while maintaining our existing consolidated dividend payout ratio target of 40%. This policy further clarifies our commitment to prioritizing dividends, which we believe enhances the sense of security for those investing in Net One Systems. If we come to expect a long-term downturn in performance due to changes in market conditions, we may consider revising our dividend projections. However, temporary declines in performance will not lead to changes in these projections.

Targeting an appropriate market valuation through a logic tree-based approach to improving corporate value

In the May 2024 release titled “Notice regarding measures aimed at realizing management conscious of cost of

capital and stock prices”, we highlighted equity spread and PBR as key financial indicators. This announcement also covered tactics and measures targeting the achievement of management indicators by leveraging a logic tree-based approach to improving corporate value.

Our cost of capital is 6–7%, and as of end-fiscal 2023, our ROE was 18%. Accordingly, our equity spread is currently 11–12%. These levels are favorable compared to the averages among information and communications industry companies listed on the Tokyo Stock Exchange's Prime Market. However, we also recognize a gap between our perceived cost of equity and what our investors expect as returns on their investment.

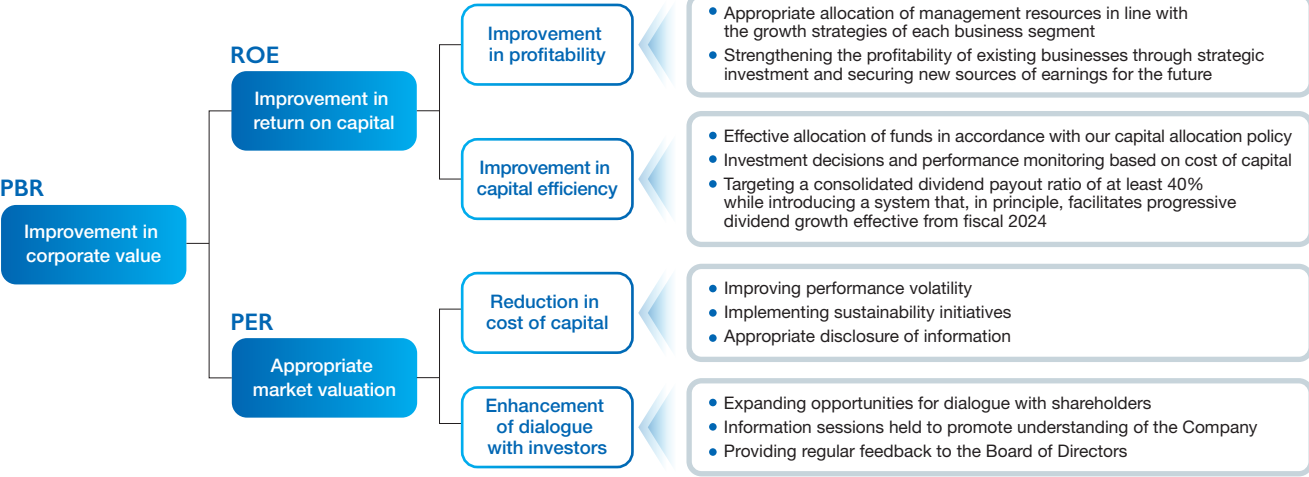
Our PBR, which is positioned at the top of our logic tree, is currently low when compared to those of industry peers and in comparison with our historical peak PBR, which was four times higher. This situation is the result of a significant adjustment in our stock price in response to concerns about our growth potential and a lack of confidence in our performance management, which were triggered in part by downward revisions applied to our financial forecast for fiscal 2023.

Raising these financial indicators will require improvement in return on capital. To generate this needed improvement, we will aim to restore our order acquisition capabilities by strengthening customer-facing activities and ensuring the achievement of our targets for bookings. Additionally, we will raise the profitability of our service business by reducing costs through standardization and automation and enforcing proper pricing.

At the same time, we will target an appropriate market valuation by refining performance management to eliminate negative surprises in the capital market and reduce our cost of capital by controlling performance volatility. Furthermore, we will increase opportunities for dialogue with investors and enhance market engagement by holding briefings to explain our business activities and strategies. We believe that steadily demonstrating our achievements through these efforts will lead to an appropriate market valuation for Net One Systems.

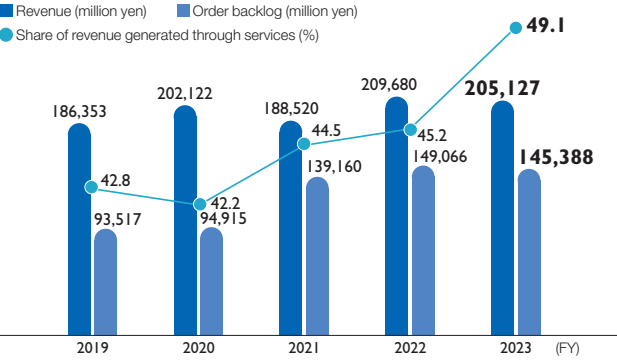
With many large projects in our pipeline, we will do our utmost to achieve our targets for bookings, enhance the reliability of our performance management, and steer the Net One Group back onto a growth trajectory based on strong profitability.

Logic tree for improvement in corporate value



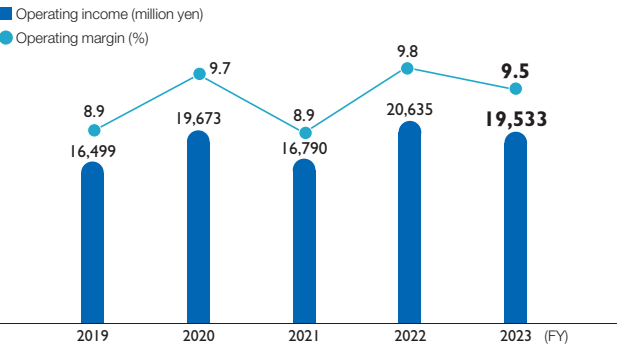
Financial Highlights

Revenue / Order backlog



Revenue varies depending on annual bookings but has recently hovered around ¥200 billion due to ongoing demand surrounding investment in digitalization. The Group's order backlog has remained high due to an accumulation of orders for services such as subscription-based services (primarily associated with multi-year contracts or large projects).

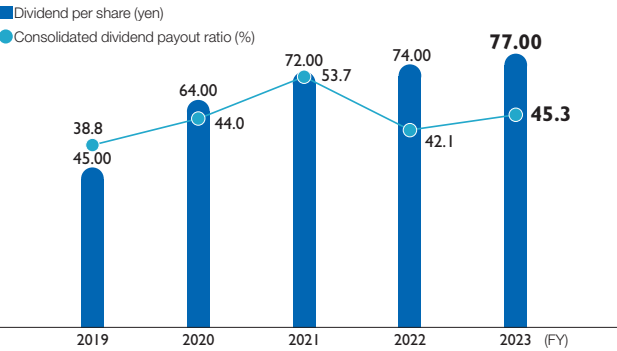
Operating income / Operating margin



Operating income has been trending from ¥16–20 billion due to revenue fluctuations resulting from prolonged product delivery times. The Group's SGA ratio has varied along with personnel and office expenses, but its operating margin has remained in the high 8% to 9% range thanks to its gross profit margin, which has held steady at 24–27%.

Dividend per share

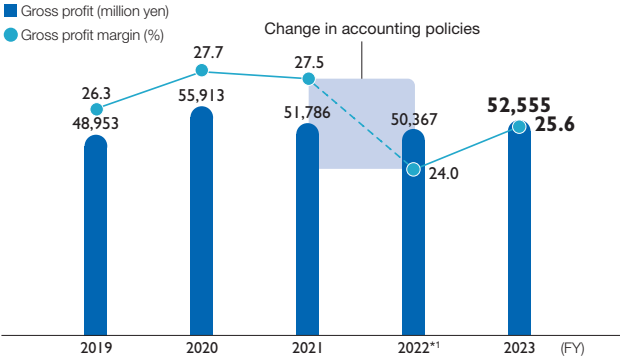
Consolidated dividend payout ratio



In addition to the capital allocation policy formulated in fiscal 2023, we introduced a general policy of issuing progressive dividends effective from fiscal 2024. In fiscal 2020, we raised our consolidated dividend payout ratio target from at least 30% to 40%. Furthermore, we have achieved six consecutive years of dividend growth dating back to fiscal 2018.

Note: Effective from fiscal 2022, we have begun recording a portion of labor costs and other expenses incurred through our engineering division (responsible for the rendering of services) as costs of revenue. These same labor costs and other expenses were previously booked as SG&A expenses.

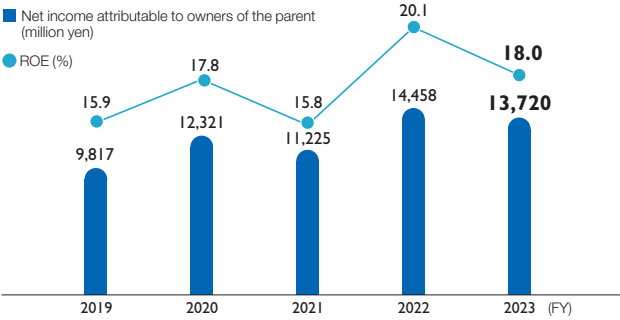
Gross profit / Gross profit margin



The Group continued to face challenges including additional costs incurred through prolonged product delivery times caused by semiconductor shortages that emerged in fiscal 2021 and delays impacting service price adjustments made to reflect cost growth. However, profitability has been rising thanks to the success of various countermeasures.

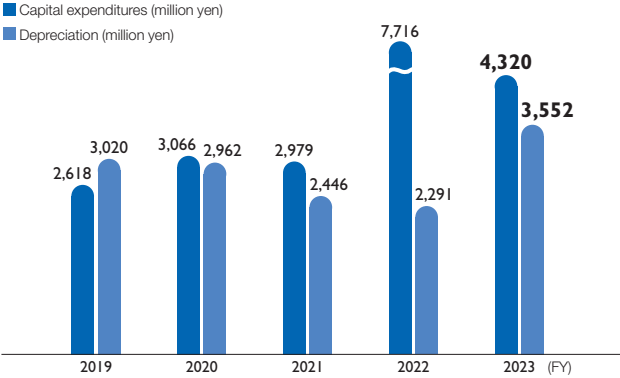
^{*1} If applying the Group's previous accounting policies, the gross profit margin for fiscal 2022 would be 26.2%.

Net income attributable to owners of the parent Return on Equity



Net income attributable to owners of the parent temporarily declined due to a revenue downturn caused by prolonged product delivery times but subsequently increased thanks to improved profitability. Similarly, return on equity (ROE) dropped in fiscal 2021 but has remained between 15% and 20% since fiscal 2019.

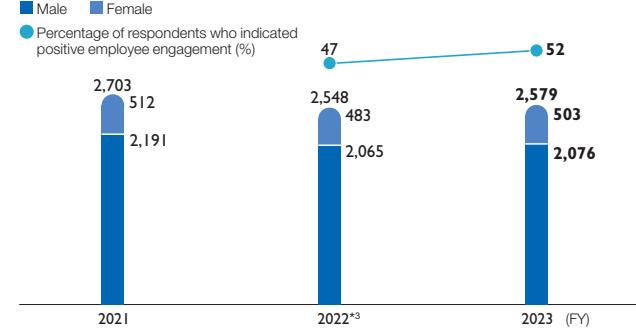
Capital expenditures / Depreciation



Our capital investment primarily targets the development of new products, the enhancement of evaluative systems, and the strengthening of our framework for customer support. Recently, capital expenditures have risen due to internal digital transformation initiatives and the acquisition of equipment for an office we opened in 2023. Depreciation has increased due to the acquisition of office-related equipment in fiscal 2022.

Non-financial Highlights

Consolidated employee count^{*2} and employee engagement

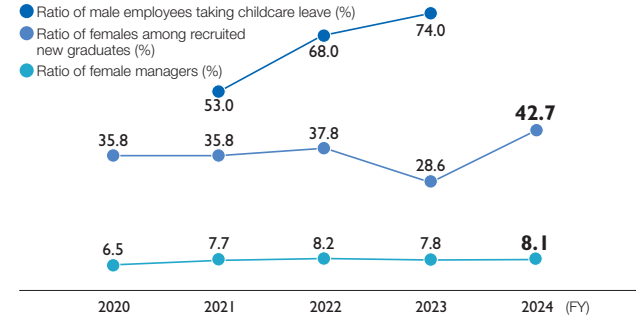


We have introduced a new personnel system while pushing forward with talent development and the creation of environments where our personnel can thrive. These efforts have generated growth in both employee satisfaction and the pride and enthusiasm our personnel feel when working for the Group. As a result, the share of survey respondents expressing positive employee engagement improved five percentage points.

^{*2} Includes current employees working directly for the Net One Group and employees seconded from other companies; excludes employees seconded outside of the Group, those on leave of absence, and those seconded to non-consolidated subsidiaries (Net One Systems USA and Net One Business Operations)

^{*3} The number of respondents for fiscal 2022 would have been 38 individuals higher if impact from the deconsolidation of two subsidiaries were excluded.

Ratios for female managers^{*4}, recruitment of new female graduates^{*4}, and male employees taking childcare leave^{*4}

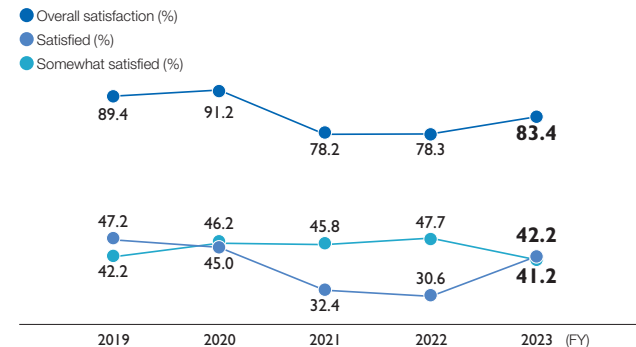


By fiscal 2030, the Net One Group aims to achieve a female manager ratio of 15%, a 50% ratio of females among its recruited new graduates, and a ratio of 90% for male employees taking childcare leave and special leave for childbirth. Accordingly, we are developing various initiatives and environments conducive to diversity and inclusion, exchange and communication with other companies, and career development for female employees.

^{*4} Figures exclude data from some overseas subsidiaries and some domestic subsidiaries of the Net One Group.

Note: Data used to calculate our female manager ratio and our ratio of females among recruited new graduates was current as of April 1. Meanwhile, data used for the calculation of our ratio of male employees taking childcare leave and special leave for childbirth was current as of March 31.

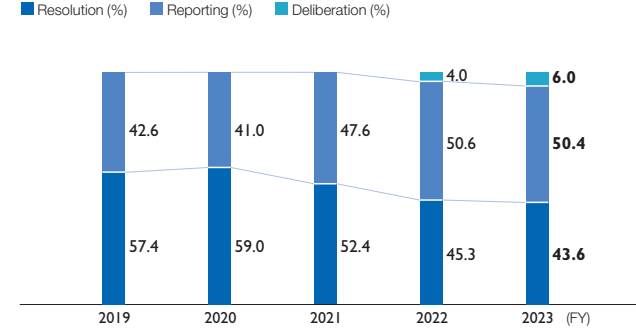
Customer satisfaction^{*5}



The Net One Group consistently strives to enrich the relationships it maintains with its customers, and its customer satisfaction is on the rise thanks to these efforts. While remaining attentive to the needs of our customers, we remain committed to delivering dependable, high-quality services and ensuring prompt response to any issues that may arise. In support of these objectives, we will continue to provide our customers with valuable information while sharing innovative and forward-thinking proposals.

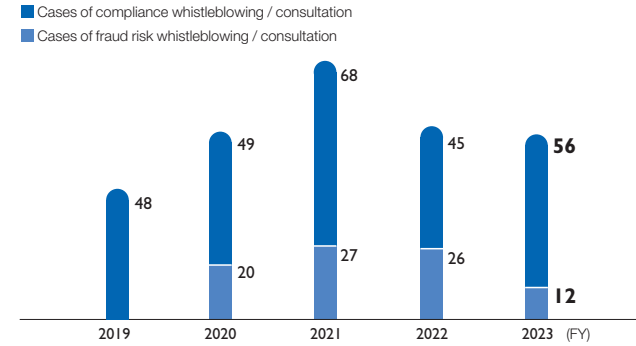
^{*5} Effective from fiscal 2021, we have changed our customer satisfaction survey policy, introducing a central focus on customer expectations.

Agenda for meetings of the Board of Directors



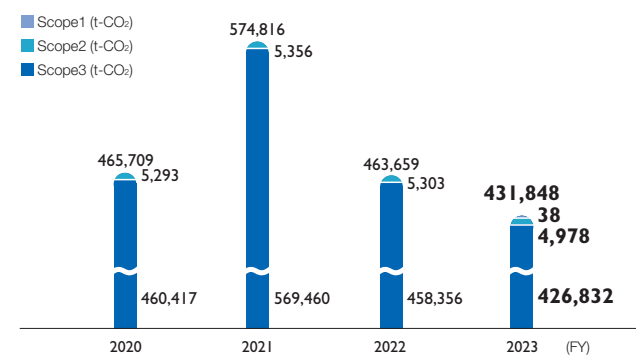
Effective from fiscal 2022, by delegating authority to the Management Committee and other bodies, we began narrowing the focus of our Board of Directors to agenda items of higher priority. Additionally, we added new deliberation items to the agenda, thereby facilitating intensive discussions and decision-making regarding growth strategies and other key issues.

Compliance and fraud risk whistleblowing / consultation



In fiscal 2022, we began allowing anonymous reporting to make whistleblowing / consultation more accessible and less daunting. Meanwhile, thanks to recurrence prevention measures implemented since fiscal 2021 in response to incidents of misconduct, fraud risk-related whistleblowing / consultation cases reported for fiscal 2023 were half those observed for fiscal 2022. The Company has received no reports regarding incidents with significant potential negative impact.

Greenhouse gas emissions



Greenhouse gas emissions for fiscal 2023 were down 6.9% year on year. The largest share of the Net One Group's greenhouse gas emissions falls under Scope 3, but the Group's Scope 3 emissions declined thanks to reduced product purchase costs, primarily resulting from improved product delivery schedules from vendors, which offset impact from growth in capital goods that occurred as the Group acquired equipment in connection with new business site openings.