

Annual Report 2018

charge ∠ channel ∠ change



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**Aspiring to be a company admired
by all stakeholders**

Takayuki Yoshino

Chairman and CEO
Net One Systems Co., Ltd.
June 2018

Introduction

Net One Systems celebrates its 30th anniversary this year.

Our market and the expectations of our customers have changed dramatically in the period since the Company was founded.

Until now, we have communicated with shareholders and other investors mainly through semiannual Net One Reports. This is our first ever Annual Report.

As before, we will continue to provide information about Net One Systems and our business approach, but we plan to use this and future Annual Reports to explain in more detail our longer-term strategic thinking and how we intend to drive growth over the next five to ten years.

Japan is becoming more embedded in the global community and Net One Systems is increasingly sourcing and integrating products from vendors in North America and other overseas markets. We use those products to create unique solutions for customers by combining them with our proprietary services. Given those trends, we have to think about our markets and the value we provide from a global perspective.

My hope is that this report will give people a deeper understanding about Net One Systems and how we plan to generate growth over the medium to long term.

Chapter
1

The Net One Systems Value Creation Story

From the earliest days of networks, Net One Systems has generated growth by listening carefully to customers to help them overcome any challenge.

Advances in ICT have also helped us move into new business fields.

We continue to transform our business model to create new value for customers and deliver sustained growth.



Skills and Sprit of TAKUMI

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

Chapter 1

The Net One Systems Value Creation Story

Our Mission

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

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

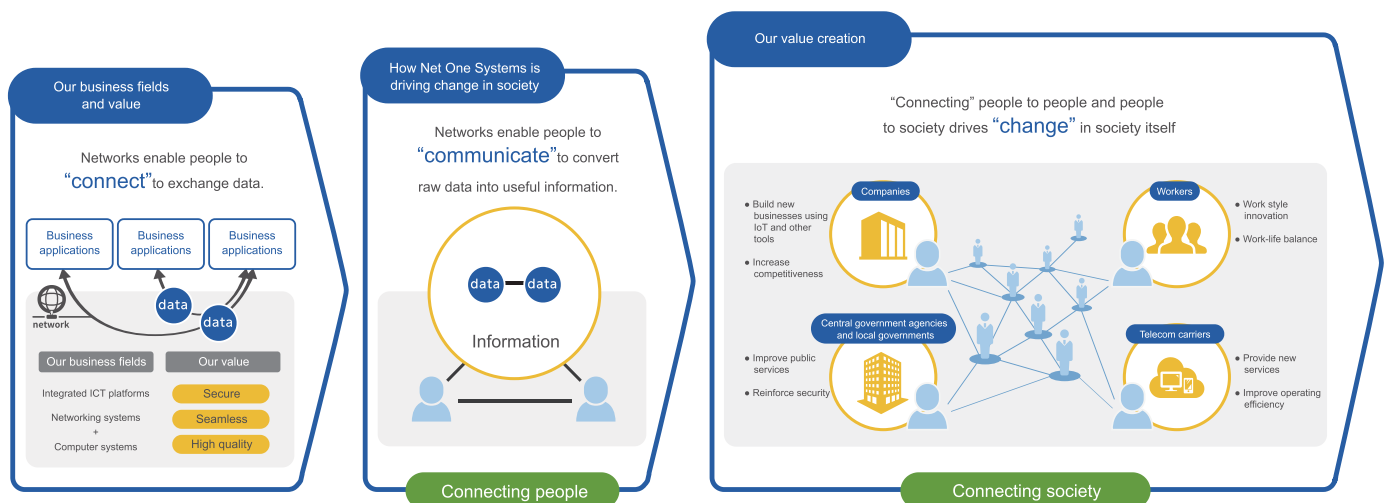
Net One Systems was established in 1988 as a specialist network company, focusing initially on the sale of routers, switches and other networking hardware.

Today we support all aspects of ICT platforms, which integrate networking systems and computer systems and allow customers to run their business applications. Specifically, we provide network infrastructure, cybersecurity measures, cloud computing, communication tools for work style innovation, IoT and a wide range of other systems and services.

Japanese companies are leveraging those ICT tools to transform their business models and increase competitiveness in areas such as artificial intelligence (AI), fintech, IoT, big data, cloud platforms and work style innovation.

Net One Systems provides fully integrated platforms that help companies to accelerate the utilization of emerging ICT tools.

At Net One Systems, we are driving "change" in society by helping people and companies to "connect" and "communicate."



Chapter 1

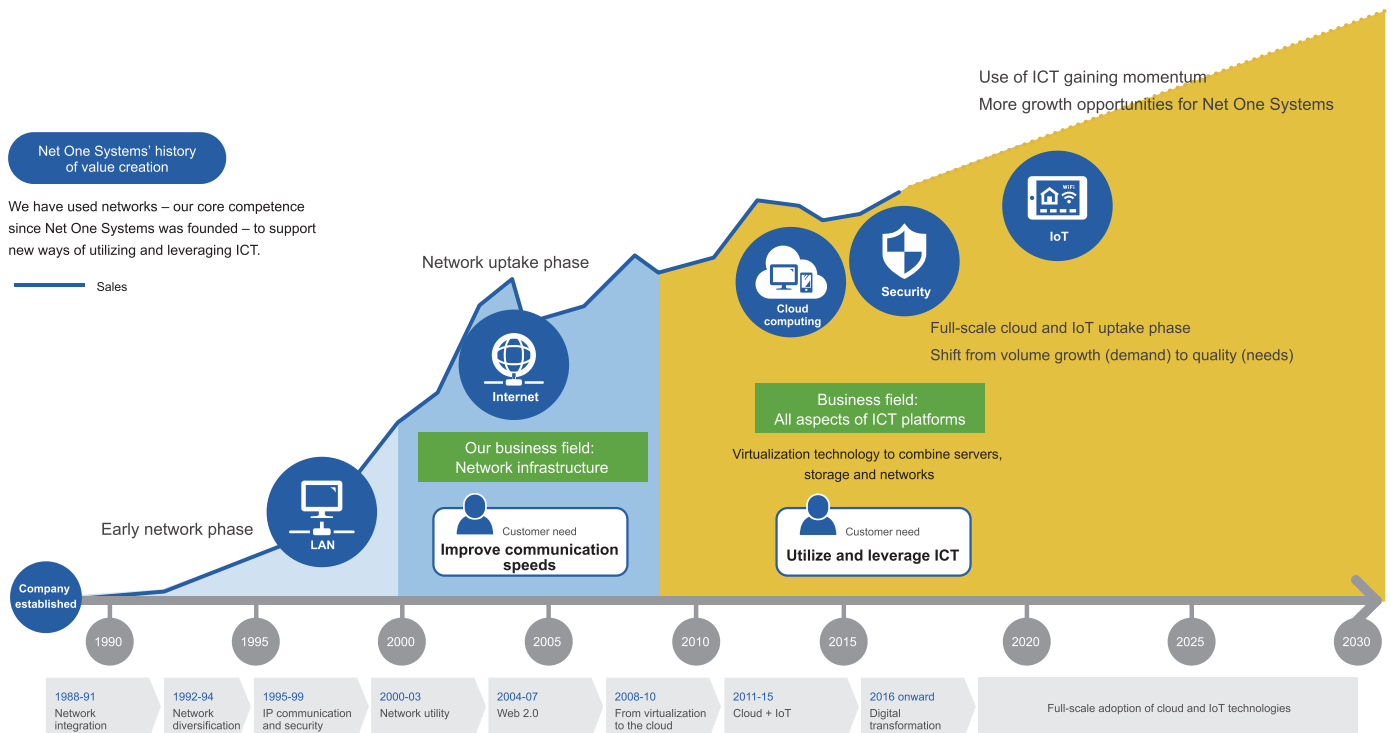
The Net One Systems Value Creation Story

Our Corporate History

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

Net One Systems has been active in the ICT field since the dawn of networks. That track record has given us early access to the latest technologies, helping to increase our expertise in connecting various types of customers and supporting the Company's growth. The internet, the cloud, IoT – all these ICT tools are seeing rapid advances. Despite these changes, connecting and communicating to convert raw data into useful information will remain an essential part of ICT. As ICT develops and expands into more areas, Net One Systems' business opportunities will increase. Our role continues to grow as more areas in society become dependent on connectivity technologies.

We have used networks – our core competence since Net One Systems was founded – to support new ways of utilizing and leveraging ICT.



The Net One Systems Value Creation Story

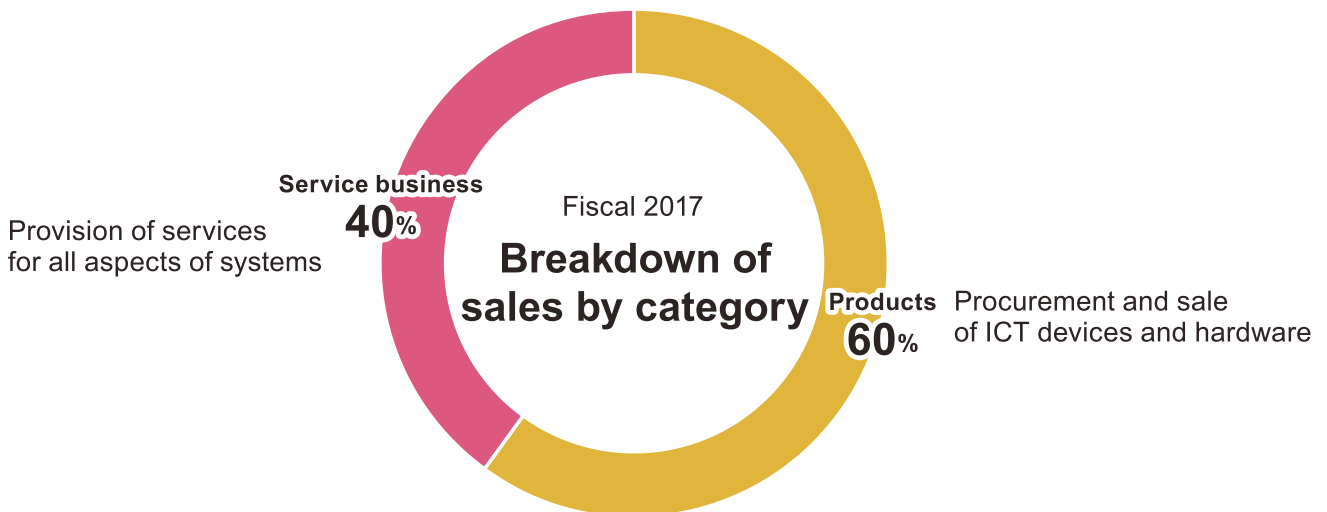
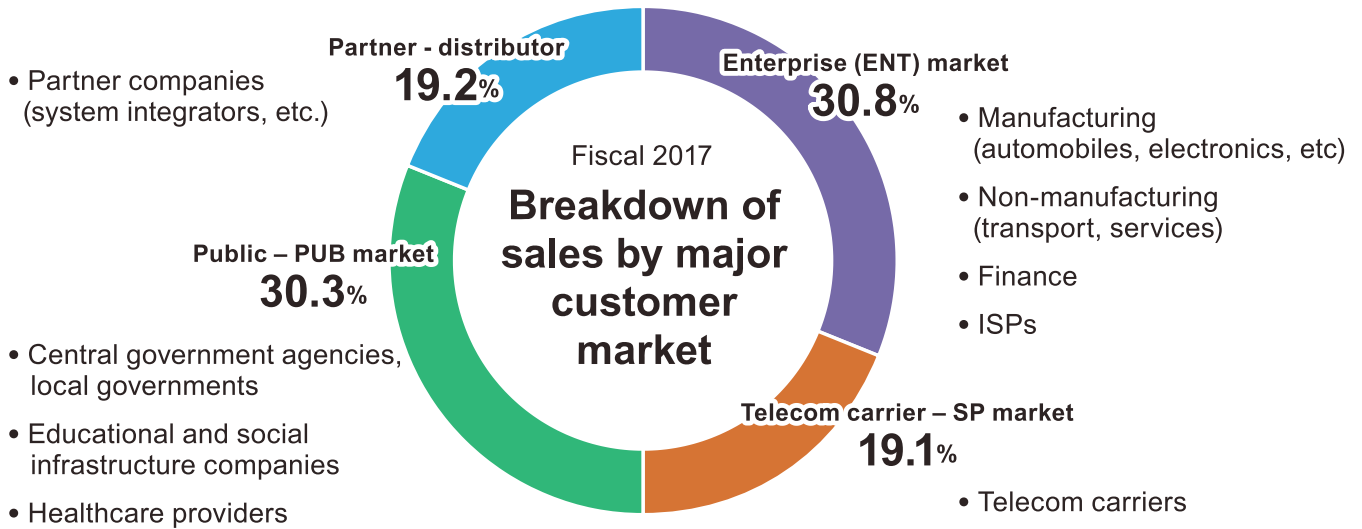
Our Businesses

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

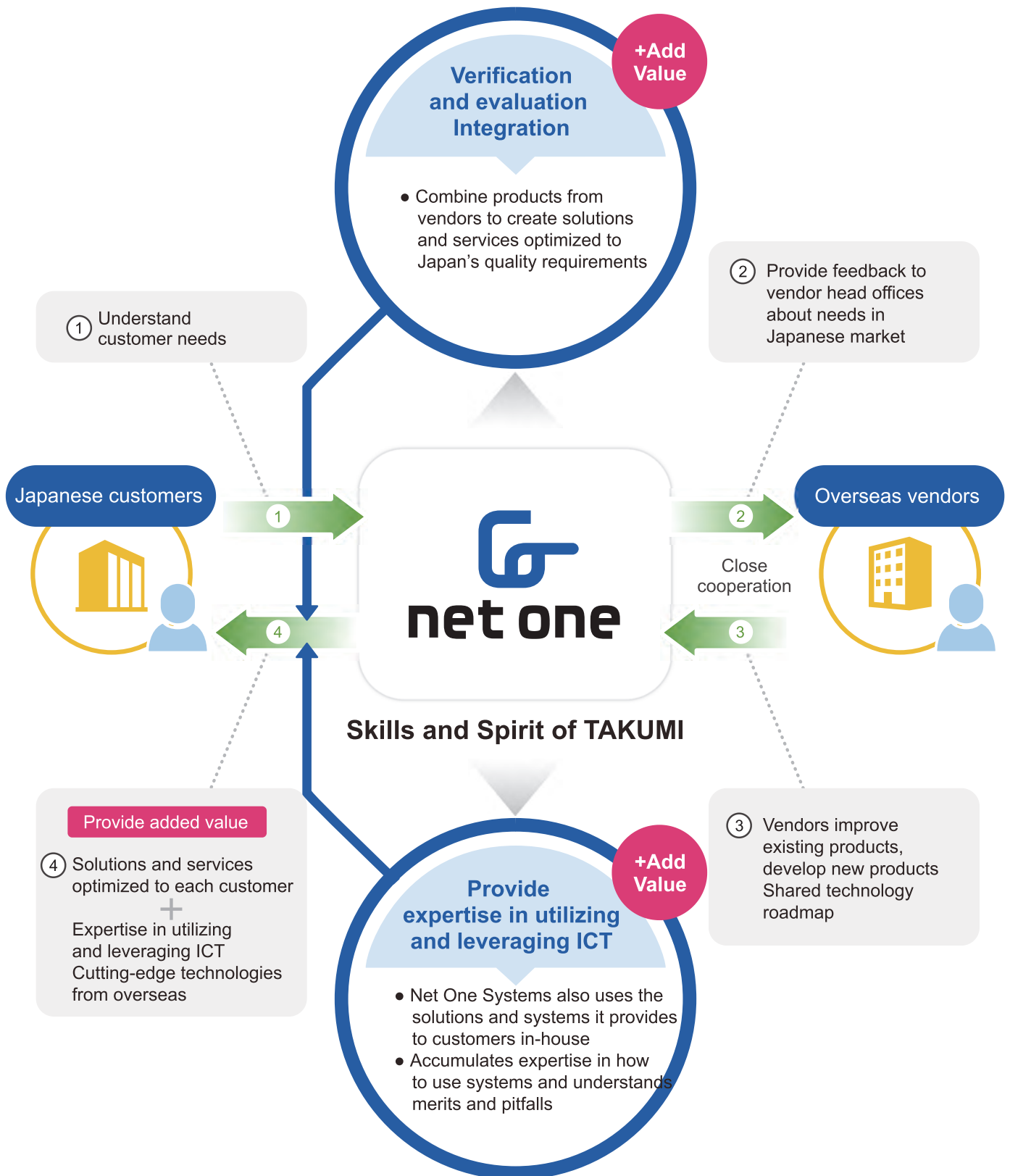
Net One Systems does much more than simply sell vendors' products to customers. We optimally configure hardware and add our own expertise from utilizing and leveraging ICT, resulting in value-added services and solutions that enable customers to overcome any challenge.

A key part of that approach is close cooperation with overseas vendors, allowing us to access the latest information about the global network industry and provide feedback to vendors about the needs of the Japanese market, resulting in a technology roadmap with a horizon of several years. At Net One Systems, any upgraded and newly developed products from vendors are first verified and evaluated in-house before being deployed, resulting in unique added value anchored by a firm commitment to what customers need.

Net One Systems' customers



Creating the kind of high added value that only Net One Systems can provide



The Net One Systems Value Creation Story

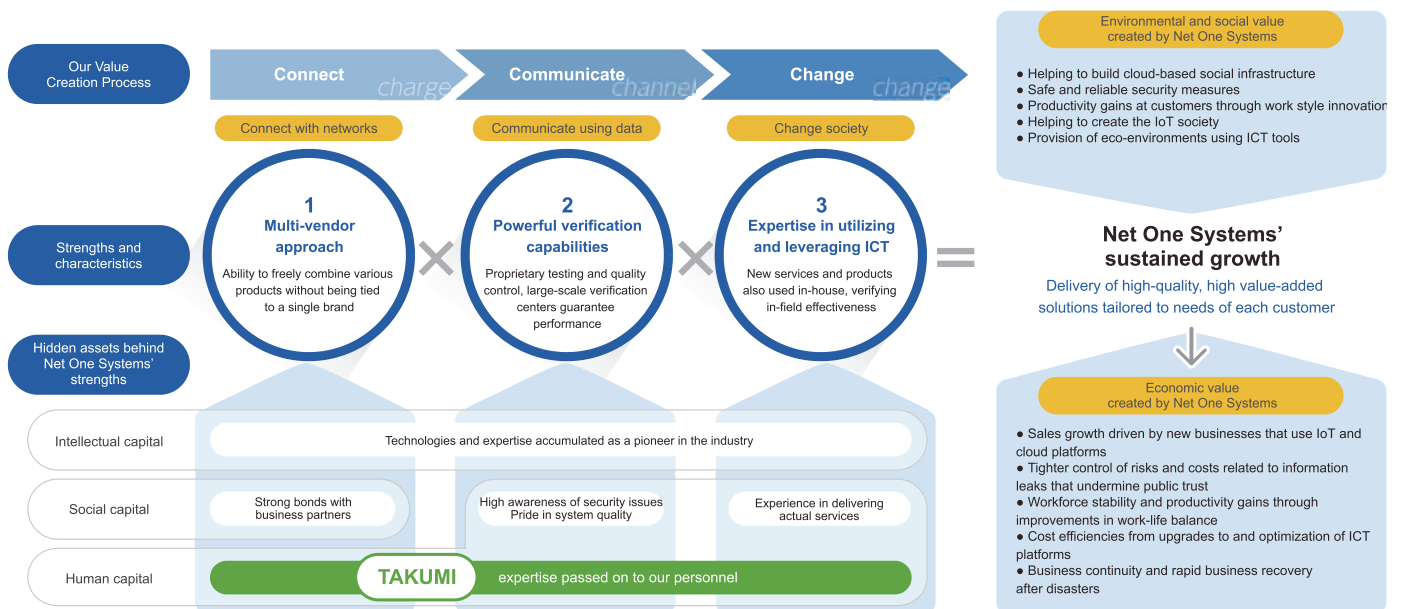
Our Value Creation Process

Our multi-vendor approach, powerful verification capabilities and expertise in utilizing and leveraging ICT enable us to provide high-quality, high-value-added solutions tailored to the needs of each customer.

Established initially as a network-focused business, Net One Systems has worked to set itself apart from competitors by focusing on ICT platforms, an area where we can leverage our core competencies.

As an independent company with no affiliations to a single hardware maker (multi-vendor approach), we can propose optimal network configurations built around the attributes of different products made in Japan and overseas. Also, using our verification centers – which rank among the largest in Japan – we can test actual system configurations, predict performance after migration to new systems and demonstrate to customers how to handle any issues if they arise (powerful verification capabilities). And using our wealth of experience in utilizing and leveraging ICT, gained from installing systems in-house before offering them to customers, we can provide solutions along with ideas and suggestions about how to use them.

In our business, we face competition from several large hardware makers that have access to significant capital resources. Where we differ to those companies is our multi-vendor approach, powerful verification capabilities and expertise in utilizing and leveraging ICT, allowing us to provide high-quality, high-value-added solutions tailored to the needs of each customer. By cultivating close relationships with customers that support our approach, we can generate even greater value for their businesses.



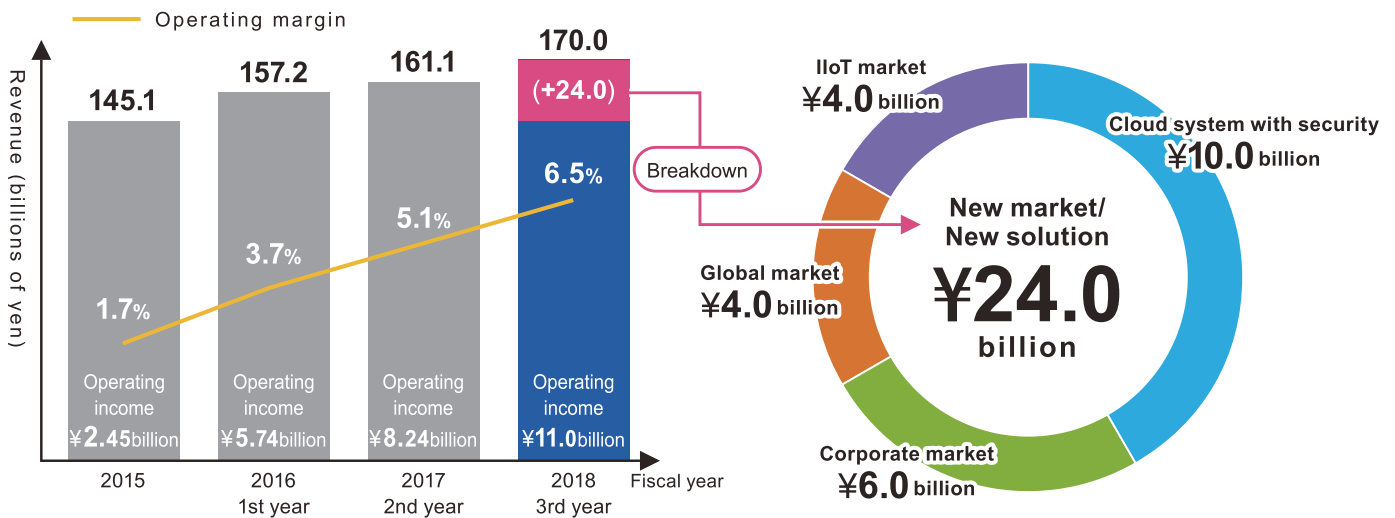
Targeting Sustained Growth

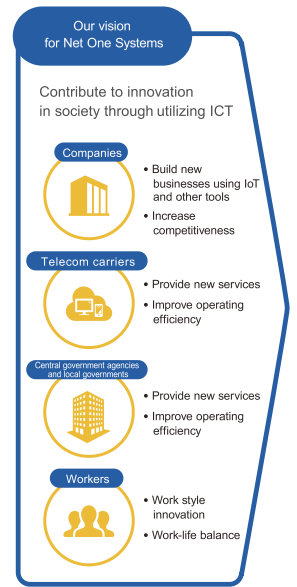
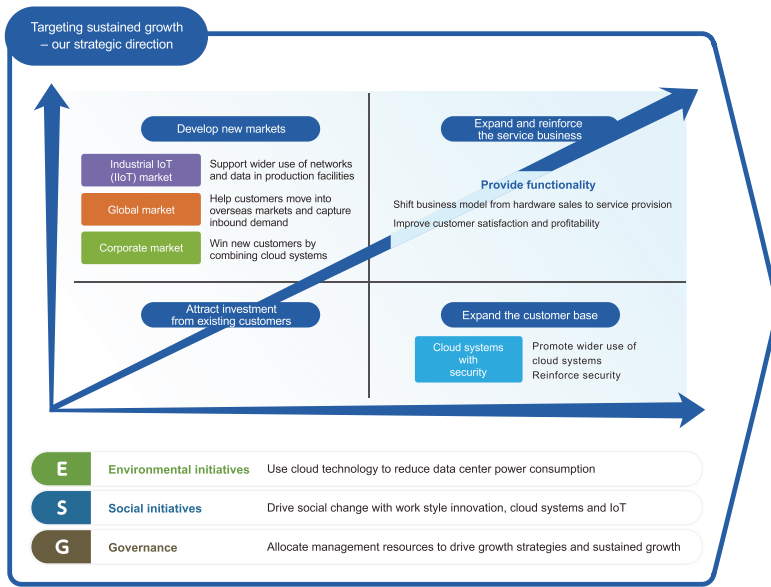
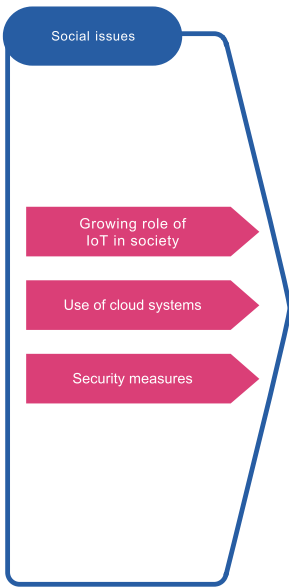
We are transforming our business model to support society's next stage of ICT development.

Net One Systems has met the needs of customers in a wide range of business fields by leveraging technologies and its unique strengths, accumulated since the start of the ICT era. We are also focusing on the development of new services and solutions that are likely to be needed in the future, based on forecasts for technological innovation. Society today faces dramatic changes, spurred by the spread of IoT and cloud systems worldwide.

We view those rapid changes in our business environment as an opportunity, and we are currently developing a range of initiatives to ensure Net One Systems plays a key role in society's next stage of ICT development.

Medium-term business plan targets







Chairman Interview

Transforming our business model to support society's next stage of ICT development

Net One Systems Co., Ltd.
Chairman and CEO**Takayuki Yoshino**

Net One Systems — Harnessing the power and possibilities of technology for customers

Net One Systems is celebrating its 30th anniversary in 2018. I would like to take this opportunity to thank all our stakeholders for their understanding and support over the last three decades.

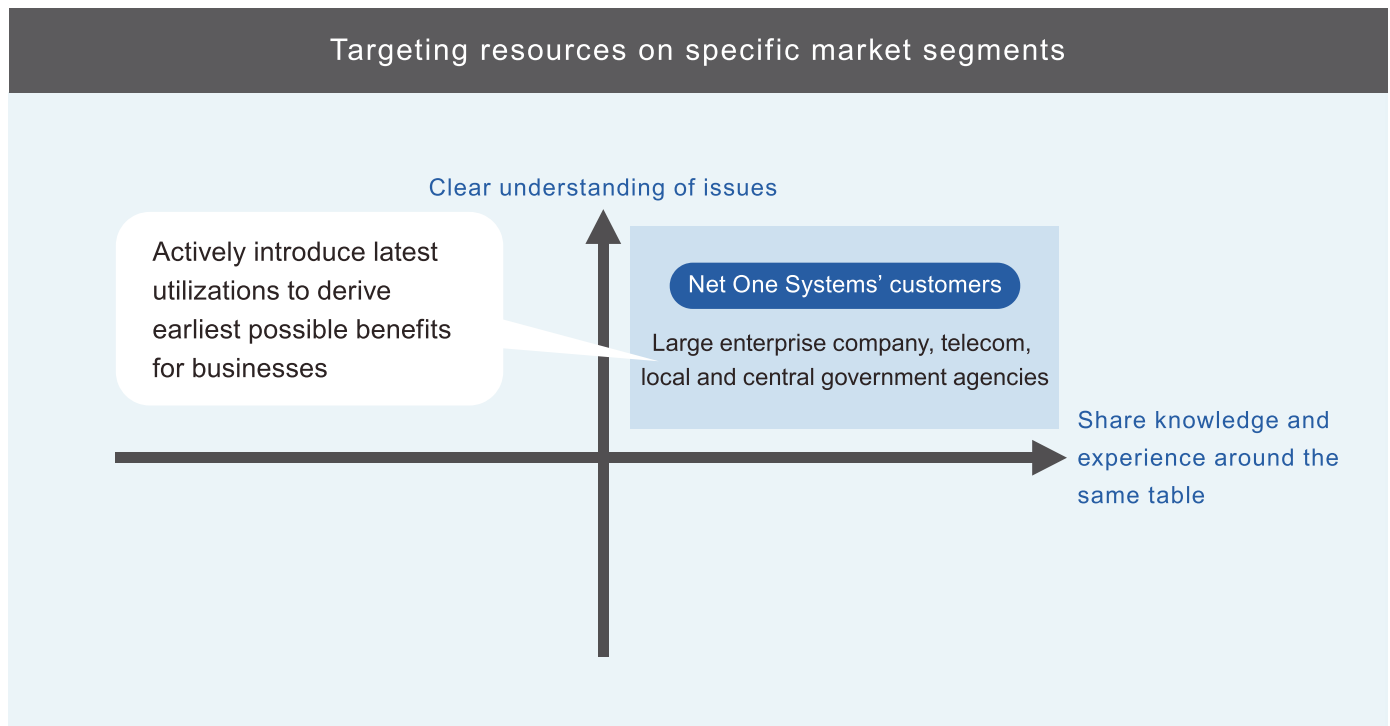
We started out as a trading company specializing in technology, including exclusive distribution rights for Cisco System products in Japan. Teaming up with Cisco – the world's largest networking company – raised our technological capabilities early on, helping us play an important role in the development of Japan's network market. To address constant change and growth in the global ICT market, we have since forged links with a wide range of other partners. As a result, Net One Systems has grown to become an integrator company supporting all aspects of ICT platforms, providing products, technologies, expertise and solutions optimally configured for each customer's needs.

As an independent integrator company, we can offer the best systems for customers by evaluating, selecting and combining hardware from different vendors. Customer opinions and feedback are fundamental to our business, especially in designing and developing new products, taking advantage of our close links with vendors. This basic business model, established 30 years ago, is our foremost strength.

Net One Systems is a B-to-B company that does not deal directly with consumers. In simple terms, our strategy for the B-to-B market is about targeting resources on specific market segments.

Chapter 2

Targeting Sustained Growth - Chairman Interview



Our ability to provide high-quality services to corporate customers is dependent on finite human resources, which means we can only work with a limited number of companies and organizations. In particular, we like to engage with customers who treat us as equal partners, sharing knowledge and experience around the same table. We want to grow with enterprising customers that have clear goals by helping them introduce the latest technologies so that they can derive benefits for their businesses as soon as possible. And ultimately, as a business, we of course have to ensure high levels of productivity. Those criteria mean we mainly target large corporations and organizations, such as large enterprise companies and telecommunication carriers, local governments with populations of at least 200,000, central government agencies, universities and hospitals. Our customers tend to be very keen to learn about new technologies and their potential applications, and we have to grow and develop with them to meet their needs. Net One Systems has always invested heavily in human resources, and we have no plans to change that approach.

Our corporate symbol is derived from the kanji character 匠 (TAKUMI), which means “master” or “expert” in English. We chose TAKUMI because it expresses our desire to become a master of the ICT field based on outstanding technological expertise. But our definition of TAKUMI is much more than that. We also want to ensure our services meet the high expectations of our customers by always seeing things from their standpoint.

Our goal is to become a company where all our employees, not just our engineers, feel personally responsible for delivering practical ICT solutions that leave our customers satisfied.

Chapter 2

Targeting Sustained Growth - Chairman Interview

Overcoming the paradigm shift in the ICT market — Using rapid change to drive growth

I was appointed CEO in 2008. Looking back over the last decade, the ICT market underwent a major transformation – a paradigm shift – halfway through the period.

In the first five years, telecommunication carriers built internet infrastructure using the latest technologies, driving rapid growth in the use of the internet. In the next five years, we saw fast and dramatic changes in earnings structures across the industry.

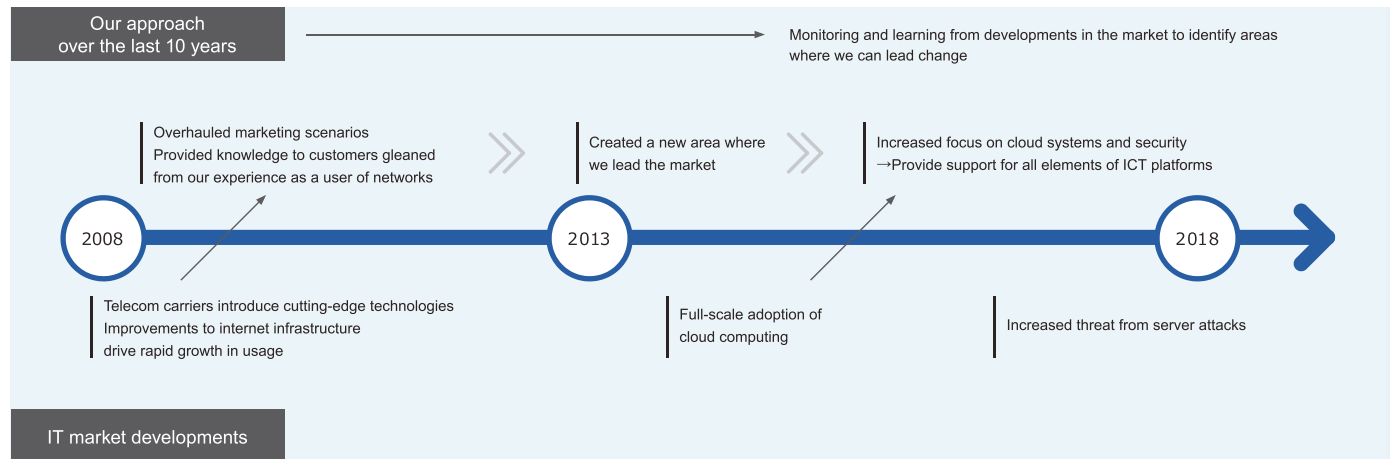
As net users rapidly turned to Google, Twitter, Facebook and other free online services, telecommunication carriers were faced with declining investment returns. Because our sales from telecom carriers peaked at more than 50% of consolidated sales, we too were concerned that our business would be hit hard by this change in the industry.

In response, five years ago, we decided to overhaul our marketing scenarios to highlight our expertise as a user of networking hardware and systems. We adapted our business model, designing user case studies showing how to utilize and leverage ICT, including potential merits and pitfalls.

ICT is a type of tool, but as a provider of those tools, we need to set up and test the best configurations for customers. That differs to the past approach in the ICT sector, which was led by hardware makers who developed cutting-edge technologies but left it up to customers to decide how best to use them.

Chapter 2

Targeting Sustained Growth - Chairman Interview



Over the last five years, our updated business model has led to a marked change in what customers expect from Net One Systems. System verification and validation by Net One Systems has allowed customers to save time and effort, minimizing the risk of failure, but the biggest change has been the trust customers have put in our user case studies, creating a new area where we lead the market. The success of these measures is behind Net One Systems' growth over the last few years.

And now, with the arrival of cloud computing, we are targeting new areas of opportunity. In cloud environments, applications and the platforms used to operate those applications are separate. One example is fast-growing online retailer Amazon, which provides its platform to users via a public cloud – the internet. Net One Systems also integrates all elements of ICT platforms, but has created private cloud environments using on-premises data centers. In addition to existing networks, cloud platforms include modules such as servers, storage, security and virtualization software, so focusing on the cloud opens up more possibilities in the ICT market for our business. We plan to monitor and learn from developments in the market to identify areas where we can lead change.

In my dialogue with investors, I have explained how we are putting considerable effort into training personnel to support our move into servers, storage, virtualization and security, because focusing on systems integration alone is no longer a viable option. That shift in strategy takes time, but we have started to see some results in the last two years. We plan to continue training and hiring engineers, including securing personnel through M&A deals.

Chapter 2

Targeting Sustained Growth - Chairman Interview

Embracing change

— The key to ensuring the Company's future over the next ten years

In addition to cloud systems, Net One Systems is targeting security and the IoT society as growth fields.

ICT tools are being adopted in a growing range of areas through a process of trial and error, which is why we have set up dedicated IoT demonstration and verification centers at our head office and our offices in Toyota, Aichi Prefecture. That is part of our work with customers to learn about industrial IoT (IIoT) for the manufacturing sector, which is becoming an increasingly important part of our business. In Japan, cybersecurity tends to be seen as IT issue, but in North America and Europe, there is also growing interest in physical measures such as fingerprint sensors and mobile device authentication. One thing is clear though: cybersecurity is likely to play an even more important role in society over the next five to ten years.

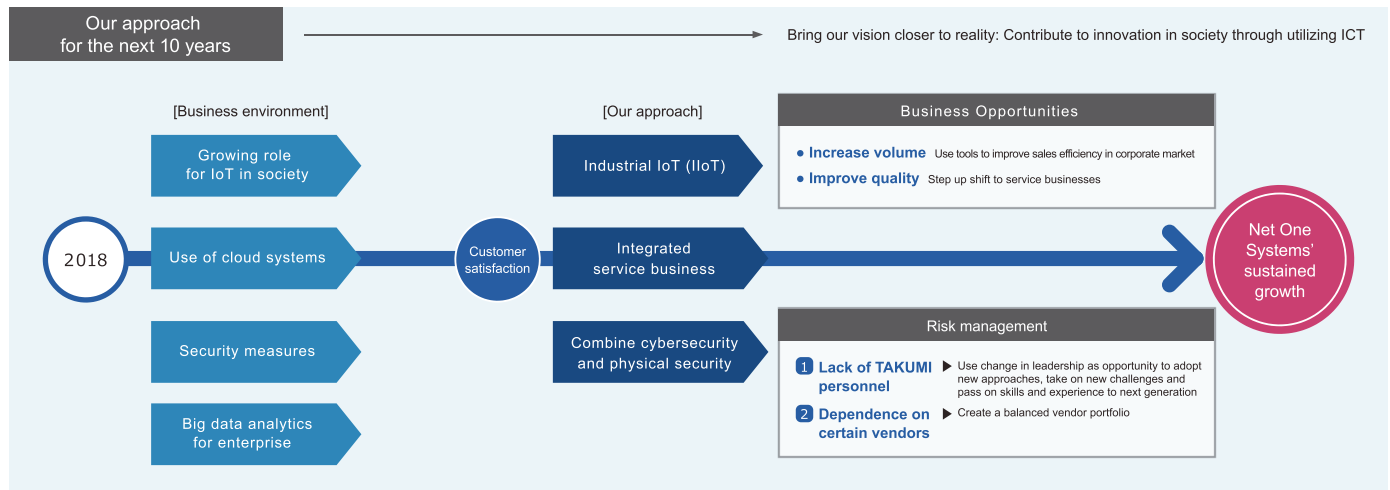
However, as IoT moves into more areas of society, including safety and security, companies will need to process vast amounts of data. Networks, including those in the testing stage, are currently capable of maximum data transfer speeds of 400Gbps. Some companies are reportedly about to start research into systems that can achieve 800Gbps or even 1.6Tbps within the next two to three years. That kind of dramatic transformation in networks brings the idea of widespread use of IoT and security in social infrastructure closer to reality. We plan to monitor changes in society and technology while working to fully realize our corporate philosophy: "Contribute to innovation in society by utilizing ICT."

There are two basic approaches companies can follow to increase profits: "increase volume" and "improve quality." In general, companies in Japan will not be able to avoid the impact of contracting markets caused by Japan's declining and aging population. But for a company like Net One Systems, which is focused on corporate customers, the impact is likely to be modest. We still see plenty of scope for profit growth in Japan, based on the number of customers we currently do business with and the total number of companies in Japan.

However, while increasing the number of employees would help us grow our markets, it could also negatively affect the quality of our services. Net One Systems is not a hardware manufacturer, so the only way we can improve quality is by continuing to create our unique kind of added value. And we're confident we can achieve that by leveraging our technological expertise and our powerful partnerships with vendors.

Chapter 2

Targeting Sustained Growth - Chairman Interview



We plan to “increase volume” by using ICT tools to carry out efficient marketing in the corporate market and “improve quality” by accelerating our shift to services. We are now into our third fiscal year of initiatives in the corporate market, and we are gradually starting to see some concrete results.

Net One Systems faces two main risks. The first is a sudden breakdown in the relationship with vendors – our strategic partners – due to an M&A deal or other event. That kind of development is outside our control, so we need to build a balanced portfolio of vendors that is not too dependent on one company.

The second risk is personnel. In June, we appointed a new President, Toru Arai, and I became Chairman & CEO. My hope is that this change in leadership will bring fresh thinking to the Company. My role is to support the next generation of leaders as they take on new challenges, while also drawing on my experience and knowledge to offer advice about the Company's business strategy for the next five to ten years.

The new team will lead a unique company that has the framework in place to create distinctive value. Net One Systems will take confidence in those strengths and work even harder to increase customer satisfaction and deliver sustained growth.

I hope we can count on your continued support as we work to provide distinctive Net One Systems value and increase corporate value.



I will continue the path of reform and ensure Net One Systems is an attractive company that customers value.

I was recently appointed president of Net One Systems. Our chairman, Takayuki Yoshino, implemented a raft of reforms over the past decade to create a profitable operating structure. Those reforms are now starting to bear fruit. I will continue to follow that approach and work to deliver sustained growth, which is our mission as a listed company.

I also want to make sure Net One Systems is an even more attractive company. The ICT market is currently undergoing a major transformation, which is leading to significant changes in what customers want and in the tools and services provided by vendors. To continue growing in that climate, Net One Systems needs to remain relevant by providing new value to customers, as well as to vendors and employees.

People are our most important asset, so developing human resources has a direct impact on our value as a company. I want to create a great working environment where every single employee can realize their potential, reinforce the Group's organization and build a team of "TAKUMI" personnel with high levels of expertise in ICT. As president, my job will be to ensure customers appreciate our value as a company.

Chapter 2

Targeting Sustained Growth - President Interview

Our strengths and platform

Net One Systems is a specialist in a globally unique business field

Supporting customers through creativity and collaboration

A major difference between Net One Systems and other companies is our globally unique business field, where we maximize the latest information about market trends and technologies, the capabilities of our employees and our network expertise.

Net One Systems was founded as a specialist network company. People involved in the network business field tend to be independent self-starters motivated by a desire to improve things. That approach is engrained in our corporate DNA. In other words, our strength as a company comes from our workforce of creative people who can create new work by themselves.

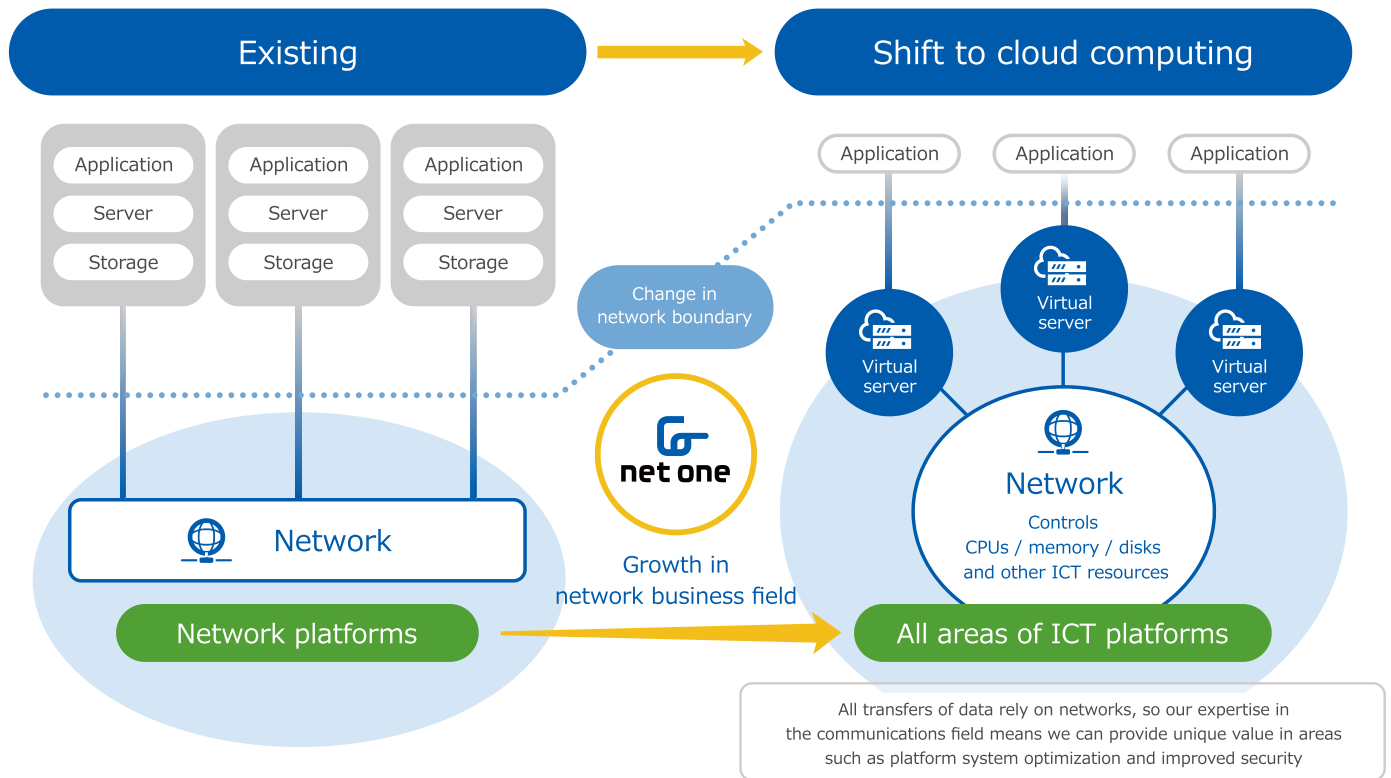
However, in the world of networks, which have become so big they are sometimes referred to as the "fourth infrastructure," there are limits to what one person can do by themselves. That's why we need skills to convert those individual capabilities into the power of the group. Through collaboration, work becomes more interesting, and we ultimately contribute to customers.

This is a bit more technical, but advances in platform virtualization technology are bringing together networks and servers/storage systems like never before. That means Net One Systems' specialist field of networks is expanding to encompass every aspect of ICT platforms.

Because all transfers of data rely on networks, our expertise in communications means we can generate distinctive value through ICT platform system optimization, security enhancements and troubleshooting.

Thankfully, our customers and vendors recognize the valuable role we can play in that kind of unique business field. Those relationships allow us to gather a large amount of information about markets and technologies. We will use those insights to develop proposals for customers by harnessing the creativity of our employees and the power of collaboration.

■ The shift to cloud computing – driving growth in our business fields and helping us create unique value



Chapter 2

Targeting Sustained Growth - President Interview

A strategy of building next-generation businesses Shifting our focus to services

The shift to cloud computing, the need for greater security and the use of IoT in society is likely to gain momentum. In that environment, our previous product-out business, which involved generating profits simply by selling equipment, will no longer be viable. At Net One Systems, we know that we have to build a new market-in business model focused on the utilization of ICT.

To build that new business model, we are developing an integrated service business to support all phases of customer ICT platforms. The integrated service business is an extension of our businesses so far. With our existing approach, we follow a number of steps – listen to and understand customer needs, recommend the best system for their needs, test and verify system performance, and after confirming effectiveness, install the system in the customer's operations. Net One Systems provides value-added services as an integral part of that process, so our business is already oriented towards service provision.

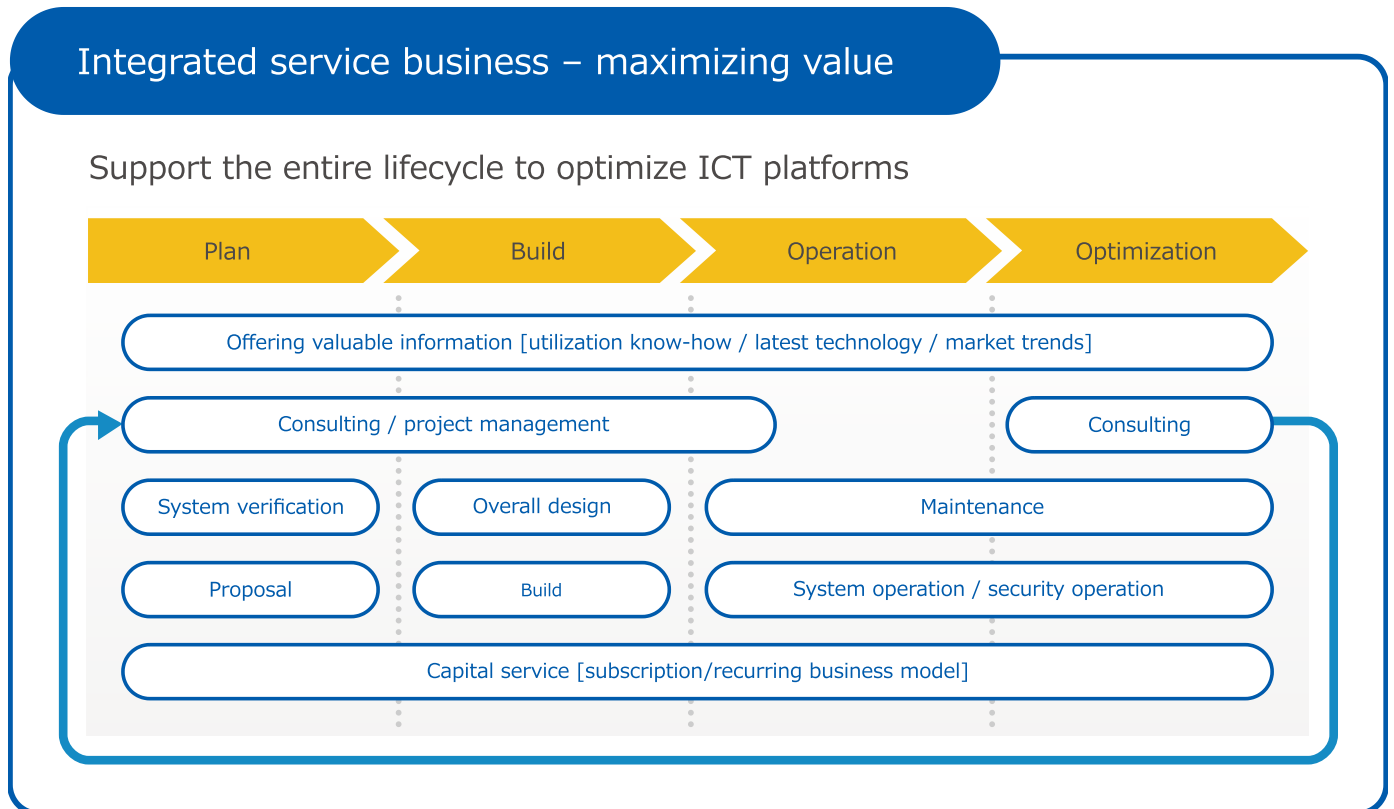


We are now planning to offer system operation services as part of our integrated service business. Advances in cloud computing mean ICT platforms at customers are becoming very complex. That is spurring rising demand for support services to ensure smooth system operation on a daily basis and rapid troubleshooting. Our deep knowledge of networks means we are well-placed to operate entire ICT platforms, which bring together different elements. We plan to use automation to resolve small issues that occur on a daily basis, while large issues will need to be addressed through collaboration with customers. Providing services on behalf of customers will also give us a deeper insight into the issues they face, helping us develop and propose new systems optimized for their needs.

Shifting to that kind of service menu and adopting that approach to proposal marketing should sufficiently boost growth in our services business. By ensuring all our employees understand that approach and by rebuilding our existing businesses, I'm confident we will be on the right path to our new business model.

Targeting Sustained Growth

Chapter 2 Targeting Sustained Growth - President Interview



Establish new theories, create new markets Aiming to be an attractive, unique company

The key to Net One Systems' sustained growth is whether we can develop new theories and create new markets based on projections for the network sector five to ten years from now.

Labor shortages due to structural changes in Japan's population are a major risk for us and our customers. We will be able to tap into new business opportunities if we can create mechanisms to mitigate that risk. One potential approach is to increase efficiency by standardizing business processes.

In simple terms, customers have to be able to input their information and generate the necessary output (information). In three to five years time, that will probably be possible by simply linking to package systems in the cloud. When that happens, the ICT sector will undergo far-reaching change. However, we still see the need for businesses that can link all the elements that make up those systems. Security measures and troubleshooting will also be very important. Only companies like Net One Systems with a deep knowledge of networks will be able to handle that type of work. We need to prepare for that business landscape as soon as possible by anticipating the changes ahead.

To reiterate what I said earlier, people are our strength. Rather than needlessly targeting business expansion, I want to leverage that strength to ensure Net One Systems is an attractive, globally unique company. I also want our approach to be widely recognized so that it becomes a model that supports the Japanese economy as a whole.

I would like to ask for your continued cooperation and support.



Annual Report 2018

Chapter
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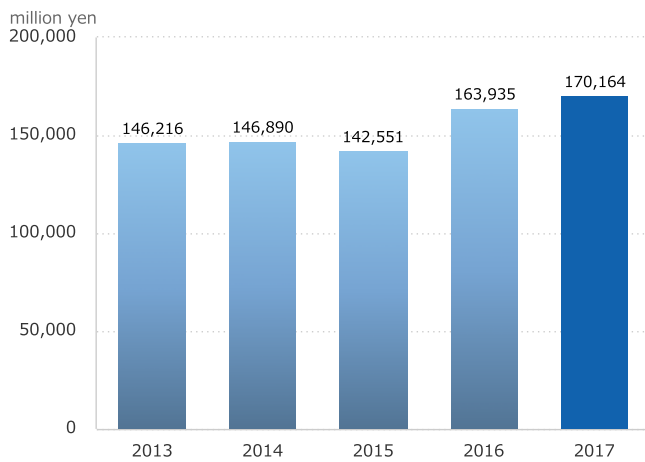
Targeting Sustained Growth

Chapter 2 Targeting Sustained Growth - Financial and Non-financial Highlights

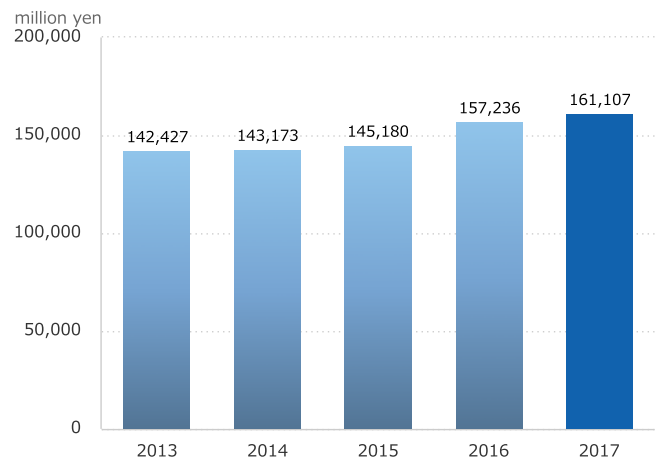
Financial Highlights

Non-financial Highlights

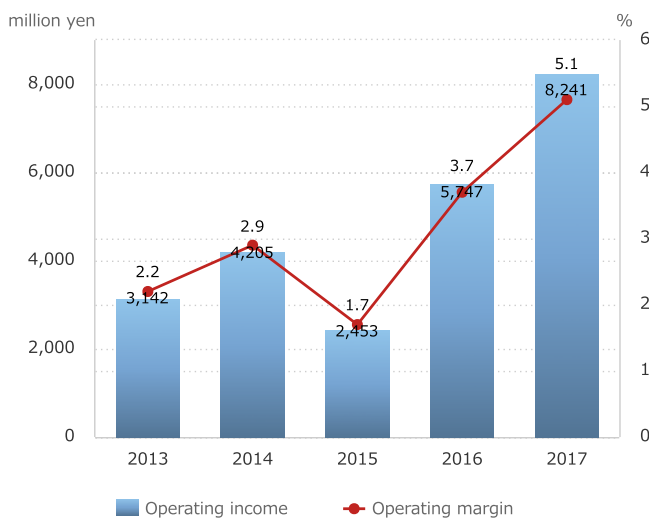
Bookings



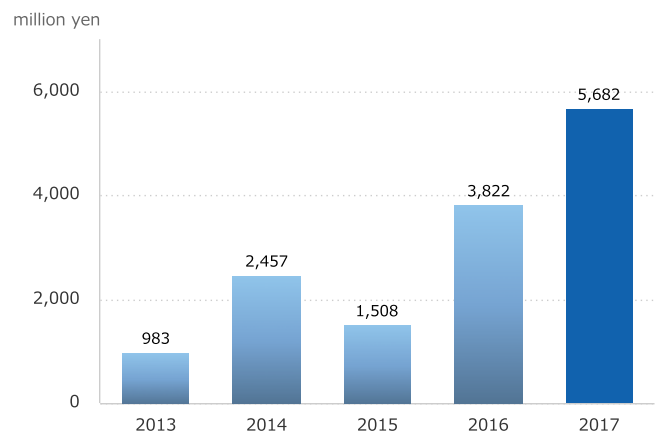
Revenue



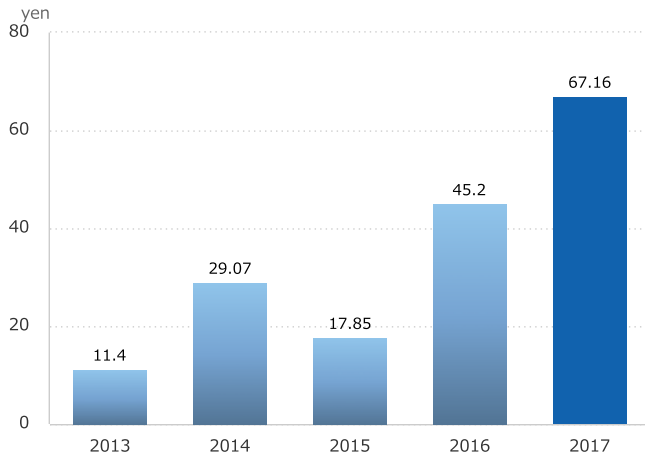
Operating income / Operating margin



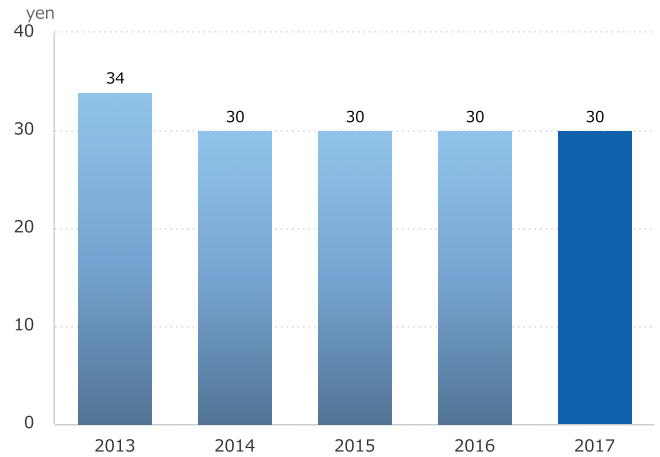
Net income attributable to owners of the parent



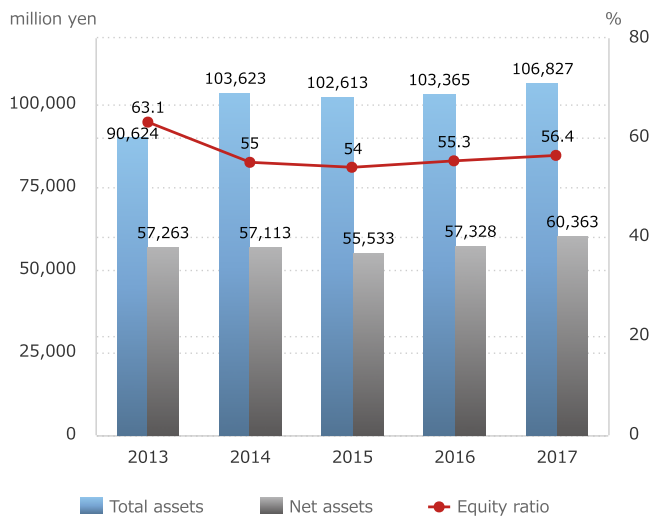
Earnings per share



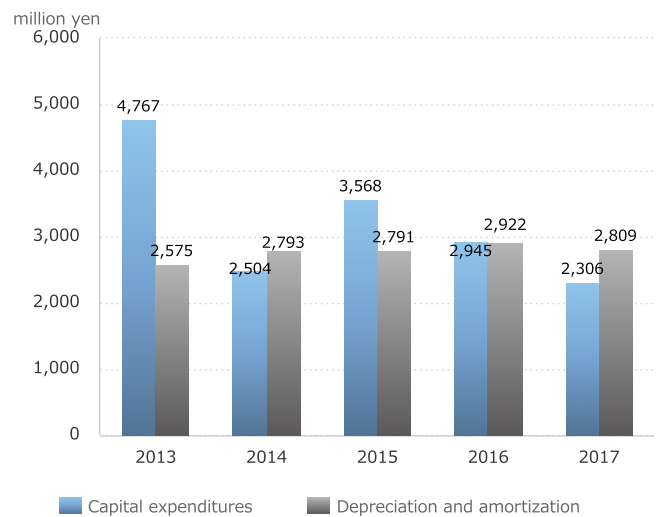
Dividends per share



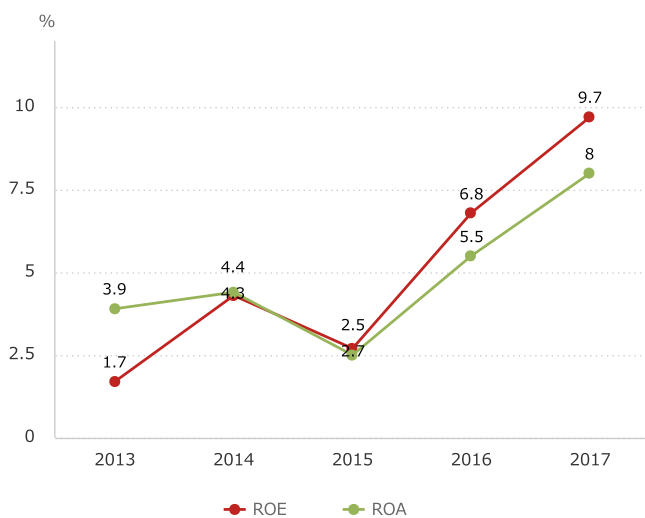
Total assets / Net assets / Equity ratio



Capital expenditures / Depreciation and amortization



ROE · ROA

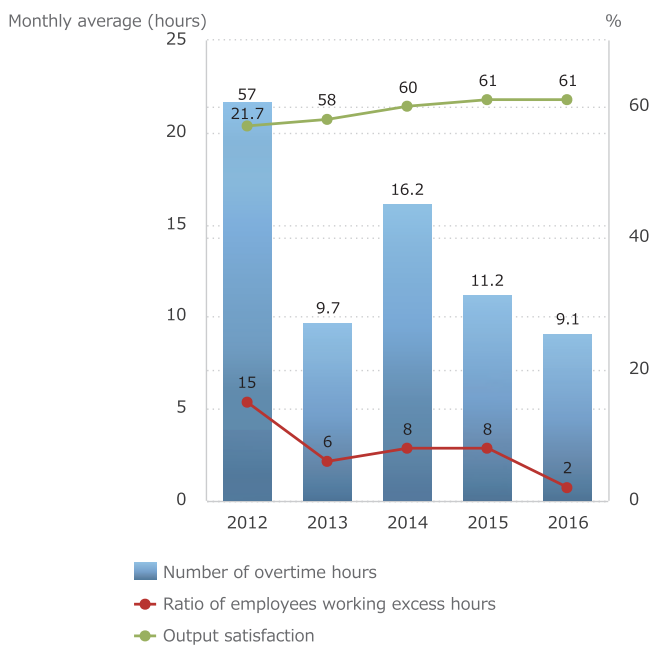


Chapter 2 Targeting Sustained Growth - Financial and Non-financial Highlights

Financial Highlights

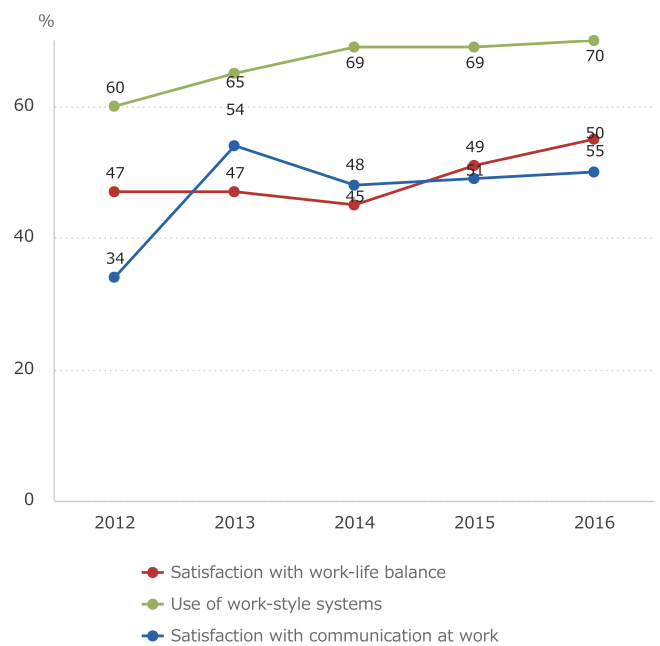
Non-financial Highlights

Productivity



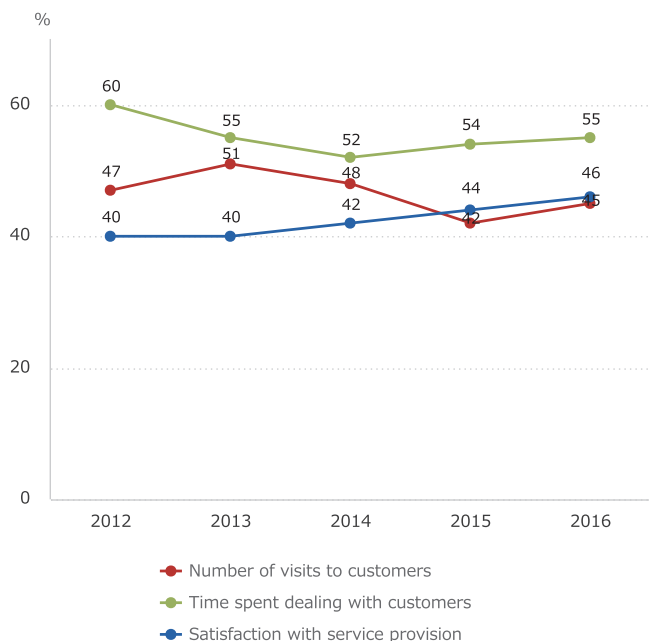
- Number of overtime hours : Monthly average hours per employee in excess of statutory working hours
- Ratio of employees working excess hours : Ratio of employees working more than 40 hours of overtime per month
- Output satisfaction : Ratio of employees who use work-style systems that say they are "satisfied" or "moderately satisfied" with their output

Employee satisfaction



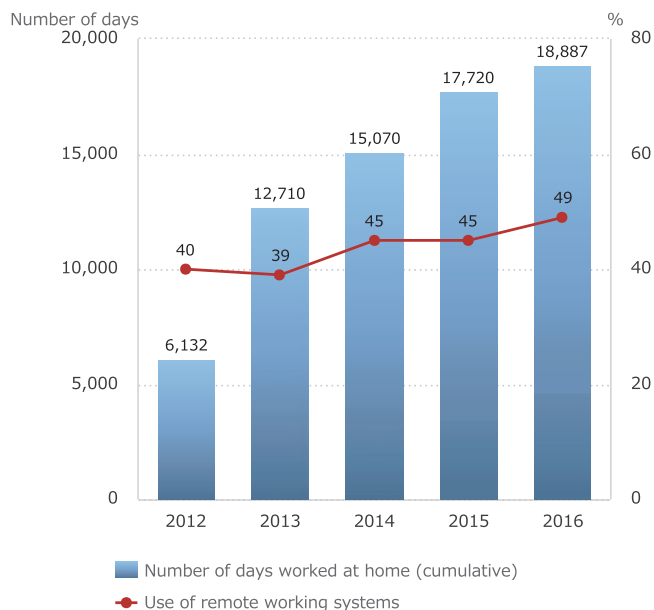
- Satisfaction with work-life balance : Ratio of employees who say they are "satisfied" or "moderately satisfied" with the balance between work and home life
- Use of work-style systems : Ratio of employees who say they are "satisfied" or "moderately satisfied" with the use of flexible work-style systems
- Satisfaction with communication at work : Ratio of employees who say they are "satisfied" or "moderately satisfied" with the level of smooth communication with other business divisions

Customer satisfaction



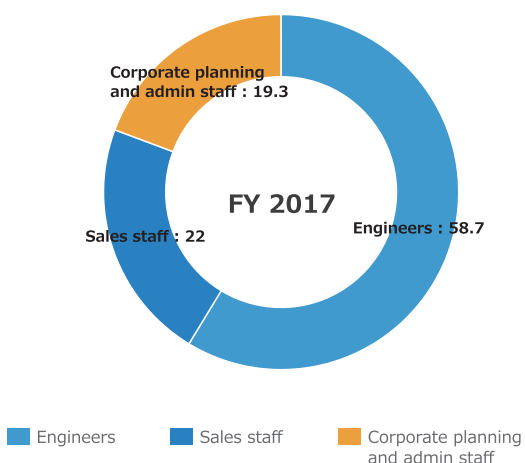
- **Number of visits to customers** : Ratio of employees in front-facing divisions who visit customers more than three times per week
- **Time spent dealing with customers** : Ratio of employees in front-facing divisions who spent more than three hours per week dealing with customers
- **Satisfaction with service provision** : Ratio of employees who say they are "satisfied" or "moderately satisfied" with the quality of services they provide customers

Remote working

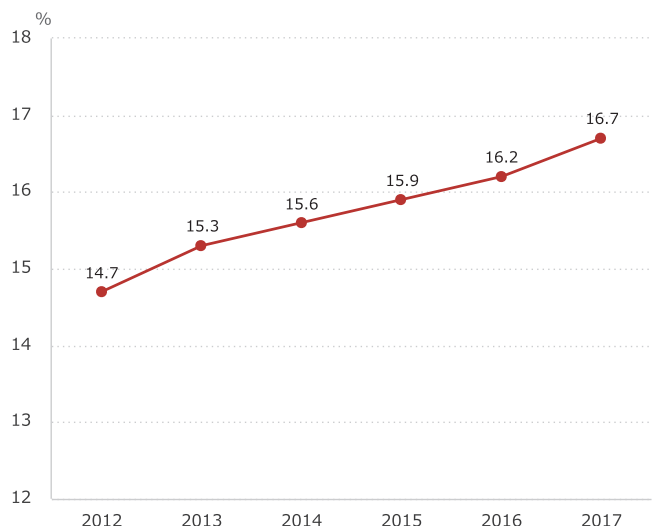


- **Number of days worked at home (cumulative)** : Total number of days worked at home for all employees
- **Use of remote working systems** : Ratio of employees who worked remotely for more than three hours per month

Ratio of engineers



Ratio of female employees



*Includes female employees on maternity leave or away from work for other reasons

Chapter 3

Review of Operations and Growth Strategy

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

In the enterprise, telecom carrier and public markets, we supply solutions directly to customers. In the partner business, we sell products and services through our business partners. We support all aspects of ICT platforms, including cloud systems and cyber security solutions. In all the markets where Net One Systems operates, we build efficient systems by optimally configuring networks, cloud and security systems. We also show customers how to get the best out of their systems. The insights we gain from building ICT platforms in each market is combined and used to improve customer satisfaction and productivity.

Main solutions

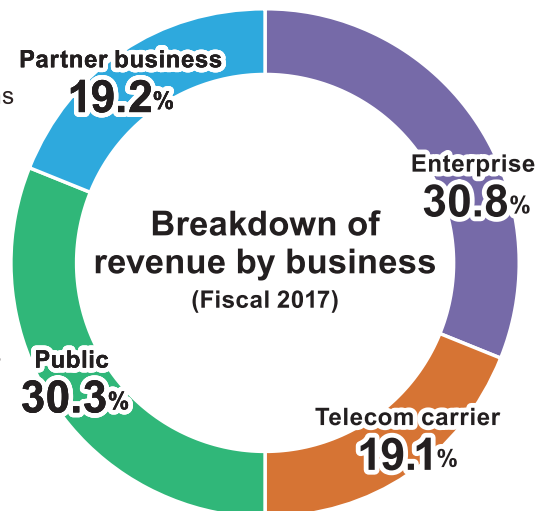
- Partner business
- Provision of platform solutions

Provides ICT equipment and services to system integrators and other business partners; helps partners implement system solutions, their key area of expertise

Main solutions

- Shared virtualized platforms
- Work style innovation

Helps government agencies, educational bodies, medical institutions and public utilities implement security measures and upgrade cloud systems



Main solutions

- Large-scale ICT systems
- Work style innovation

Installs cloud systems for manufacturers, financial institutions, transport companies and ISPs and utilizes ICT to improve efficiency, establish industrial IoT and support work style innovation

Main solutions

- Network platforms
- Service provision platforms

Works with customers to build public infrastructure such as cloud service platforms for business and large-scale networks

Chapter 3

Review of Operations and Growth Strategy / Enterprise

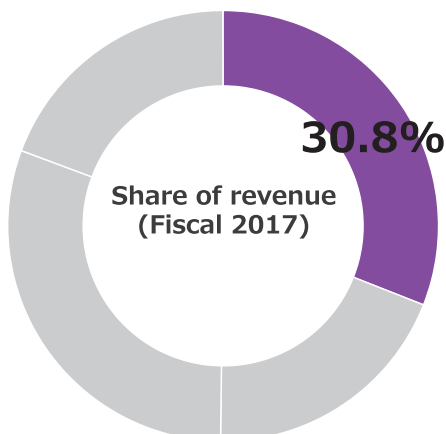
Business Overview

Strategy and Vision

Objectives

Harness ICT to support work style innovation and advances in industrial IoT, as well as predict and detect cyber attacks and system failures

Share of revenue (Fiscal 2017)



Key markets / sectors

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

Revenue **¥49,680 million**

Operating income **¥3,145 million**

Operating environment

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

Strengths and characteristics

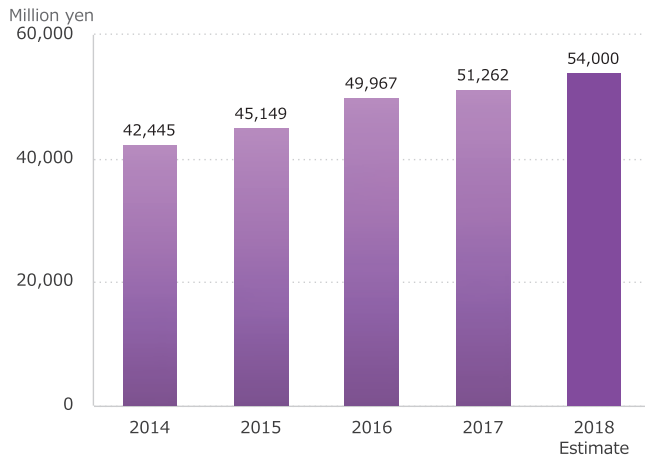
- The enterprise business has built up a high level of trust with customers after many years of providing high-quality network infrastructure.
- Backed by that trust, we share with customers the Group's knowledge and experience of using ICT. Our flexible approach allows customers to install practical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

Key growth themes

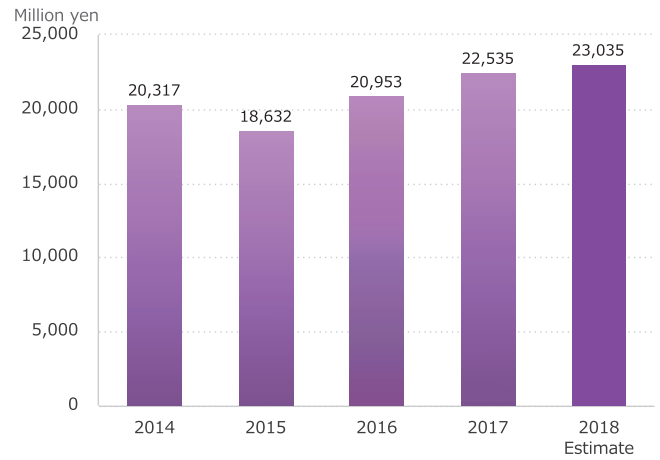
- Non-office work style innovation
- Advances in industrial IoT overseas
- Business expansion in the corporate market
- Prediction and detection of cyber-attacks and system failures

Segment performance (reference only)

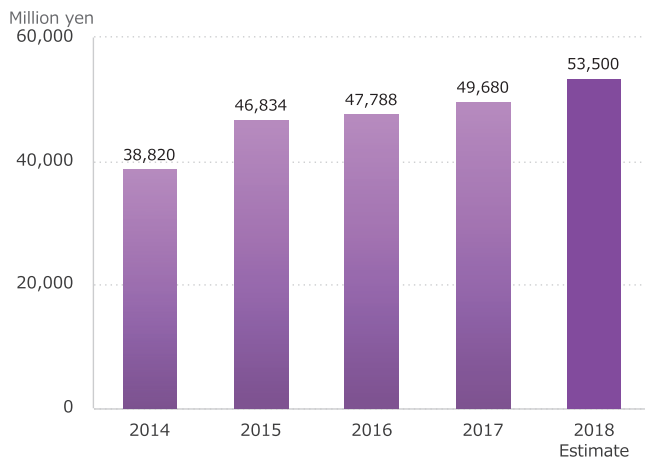
Bookings



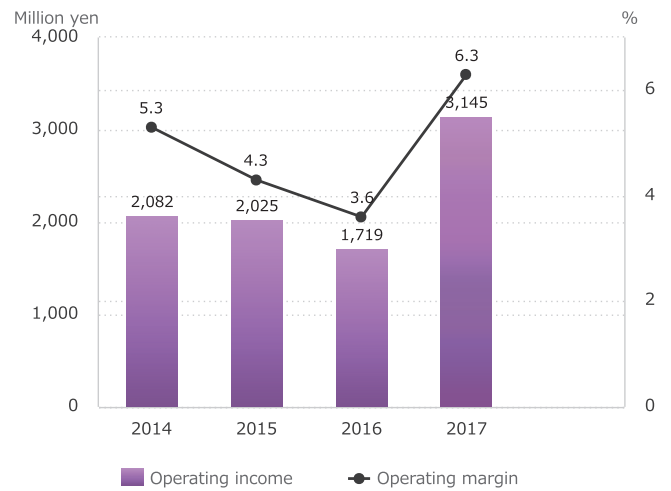
Order backlog



Revenue



Operating income / Operating margin



Chapter 3

Review of Operations and Growth Strategy / Enterprise

Business Overview

Strategy and Vision

Performance in fiscal 2017

Demand for security solutions and cloud systems remained strong in fiscal 2017 across all sectors and business related to work style innovation was firm. Manufacturers also started gearing up to introduce industrial IoT*. Those trends supported growth in both bookings and revenue, with bookings rising 2.6% year on year to ¥51,262 million and revenue increasing 4.0% to ¥49,680 million. Operating income surged 83.0% year on year to ¥3,145 million and the operating margin jumped 2.7 percentage points to 6.3%.

*Industrial Internet of Things: The collection and effective use of data in manufacturing plants

Initiatives for fiscal 2018

In fiscal 2018, we are targeting higher bookings and revenue, supported by continued steady demand for security solutions, cloud system installation and work style innovation, as well as growth in industrial IoT. We are targeting bookings of ¥54,000 million, up 5.3% year on year, and revenue of ¥53,500 million, up 7.7%.

A common capital investment theme for customers in the enterprise market is digital transformation – investing in ICT to drive business innovation. The previous focus for IT investment was to cut costs, but customers are now increasingly turning to ICT to help them achieve their business plans. Specifically, they are ramping up investment in ICT platforms that dovetail with business strategies.

A noticeable trend in the fiscal year under review was an increase in the number of customers that formed digital strategy departments and similar organizations to lead decision-making on the design of companywide network platforms and cloud systems. We see this as a major business opportunity for the Net One Systems Group.

Medium- and long-term outlook

We need to constantly communicate with customers to understand the issues they face and their requirements, which will help us to continue providing solutions in line with their needs. That approach is vital to ensure sustained growth in the enterprise business.

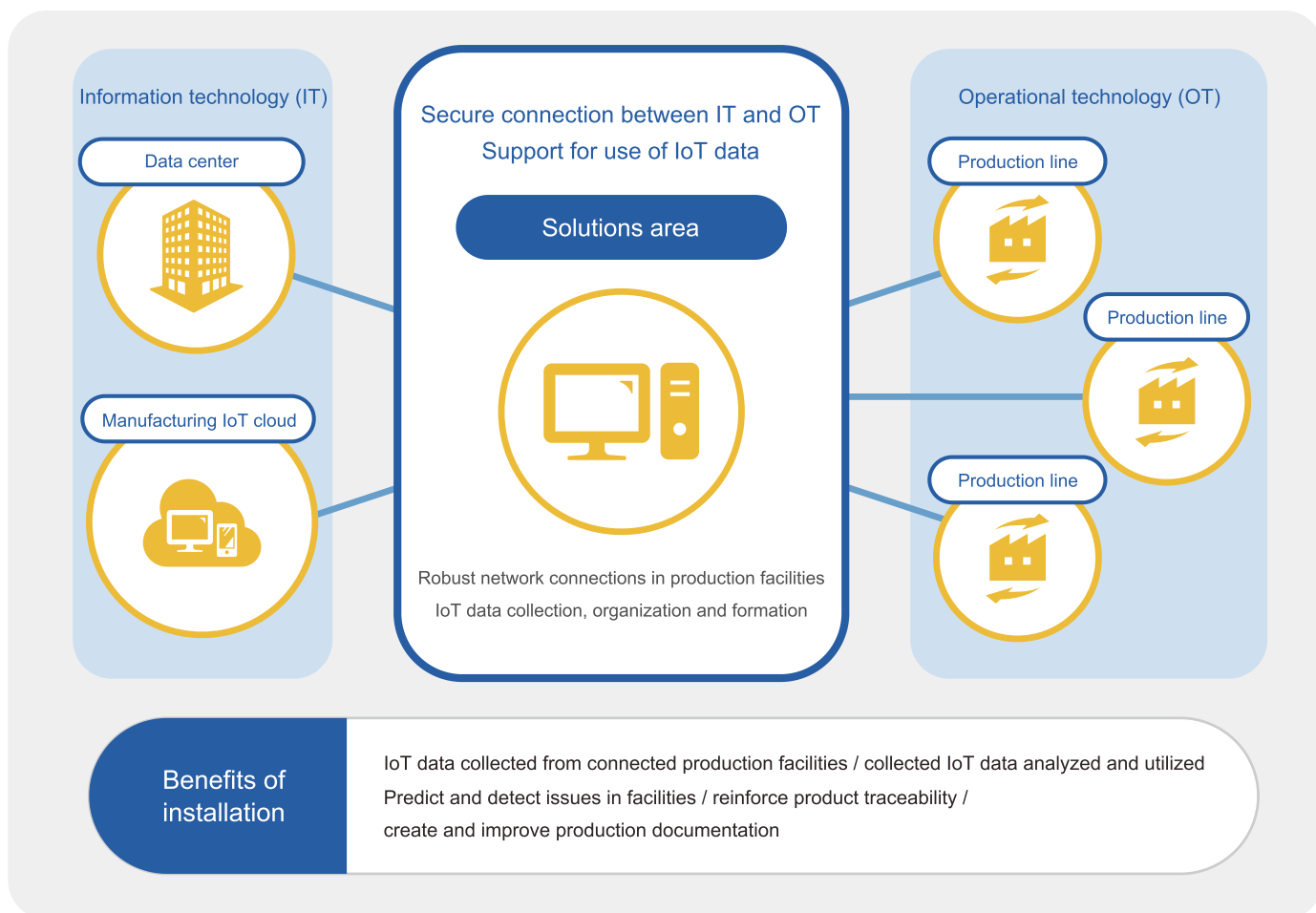
One example of the type of key challenge they face is work style innovation, an area where the Net One Systems Group has taken the initiative. Work style innovation is now being addressed in office settings, but many customers are struggling with work practices in non-office environments such as construction sites and facility security. Demand for work-style innovation in those areas represents a business opportunity for Net One Systems.

Existing customers that have moved into overseas markets also need to implement work style innovation and industrial IoT at their overseas plants, so we will continue to focus on global markets as well.

In the corporate market, which we started targeting about three years ago (primarily mid-sized enterprises), we aim to drive market growth by offering value-added proposals that combine various cloud-based services and by rolling out efficient marketing activities using ICT tools.

We are also working to develop services that predict and detect cyber-attacks and system failures, although we are still not quite ready for full-scale service rollout. Security solutions and networks have considerable compatibility in terms of technology, so the use of artificial intelligence (AI) and deep learning will allow us to identify the difference between safe and dangerous communication patterns. ICT is key to using security solutions, so we intend to continue providing support for all aspects of ICT platforms as part of our provision of cutting-edge security systems.

Industrial IoT business – example



Chapter 3 Review of Operations and Growth Strategy / Telecom carrier

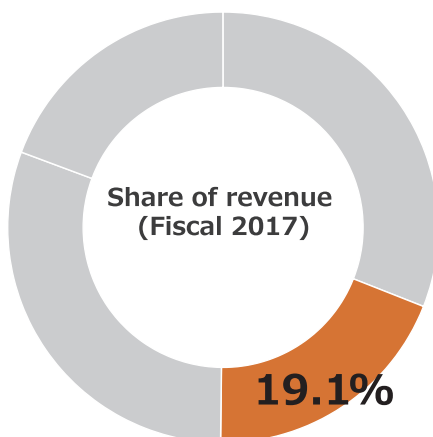
Business Overview

Strategy and Vision

Objectives

Explore new business opportunities through collaboration with telecom carriers

Share of revenue (Fiscal 2017)



Key markets / sectors

- Leading domestic telecom carriers

Revenue **¥30,846 million**

Operating income **¥2,101 million**

Operating environment

- Telecom carriers are investing to expand their corporate businesses.
- Our focus is shifting from equipment sales to building cloud service platforms, where we have more scope to stand out in the market.

Strengths and characteristics

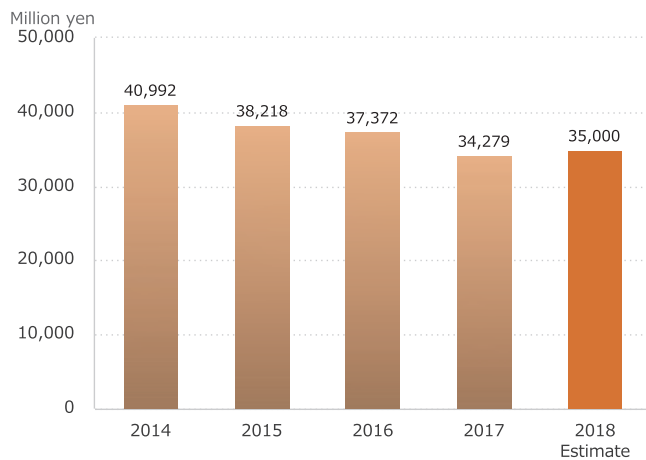
- Extensive track record in the design and installation of large-scale networks
- Strong position in multivendor product integration and automated system operation, backed by advanced network design capabilities

Key growth themes

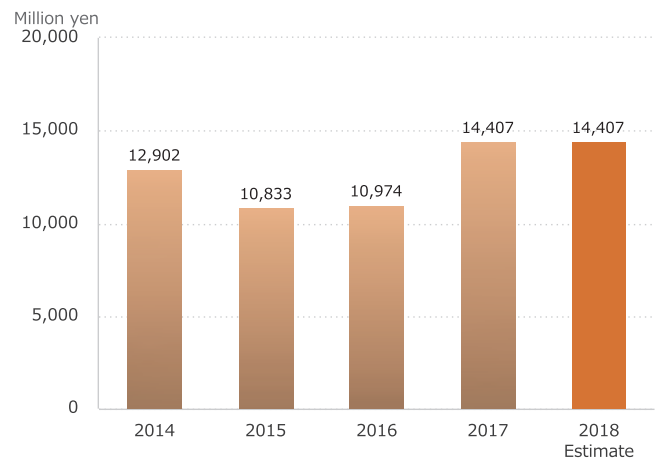
- Work with telecom carriers to strengthen their corporate business
- Expand joint businesses in other markets

Segment performance (reference only)

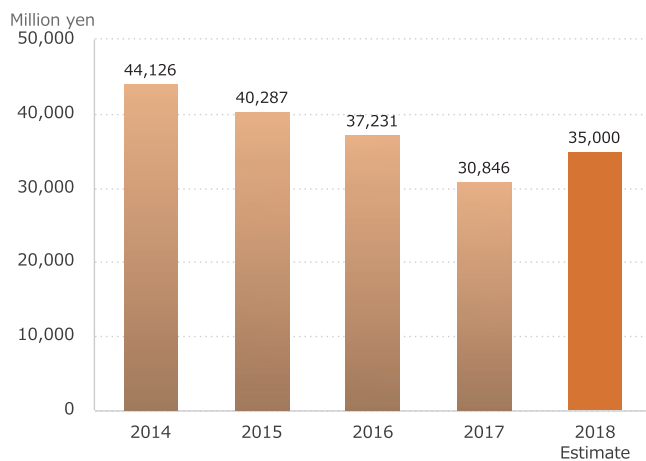
Bookings



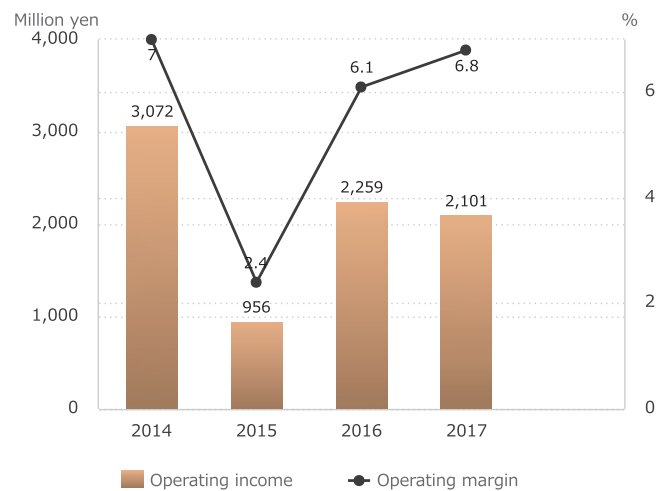
Order backlog



Revenue



Operating income / Operating margin



Chapter 3

Review of Operations and Growth Strategy / Telecom carrier

Business Overview

Strategy and Vision

Performance in fiscal 2017

The cloud service platform business was firm, but telecom carriers continued to curb investment in Internet infrastructures. As a result, bookings declined 8.3% year on year to ¥34,279 million and revenue fell 17.2% to ¥30,846 million.

Operating income was ¥2,101 million. Growth in the cloud service platform business helped to lift profitability, which limited the drop in operating income to 7.0% year on year.

Initiatives for fiscal 2018

Telecom carriers are likely to continue expanding their menu of cloud services in fiscal 2018. We will target growth in demand for platforms to support those services, aiming for fiscal 2018 bookings of ¥35,000 million, up 2.1% year on year, and revenue of ¥35,000 million, up 13.5%, supported also by the order backlog at the end of fiscal 2017.

In cloud service platforms, we will sell optimized configurations of the latest products, such as network equipment for data centers, servers, storage equipment, virtualization software and automation systems. Product sales will also be combined with design, installation and maintenance support as part of a package of high-value-added services.

In addition to cloud service platforms, we forecast rising demand for security. Business and private users are increasingly using telecom carrier networks to access and use a wide range of services. That trend means network security is becoming steadily more important. We are targeting further growth in fiscal 2018 by helping telecom carriers to build more robust security infrastructure.

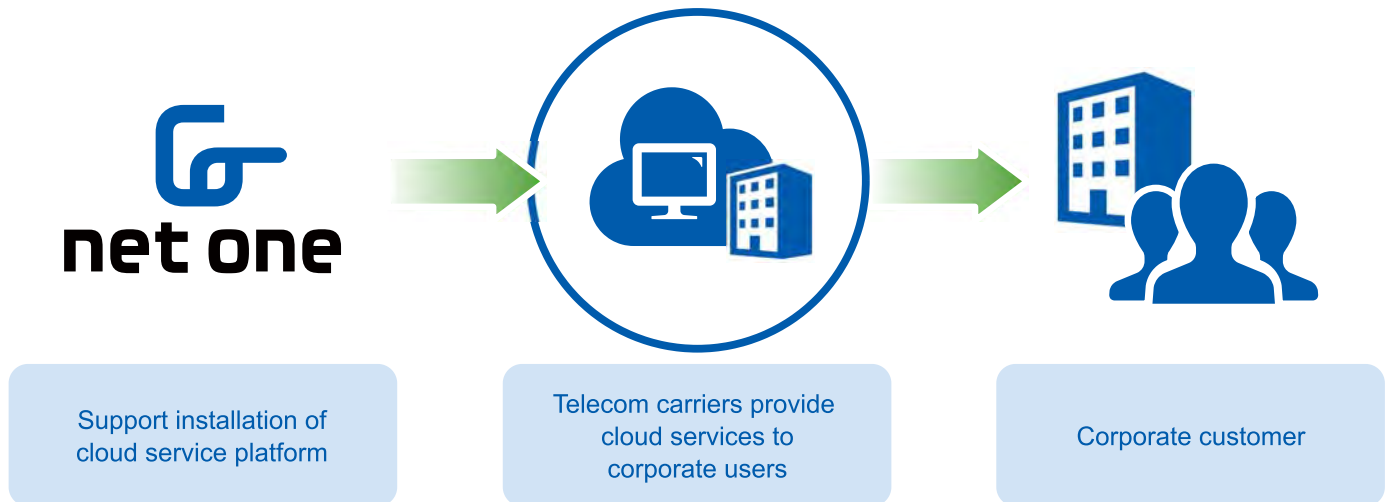
Medium- and long-term outlook

We are currently exploring new business opportunities through collaboration with telecom carriers. Telecom carriers have a large number of corporate customers and are stepping up efforts to reinforce their business with those customers. In the corporate market, Net One Systems can provide advanced technologies for ICT platforms, potentially creating win-win relationships with telecom carriers and corporate users.

Telecom carriers also have different customer bases to our own, which gives us a major opportunity to move into new customer segments. This kind of collaborative business approach, which generates added value and synergies, can also be applied to our customers in the enterprise and public markets.

Going forward, we will carefully monitor the growth strategies of our telecom carrier customers in areas such as cloud services, security and corporate businesses, while providing the Group's technologies and business ideas that continue to win their trust.

Cloud service platform business – example



Chapter 3

Review of Operations and Growth Strategy / Public

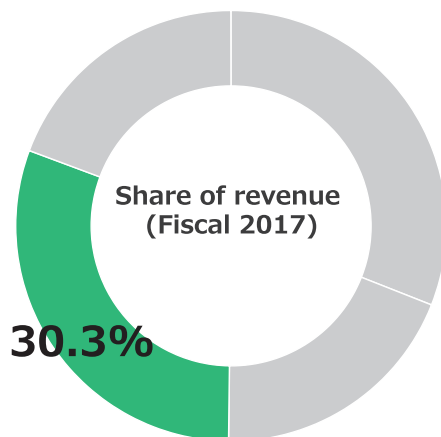
Business Overview

Strategy and Vision

Objectives

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

Share of revenue (Fiscal 2017)



Key markets / sectors

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

Revenue **¥48,751 million**

Operating income **¥2,152 million**

Operating environment

- Companies and public bodies in Japan are strengthening security following the introduction of the national ID system (My Number). Customers in the public market are also shifting to cloud services to optimize ICT platforms and improve efficiency.

Strengths and characteristics

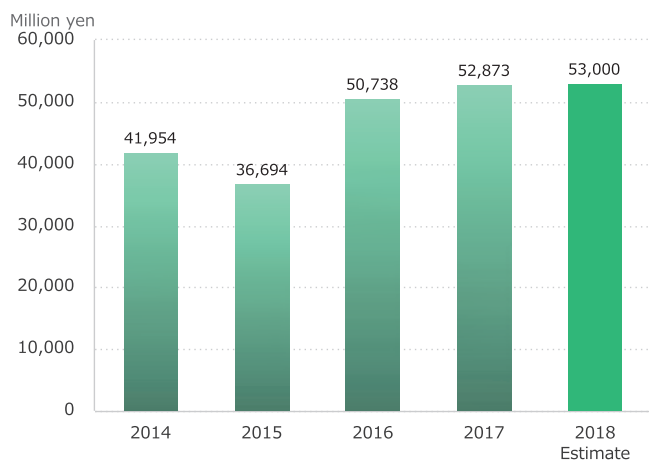
- Consulting services that help customers clearly identify the issues they face
- Optimization of the full ICT platform cycle, from design, installation and maintenance to operation, optimization and in-field improvement

Key growth themes

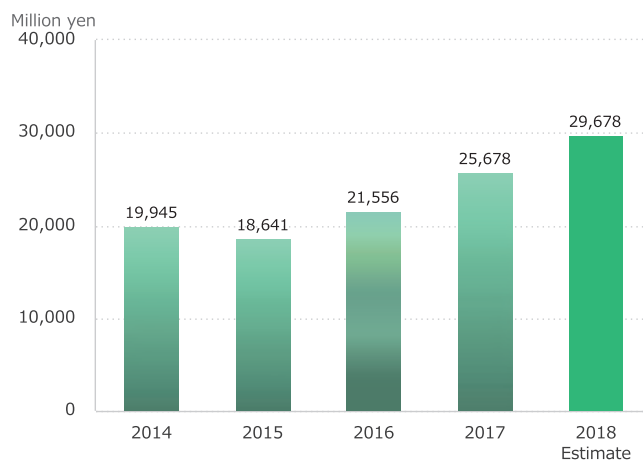
- Trend towards cloud-based ICT platforms and increased security
- Growing reach of ICT business into areas such as visualization of energy usage

Segment performance (reference only)

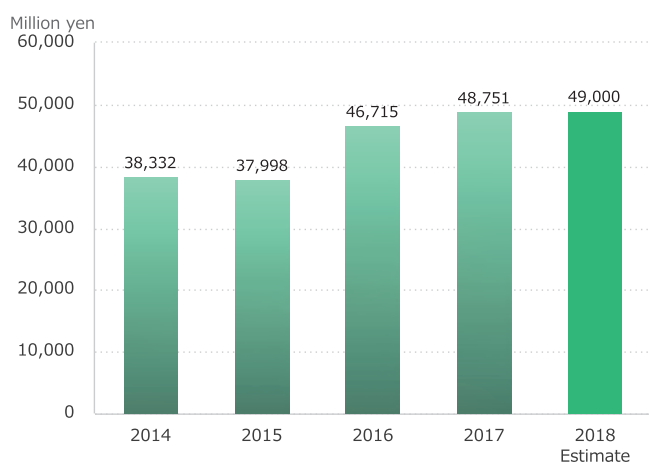
Bookings



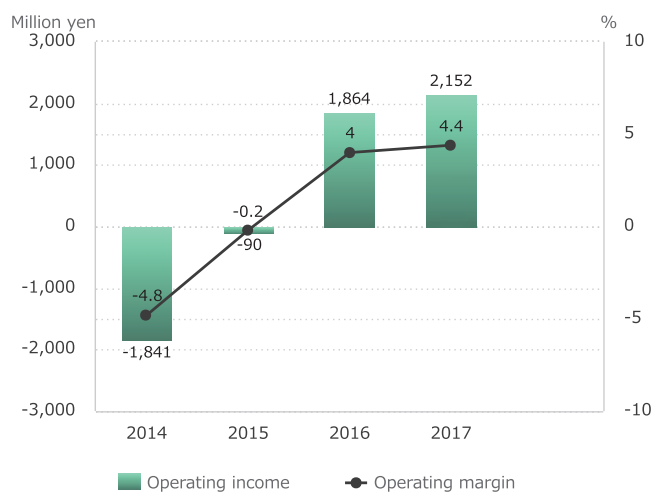
Order backlog



Revenue



Operating income / Operating margin (loss)



Chapter 3

Review of Operations and Growth Strategy / Public

Business Overview

Strategy and Vision

Performance in fiscal 2017

In the public market, bookings exceeded the high level achieved in fiscal 2016, supported by sustained demand for security solutions from local governments, growth in projects for central government agencies, cloud system installation projects for hospitals and rising demand from universities and research centers. As a result, bookings increased 4.2% year on year to ¥52,873 million, revenue rose 4.4% to ¥48,751 million and operating income jumped 15.5% to ¥2,152 million. The operating margin was 4.4%, an improvement of 0.4 of a percentage point compared with fiscal 2016.

Initiatives for fiscal 2018

In fiscal 2018, we are targeting bookings of ¥53,000 million, up 0.2% year on year, and revenue of ¥49,000 million, up 0.5%, supported by continued growth in demand for security solutions and cloud system installation.

In the public market, each customer faces unique issues in their operations, but strong demand for security solutions is a common theme across the market. Most future cyber-attacks are likely to use networks as the main vector, giving Net One Systems an opportunity to stand out in the market by leveraging its strengths in network security. Based on that outlook, we forecast continued growth in the security business in fiscal 2018.

The opportunity to provide network security solutions, a core part of ICT platforms, will also give us more scope to increase proposals for full ICT platform integration and optimization to the same customers. In the case of local governments that already use the Local Government Information Security Cloud on a prefectural level, we plan to target demand for shared ICT platforms that connect each municipal government across their prefectures.

Since last year, we have seen an increase in business where medical information systems of large hospitals move into platform virtualization and cloud computing. That shift to virtualized and cloud-based systems helps hospitals significantly reduce investment and operating costs. We see healthcare as an extremely promising growth field, as the Net One Systems Group will be able to provide support for local healthcare connectivity, telemedicine and a growing number of other areas that require ICT.

In the education field, we are working to tap rising demand from capital investment in two key areas – growth in ICT-enabled educational services for university and school students, and improvements to security. Universities need to offer more appealing educational services to attract students amid Japan's aging and shrinking population. Meanwhile, local education authorities are leading efforts to integrate and manage data that was previously handled by individual elementary, junior high and senior high schools, in order to enhance security and reduce costs.

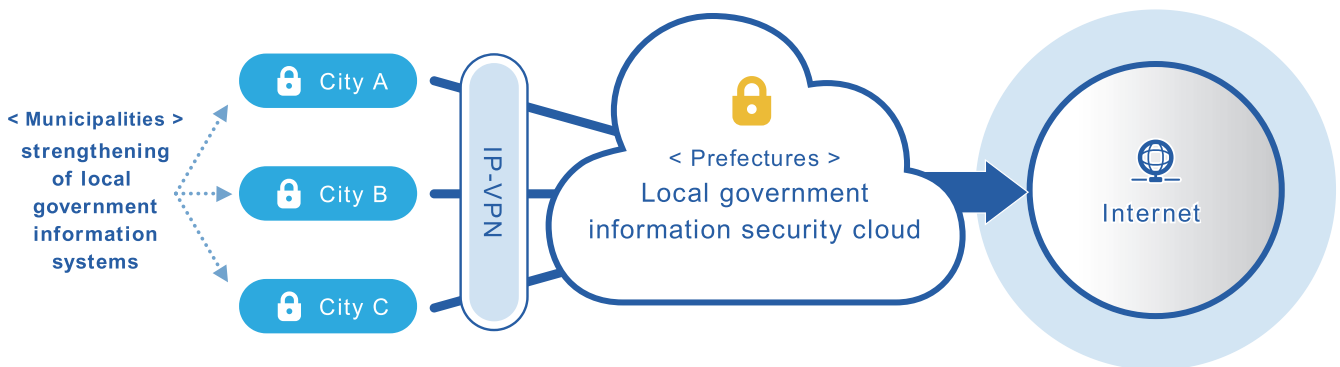
Medium- and long-term outlook

The Group's strategy of offering cloud-based ICT platforms and enhanced security has gained the most traction in the public market. With our medium- to long-term strategy for the public market, we plan to continue focusing on those areas to drive growth.

We also expect the use of IoT to become more widespread in the public market. We see potential applications for local governments in areas such as disaster prevention systems and resident services. IoT is likely to be adopted in a growing number of other fields, including IoT to visualize energy usage for electricity and gas companies in the public infrastructure sector.

In the public market, which covers public infrastructure, the Net One Systems Group provides unique value that ensures reliable and secure ICT. That supports the sustainable development of society as well as Net One Systems' profits.

Local government security solution – example



Chapter 3 Review of Operations and Growth Strategy / Partner business

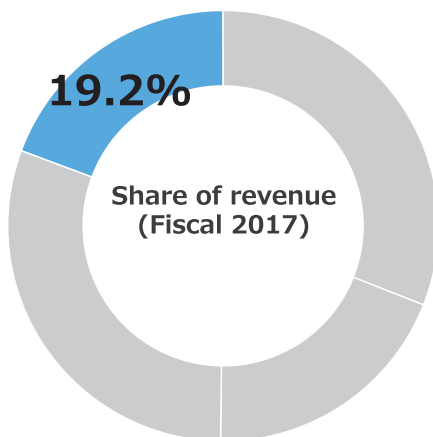
Business Overview

Strategy and Vision

Objectives

Explore the potential of new business formats by rapidly introducing the latest technologies outside the boundaries of existing ICT businesses

Share of revenue (Fiscal 2017)



Key markets / sectors

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

Revenue **¥30,985 million**

Operating income **¥1,426 million**

Operating environment

- Business with key partners remains firm
- Strong growth in managed services for telecom carriers

Strengths and characteristics

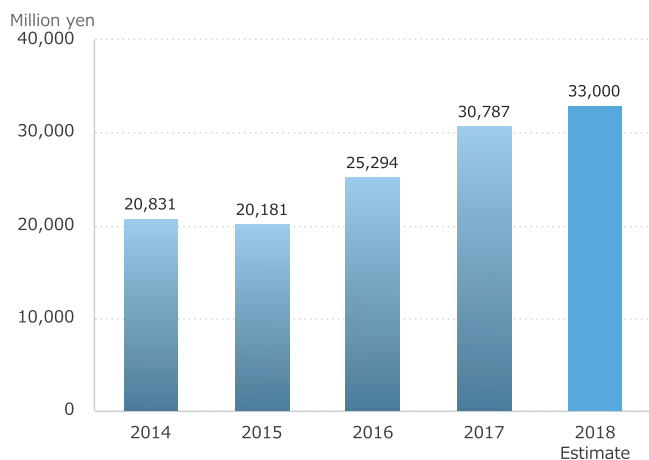
- Handles a wide range of products from overseas
- Provides quality assurance, technology verification and value-added services such as proposal support, system maintenance and operation
- Identifies cutting-edge ICT equipment and solutions in overseas markets and helps introduce them into Japan

Key growth themes

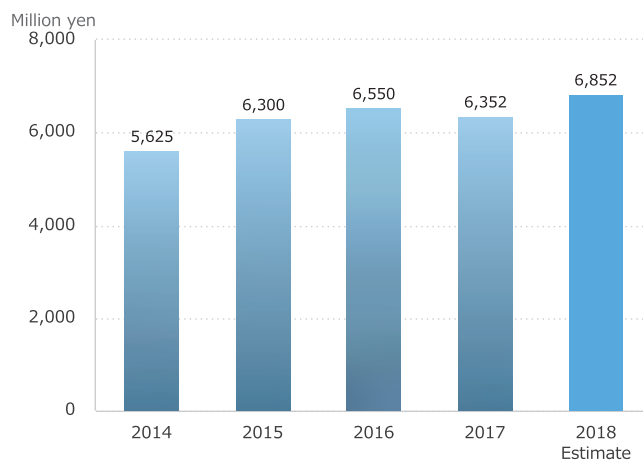
- Increase awareness of and trust in Net One Partners in the volume business (increases size of profits)
- Expand the value business (improves profit margins)

Segment performance (reference only)

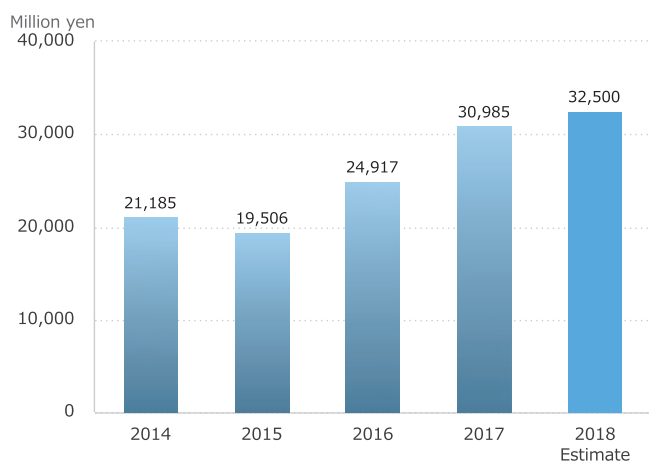
Bookings



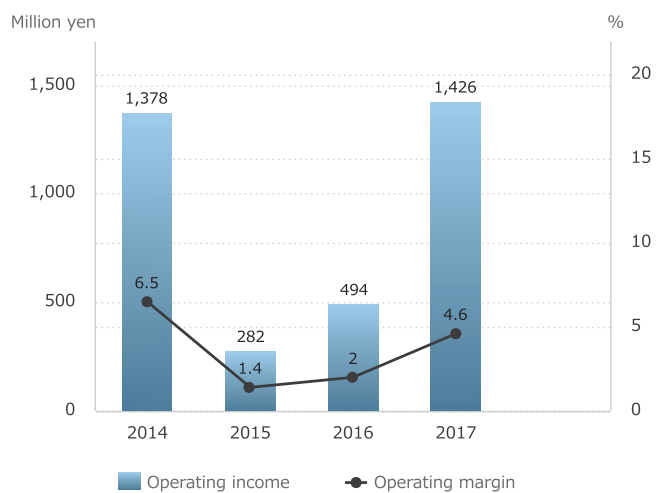
Order backlog



Revenue



Operating income / Operating margin



Chapter 3 Review of Operations and Growth Strategy / Partner business

Business Overview

Strategy and Vision



Overview of the Partner Business

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

Net One Partners was founded as a Net One Systems Group company in 2008. Since then, the company has focused on developing collaborative business relationships with partner companies, particularly system integrators. Net One Partners provides technical support together with equipment and services for ICT platforms to partner companies, which combine them into system solutions for delivery to end-users. Net One Partners provides support to partner companies throughout that process.

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

Net One Partners Business Model



Performance in fiscal 2017

In fiscal 2017, business with key partners remained strong. There was also a large increase in specific equipment for managed services provided by telecom carriers.

Those trends supported a steep rise in both bookings and revenue compared with fiscal 2016, with bookings growing 21.7% to ¥30,787 million and revenue increasing 24.4% to ¥30,985 million. Operating income surged 188.7% year on year to ¥1,426 million and the operating margin improved 2.6 percentage points to 4.6%.

Initiatives for fiscal 2018

In fiscal 2018, we are targeting sustained expansion in our business with key partners and a continued increase in the supply of specific equipment for telecom carriers' managed services. We are targeting bookings of ¥33,000 million, up 7.2% year on year, and revenue of ¥32,500 million, up 4.9%.

In our business with partner companies, we use two main business approaches – volume and value.

In the volume business, we conduct quality assurance and supply a large amount of different types of equipment to major partner companies and specific equipment to telecom carriers.

In the last few years, we have seen particularly strong growth in the supply of specific equipment to telecom carriers. Telecom carriers are using the equipment to develop managed services for their corporate customers. Those services are giving us access to demand from mid-size companies, an area that has not been targeted by our partner business. We intend to continue focusing on that channel in fiscal 2018 to grow sales.

In the value business, we combine equipment and services and provide them on a solution basis. We also incorporate technical support and system maintenance and operation services to inject added value.

One area we are currently developing is solutions for distributors and retail stores that help them attract customers and promote sales as part of their omnichannel strategies. Our solutions incorporate in-store Wi-Fi, cameras and other systems to help stores understand their customers. That information is then used to send out digital coupons and advertising customized to individual customers. That type of retail solution is generating more digital information, which can be gathered and reflected in marketing analysis.

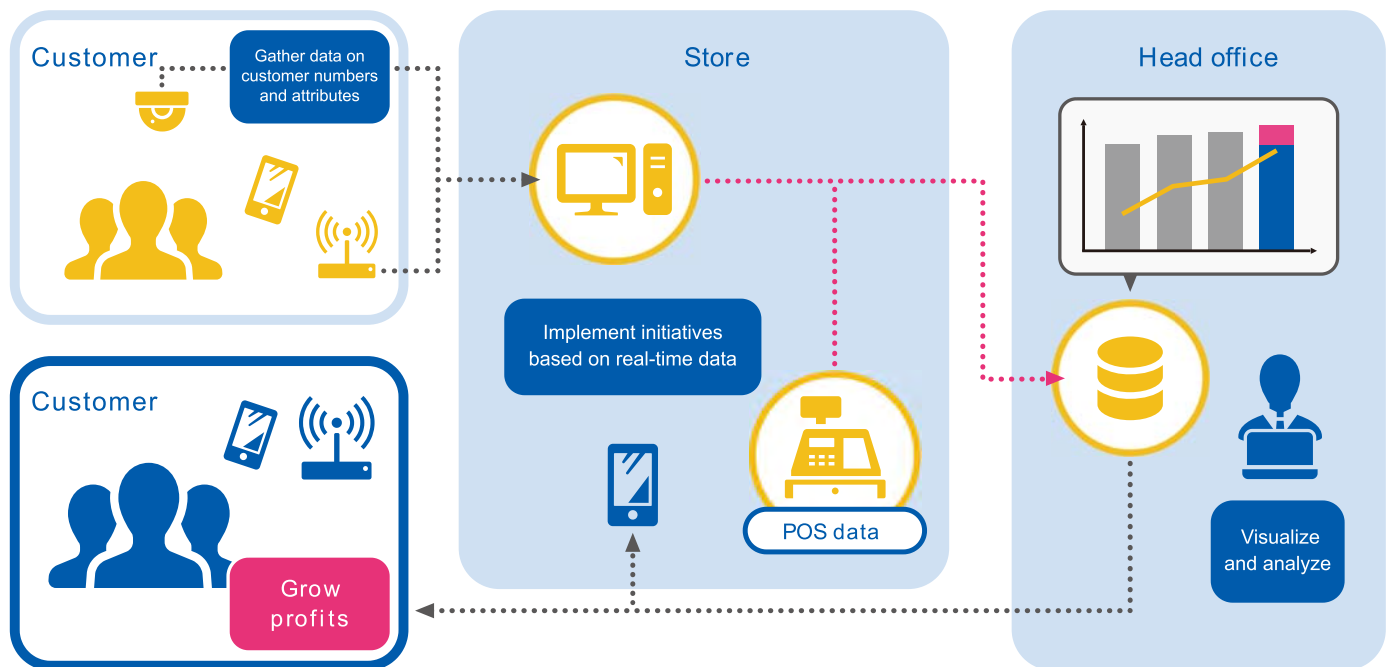
In fiscal 2018, we plan to continue expanding the volume business (which increases the size of our profits) and the value business (which improves our profit margins).

Medium- and long-term outlook

In the partner business, we will continue to increase awareness of and trust in the Net One Partners name in the high-volume market, while also expanding our higher margin value business.

We will also explore the potential of new business formats by rapidly accessing and introducing cutting-edge technologies such as robotics and IoT outside the boundaries of existing IT businesses.

Solution for distributors and retail stores – example



Chapter 3 Review of Operations and Growth Strategy / Executive Interview



Takafumi Takeshita

Senior Vice President
In charge of Eastern Japan Business Division 2
In charge of Central Japan Business Division

Shinji Hirakawa

Executive Vice President
In charge of Eastern Japan Business Division 1
In charge of Western Japan Business Division

Shifting from “ICT ownership” to “ICT use” Driving advances in the utilization of ICT and creating TAKUMI experts

The needs of our customers are changing dramatically. Their focus is shifting from owning ICT equipment to utilizing ICT to overhaul business models and increase competitiveness in order to overcome challenges in their operations. So how is Net One Systems training its workforce to respond to that change? In this section, we speak to two executives about Net One Systems' stance and policy on human resources development.

▣ Helping our customers increase competitiveness to overcome business challenges

Hirakawa : I'm responsible for the public business, which covers central government agencies, local governments, educational bodies, healthcare providers and public infrastructure firms, as well as customers in the financial sector in the enterprise business. We are seeing a major shift in the needs of those customers, who increasingly want efficient and integrated ICT systems and value-added services to support those systems, such as improved security. To address those needs, a great deal of our business now involves providing services for ICT virtualization and cloud system installation. Services that enable the integrated utilization of ICT platforms account for a growing share of our bookings and are now almost on par with bookings from equipment sales.



Shinji Hirakawa
Executive Vice President

In charge of public and financial markets
value-added services.

Takeshita : Our customers, particularly those in the enterprise market, highly value our network integration capabilities. Backed by those capabilities, our customers are also starting to recognize our ability to provide services that enable the integrated utilization of ICT, such as platform virtualization and cloud system installation. That ability is now one of our strengths as a company. Amid growing demand for industrial IoT, which increases productivity by creating networked production facilities inside manufacturing plants, that strength is likely to become even more important. We have been exploring the potential business opportunities of industrial IoT for some time by talking to and sharing expertise with our most valued customers in the manufacturing sector. Those efforts are now leading to concrete success in the application of industrial IoT. We plan to continue that kind of dialogue to achieve more successful outcomes with customers and expand our menu of

▣ Nurturing personnel who can provide value through dialogue with customers

Hirakawa : Wherever possible, a key part of our strategy is talking to customers to understand their needs and the challenges they face in their business so that we can provide high-margin value-added services. Effectively using our limited human resources holds the key to that strategy.

Takeshita : To use our people effectively and deepen communication with customers, we also have to be highly sensitive to the changes going on in our operating environment. That also applies to our move into global markets, which is part of our growth strategy. Understanding changes in the operating environment means we can offer services that customers need before our competitors, helping to strengthen dialogue even further. Moving into global markets will also make Net One Systems a more attractive company, allowing us to attract highly skilled personnel much more easily.



Takafumi Takeshita
Senior Vice President
In charge of enterprise and telecom carrier
markets

Hirakawa : We also need to nurture our existing personnel, as well as recruit new people. We are currently training our personnel so that they can offer new types of solutions to customers. Specifically, we are training them to routinely use logical thinking and acquire the mental skills needed to develop and establish new business models that utilize the latest technologies. We want each employee to be able to identify and understand the kind of value Net One Systems can provide when they investigate new business models designed for customer needs. Logical thinking will also give them the natural ability to see the potential profits from the value we provide, as well as the necessary resources for projects and areas where resources are lacking. We call that provision of integrated ICT system proposals the “architectural approach,” and personnel who can use that approach will contribute to the Group’s future growth.

Takeshita : System maintenance and operation are a key part of our integrated services. To help customers overcome challenges in their businesses, we need to monitor their networks and security on a daily basis. That helps us identify any issues and develop new service proposals. To expand our menu of maintenance and operation services, we have to train personnel who can manage all aspects of ICT projects. Fortunately, Net One Systems' engineers all have a high level of expertise in networks, so they are well-versed in monitoring and understanding how information flows across networks. Meanwhile, network security is dependent on technology that can identify and deal with unusual activity in networks. Our engineers have intimate knowledge of various technologies, so I see no major obstacles to training them to become security professionals.

▣ Cultivating TAKUMI personnel who pioneer the utilization of ICT

Hirakawa : To create teams of professionals in specific fields, we have to develop career pathways for our employees. Our engineers are involved in many fields, such as AI, IoT and platform virtualization. We want to create specialists with experience and expertise in those fields, so we plan to set up personnel systems that give them the opportunity to move up within the Company. We will actively invest to help employees advance their careers, which we make clear to them on a routine basis. That investment will be vital to create the kind of TAKUMI experts we want at Net One Systems. TAKUMI experts are more than just engineers. They need marketing skills with the ability to understand customers' business models, and they also have to develop business acumen and improve their capabilities by accumulating knowledge in a variety of different career fields, such as finance and accounting. Those are the type of TAKUMI personnel who will support the Company's growth.



Takeshita : For me, TAKUMI personnel are people who can have an impact on projects. They obviously need technical skills to ensure projects are a success, but technology needs to inspire customers and connect to their businesses, otherwise it is meaningless. Technology is essentially a tool. The skills our people need to have an impact on projects are very simple: above all, they have to keep their word, but they also need to be very good at task management and time management. As that type of employee becomes more common, our whole organization will also start to have a greater impact, and individuals will be able to realize their potential. Nurturing that type of employee does not happen overnight. We will need time to develop our

employees' most fundamental approaches to work, such as conscientiously and carefully tackling their duties on a daily basis.

Hirakawa : Advances in a wide range of new technologies are likely to spur a dramatic increase in fields where Net One Systems can contribute to society. Personnel with the expertise and mindset of TAKUMI will be able to propose ways of utilizing ICT that make life safer and more secure for everyone. That will not only benefit society, but also naturally support Net One Systems' growth as a company.

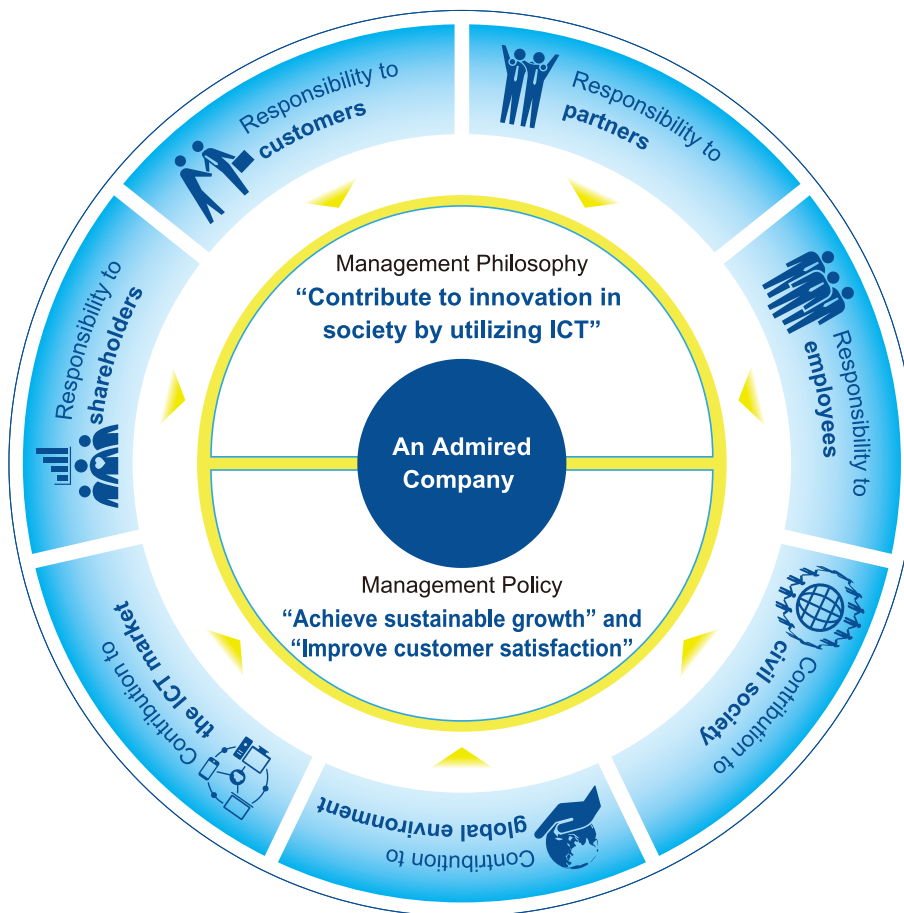
Chapter 4

Net One System's Sustainability

Management Vision

Working to win and retain the trust of all stakeholders

Our management vision is to be "a company trusted and supported by all stakeholders (an Admired Company)." To achieve that vision, we optimally allocate the Group's business resources to "achieve sustainable growth" and "improve customer satisfaction." We believe Net One Systems can only become an Admired Company by being recognized as such by third parties, not based on our own views. That is why we will continue to work passionately and tirelessly to win the highest levels of approval from stakeholders by fulfilling our responsibilities to customers, partners, shareholders and employees, and by remaining aware of the contribution we can make to the ICT market, civil society and the global environment.



Contribute to Society through Our Business

Helping to create a sustainable society is an integral part of our business

Overview

Example of ICT utilization

To create a sustainable society, we need to drive advances in ICT and utilize ICT to tackle and help solve issues faced by society today.

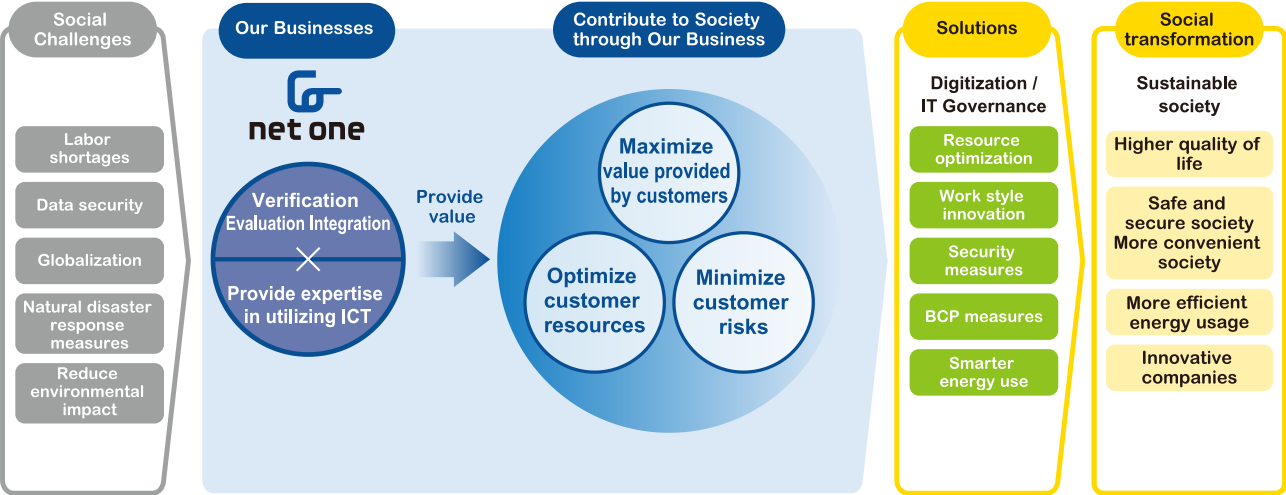
In line with our corporate philosophy, "Contribute to innovation in society by utilizing ICT," we provide advanced ICT platforms and knowledge about how to utilize and leverage ICT to private companies, public agencies and other customers.

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

By maximizing value, minimizing risk and helping customers utilize their resources effectively, we improve the sustainability of our customers' operations and society as a whole.

Net One System's own sustainability is therefore intrinsically linked to creating a sustainable society and helping customers generate sustainable growth.

Management Philosophy
Contribute to Innovation in Society by Utilizing ICT



Chapter
4

Net One System's Sustainability

Contribute to Society through Our Business

Net One Systems works with customers in unique ways, drawing on its own experiences in utilizing ICT

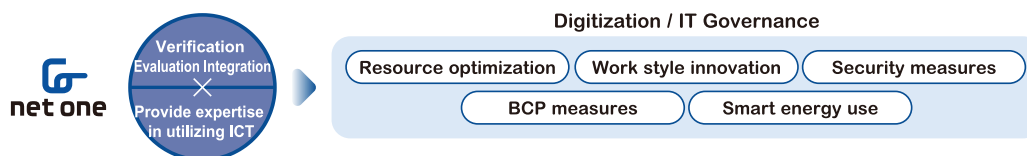
Overview

Example of ICT utilization

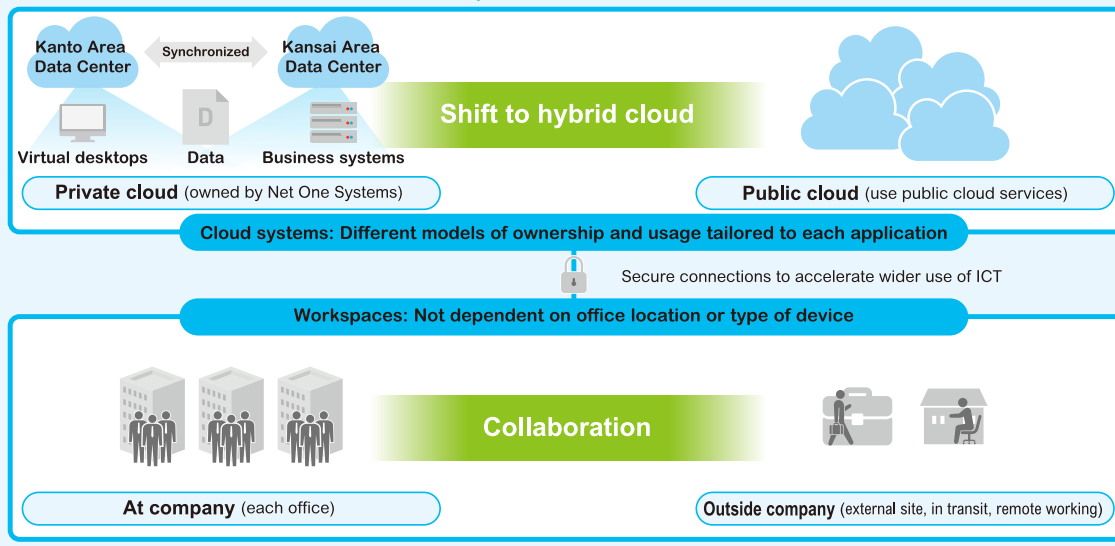
Like many of its customers, Net One Systems is a commercial business that faces the same kinds of challenges. In other words, we can draw on our experience in using ICT to help customers tackle and solve their own challenges. Our successes become model case studies, while our failures are used to ensure customers avoid the same mistakes. In that process, we do more than simply sell products – we introduce and use the latest technologies in our own business ahead of customers and provide significant added value to them by sharing insights from our successes and failures. In that way, our efforts to solve issues in our own business and improve sustainability also increase the sustainability of our customers' operations and society as a whole.

How Net One Systems uses ICT

Using our solutions to in-house issues as model case studies ▶ Sharing the most efficient approaches



Examples of ICT utilization



Resource optimization

- **More efficient use of owned assets**
Migrate to private cloud or use public cloud services
- **More efficient use of personnel**
Work and collaborate in the same environment, regardless of location

Work style innovation

- **ICT Environment**
Fully utilize business systems and access data even in settings outside the office
- **Flexible personnel systems**
Establish remote working, flex-time working and other systems to support work style innovation

Security measures

- **Reduce ICT environment risks**
Connect securely to the cloud, identify and respond to suspicious activity
- **Reduce risks for users**
All data is stored in the cloud, not in PCs or smartphones, mitigating the risk of data breaches

BCP measures

- **Ensure continuity of the ICT environment**
Maintain systems and data even if one data center is damaged
- **Ensure continuity of the human environment**
Use remote working to ensure operations can continue as normal when offices are damaged or transport systems are paralyzed

Smart energy use

- **Cut data center electricity consumption**
Reduce the amount of ICT equipment by using virtualization technology to integrate and consolidate systems
- **Reduce business trips and travel**
Use video conferencing to maintain smooth communication with remote sites (offices, homes, etc.)

Chapter 4

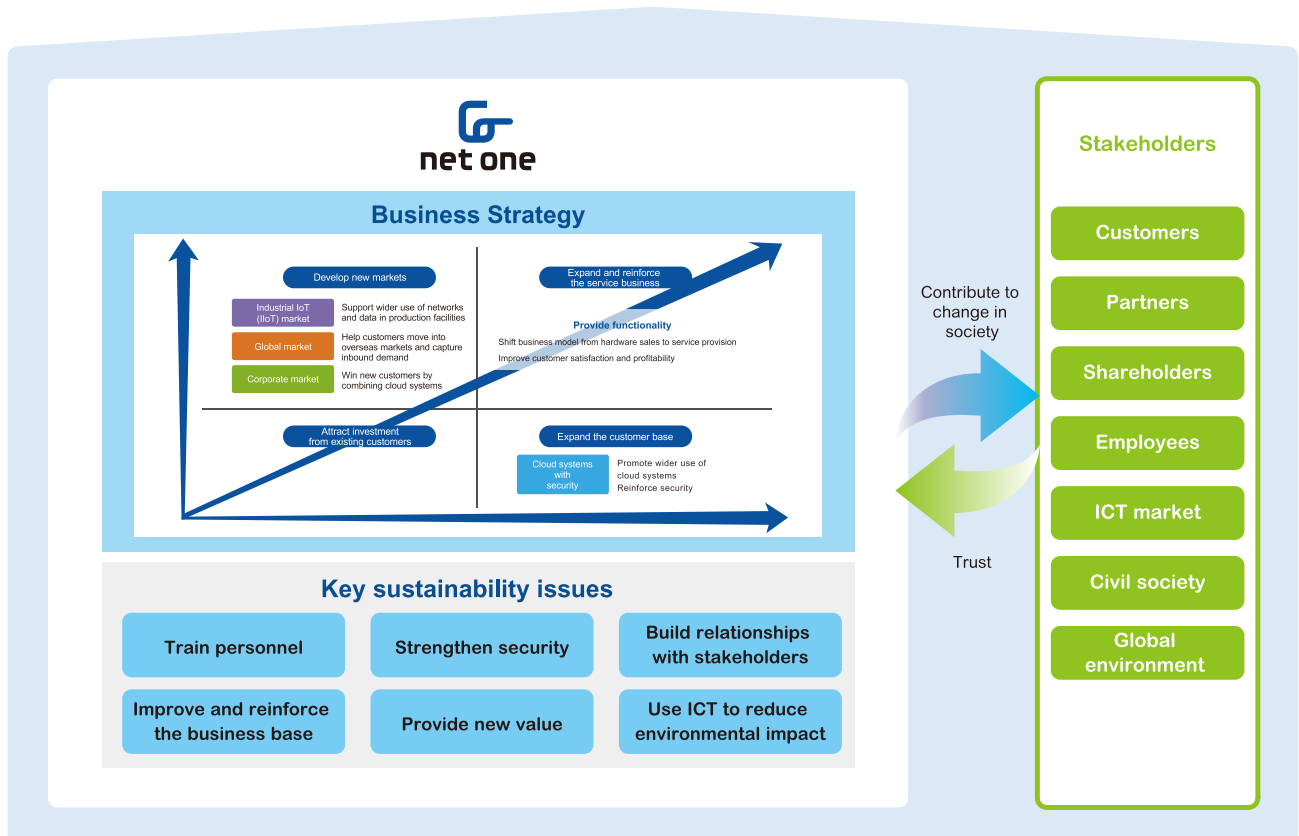
Net One System's Sustainability

Net One Systems' Key Issues

Tackling key issues to allow Net One Systems to grow in a sustainable manner with society and become an Admired Company

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

Grow in a sustainable manner with society



Chapter 5 Corporate Governance / Key Features

Directors (As of June 14, 2018)



(1)

Takayuki Yoshino
Chairman & CEO

(2)

Toru Arai
President & COO

(3)

Takahisa Kawaguchi
Director

(4)

Shinji Hirakawa
Director

(5)

Takafumi Takeshita
Director

(6)

Takuya Tanaka
Director

(7)

Norihisa Katayama
Director

(8)

Kunio Kawakami
Director (Outside)

(9)

Mitsuo Imai
Director (Outside)

(10)

Rieko Nishikawa
Director (Outside)

(11)

Ryugo Hayano
Director (Outside)

Basic Approach

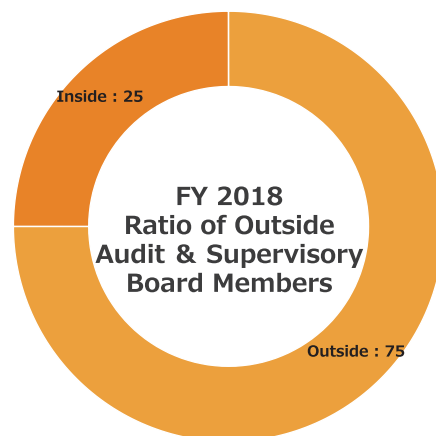
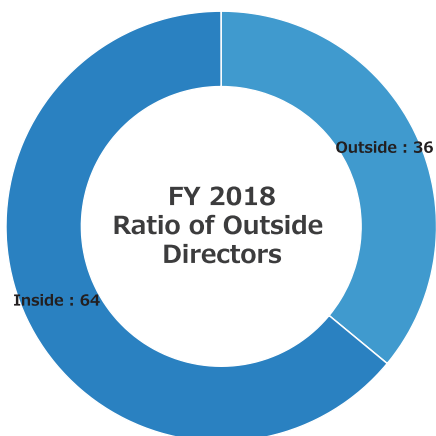
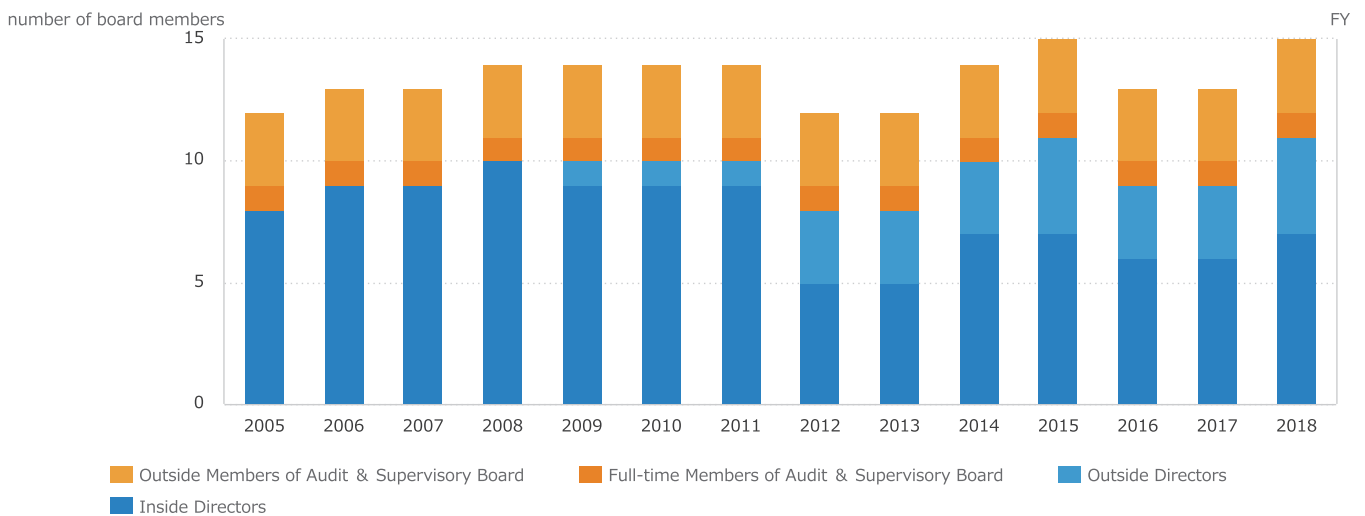
Our management vision is "to be a company trusted and supported by all stakeholders (an 'admired company')." To realize that vision, we have to fulfill our responsibilities to customers, partners, shareholders and employees and remain aware of the contribution we can make to the ICT market, civil society and the global environment. Also, we will work relentlessly to win the highest approval from stakeholders, recognizing that a truly admired company is one that depends on the recognition of third parties, not our own judgment.

Our ultimate goal is to generate sustained growth, guided by our management vision. To achieve that goal, we need to increase corporate value over the medium and long term, supported by consistent efforts to improve and strengthen corporate governance to ensure transparent, fair and rapid decision-making.

Corporate governance reforms



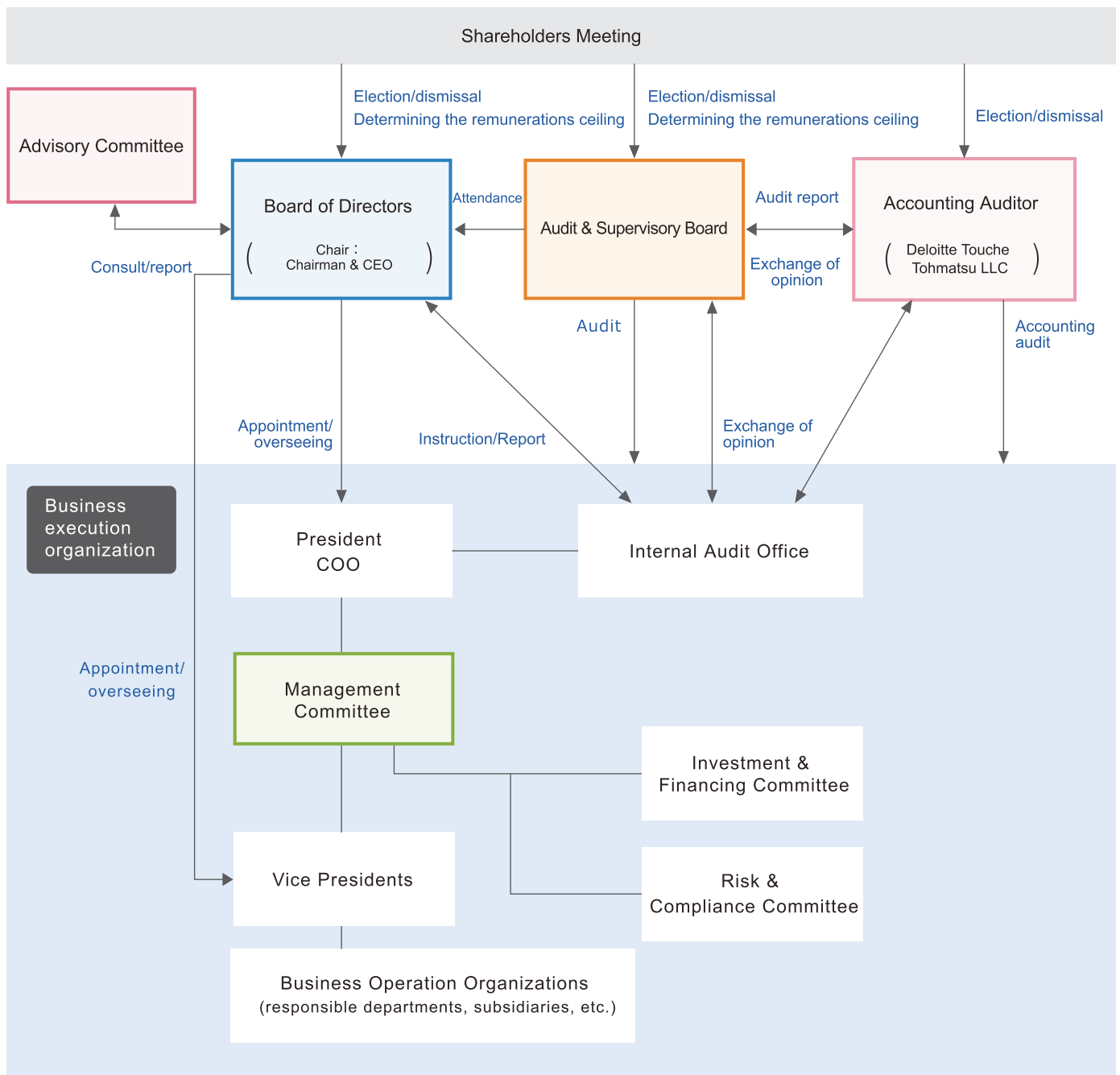
- | One outside director appointed (June 2004)
- | Term of office for directors reduced from two years to one (June 2006)
- | Advisory Committee established (December 2009)
- | Vice President system introduced (April 2011)
- | Stock option compensation system introduced (June 2012)
- | Female outside director appointed (June 2015)
- | Corporate Governance Guidelines published (November 2015)
- | Assessment of effectiveness of Board of Directors (June 2016)
- | Audit & Supervisory Board Member contact point added to compliance reporting and advice line (October 2017)



Key features of corporate governance at Net One Systems

Governance structure: Company with an Audit & Supervisory Board	Term of office for Directors: 1 year	Number of independent executives 7
Number of Directors: 11	Number of Outside Directors: 4	Number of Board of Directors meetings: 12 <small>*In FY2017</small>
Number of Audit & Supervisory Board Members: 4	Number of Outside Audit & Supervisory Board Members: 3	Number of Audit & Supervisory Board meetings: 13 <small>*In FY2017</small>
Executive Director system ✓	Advisory Committee ✓	Accounting Auditor Deloitte Touche Tohmatsu LLC

Governance Structure



Board of Directors (Fiscal 2017, 12 meetings)

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

Advisory Committee (Fiscal 2017, 3 meetings)

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

Audit & Supervisory Board (Fiscal 2017, 13 meetings)

Audits the execution of duties by directors and exercises its authority with respect to the appointment and dismissal of Audit & Supervisory Board members and their compensation from an independent and objective standpoint.

Management Committee (Fiscal 2017, 22 meetings)

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

Composition of Board of Directors, Audit & Supervisory Board, Advisory Committee, Management Committee

Fiscal 2018

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

Specialist fields of outside directors



Management **2**



Academia **2**

The Company has appointed four outside directors to provide objective and impartial advice in order to strengthen supervision of the board of directors.

Board of Director meetings

Fiscal 2017		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total (average)
Attendance	Directors	9/9	9/9	9/9	9/9	9/9	9/9	9/9	9/9	9/9	9/9	9/9	9/9	-
	Audit & Supervisory Board members	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	-
	Attendance rate	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100%
No. of proposals	Resolutions	4	6	12	3	2	-	4	1	2	3	3	8	48(4)
	Reports	7	4	3	7	5	5	5	4	4	4	5	4	57(4.8)
Time required	Explanation (min)	60	65	15	50	40	45	70	30	65	60	60	60	620(52)
	Q&A (min)	40	10	0	40	30	45	30	5	50	5	10	35	300(25)

*Rough estimates used for time required for meetings

*Details of main proposals discussed by Board of Directors in fiscal 2017

- Assessment of board effectiveness
- Medium-term business plan
- New employee hiring system
- Merger with EXCEED CO., LTD.
- Investment in ASIASOFT SOLUTIONS PTE. LTD. (Phase 2)

Chapter 5 Corporate Governance / Messages from Outside Directors



▼ (1)
Kunio Kawakami

▼ (2)
Mitsuo Imai

▼ (3)
Rieko Nishikawa

▼ (4)
Ryugo Hayano

Outside Director Profiles and Messages



Kunio Kawakami

Outside Director

Net One Systems is expanding its borderless operations as an independent integrator by leveraging its portfolio of advanced ICT, backed by an energetic spirit.

Profile

During his time at Kandenko Co. Ltd., Mr. Kawakami accumulated considerable expertise and experience in the information and communications business field. He was appointed to his current post in 2009.

Reasons for accepting the appointment

When I was appointed to my position in June 2009, outside directors were not that widely understood or seen as an important part of corporate governance in Japan. If that situation had continued, Japanese companies would have been at risk of losing the trust of global institutional investors and ordinary shareholders, which could have undermined the stability of Japan's business community. One of the reasons I chose to accept the role was a desire to help Net One Systems develop as a company and increase value for shareholders. At the time of my appointment, I was the Company's only outside director, so initially I found my feet through a process of trial and error.

Views on the role of outside director

The role of outside directors is to protect investors and ensure appropriate business practices by promoting sound, transparent management, which contributes to sustained growth. Specifically, outside directors have six key duties: (1) oversee the formulation and implementation of medium-term management plans, (2) monitor compliance and risk management activities, (3) monitor business operations from the perspective of sustainability, (4) develop leadership succession plans, (5) provide advice to the management team, and (6) check for potential conflicts of interest.

Expectations for the new management team

The new team was appointed only relatively recently, so any impact is likely to take time to feed through. However, there is an upbeat mood around the team, with the appointment of younger directors likely to bring fresh ideas and boost motivation. Net One Systems has always had an energetic spirit, and the fact that it is an independent integrator with cutting-edge ICT also contributes to a flat structure with smooth communication between the top and bottom layers of the organization. The new management team will need to tackle several issues: ensure a rigorous focus on costs, further expand operations overseas, explore opportunities in new business fields, attract personnel and establish a new education and training program. Net One Systems employs a large number of people in the ICT field. By harnessing their expertise and know-how, we can take on new challenges and drive growth in the Group's borderless operations.



Mitsuo Imai

Outside Director

Net One Systems is well-placed to deliver sustained growth by maintaining its current approach and cementing its leading position in the industry.

Profile

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

▣ Reasons for accepting the appointment

I was appointed as an outside director in June 2012. At the time, Net One Systems was working to expand its business with telecom carriers while also recognizing the need to restructure its operations to explore new technologies for the future ICT market. Against that backdrop, my decision to accept the appointment reflected a desire to help the Company increase its corporate value by overseeing management efforts to reinforce the business structure and build the foundations for growth.

▣ Views on the role of outside director

Recently, outside directors have to be able to see issues from various perspectives as part of their skill set. They need to comprehensively and objectively assess conditions in the Company from the different standpoints of shareholders, business managers and employees. Importantly, based on that approach, they have to present their opinions clearly and independently, no matter how delicate the subject. In addition, outside directors have to check whether the management team is following a business approach that will grow earnings and ensure there are no deviations from normal rules and regulations. Net One Systems is an extremely open company where anybody can put forward their opinions. That makes it easier for outside directors to fulfill their responsibilities. Also, as the leader in the industry, Net One Systems consistently introduces the latest technologies and follows a business strategy designed to protect its lead over competitors.

▣ Expectations for the new management team

The new team was appointed relatively recently, so there are few signs of concrete change at this early stage. However, I hope the young and highly motivated team will rapidly get the new management structure up to speed and implement policies that open the way to proactive reforms. Conditions in the ICT sector change extremely quickly, so the management team will face some tough decisions. However, I also think Net One Systems is well-placed to deliver sustained growth by maintaining its current approach and cementing its dominant position in the industry.



Rieko Nishikawa

Outside Director

Net One Systems can play a vital role in the wider world, as well as Japan, by using its proprietary expertise and experience and its inherent ability to create new businesses that are in tune with the times.

Profile

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

Significant concurrent positions

Professor, Faculty of Law, Keio University

▣ Reasons for accepting the appointment

Net One Systems has been making an important contribution to the installation and maintenance of key IT infrastructure in Japan for some time, well before my appointment as outside director in June 2015. After taking the role, my impression was that the Company is well-placed to continuing playing a key role in both hardware and software well into the future. I accepted the post because I believe my knowledge and experience in the field of international business transaction law and the Anglo-American legal system can be useful for the Company. Also, I can pass on the knowledge I gain at Net One Systems to my students, who have the potential to become future business leaders.

▣ Views on the role of outside director

Outside directors need to be involved in management from the standpoint of shareholders and constantly monitor how the company is run. That means we have to adopt an independent stance that is not influenced by company profits or internal factors, helping us highlight potential dangers or issues that the management team may have overlooked. In my case, I also bring a legal and international perspective to discussions.

Net One Systems' strength is its expertise and track record in the installation of IT platforms. The management team is currently harnessing that strength to shift the Company's strategic direction towards the growth businesses of cloud systems and security. Net One Systems needs to use its proprietary expertise and experience to bolster its inherent ability to create new businesses that are in tune with the times. That corporate DNA underpins Net One Systems' contribution to society through its business activities.

▣ Expectations for the new management team

Net One Systems is currently heading in the right direction, reflected in the operating results for the last year. With the appointment of the new management team, I sense an even greater desire to take the Company to the next level. Net One Systems is set to play an increasingly important role in society as IT becomes more widespread. Network environments are vital to society, supporting the development of other technologies. Net One Systems needs to implement a business approach focused on reinforcing those networks. That means the Company has to create businesses that are needed worldwide, not just in Japan. I believe Net One Systems can achieve real success with that approach.



Ryugo Hayano

Outside Director

A corporate culture based on an insatiable desire for new and interesting ideas and the courage to tap new business opportunities is vital to the Company's future development.

Profile

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

Significant concurrent positions

Councilor, Radiation Effects Research Foundation

President, Talent Education Research Institute (Suzuki Method)

Science Fellow, Hobonichi Co., Ltd.

Representative, Office-Hayano LLC

Director, Public Interest Incorporated Foundation Shigeta Education Foundation

Professor Emeritus, The University of Tokyo

Director, International Physics Olympiad 2022 Association

▣ Reasons for accepting the appointment

In the early 1980s, I was involved in building computer networks as a project leader at the Ministry of Education National Laboratory for High Energy Physics (now the High Energy Accelerator Research Organization). Since then, I have continued to watch developments in the network field and Net One Systems' growth since it was founded, in addition to my main interest in physics.

I was persuaded to take on the role of outside director in June 2018 because of Net One Systems' corporate culture of openness to new and interesting ideas, which seemed unchanged from when the Company was founded 30 years ago. Net One Systems' corporate culture of exploring new trends and business opportunities in a wide range of fields, without being held back by past successes, mirrors my own experience as a researcher. I want to do my part to ensure that culture continues well into the future.

▣ Views on the role of outside director

Academia and business are both grappling with a number of difficult shared issues, such as how to attract and train personnel, how to discover and promote people with talent, and how to pass on leadership qualities to the next generation. As an outside director, I will of course be monitoring the Company's quarterly performance and corporate governance, but I also want to participate in management by keeping a close eye on whether mechanisms for promoting people with talent are functioning properly and whether the Company is training the next generation of business leaders.

▣ Expectations for the new management team

Amid the fast pace of change in the network field, the senior management team has skillfully selected strategic business fields and businesses that generate high profit margins. Today's younger generations increasingly see hardware and software as separate fields, which is a different view to when networks first emerged. However, Net One Systems is capable of training human resources to be experts in both those fields. That approach to personnel training will play a vital role in the new era of Software Defined - Hyper Converged Infrastructure (SD-HCI), which Net One Systems is promoting with vendors.

Net One Systems Co., Ltd.

JP TOWER, 2-7-2 Marunouchi, Chiyoda-ku, Tokyo 100-7024