2022–2024 Medium-Term Business Plan

Status of Medium-Term Business Plan and Progress toward Associated Targets

In 2022, the Net One Group launched a Medium-Term Business Plan that focuses on fully implementing its corporate philosophy system and its shift toward services. As we carry out this plan, we will reinforce our business base to facilitate the transition into our next phase of growth while steadily undertaking measures in association with all plan strategies and tracking progress using management indicators and KPIs.

Fiscal 2022–2024

Concept and strategy

Executing our growth strategy and strengthening our business base with the aim of realizing our new philosophy system (shift toward services)

In accordance with our redefined corporate philosophy system, we aim to further enhance our corporate value and achieve sustainable growth by implementing growth strategies and reinforcing our business base to support these strategies
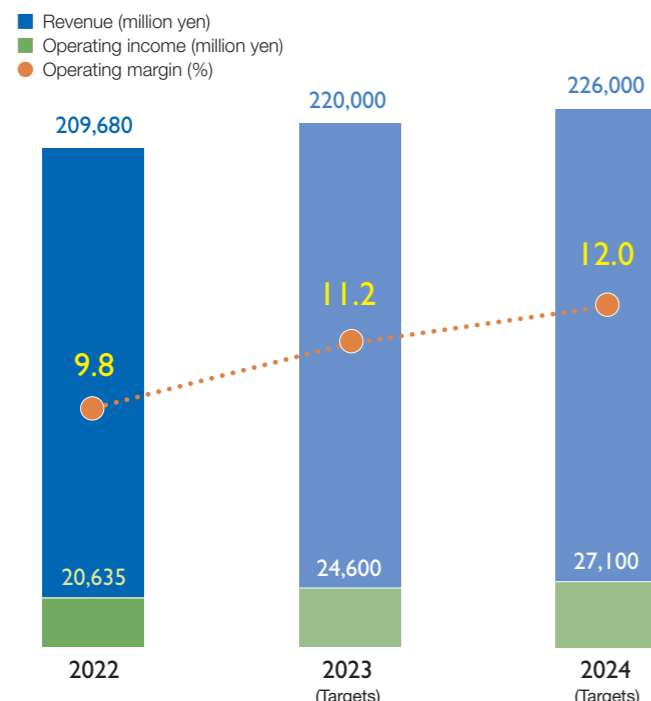
Growth strategy
Business strategy	Service strategy	Financial strategy

Reinforcement of the business base
Personnel strategy	Thorough visualization	Corporate culture reforms

Social responsibility
Sustainability

Management indicators and performance
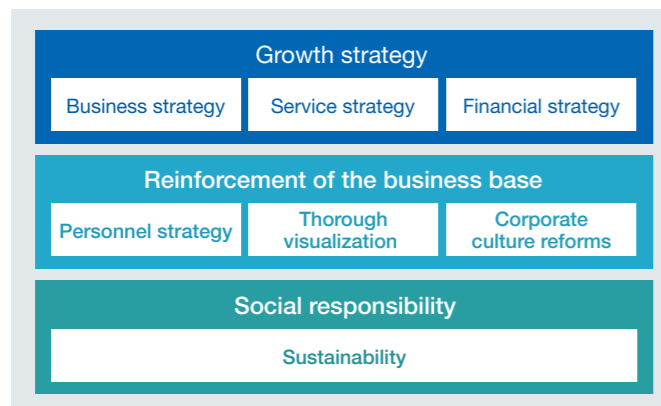
Fiscal 2022 performance on management indicators
(figures in parentheses indicate fiscal 2024 targets)

Service ratio
45.2% (55.0%)
+0.7 points YoY

ROE
20.1% (20.0%)
+4.3 points YoY

■ Revenue (million yen)
■ Operating income (million yen)
● Operating margin (%)

	2022	2023 (Targets)	2024 (Targets)
Revenue	209,680	220,000	226,000
Operating income	20,635	24,600	27,100
Operating margin	9.8	11.2	12.0

Fiscal 2022 progress summaries for each strategy

Growth strategy

Business strategy P.33 →

Achieved steady growth in all three of the focus areas we established with the objective of solving social challenges

Revenue from social issue-solving solutions

Fiscal 2024 target: **¥30.0** billion   Fiscal 2022 result: **¥7.2** billion

Smart manufacturing		Digitalization of social infrastructure to realize Society 5.0		Digital government	
Fiscal 2022		**Fiscal 2022**		**Fiscal 2022**	
Bookings	Revenue	Bookings	Revenue	Bookings	Revenue
¥4.3 billion	**¥2.0** billion	**¥3.5** billion	**¥1.7** billion	**¥10.5** billion	**¥3.5** billion

Service strategy P.34 →

Expanded business scope by providing new value and standardization

Facilitated our shift toward services in accordance with a network-based approach (share of revenue generated through services: 44.5% in fiscal 2021 → 45.2% in fiscal 2022)

● Established systems to support the comprehensive delivery of services
● Promoted standardization to clear a path for the generation of new value

Financial strategy P.35 →

Formulated a capital allocation policy to expedite the achievement of an ongoing cycle of corporate value growth

Conducted share buybacks as we aimed to raise both corporate value and shareholder returns

Reinforcement of the business base

Personnel strategy P.37 →

Revamped our personnel system to facilitate the implementation of management strategies and corporate value growth

● Promoted the development of professional personnel

Thorough visualization P.33 →

Conducted visualization-related initiatives in pursuit of business base reinforcement while implementing a company-wide strategy of digital reforms to enable prompt and appropriate decision-making

● Established data infrastructure consistent with our KPI logic tree to achieve our ROE target
● Continued focusing on reforms targeting improvements in data resolution and literacy

Corporate culture reforms P.38 →

Fostered our corporate culture by disseminating our corporate philosophy system

● Transitioned into the "appreciation" phase by ensuring understanding and widespread acceptance
● Raised awareness regarding compliance and observed more active use of our whistleblower system

Social responsibility

Sustainability P.37 →

Undertook initiatives targeting the achievement of materiality-related KPIs

● Promoted empowerment of women and work style diversification while expanding both diversity and inclusion
● Developed and secured personnel with multifaceted perspectives

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Message from the COO

We will create new business models and evolve into an unrivaled industry leader

Takuya Tanaka
Executive Director, Executive Vice President
Chief Operating Officer (COO)

Overview of the first year of our Medium-Term Business Plan

Generating further development through a focus on both the quality of use cases and the creation of unique added value

Last year, the Net One Group launched a three-year Medium-Term Business Plan that serves as the first step of the Company's grand design for the nine-year period leading up to and ending with 2030. The plan started off with a good first year during which we were able to determine courses of action for further development.

Business progress

We have accurately identified the customer and market needs associated with each of the three focus areas in our Medium-Term Business Plan and have thereby achieved steady progress within all of these areas. In terms of digital government, we plan to accelerate the digital transformation of municipal operations through the application of cloud technologies and security measures while also speeding up our delivery of proposals for the future expansion of cloud connectivity among government systems. With regard to social infrastructure to realize Society 5.0, we have begun to generate true progress through our efforts to facilitate digital transformation on a society-wide scale via ICT application. On the subject of smart manufacturing, we are observing growth in demand for network and data infrastructure capable of producing visible and understandable measurements of power consumption in factories. Given this favorable business environment, we believe in the importance of focusing on the quality of the outcomes we generate through each project while also establishing a launchpad for the operations we will conduct over the next three years. We should only regard an objective as accomplished when we have generated contributions that have an impact on society as a whole; for example, when end-users not counted among the customers served by the Net One Group enjoy improvements in convenience resulting from digital transformation. Regarding our current Medium-Term Business Plan as a period during which we can boldly continue to take on new challenges, we will aim to create exceptional and unprecedented new solutions and transform these solutions into services that will evolve the Net One Group's business model.

Progress on our shift toward services

Due in large part to our proactive ICT investment, we feel we have generated substantial progress through efforts aimed at facilitating our shift toward services. Recently, our clients have exhibited strong demand for spontaneous and unconstrained proposals from the Net One Group. We view this trend as an indication of the increasing difficulty our customers encounter when attempting to identify issues impacting their own digital transformation initiatives. Since issues differ from customer to customer and change over time, we cannot appropriately keep up with these developments unless we remain in close contact with our customers and confront these issues on a consistent basis. COVID-19 forced us to conduct operations remotely, but now that the pandemic has subsided, we are taking a fresh look at how we interact with our customers. One major objective of Net One Systems is the enhancement of its customer-facing activities, which require the sales and engineering divisions to cooperate side by side while establishing optimal systems and frameworks for each phase of the problem-solving process. While addressing this objective, we will also strive to improve the accuracy and visibility of the metrics we utilize to ensure timely and precise verification of operating income as we aim to raise our service ratio and improve profitability.

Implementation of our management policies

Moving forward, we strive to execute our growth strategy and strengthen our business base through clearer identification of pertinent issues. With regard to financial performance, we will continue undertaking efforts aimed at improving our cash conversion cycle and maintaining our ROE. In terms of personnel, we recognize the need to take especially targeted and immediate steps toward upgrading and optimizing our workforce. By promoting organic reallocation and reskilling among our personnel in accordance with our objectives, we will transition toward a highly profitable organizational structure. In terms of corporate culture reform, during the previous fiscal year, we achieved significant progress through efforts undertaken to inculcate our philosophy and raise employee awareness thereof. We are not content with this achievement alone and will continue to closely monitor the progress of our reforms to ensure that they maintain their current momentum while keeping up with our efforts to engage in dialogue with our employees.

Medium- to long-term issues

Pursuing the interests of both customers and the Net One Group while identifying changes in the needs of the market

In fiscal 2023, the second year of our Medium-Term Business Plan, we will examine the strategies we currently have in place, prepare for changes in the needs of the market, and step up our response to issues we expect to face as we aim to achieve our Vision for 2030.

Collaboration and critical assessment of market conditions

Both the ICT industry and vendor services are transforming on a daily basis. Moving forward, we expect to encounter services that will enable easy integration of ICT platforms without the need for integration. Accordingly, our success will be largely dependent upon the extent to which we can collaborate with vendors and incorporate these services into our own solutions. We are confident that we will be able to provide clients with forward-looking proposals if we remain sensitive to changes occurring throughout the world. However, we also recognize the need to pursue efficiency from a broader perspective, and we plan to undertake this pursuit using a variety of methods, such as leveraging tools provided by vendors and partners when launching new services. At the same time, we must maintain intense scrutiny to ensure appropriate pricing and sustain and improve our profits. Furthermore, circumstances require us to assess our competitiveness from the standpoint of profitability to determine whether the services we offer are appropriate for the market. Accordingly, we will further accelerate our shift toward services by dividing the market into specific areas of focus and enhancing our critical assessment of market conditions.

Enhancing consulting-related proposals and improving service literacy

As professionals providing solutions related to cloud technology and other building blocks associated with ICT platforms, we will strengthen our consulting capabilities to ensure comprehensive optimization of a wide range of operations spanning from system implementation to utilization. At the same time, we will develop personnel capable of identifying the lifecycles of ICT systems and delivering optimal proposals, while also formulating proposals that support the digital transformation strategies of our clients. System operation plays an important role in the ICT field, and data obtained through the performance of system operation can contribute greatly to the promotion of digital transformation. We are confident that we will be able to further accelerate our shift toward services by establishing a proposal methodology that allows us to render services for an all-encompassing scope of processes ranging from digital transformation strategy formulation to system operation.

We will also work to improve the expertise we bring to the table when providing consulting-related proposals. As we shift toward services, we must ensure "service literacy," which refers to our ability to identify both what our contributions to a client's operations will be and how the Net One Group's interests will be served through these contributions. Our clients will inevitably need to conduct a variety of ICT investments, but many of these clients encounter difficulties when attempting to

accurately assess the cost of these investments. We believe that our role and responsibilities require us to maintain service literacy while providing solutions that only we are capable of developing and delivering truly necessary services to our customers at fair prices.

Future outlook

Securing market dominance by continually generating change

Rapid advances are being made in the ICT industry, and the pace of change within the industry is accelerating as emerging forces revolutionize conventional commercial flows and business practices. The Net One Group concentrates primarily on ICT platforms, but we will not remain satisfied with our current business scale moving forward. Partnerships with industry peers specializing in unique fields of expertise constitute one avenue through which we could expand our business scale. At the same time, we could secure the additional personnel this expansion would necessitate through M&A involving companies employing the engineers we would require. By collaborating with emerging forces providing services that raise questions regarding the future significance or relevance of integration, we are confident that we can achieve mutually beneficial progress as we head into the future. Net One Systems is blessed with a large staff of talented engineers. We also have a range of unmatched strengths including our ability to effectively apply the core network systems-related technologies we have developed throughout our existence while adapting them to new and advanced technologies. Thanks to these advantages, we are able to collaborate with a wide range of vendors and partners, including emerging forces with the potential for substantial market impact. Aside from these attributes, we also possess the flexibility that comes with being an independent company, allowing us to make our own decisions and generate favorable strategic changes. Our ideal approach is to proactively generate change rather than react once it occurs.

As society undergoes rapid changes due to digitalization and the exchange of massive and wide-ranging volumes of information continues unabated, our clients will expect us to provide proposals formulated based on a true understanding of their needs. Customers themselves may not be aware of issues with their current services and accordingly may not recognize problems associated with obsolescence, blackboxing, or the emergence of new risks. Net One Systems recognizes the critical importance of generating a greater number of opportunities to meet directly with customers and hold discussions with them, thereby improving our understanding of their ideas and priorities. Accordingly, we will accelerate our development of personnel capable of mapping out master plans of ICT systems together with our clients while also adjusting the services we provide according to external environmental changes.

Applying its unique strengths, the Net One Group will maintain a mutually beneficial coexistence with emerging forces while exploring the potential advantages of M&A and alliances with partners equipped with new technologies. At the same time, we will steadily perform conventional integration through collaboration with existing vendors. Through this two-sided approach, we will continue to secure our unique identity and superior position in the market.

Message from the CSDO

Accomplishment of growth strategies and implementation of company-wide business reforms using digital technology

Koji Tsuji
Senior Vice President
Chief Strategy & Digital Officer (CSDO)

Role of the CSDO
Improve the speed and efficiency of management strategies through the promotion of digital tactics

I assumed the office of chief strategy and digital officer (CSDO) effective from the beginning of fiscal 2023. As CSDO, I will be expected to devise digital plans aimed at further accelerating our strategies while also fulfilling the conventional role of chief strategy officer (CSO) by ensuring the implementation of business strategies driven by synergy generation performed on an organization-wide scale. As the Net One Group pursues further development moving forward, I will help ensure that we prioritize initiatives aimed at raising the sophistication of visualization technologies while facilitating business reforms and internal control enhancements through both improvements in data resolution and the development of data literacy. Furthermore, to improve the value provided by our human capital, we will strive to effectively utilize personnel data while cooperating closely with chief executives to successfully implement a data-based management cycle.

Promoting "visualization"
Defining data-related parameters that will form the basis for managerial decision-making

As we aim to maximize our corporate value, we recognize the critical importance of both establishing organic links between our sales, engineering, and corporate divisions through digital technologies and uniting the Net One Group into a single integrated team. "Visualization" is one of the strategies we are employing to strengthen our business base as we pursue these objectives; this term refers to the real-time sharing of data on which all employees rely to make prompt and appropriate decisions. Furthermore, fostering a culture under which decisions and actions are based on data can also contribute to corporate culture reform. Currently, we are in the process of verifying what data to share and how it can best be dispensed in support of our decision-making. Our Corporate Data and Analytic Office is fulfilling a central role as we carry out these processes.

During fiscal 2022, in accordance with the KPI logic tree we have adopted in pursuit of ROE achievement, we prepared necessary data for all divisions and established environments that allow this data to be viewed by all division heads. As a subsequent step, we are ensuring consistency between our data and our KPI logic tree, which breaks down the missions of individual divisions while illustrating the paramount importance of ROE, which is set at the top of the tree, as a management indicator. Through these efforts, we will ensure that our business operations remain effective and cohesive while striving to advance digital transformation as a company-wide strategy.

Business strategy
Increasing the versatility and productivity of management and operations to respond promptly to changing customer needs

In fiscal 2022, both revenue and bookings were commensurate with our projections, confirming that our strategy of focusing on social challenges was appropriate. Within our three focus areas, we are ensuring that we accurately perceive changes in customer needs that arise from the development of ICT. In terms of digital government, performance was primarily driven by projects related to security reinforcement, the promotion of digital transformation, and work style innovation. As an additional business opportunity, we are exploring possibilities associated with the redesign of network systems compatible with the government cloud environment. With regard to smart manufacturing, we are observing demand for security reinforcement amid the establishment of networks linking factory production lines. We are confident that this demand will persist moving forward due to increasingly intense efforts aimed at relocating production bases to Japan. In the case of social infrastructure to realize Society 5.0, we are witnessing a trend toward activities targeting enhanced group security governance among companies responsible for social infrastructure. We plan to leverage the expertise we have accumulated through our establishment of security cloud and service platforms to transform these business opportunities into new projects.

In the future, emerging demand will require more rapid problem solving and changes in certain elements of technology. Net One Systems will continue to provide consistent value, but this value will take the form of services that customers can utilize toward favorable ends. We are currently striving to standardize our service development models and are confident that these efforts will accelerate our business by heightening the sophistication of our services and raising the value we deliver while simultaneously improving our profitability.

Personnel capable of generating new ideas are indispensable for both the transformation of business models and workflows using digital technology and the cohesive enhancement of visualization. As essential technologies and mechanisms change, we are viewing efforts targeting the resolution of social challenges as an avenue through which personnel can hone their abilities and broaden their perspectives. Accordingly, we will share our own efforts and activities associated with these challenges to serve as a reference for both our customers and industry peers who face similar issues, thereby helping to address the challenges confronting society at large.

Message from the CTO

Support the acceleration of client operations by generating always-optimal ICT platforms and new ways to apply data, leveraging our expertise as network professionals

Fumihiko Shinoura
Senior Vice President
Chief Technology Officer (CTO)
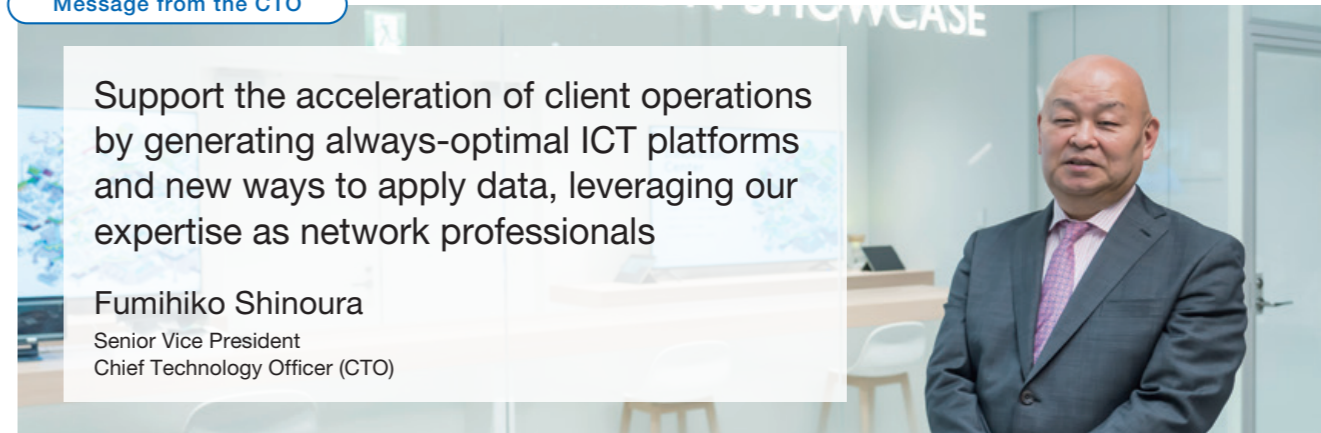
Overview of the first year of our Medium-Term Business Plan
Revising our service delivery system and providing comprehensive and highly competitive services

During the first year of our Medium-Term Business Plan, we successfully established a three-year service strategy execution system while expanding our service portfolio. As a stepping stone toward achieving our long-term strategy, we have set common goals for our three engineering divisions (Sales Engineering Unit, Customer Service Division, and Business Development Division) and established KPIs and KGIs for achieving these goals.

With the full-scale arrival of the cloud computing era, we are beginning to witness changes in the systems utilized by vendors and transitions in the way ICT assets are being held due to the shift toward multi-cloud systems. Previously, support from vendors consisted primarily of faulty equipment replacement and software updates. However, moving forward, vendors will attempt to transition toward programs predicated upon stable operation (e.g., monitoring of operational statuses and version upgrades that do not interrupt system performance). Net One Systems has long established the system environments required by its customers using various combinations of products from vendors while delivering services that maximize product performance. As multi-cloud environments become increasingly complex in the coming years, we believe the key to growth rests upon the extent to which we can raise the value of our comprehensive services while demonstrating the unique strengths of the Net One Group and assisting customers as they aim to ensure stable operating conditions and establish the system environments that fulfill their needs.

When making system-related proposals moving forward, we will not fully standardize these proposals, which requires too much time, nor will we fully customize them, which causes difficulties associated with operation. When dealing with particularly challenging systems, we will work toward standardization by organizing necessary elements into system components. We will work to increase system integration speed, which is a high priority for our clients, and at the same time fundamentally revise our proposal methods while concentrating on preventing system failures through operational automation. Additionally, we will aim to radically improve productivity by optimizing and increasing the visibility of workflows through process mining while effectively applying generative AI, which will be a crucial element of innovation moving forward. By undertaking these new initiatives, we will accelerate the Net One Group's forward-leaning service strategy.

Service strategy outlook
Targeting improvements in system stability and facilitating the success sought by customers through new collaborative relationships involving our customers, Net One and vendors

With the accelerated adoption of multi-cloud systems, networks are becoming more sophisticated, giving rise to demand for both the system integration we have performed to date and solutions that improve system stability and contribute to our clients' business through the ongoing delivery of added value. Moving forward, we plan to concentrate on developing more advanced networks, ensuring security, adopting data visualization that will facilitate data usage within business divisions, and managing data. Networks are ideal for monitoring the flow of data and extracting necessary data points. At the Net One Group, we believe that extracted data can be processed flexibly through the cloud by using advanced technologies such as AI and data lakehouses (data management and processing platforms). Furthermore, we recognize that the integration of data lakehouses and networks will enable independent extraction, processing, and linkage of data, thereby allowing for data management that does not require the use of applications. In the future, we will generate advanced cases that support the creation of new architectures that eliminate the need for updates to mission-critical systems.

As we pursue these objectives, we must recognize the critical importance of establishing more points of customer contact throughout various phases of client ICT lifecycles and developing deeper relationships with these clients (improving customer intimacy). Accordingly, the Net One Group is examining wide-ranging plans that extend to system linkage. Connecting with customers and vendors through secure system linkage will speed up support while enabling the virtual coordination of a comprehensive range of operations, including AI-based failure prevention, version upgrades, and security updates. To date, we have taken on challenges associated with next-generation networks and optimized ICT platforms. However, the possibilities surrounding networks remain unlimited. Accordingly, we will continue to pursue customer success by collaborating with our clients to develop ICT platforms that support their business activities and by serving as a strategic partner indispensable from the standpoint of business growth.

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Message from the CFO

We will commit to achieving the goals of our Medium-Term Business Plan and ensure effective fund allocation

Masayuki Kitajima
Senior Vice President
Chief Financial Officer (CFO)

My appointment as CFO
Applying prior experience while focusing on strengthening Net One's organizational infrastructure and fulfilling my role as CFO

For many years, I previously held finance and accounting positions at a major general trading company, where I also served as CFO of the business group for which I was responsible. While fulfilling my duties, I gained a wide range of experience in areas including financial settlement, investment project review, and tax affairs. I also contributed to the success of business integration projects involving affiliated companies and the management of overseas subsidiaries while gaining on-site experience with investee companies.

Net One initially struck me as a highly profitable company backed by high-level expertise and technological capabilities. However, I also experienced the Company's implementation of recurrence prevention measures it announced in 2021 and the efforts it undertook to strengthen its governance structure and internal controls. As a result of this experience, I realized that I wanted to contribute to the enhancement of Net One's organizational infrastructure. Accordingly, I joined Net One's management team with the objective of focusing on protective initiatives grounded in my own professional experience. After having served as chief risk management officer (CRO) and chief compliance officer (CCO) in fiscal 2022, I began performing duties as CFO in April 2023. The entire Net One

team is working diligently to strengthen governance and internal controls, and I am confident that we are generating steady progress through these efforts.

Fund allocation in support of growth strategies
Effectively allocating funds in accordance with our capital allocation policy

The Net One Group's financial strategy aims to enhance corporate value through three pillars: the strengthening of profitability through strategic investment, the pursuit of an optimal capital structure, and the proactive delivery of shareholder returns.

In May 2023, the Net One Group moved to facilitate its implementation of management with an emphasis on capital efficiency by announcing its capital allocation policy. Under this policy, the Group will primarily draw funds from cash generated through operating activities in accordance with growth strategies included within its Medium-Term Business Plan. Furthermore, we will target further improvement in corporate value by allocating funds to three objectives: strategic investments, financial base enhancement conducted in pursuit of an optimal capital structure, and steady and flexible delivery of shareholder returns.

First, with regard to strategic investments, we have launched an Innovation Center and aim to facilitate visualization and establish digital transformation infrastructure while

improving our service platforms for business and investing in human capital. As we aim to facilitate visualization, we will concentrate on increasing the precision of our cost management and utilizing information gained through visualization to arrive at more sound business decisions. In terms of service development, we are witnessing a trend among vendors to shift toward subscription-based models predicated upon assumptions of ongoing usage. Under these circumstances, we are confident that we can improve profitability by pushing forward with our shift toward services and enhancing our efficiency. We are also prioritizing investment in personnel. The Net One Group's technological and critical assessment capabilities are the driving forces behind its business activities and are major sources of its overall strength. As we invest in the personnel who provide these capabilities, we will proactively target recruitment, the development of employees able to facilitate digital transformation and deliver high added value, and employee reskilling efforts. In addition, we will enthusiastically undertake measures aimed at nurturing new opportunities for inorganic growth, including strategic investments, business investments, and M&A. Next, with respect to financial base enhancement, we will steadily strengthen our equity capital and repay borrowings while ensuring that we maintain working capital and the capacity to provide shareholder returns. Our target dividend payout ratio is 40%, and we achieved a consolidated dividend payout ratio of 42.1% in fiscal 2022. In May 2023, we announced a resolution authorizing the acquisition of up to ¥7.5 billion in treasury shares by the end of December 2023. If our cash position is more favorable than anticipated, we will consider delivering additional returns in accordance with our capital allocation policy. At the same time, we will aim to achieve targets in our Medium-Term Business Plan while remaining mindful of external environmental risks, such as supply chain disruptions caused by geopolitical risks and soaring costs.

Achieving an ROE target
Adopting a multifaceted approach targeting steady achievement of 20% ROE

My mission as CFO is to steadily achieve our ROE target of 20% throughout the duration of our Medium-Term Business Plan. Accordingly, I am ensuring that we adopt initiatives in accordance with the three perspectives: profitability, asset efficiency, and financial leverage.

With regard to profitability, we will strategically invest in growth, infrastructure, and overall improvement. We also regard visualization as critical toward improving profitability. As we aim to fine-tune our cost management, our three chief executives (the CFO, CTO, and CSDO) are working together from a top-down point of view. Furthermore, we will also target growth in profitability by adopting measures aiming to eliminate personnel shortages and improve operational efficiency through the use of generative AI.

In terms of asset efficiency, we are prioritizing our cash conversion cycle (CCC). As a consequence of longer product procurement times stemming from semiconductor shortages,

inventories have grown and projects have become increasingly prolonged, temporarily raising the number of days in our CCC. However, we are committed to improving this situation and are aiming to eventually return our CCC to lengths reported before product delivery times began to lengthen.

Concerning financial leverage, we are chiefly focusing on the need to further strengthen our equity capital. Companies in the network integration industry, a category that includes Net One Systems, do not require large amounts of capital investment and tend to have high equity ratios. While remaining aware of the equity ratio of industry peers, we must also adopt a leverage-based perspective as we explore effective uses of debt financing for business expansion and avenues through which we can diversify our debt financing methods. Our interest-bearing liabilities are partly characterized by growth in lease obligations, which is largely the result of expansion in recurring-revenue businesses that we achieved in accordance with our growth strategy. Through the establishment of strategic procedures and mechanisms, we successfully provide services without having to retain assets. However, depending on future cash positions and profitability, we also view the retention of assets as an additional option.
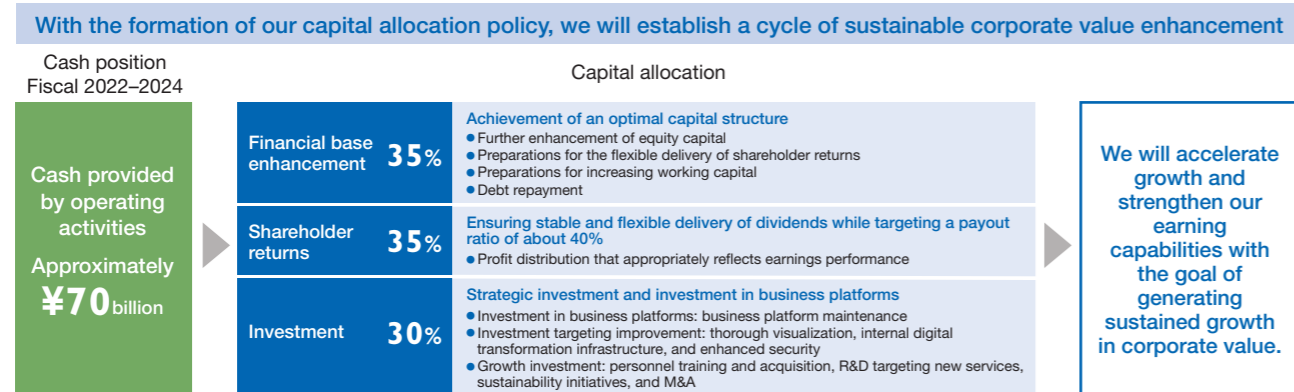
Maintaining dialogue with shareholders and investors
Focusing on enhancing dialogue as CFO and a member of the chief executive team

For CFOs, commitment to achieving financial and numerical targets is critical. To foster this commitment, we distribute video messages internally while providing employees with opportunities to engage in direct discussions regarding both financial strategies and aspects of our KPI logic tree in accordance with our RCT doctrine*1. Having received questions directly from employees, we are beginning to sense high levels of interest within the Company while witnessing positive effects from the growing awareness of our KPI logic tree. Net One Systems conducts a wide range of IR activities, including conferences with investors both in Japan and overseas, smaller investor meetings, and IR operations carried out abroad. Our entire chief executive team, including both the CEO and CFO, commonly take part in these activities. Furthermore, the chairperson of our Board of Directors and our outside executive directors actively maintain dialogue with our shareholders, and we have received high praise for this approach. While further expanding its two-way communication efforts, Net One Systems is focusing on activities aimed at ensuring that feedback received is reported to the Board of Directors for immediate action targeting swift improvement. We will continue to proactively create opportunities for dialogue regarding both cost of capital and ROE.

Moving forward, we will continue to ensure the implementation of our financial strategies while further improving our dialogue with shareholders and investors to drive sustained growth in our corporate value.

*1 Respect, Communication, and Teamwork (RCT): A shared communication approach designed to create strong links between management and employees, share our corporate philosophy, enhance workplace environments, and foster our corporate culture

Capital allocation policy

With the formation of our capital allocation policy, we will establish a cycle of sustainable corporate value enhancement

Cash position Fiscal 2022–2024	Capital allocation		
Cash provided by operating activities **Approximately ¥70 billion**	**Financial base enhancement** **35%**	Achievement of an optimal capital structure ● Further enhancement of equity capital ● Preparations for the flexible delivery of shareholder returns ● Preparations for increasing working capital ● Debt repayment	**We will accelerate growth and strengthen our earning capabilities with the goal of generating sustained growth in corporate value.**
	Shareholder returns **35%**	Ensuring stable and flexible delivery of dividends while targeting a payout ratio of about 40% ● Profit distribution that appropriately reflects earnings performance	
	Investment **30%**	Strategic investment and investment in business platforms ● Investment in business platforms: business platform maintenance ● Investment targeting improvement: thorough visualization, internal digital transformation infrastructure, and enhanced security ● Growth investment: personnel training and acquisition, R&D targeting new services, sustainability initiatives, and M&A	

Notes: R&D expenses have been deducted from cash provided by operating activities.
Allocation percentages indicate shares of total capital allocation projected throughout the three-year duration of our Medium-Term Business Plan.

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Message from the CHRO, CRO, and CCO

Aiming to be a company that functions as a cohesive team, delivering value through its personnel strategy

Mitsuru Kiuchi

Executive Director, Executive Vice President
Chief Human Resources Officer (CHRO)
Chief Risk Management Officer (CRO)
Chief Compliance Officer (CCO)

Overview of the first year of our Medium-Term Business Plan

New personnel system emphasizing team-based operations that maximize individual strengths
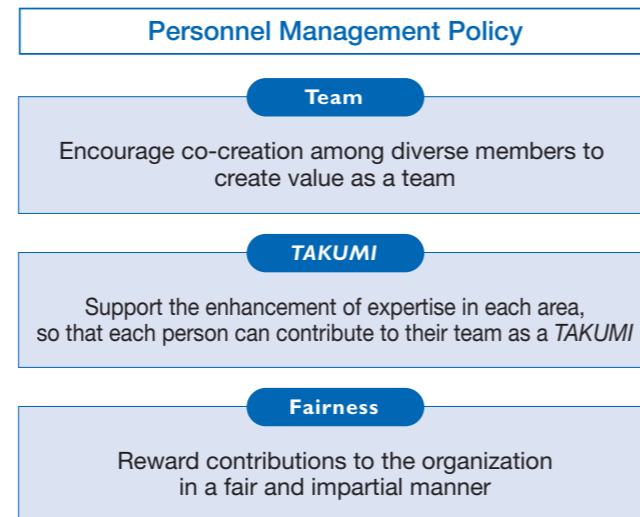
Since the launch of our Medium-Term Business Plan, we have been revamping our personnel system to ensure effective adherence to the key themes of our personnel strategy: professional personnel training and providing an environment where personnel can thrive. Over the past year, we have held discussions targeting the creation of a new personnel system that brings our management and personnel strategies into alignment, and in April 2023, we overhauled our evaluation system before updating our grading and compensation systems in July. Moving forward, we will concentrate on administering this system in the most effective manner possible while pursuing further reforms.

At the core of our personnel system reform efforts is our Personnel Management Policy, which is based on the principles of "Team," "*TAKUMI* (experts)," and "Fairness."

To date, the Net One Group has achieved business expansion primarily through individual strengths. However, if we aim to broaden the scale of our operations, increase our profits, and achieve further growth moving forward, we believe that we must establish organizational management that leverages these individual strengths to the fullest extent possible. Many of our clients are now demanding digital transformation that supports the resolution of fundamental business issues while contributing to business growth. To fulfill these needs, the Net One Group must also change. In addition to fully understanding the value chains of our clients in their entirety, we must be able to determine the objectives we need to achieve in order to facilitate client success. As we aim to achieve these capabilities, we must bring together individuals with different specialties, thereby establishing a highly knowledgeable team capable of addressing the issues confronting our clients.

Through its Personnel Management Policy, the Net One Group aims to achieve growth by molding itself into a large and cohesive team that maximizes individual strengths and skills of *TAKUMI* and fosters a culture that encourages individual members to contribute to the overall success of the team. We believe that these objectives reflect our policy's principles of "Team" and "*TAKUMI*." With regard to "Fairness,"

we will ensure impartial and unbiased assessments of performance. Our new personnel system allows employees to be confident that their individual achievements, as well as those of the team and the Company, are all integral parts of a unified whole.

Personnel Management Policy

Team

Encourage co-creation among diverse members to create value as a team

TAKUMI

Support the enhancement of expertise in each area, so that each person can contribute to their team as a *TAKUMI*

Fairness

Reward contributions to the organization in a fair and impartial manner

Medium- to long-term strategy

Adopting holistic perspectives as we develop personnel strategies to drive further growth for the Net One Group

Bringing our management strategy and personnel strategy into alignment

Moving forward, we will adopt even broader perspectives as we develop personnel strategies designed to facilitate the achievement of our management strategies. By looking forward to 2030 and establishing an ideal vision for the state of the Net One Group at that time, we will ensure our ability to visualize discrepancies between our present state and this vision by determining the types and quantity of personnel necessary for its achievement. Identifying the expertise, qualities, and manpower we need will benefit our training strategies while supporting optimal personnel allocation. With these ideas in mind, during fiscal 2023, we will establish a personnel strategy framework that reflects our approaches to recruitment, placement, training, evaluation, and benefit systems, thereby enabling us to respond flexibly to possible medium- to long-term changes in our business environment.

Through our KPIs, we will also track the extent to which personnel measures are contributing to the improvement of our corporate value. Despite difficulties stemming from a complex web of intertwining factors, we intend to explore KPIs on the basis of quality, quantity, and productivity while determining through visualization which personnel-related figures are linked to business growth. Based on the results of these efforts, we will logically identify the best ways to conduct personnel investment in accordance with our capital allocation policy.

Meanwhile, to enhance employee engagement, we prioritize the continuous administration of engagement surveys. In addition to providing insight into the effectiveness of various measures through fixed-point measurement, we are confident that these surveys facilitate understanding of the trajectory the Net One Group aims to follow going forward by providing employees with an annual opportunity to view survey items.

Creating a foundation for the support of employee growth

Currently, we are tackling the challenge of developing personnel capable of managing organizations and building teams. When aiming to raise their management skills, personnel need to gradually increase the sizes of the organizations for which they are responsible. Accordingly, we will establish environments that enable our personnel to take on the challenge of managing large organizations. In fiscal 2023, we will continue to hold discussions aimed at developing an ideal vision for our organization that can be applied to our next Medium-Term Business Plan. At the same time, while ensuring that middle-level managers remain accountable to their team members, we will build a personnel framework that avoids multi-level structures, thereby enabling management to speedily apply feedback from employees.

When conducting personnel evaluations, we will emphasize team building and assess both behavior and performance. Instead of handling tasks and generating results alone, we will encourage employees to delegate work to younger employees while providing support, thereby providing them with opportunities to develop and grow. Additionally, we will evaluate more than just the results of our work; we will also examine and assess the processes that generate these results and the individuals who develop and support our personnel. Furthermore, we will strive to achieve impressive results by ensuring that the job skills and expertise that were formerly held only by individuals are shared with all team members. Through these efforts, we will generate ongoing growth for the Net One Group.

Facilitating more diverse knowledge and experience

The Net One Group recognizes the essential importance of recruiting diverse personnel with knowledge of various industries and enhancing its overall strength as it aims to conduct business based on a deeper understanding of client operations. Our materiality-related KPIs include our ratio of female managers. However, we believe that we need to dig even deeper than empowerment of women and work style diversification as we target further diversity and inclusion and more through knowledge and experience. With this idea in mind, we will maintain a multi-dimensional approach as we intensify our efforts to develop personnel with unprecedented experience and expertise, while also concentrating on securing new personnel.

Corporate culture reforms

Reforms are progressing steadily and are now moving into the "harmonization/resonance" phase

We are confident that the increasingly widespread awareness of our newly formulated corporate philosophy system is generating positive effects. Furthermore, we believe that our periodic engagement surveys are also helping to foster employee awareness.

There is no final goal line when it comes to corporate culture reforms. Through growth in understanding and awareness, the development of our corporate philosophy has at last entered the "appreciation" phase. Next comes the "harmonization/resonance" phase. Moving forward, we will take concrete steps to resolve the issues we identified through our organizational culture surveys. At the same time, we will encourage our employees to remain aware of, and act in accordance with, our corporate philosophy, which forms the basis of all our business activities, as well as our daily operations, personnel systems, and organizational structures.

Risk management and compliance

With regard to risk management, in fiscal 2021, we defined various types of risk, including extreme risk, critical risk, and general risk, and as of April 2023, we had identified 101 specific risks. Currently, we are striving to improve the precision of our response to existing risks while reexamining the prevalence of risks associated with our Group as a whole. Additionally, we must verify ex post facto the frequency at which we encountered incidences of these risks and determine whether losses incurred were within our expectations. On the topic of risk awareness, we believe that we must also share and compare data with external stakeholders as supply chain risks become increasingly significant. Furthermore, when encountering unanticipated risks, we believe in the importance of sharing information with partners regarding our initial crisis management response measures and our general approach to risk management.

Compliance awareness is also on the rise, and increasingly active utilization of our whistleblower system is a sign of this trend. However, in some cases, reports have been filed for issues that could also be resolved through workplace-level discussions. These cases are an indication of the growing awareness regarding internal reporting, and we believe that the sharing of even seemingly minor concerns is a positive outcome. We are confident that employee feedback of this type will lead to productive proposals for the Net One Group moving forward.

The Net One Group is enhancing its internal control, and I personally feel that the Group is becoming more thorough with the response efforts it conducts in accordance with clearly defined rules and regulations. At the same time, we are still facing challenges in areas for which rules have not yet been established. We will intensify efforts aimed at encouraging employees to share information promptly and maintain a heightened awareness of our principles and Code of Conduct while using these guidelines as a basis for decision-making. Under our next Medium-Term Business Plan, we are also considering the possibility of exploring integrated risk management, which involves quantifying risks and assessing them based on both the resulting statistics and their financial impact.