

Net One Systems Websites

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

■ Annual Report 2020

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

You can browse the Annual Report via keywords



■ Annual Reports Archive

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■ Glossary

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



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

■ IR

<https://www.netone.co.jp/english/investor-relations/>

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



■ CSR

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

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



■ Corporate Governance

<https://www.netone.co.jp/english/investor-relations/management-policy/corporate-governance/>

Corporate governance basic approach and governance structure



*Shortened URL

change ∠ channel ∠ change



Annual Report 2020
Net One Systems Co., Ltd.

Net One Systems Co., Ltd.

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Editorial Policy

Our management vision is to be "a company trusted and supported by all stakeholders (an admired company)." Net One Systems supplies products and equipment from around the world, primarily from companies in North America. That global approach in procurement also extends to our stance on markets and providing value.

In fiscal 2019, the period covered by this report, the Company identified a number of fraudulent acts that unfortunately had a negative impact on our stakeholders (see page 4 for more details). We are using this report to again underline the steps we are taking to reinforce risk management and governance. We have also provided content about the Group's value creation process, Integrated Service Business and



Reference Guidelines
 International Integrated Reporting Council (IIRC):
 The International <IR> Framework
 Ministry of Economy, Trade and Industry:
 Guidance for Collaborative Value Creation

Forward-looking Statements

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

progress with achieving sustainability to illustrate our ongoing efforts to transform Net One Systems into a leading company in integrated services. We have selected key information from Net One Systems' value creation process and business strategy for medium- to long-term growth, as well as non-financial data, and presented it in a clear and integrated manner. We have designed the report to be used in conjunction with the Net One Systems corporate website as part of our efforts to communicate effectively with shareholders, investors and all our other stakeholders. Please note that financial data for the fiscal years 2014 through 2019 has been restated to reflect revisions disclosed in March 2020.

The Company's Philosophy System

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

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



Skills and spirit of TAKUMI

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



Targeting a new phase of shared growth with customers by helping each employee to implement Work Style Innovation 2.0/DX through better communication

Toru Arai
President & CEO
Net One Systems Co., Ltd.

Transactions without physical deliveries in fiscal 2019

We are actively communicating management's views on the issue to raise risk awareness across the Group

During fiscal 2019, ended March 31, 2020, we received the final report from a special investigative committee established to examine a transaction without the physical delivery of goods (hereinafter "fraudulent acts"; details on page 4). On behalf of Net One Systems, I would like to take this opportunity to sincerely apologize to shareholders, investors and all our other stakeholders for the fraudulent acts.

After an earlier case of fraudulent acts in 2013 (details on page 4), we overhauled systems and structures as part of a broad package of response measures, which we believe had a positive impact. Despite taking those steps, we were extremely disappointed to learn about this subsequent case, which we view very seriously. We are now taking an even tougher line, such as reinforcing risk management systems and business control systems. The Group's management team, led by myself, will also step up messaging and take steps to raise risk awareness at the individual employee level.

Preventing recurrence, strengthening risk management and governance

Rolling out measures and ensuring they take hold: creating an organization where everyone can speak their mind

The fundamental issues behind the recent fraudulent acts were delays to personnel transfers in some divisions and a failure by people in management positions to identify the fraudulent transactions. Mechanisms were in place to rapidly identify fraud, but they were not applied effectively.

In April 2020 we overhauled our organization and changed our senior management team. As part of the organizational reforms, we have created a new Companywide business control framework comprising a new Sales Supervisory Office reporting directly to the president, which coordinates with Sales Management Offices set up in each business unit.

We have also overhauled training systems for managers and introduced clearer criteria related to risk management and compliance enforcement in performance assessments to ensure better understanding of Net One's management policies and ensure managers are fulfilling their roles.

We now recognize that proactive risk management has to be our default approach in order to rapidly identify fraudulent acts. Until now, we have tended to use a defensive approach, responding to risk using mechanisms aligned to policies and standards developed by external bodies. However, we now need to look beyond those mechanisms to rapidly identify risk, which means increasing our sensitivity to risk and broadening our view of the kind of risks the Group faces. Every employee needs to be aware of potential risks around them and be capable of identifying them, otherwise fraudulent acts will never be eradicated.

Special Investigative Committee – Background and Response

Overview and causes

As explained in our disclosure on December 13, 2019, "Notice regarding the establishment of a special investigative committee," the Tokyo Regional Taxation Bureau informed us that it was unable, through a tax inquiry, to confirm that Net One Systems actually made deliveries in connection with one of its transactions, prompting us to establish a special investigative committee. The investigation was completed on March 12, 2020 after we received the committee's final report.

The investigation identified transactions without the physical delivery of goods (hereinafter "fraudulent acts") involving repeated fictitious transactions of ICT equipment for central government agencies as the end users. An employee, no longer with the Company, made contact with individuals responsible for equipment transactions within the Company, ordered subordinates to prepare necessary documents, and received final approval from his superior while hiding the fictitious nature of the transactions. The fraudulent acts were carried out solely by the employee in question with no organizational involvement by the Company. The cumulative negative impact of the transactions on the consolidated financial statements was ¥32.1 billion for revenue, ¥3.6 billion for operating income, ¥3.6 billion for ordinary income and ¥9.3 billion for net income attributable to owners of the parent.

Based on the committee's analysis of the causes of the incident, we believe there were problems with fraud risk management and compliance activities, preventing us from identifying and preventing the fraudulent acts. We have identified a number of specific issues related to both areas: in fraud risk management, (1) rules were mere formalities, (2) issues with the risk management framework, (3) issues with risk management activities, and (4) issues with internal control; in compliance activities, (1) ineffective activities, (2) issues with the stance of management and executives with respect to compliance activities, (3) failure to rigorously implement measures to prevent any recurrence of fraudulent acts after an earlier incident that came to light in 2013 (a former employee conspired with external firms to defraud the Company by billing for fictitious contracting work), and (4) issues with the Group's organizational culture.

Key countermeasures, progress with implementation and report disclosure

Net One Systems takes the findings of the investigation very seriously. To prevent any recurrence, we are implementing 27 improvements in 11 subcategories under four key themes: (1) review of basic policy on business transactions, (2) strengthen risk management systems, (3) enhance business controls, and (4) review of compliance activities (see page 46). Of the 27 improvements, 25 had been completed as of September 30, 2020, and we plan to continue implementing activities and ensuring existing measures take hold in the Group. In this Annual Report, we provide more details about our thoughts on the fraudulent acts in the President's Message (pages 3-8), the Message from the CRO / CCO (page 45), and the Discussion with Outside Executive Directors (pages 49-52). We also explain changes made to our organization in April 2020 in Growth Strategy: Measures to Achieve the Targets in Our Medium-Term Business Plan (page 22) and describe the steps we are taking to reinforce governance, risk management and compliance in Sustainability: Key Issue 4: Improve and Reinforce the Business Base (pages 37-48).

We also have to create a corporate culture where junior employees have no hesitation raising concerns if they feel the behavior of managers infringes compliance standards. It is one of my key missions to change the thinking of frontline employees and create the environment to support that culture.

Effective from fiscal 2020, we appointed an executive director with extensive experience in engineering and sales divisions to the posts of Chief Risk Officer (CRO) and Chief Compliance Officer (CCO). Based on his popularity within the Company and leverage in frontline business areas, we believe he is the best person to rapidly implement and establish systems to prevent recurrence and to take a more proactive approach to strengthening risk management.

During the unexpected events triggered by the fraudulent acts, we received considerable support from outside executive directors and outside audit & supervisory board members. In developing measures to prevent recurrence, including those explained above, they provided considerable constructive input and advice from various perspectives, drawing on different experience and expertise to that of our inside board members.

In addition, we have been visiting all our business partners to apologize and report to them about the incident. After the previous incident in 2013, we received reprimands from our partners, who were mostly focused on seeing reports about the effectiveness of our response measures and progress with implementation. My feeling this time is that our relationship with customers has changed, with many calling on us to implement a rapid response to the issue and continue providing them with support. However, I am well aware that another similar incident will have grave consequences for the future of the Company. We are firmly committed to preventing any recurrence in order to meet the expectations of our customers.

Business risks and opportunities

Changes in our operating environment and work styles caused by COVID-19

Our operating environment has changed drastically due to the COVID-19 outbreak. The path to containing the virus will be long and the economic impact is already significant. There has also been a major shift in what companies need to do to remain viable. We are now in an era where companies will have to adapt their work styles in order to survive.

Even before the COVID-19 outbreak, we were confident that customers would be open to our proposals for work style innovation. However, Net One Systems will not be able to sustain its recent growth without steadily addressing and resolving new issues that arise from society's increasingly diverse approaches to work.

We have already shifted the focus of our business model from hardware sales to the provision of solutions-based services. Also, we are not tied to any specific make of equipment due to our existing position as a multivendor supplier for various manufacturers, which means equipment sourcing is unlikely to be affected much by the new operating environment. Moreover, we now have access to refurbished equipment from the pre-owned market through our Net One Next subsidiary established in 2019. These diverse supply chains will help to mitigate business risk.

Another positive trend for Net One Systems is the growing use of video conferencing and home working, with more people needing to connect to corporate intranets via the public internet. That trend is likely to drive demand for more secure and flexible security solutions. Also, as data traffic increases, companies will miss out on the benefits of technology if they cannot flexibly control communication channels to get the best performance from their systems. That's where Net One Systems can help. As a company with detailed knowledge of networks, we can develop solutions that boost investment returns for customers. In other words, we expect more business opportunities for the Net One Group. Backed by our long track record of support for the utilization of ICT, we will continue to contribute to innovation in society by using our expertise to devise new systems and create new ideas.

Medium-Term Business Plan progress report

Upgrading and reinforcing systems with Work Style Innovation 2.0/DX (netone on netone) and steadily implementing the Medium-Term Business Plan

Under our Medium-Term Business Plan, we have redefined all the Group's activities as "Integrated Service Business." The new definition, which is based on the idea that all our activities intrinsically generate value, has been communicated to employees to make them aware that everything they do has the potential to add value. At the end of fiscal 2019, services accounted for 43.4% of bookings. The ratio has been rising steadily, despite some temporary negative factors, such as a number of 5G orders centered on equipment. Profit margins are also rising in existing projects, underscoring how customers are starting to recognize the value of our solutions.

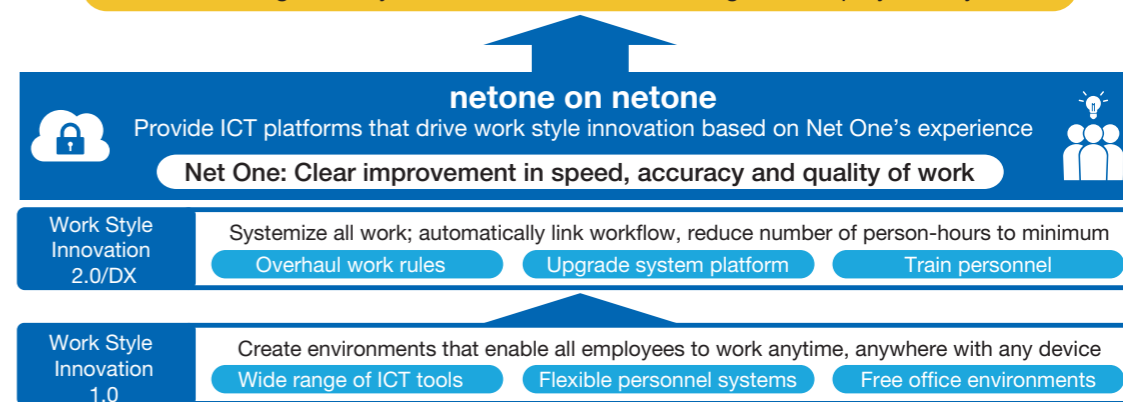
One of our basic strategies is to implement Work Style Innovation 2.0/DX. To achieve that, we are harnessing Net One's own experiences in digital transformation (netone DX) to update business rules for the digital era and build a system platform optimized for service businesses. Based on the platform, we aim to systemize and automate all business processes. If we can incorporate all the lessons learned from our responses to the recent fraudulent acts and COVID-19 into netone DX, we can utilize systems to manage those kinds of issues in the future. In fact, some customers have asked us to provide expertise gained from measures we implemented to clearly address the fraudulent acts, as well as data about their effectiveness. Initially, we planned to adopt new revenue recognition standards in fiscal 2020 as part of efforts to integrate accounting and back office processes. However, in the wake of the fraudulent acts, we have decided to delay the new standards until fiscal 2021. Changing the timing of revenue recognition from shipments to customer acceptance inspections is a major undertaking for Net One Systems. Progress has also been delayed slightly by the COVID-19 outbreak, but we are very committed to realizing this project.

One of the objectives of netone DX is to utilize ICT to reform our business, enabling the visualization of information to boost productivity. Ultimately, we aim to create a platform that supports the Group's sustained growth. We plan to combine the experience gained from that process with Work Style Innovation 2.0 to provide customers with unique insights and expertise, which is packaged as "netone on netone" – one of the models of our Integrated Service Business.

Implement Work Style Innovation 2.0/DX

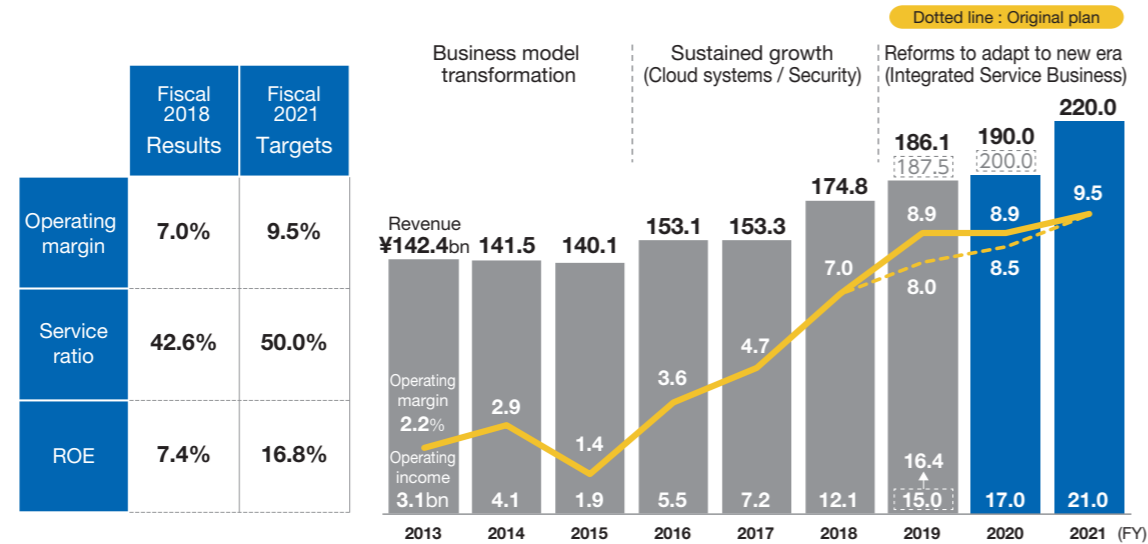
Increase companywide productivity by overhauling all operations and integrating systems
Insights from our own successes and failures provided as added value to customers

Customers: Significantly reduces time needed to design and deploy new systems



In the first year of our Medium-Term Business Plan (fiscal 2019), progress with some measures was slower than expected, but overall the plan is ahead of schedule. Prospects for fiscal 2020 are also becoming clearer. Our medium-term growth strategy is based on three growth steps: by steadily implementing our basic strategies, we aim to support the growth of employees and the growth of the Company, while also sowing the seeds for the next phase of growth for customers and partners through an ongoing process of trial and error.

Medium-Term Business Plan Targets



Our vision for the next phase of growth

working environments. And in the governance sphere, we are using netone DX to help companies visualize existing governance mechanisms. From fiscal 2020, we are using the Vision Inculcation Committee, which was reconvened after the recent fraudulent acts, to lead discussions on three key topics – our vision for the Net One Group, business activities that take into account ESG considerations, and efforts to help realize the Sustainable Development Goals (SDGs). Through a range of activities, we are clarifying our position on ESG and implementing measures and benchmarks. One example is related to the impact of COVID-19. While the outbreak has spurred the creation of home working environments, there is still a need for people to gather in certain locations. Through our business, we are exploring new ways of employee interaction and work styles for future generations, and we plan to provide data from our research to customers.

Our basic dividend policy is to achieve a dividend payout ratio of “at least 30%.” In fiscal 2019, we lifted the payout ratio to 37.7%, as earnings exceeded our forecasts. We have said that when cash on hand is consistently above the ¥25-30 billion level, we will work to return cash to shareholders through share buybacks and other means. Cash reserves are currently above that level, but the outlook is now very uncertain due to the COVID-19 outbreak. Once conditions improve, we plan to review our policy on shareholder returns, taking into account a range of considerations, including our stance on the dividend payout ratio, investment in M&A, and funds needed to support the Group’s further expansion.

Creating new businesses with customers based on the pursuit of “customer success”

As part of the shift in our business model from equipment sales to services, we had targeted the field of ICT consulting by extending the Group’s reach into the business intelligence market, where consultants use data to provide advice and insights to business leaders. However, our thinking has changed, partly due to COVID-19. As a company, we now want to take a more “real-world” approach by working with customers to pursue the continued optimization of ICT, even if business conditions change dramatically, and by creating businesses with them to contribute to “customer success.” We want to become a company that always thinks about how to contribute to customers and that provides more powerful support to help them grow. Working with customers to expand their businesses also has the potential to open doors to new opportunities for the Group.

Net One Systems has always adapted to developments in the ICT industry – from the first phase of corporate network integration to the second phase of support for internet service infrastructure and the third phase of cloud computing and security measures. We are now seeing the transition to the fourth phase – IoT and DX based on networks. I’m confident the Group’s next stage will come into focus if we envisage a growth strategy aligned with changes in the operating environment. At this turning point, my message to employees is that they have the chance to create new things together and I want them to enjoy this rare opportunity.

Finally, I would like to apologize again for the problems caused by the fraudulent acts. We are working hard to prevent any recurrence and I want to assure our customers and all our other stakeholders that Net One Systems remains a company they can rely on. Also, by implementing our netone DX approach, we aim to be an even stronger company that can overcome any challenges in the operating environment, including the impact of COVID-19. Going forward, Net One Systems will strive to become a company that creates new systems with customers to support the next stage of growth, while also actively working to boost corporate value. I hope we can count on your continued understanding and support as we work to realize that vision.



Targeting a new era of growth

Preparing for the next phase of growth by overhauling our organization and instilling our vision in the workforce

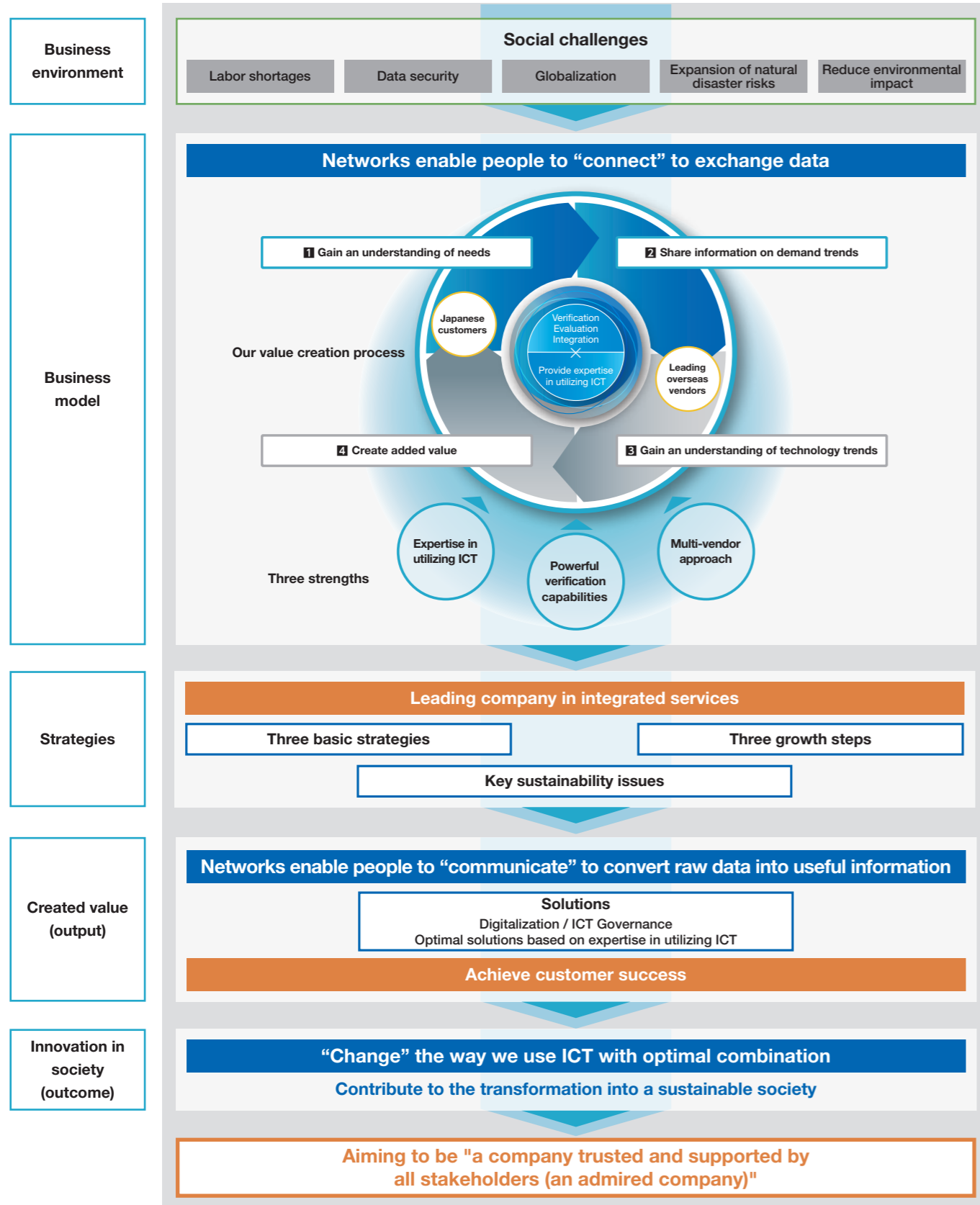
The organizational reforms in April 2020 are designed to drive our growth strategy and establish a robust management structure. In addition to the Sales Supervisory Office, we established a new Human Resources Development Office to hire and train the people needed to support the Net One Group’s growth.

We also created other organizations to support the Group’s sales activities – the Product Marketing Department is tasked with reinforcing vendor relations to support the development of new services, which are integral to the current growth strategy, and the Field Marketing Department will create new business models as the organization responsible for market development. An Advanced Technology Strategy Office has also been set up to identify promising new technologies from a medium- to long-term perspective. In each business unit, sales and engineering departments have been separated to enhance control functions, deepen links between business units and their customers, and enable a more flexible response to technical requests from customers.

The introduction of mandatory age limits for executives in fiscal 2019 and these latest organizational reforms are bringing new blood into our leadership ranks, including the promotion of younger managers. At the same time, we aim to keep hold of key employees by extending the retirement age for our workforce. The goal is to cultivate an organizational culture where talented personnel pass on their experience and expertise to support new managers, driving the Group’s further growth. When I was appointed President in 2018, I consulted with the Advisory Committee about succession plans for the next generations of business leaders. We are now steadily taking steps to cultivate the Group’s future leaders.

The Group’s business activities include many environmental, social and governance (ESG) elements. In the environmental sphere, we are actively working to protect customers’ investment in existing systems by using ICT platform virtualization and refurbished equipment. In the social sphere, we are implementing work style innovation and providing as much data as possible about how the reforms are leading to changes in

The Net One Systems Value Creation Story



Overview of the Value Creation Story

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

Networks enable people to “connect” to exchange data and to “communicate” to convert raw data into useful information. By connecting people to people, and people to society with technology, we can propel “change” in the way ICT is used by people to achieve their wills.

Net One Systems aims to contribute to innovation in society by utilizing ICT and to be “a company trusted and supported by all stakeholders (an admired company).”

Business environment / Business model

Value creation and strengths

- With networks as our core technology since our founding, we have expanded our business domains and grown along with the evolution and spread of ICT technology.
- We work together with our customers and partners to support customer success based on our unique business model.
- We are able to provide high-value-added solutions and services by growing our three strengths and important non-financial capital.

Chapter 1: Value Creation

- Corporate History P.11
- Our Value Creation P.13
- Our Strengths P.15
- Targeting Sustained Growth P.17

Strategies

Three basic strategies / Three growth steps

- With the aim of becoming a leading company in integrated services, we have set out three basic strategies and are pursuing a Medium-Term Business Plan that focuses on three growth steps.

Chapter 2: Growth Strategy P.19

Key sustainability issues

- We have defined the key issues in conducting our business from two perspectives: sustainable growth with society through our business and sustainability as a company.

Chapter 3: Sustainability P.27

Created value (output) / Innovation in society (outcome)

Solutions / Contribution to innovation in society

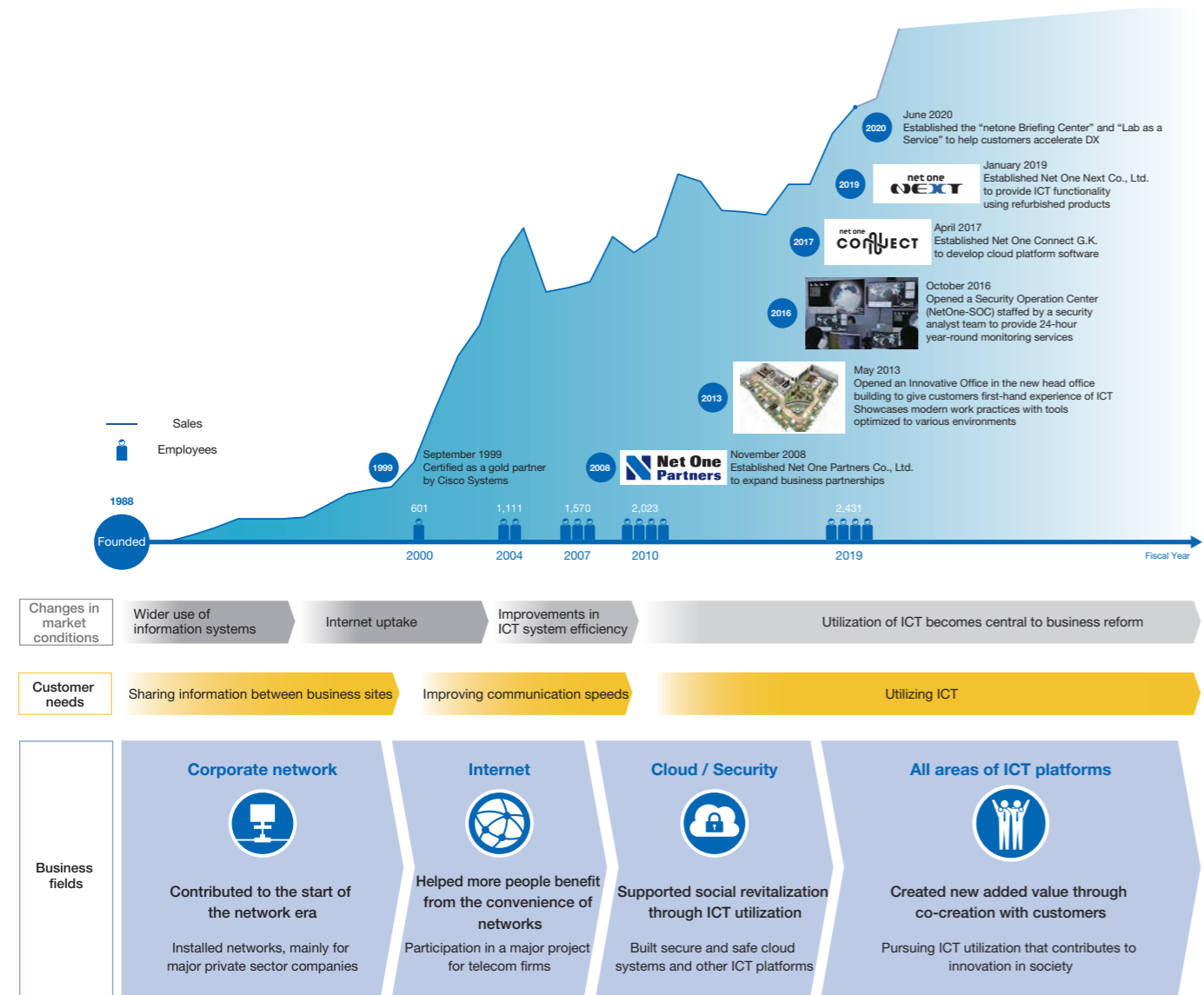
- By pursuing optimization in ICT utilization and customer success, we will create new value that enable customers to overcome changes in the environment.

Chapter 4: Review of Operations P.57

Corporate History

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

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



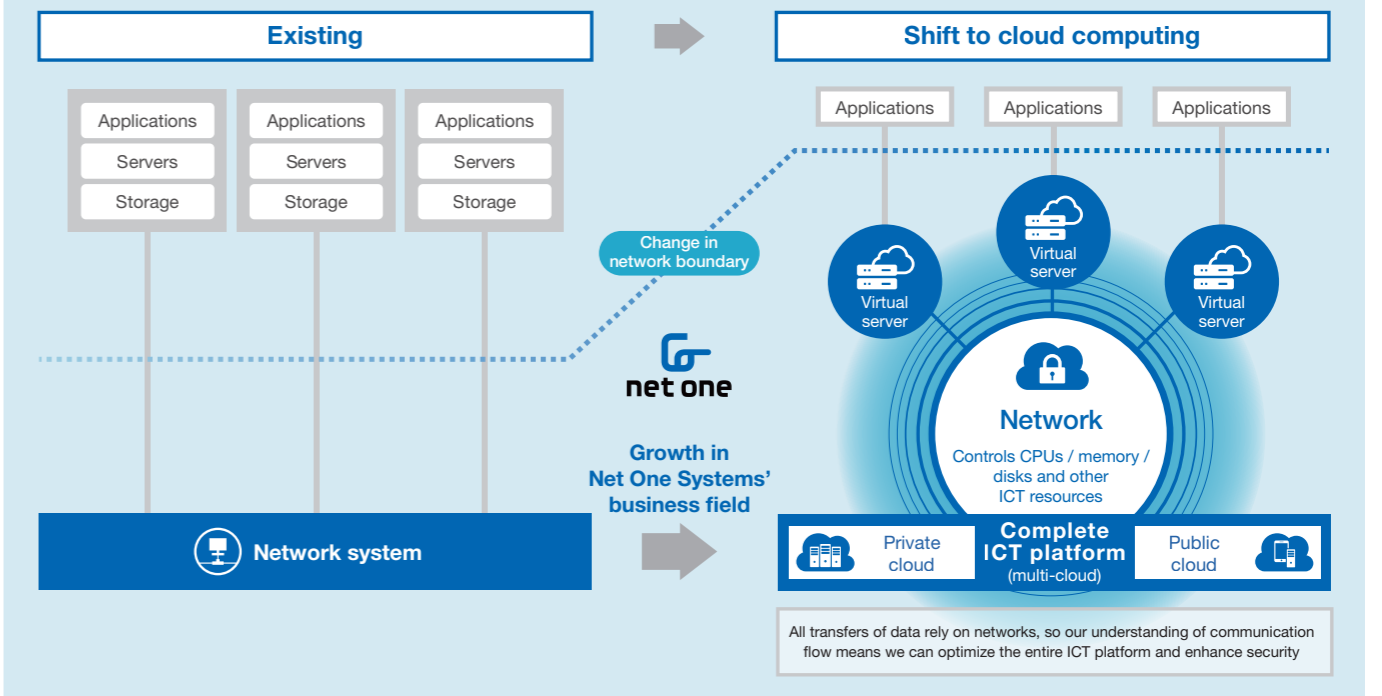
Growth in the Network Business Field

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

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

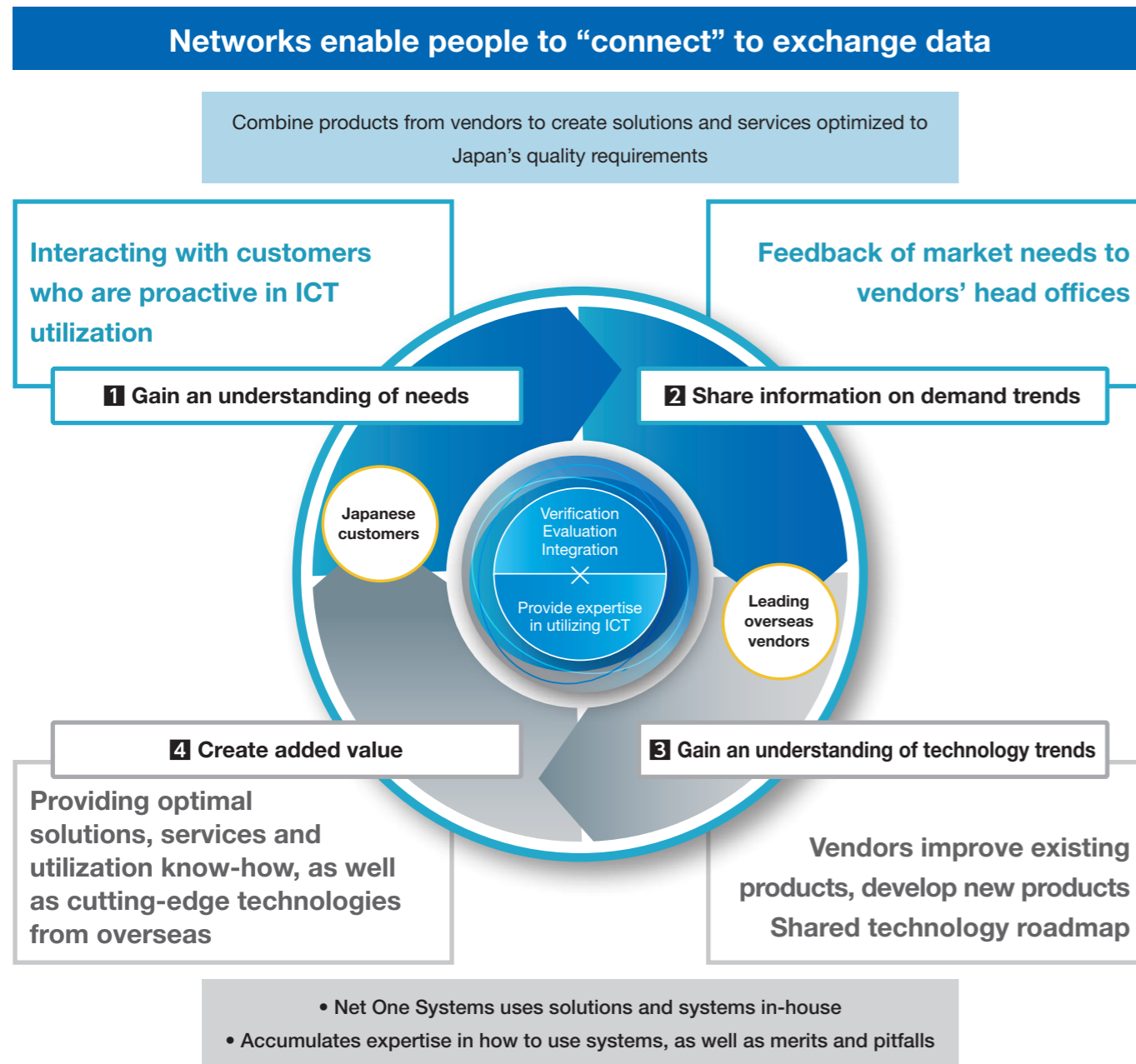
ICT platforms are continuing to evolve, with multi-cloud systems that combine elements of the private cloud and public cloud becoming more widespread. Networks are needed to securely and effectively connect the different parts of those cloud systems, which is also spurring growth in our business fields.

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

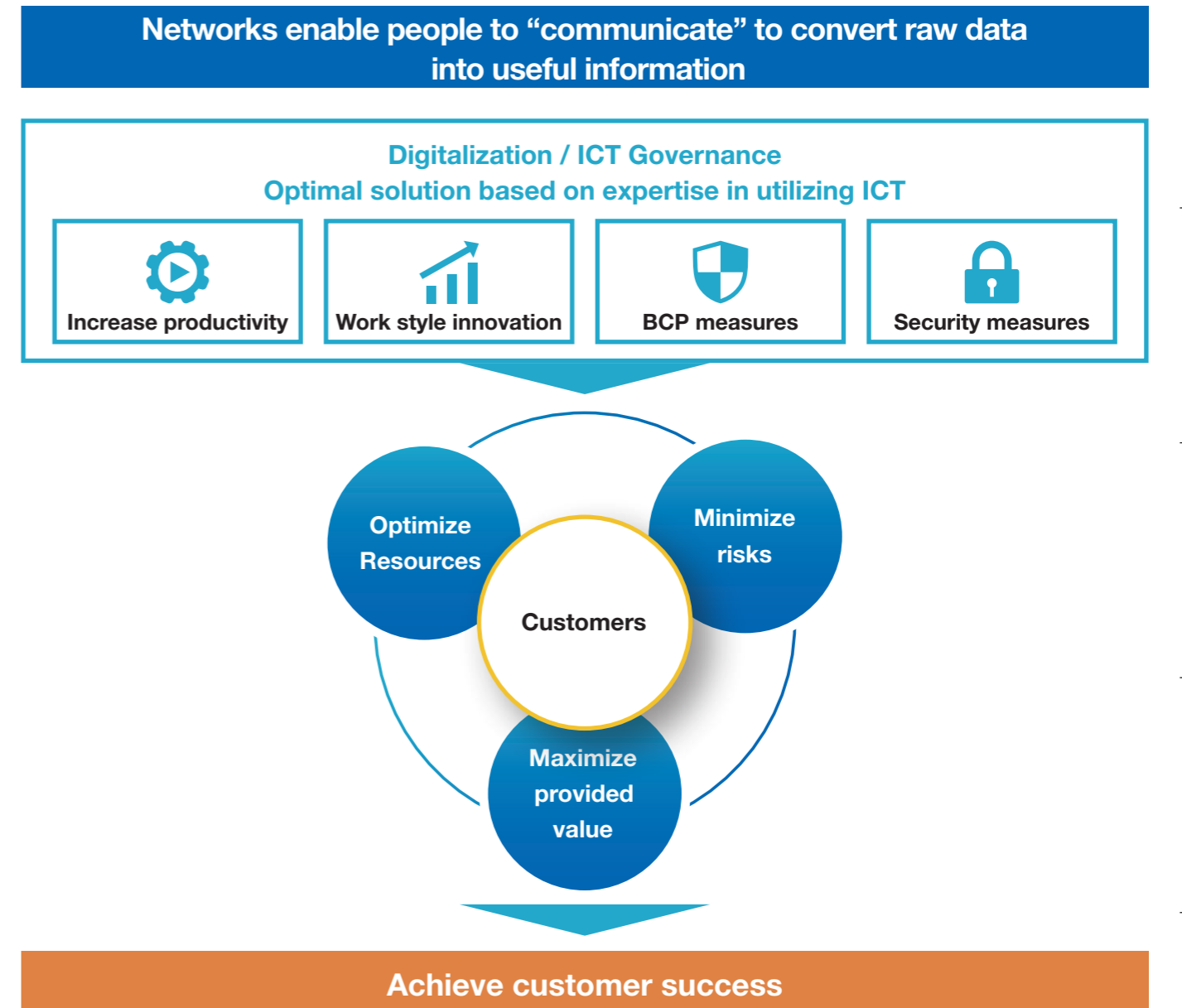


Our Value Creation

We actively engage in dialogue with customers and ICT vendors to create optimal solutions and our unique added value to achieve customer success

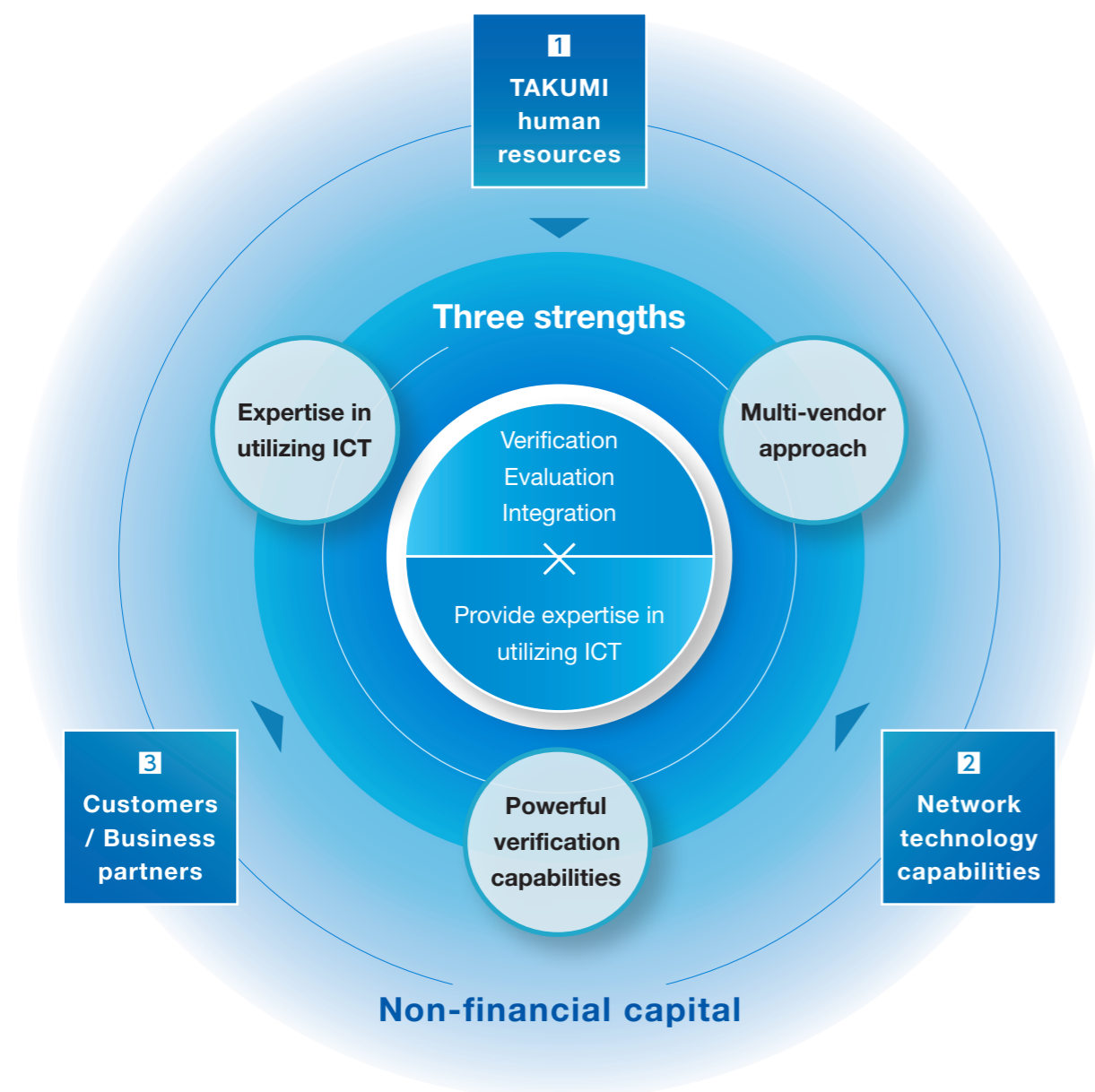


Net One Systems focuses on communication with both customers and ICT vendors. Through close cooperation with leading overseas vendors, we access the latest information about the global network industry and provide feedback to vendors about the needs of the Japanese market, resulting in a shared technology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



Our Strengths

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



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

Using know-how gained from installing systems in-house prior to offering them to customers, we can also propose solutions and services that incorporate ideas about potential applications after installation. We believe that the non-financial capital that supports these three strengths is our human resources instilled with our TAKUMI expertise – the ability to leverage advanced technologies to meet the demands of customers –, our strong bonds with our customers and business partners, and our accumulated technical capabilities, which are based on our network technology as a pioneer in the industry.

In our business field, we compete with manufacturers that have significant capital resources, but Net One Systems is able to create unique value based on our three strengths to provide high-quality, high-value-added optimized solutions. We aim to continue growing by cultivating close relationships with customers that support such approach.

Non-financial capital that support the three strengths and themes to focus on the Medium-Term Business Plan

<p>1 TAKUMI human resources</p> <p>Characteristics and strengths A group of professionals that leads to the combined utilization of advanced technologies</p>	<p>Indicators: GAIT* score rate</p> <p>Our elite, multi-skilled and flexible thinking human resources underpin our productivity and quality improvements. The Group’s average GAIT score rate, which measures comprehensive ICT knowledge, was 504.9 (fiscal 2019), significantly higher than the industry average (406).</p>	<p>Focus themes: Growth of employees: Initiative</p> <p>We are accumulating knowledge of new ICT utilization through the implementation of Work Style Innovation 2.0/DX, and developing and running education programs designed to enhance creativity and adaptability.</p>
<p>2 Network technology capabilities</p> <p>Characteristics and strengths Core technologies that support unique value creation, and design and optimization that enables a wide range of responses</p>	<p>Indicators: Number of engineers</p> <p>Because we specialize not in applications, but in ICT platforms that are critical to every company, engineers are able to apply their skills laterally, regardless of the industry. In fiscal 2019, there were 1,361 engineers, which is 57.8% of all employees.</p>	<p>Focus themes: Growth of the company: Uniqueness</p> <p>We have implemented fundamental reforms to improve productivity and are using this experience to a large extent in proposals to existing markets as well as “focus markets and new models.”</p>
<p>3 Customers / Business partners</p> <p>Characteristics and strengths A unique position to create ecosystems that leverage each company’s strengths from the customer’s perspective</p>	<p>Indicators: Share of top organizations in our revenue</p> <p>The top 100 companies account for just under 80% of our revenue (fiscal 2019), and our customer base is primarily made up of leading Japanese corporations and public institutions. Among these companies, we are in a position that can create new systems that leverage our strengths with customers who are proactive in transforming their businesses through ICT.</p>	<p>Focus themes: Growth of customer / partner: Value co-creation</p> <p>We create new value together with our customers through our “Integrated Service Business,” which contributes to improvement in productivity.</p>

* GAIT: Global Assessment of Information Technology: A globally universal assessment tool for accurately and quantitatively assessing the skills of ICT engineers in seven key areas required in the cloud era (DB, OS, applications, storage, security, network, and virtualization).

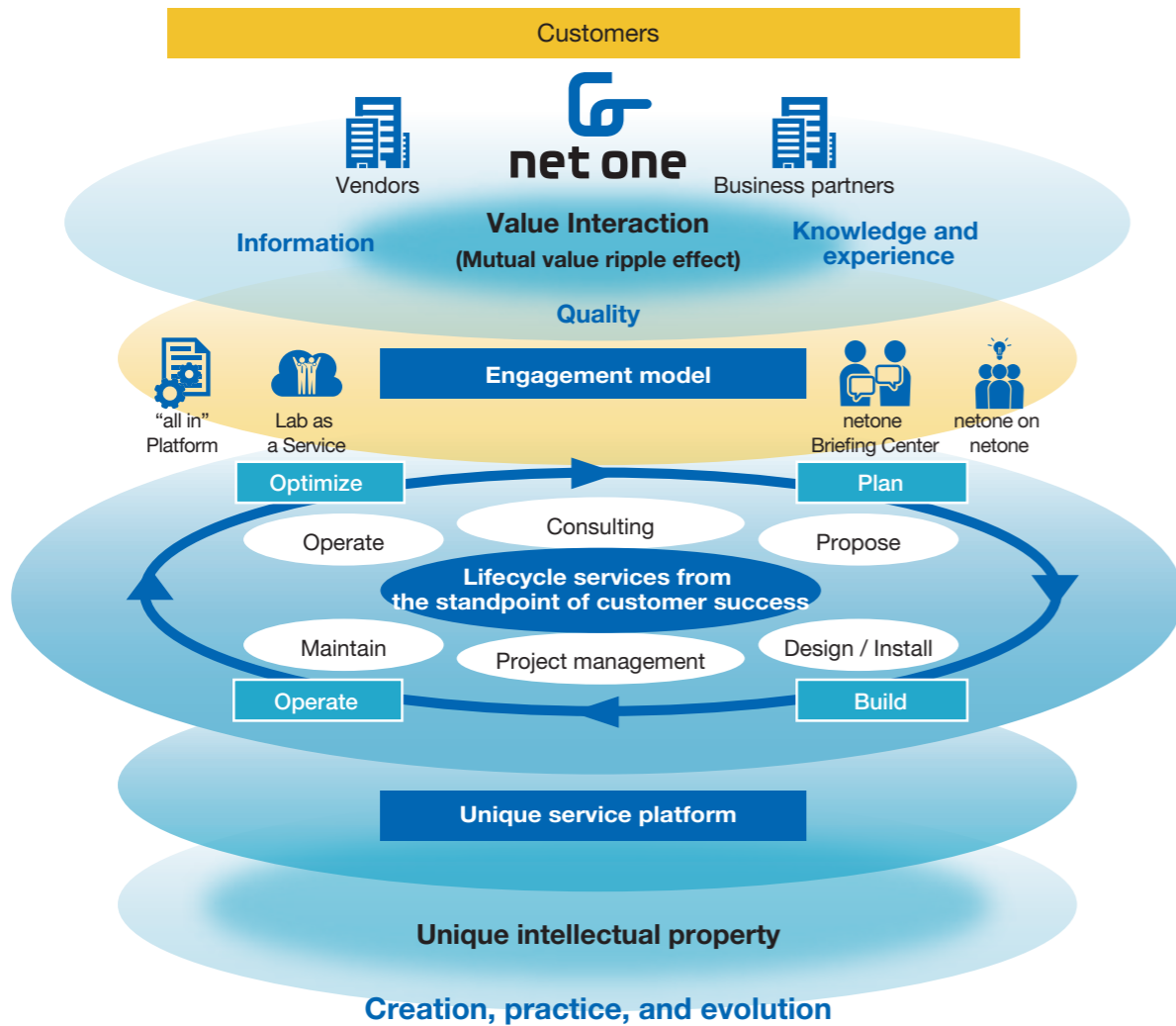
Targeting Sustained Growth

We aim to be an admired company by promoting our Integrated Service Business and addressing key issues to achieve sustainable growth together with society

Ideal business model

“Change” the way we use ICT with optimal combination

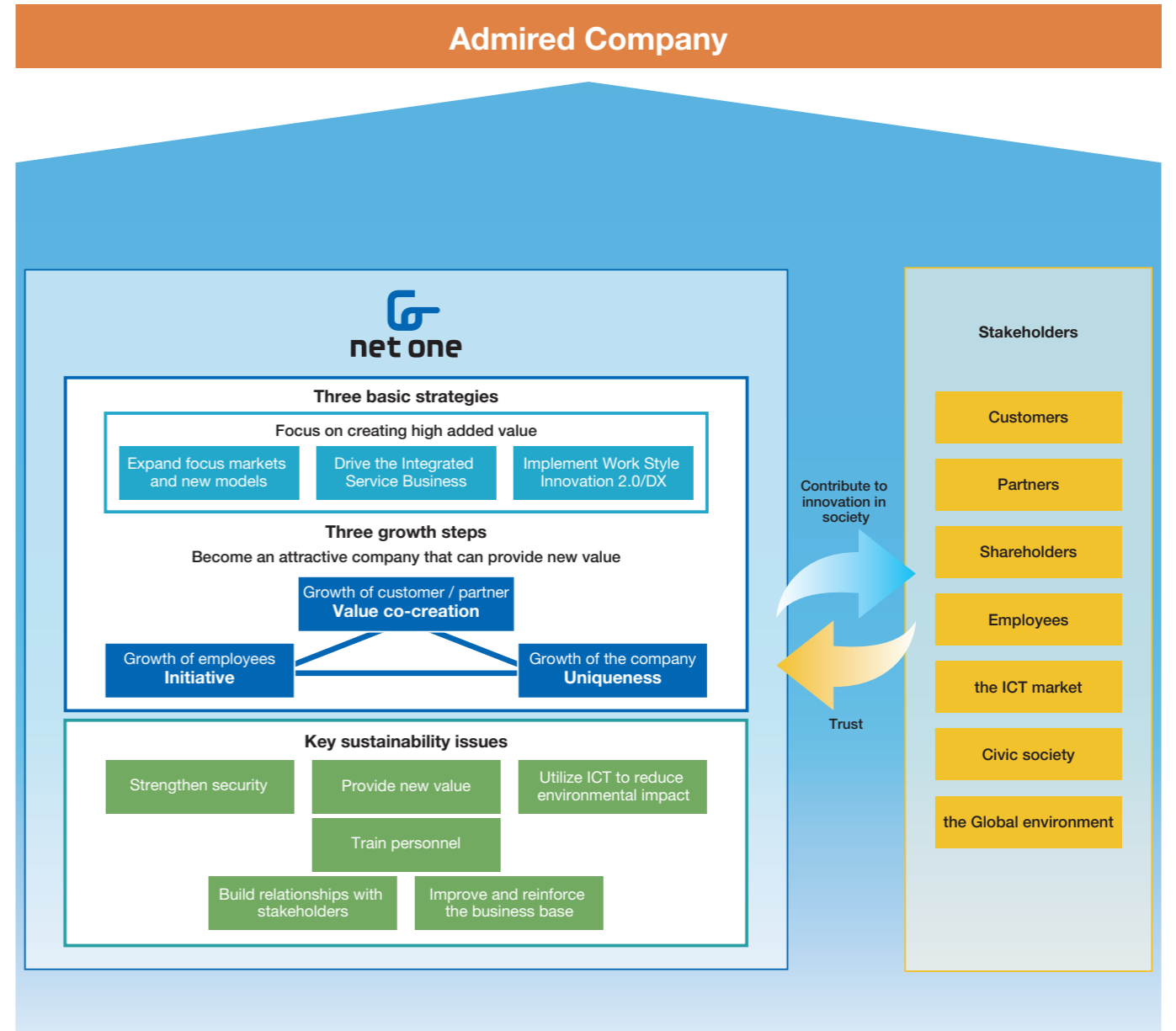
Contribute to our customers, further support their business growth, promote ICT utilization, and achieve “change” for our customers



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

In addition, Net One Systems has identified a number of key sustainability issues related to its business activities: train personnel, strengthen security, build relationships with stakeholders, improve and reinforce the business base, provide new value, and utilize ICT to reduce environmental impact. We plan to address those issues as a matter of priority to ensure the Group grows in a sustainable manner with society. In each category, we aim to contribute to innovation in society and be a company trusted and supported by all stakeholders (an admired company).

Corporate vision



Overview of Fiscal 2019-21 Medium-Term Business Plan

We are implementing the three basic strategies with the aim of increasing the service ratio to 50% to transform ourselves into a company that creates new added value together with our customers

Positioning and overview of Fiscal 2019-21 Medium-Term Business Plan

Reforms to adapt to new era

Our customers are currently placing digitalization at the heart of their business strategies and investing in the utilization of ICT. At the same time, the recent spread of COVID-19 is raising awareness of the need to fundamentally rethink our work style. In order for us to continue to grow in this environment, we need to create high added value that enables our customers to achieve the utilization of ICT they require and deliver a clear return on their investment. We also believe that in order to provide consistent services, from design proposals to system installation and stable operations, to support the above-mentioned efforts, it is necessary to improve the productivity and service quality of the Group. For this reason, we have positioned and are promoting the current Medium-Term Business Plan as reforms to adapt to a new era.

Three basic strategies

Focus on creating high added value		
<p>Expand focus markets and new models Extend market coverage</p> <p>We will expand revenues in three focus markets (healthcare, school systems, and smart factory markets) where significant progress in digitalization is expected, and in two new business models (support for managed service providers (MSP) and development of the refurbishment business) that capture the growing demand for the shift from ownership to use.</p>	<p>Drive the Integrated Service Business Increase the service ratio</p> <p>We define all of our activities for our customers as Integrated Service Business that creates high added value and provides lifecycle services to support the series of activities that include planning, building, operation and optimization for the future of ICT.</p>	<p>Implement Work Style Innovation 2.0/DX Increase productivity</p> <p>We will provide highly effective solutions by pursuing both business innovation and digitalization to improve the productivity of the Group, improving operational speed, quality, and governance, and sharing the knowledge of the Group's successes and failures in these initiatives with our customers.</p>

Three growth steps

Become an attractive company that can provide new value

```

    graph TD
      A[Growth of customer / partner Value co-creation] --- B[Growth of employees Initiative]
      A --- C[Growth of the company Uniqueness]
      B --- D[Medium-Term Business Plan targets]
      C --- D
  
```

Medium-Term Business Plan targets
Operating margin: 9.5% Service ratio: 50.0% ROE: 16.8%

Progress with Fiscal 2019-21 Medium-Term Business Plan: First Year Review and Future Initiatives

We will achieve sustained growth centered on accelerating integrated services and expanding focus markets, while implementing measures that will lead to the next fiscal year and beyond

By strategy: Review of the first year and future initiatives

	Review of the first year	Future initiatives
<p>Strong</p> <p>Expand focus markets and new models → Details on P.21</p>	<p>Performance was strong in all of our focus markets and our new business models progressed as planned, thanks to the continued strength of shifting to cloud computing and security measures.</p>	<p>We will accelerate proposals for network systems, security measures, and cloud utilization that is in line with customers' requirements centered around customer success in each market and business model.</p>
<p>Strong</p> <p>Drive the Integrated Service Business</p>	<p>We focused on customer success and began to focus on optimization proposals to enable more effective utilization of ICT, and as a result, performance in the service business was solid, with service bookings increasing ¥9.1 billion year on year. Meanwhile, the service ratio of bookings declined to 43.4% from fiscal 2018's 44.0%, due to the rise of 5G projects, mainly equipment sales.</p>	<p>We will continue to focus on customer success and support customers from the overall conceptualization stage of ICT utilization. In accordance with the ideal state and roadmap jointly developed with customers, we will offer unique, high-value-added solutions in a phased and ongoing manner, combining elements such as network systems, security measures, and cloud utilization.</p>
<p>Slight delay</p> <p>Implement Work Style Innovation 2.0/DX</p>	<p>With a view to adopting the new revenue recognition standards that will be applied from April 2021, we have redeveloped and optimized our business processes and internal rules, while designing a digital platform policy to achieve operation automation. However, the adoption of the new revenue recognition standards has been postponed for one year due to factors including investigations related to fraudulent acts.</p>	<p>We will begin digitalization in phases to support new operation processes. This will allow us to link operation processes and data, automate operations, and provide more useful information to our customers on a trial basis.</p>

Progress of the Medium-Term Business Plan

Performance highlights for the first year	Review of the first year	Outlook from the next fiscal year and beyond
<p>Fiscal 2019</p> <p>Operating margin: 8.9% (Up 1.9 pt YoY)</p> <p>Service ratio: 42.8% (Up 0.2 pt YoY)</p> <p>Operating income: ¥16.4 bn (Up 35.4% YoY)</p>	<p>Bookings and profitability were higher than planned due to strong growth in value added businesses including security measures and cloud systems. Meanwhile, revenue fell slightly short of the plan due to delays in the delivery of some equipment as a result of the COVID-19 outbreak.</p>	<p>We maintain our plan to achieve the figures as announced for the third (and final) year of the Medium-Term Business Plan. In the second year of the Medium-Term Business Plan, although revenue is expected to be lower than the plan due to the impact of the COVID-19 outbreak, operating income is expected to be in line with the plan due to improved profitability.</p>

Progress with Fiscal 2019-21 Medium-Term Business Plan:

Results in New Business Fields and Future Initiatives

We are implementing projects and initiatives to create high added value and growing bookings in response to strong needs for cloud utilization and security measures

Focus markets

Strong

Healthcare

*Business segment: Public market

Target customer: Large hospitals

Bookings: +¥2.0 bn
[Compared with FY2018]
(FY2021 target: +¥5.0 bn)

Project examples

- Integration of different ICT platforms for different medical systems
- Virtual desktops for electronic medical records
- Operational services that cover all ICT platforms

Customer demands and main future initiatives

- Separate procurement of medical applications and platforms
- Work style innovation for healthcare workers

Strong

School systems

*Business segment: Public market

Target customer: Education boards

Bookings: +¥2.5 bn
[Compared with FY2018]
(FY2021 target: +¥5.0 bn)

Project examples

- Integration of different ICT platforms for different educational systems
- Classroom Wi-Fi for utilization of ICT in education
- Network isolation in line with security guidelines
- Operational services to support customers' shortage of human resources

Customer demands and main future initiatives

- Utilization of ICT in the education of children and students
- Integration of platforms for educational information systems

Strong

Smart factory

*Business segments: Enterprise market and partner business

Target customer: Large manufacturers

Bookings: +¥2.7 bn
[Compared with FY2018]
(FY2021 target: +¥5.0 bn)

Project examples

- Grand design creation consulting
- Development of an intra-plant network system and visualization of tens of thousands of connected devices
- Intra-plant security and network operation services

Customer demands and main future initiatives

- Data collection, visualization, analysis and improvement to boost the utilization rate of production facilities

New models

As planned

Managed Service Providers (MSP) support

Bookings: +¥1.0 bn [Compared with FY2018]
(FY2021 target: +¥5.0 bn)

Project examples

MSP	Services	Users
System integrators	Wi-Fi	Nationwide chain stores
Information systems subsidiaries of large companies	Security	Group companies
Telecom carriers	SD-WAN	Medium- and small-scale bases

Customer demands and main future initiatives

- Service providers: Co-creation of new services with high operability
- Users: Shift to a usage model in response to the shortage of ICT human resources

As planned

Refurbishment business

Bookings: +¥1.6 bn [Compared with FY2018]
(FY2021 target: +¥5.0 bn)

Project examples

- Continued use of equipment no longer supported during the cloud migration period
- Verification of equipment selection for expansion to hundreds of locations
- Use of commodity equipment for 10 years

Customer demands and main future initiatives

- Improvement in investment efficiency through the use of refurbished products
- Shift from ownership to usage model

Measures to Achieve the Targets in Our Medium-Term Business Plan

In addition to responding proactively to the significant changes in the market caused by the COVID-19 outbreak, we are implementing structural reform to promote our growth strategy and establish a strong management base

Response to the COVID-19 outbreak

As a result of the COVID-19 outbreak, it has become increasingly difficult for customers to go to work, and they are fundamentally reviewing their work style utilizing ICT from the perspective of business continuity. The Group will continue to support the business continuity and work style innovation of customers through the following initiatives.

Supporting the business continuity of customers	<ul style="list-style-type: none"> Provision of systems that support remote working environments, including video conferencing and web conferencing, virtual desktops, and file sharing services Provision of network systems for stable system operation and security measures for preventing information leaks, even when working outside companies Provision of knowledge gained through work style innovation the Group has pursued for ten years
Improvement in the business continuity of the Group (Acceleration of Work Style Innovation 2.0/DX)	<ul style="list-style-type: none"> Promotion of digitalization by digitizing paper forms and contracts and expanding the scope of electronic commerce (electronic data interchange, EDI) Strengthening systems to support customers' system operations from remote locations Establishing a system that does not affect the provision of services to customers even when going to work is difficult

Implementing structural reform to promote our growth strategy and establish a strong management base

We implemented the following structural reforms on April 1, 2020 to promote our growth strategy and establish a strong management base.

Improving customer responsiveness	<ul style="list-style-type: none"> Establishment and reorganization of sales departments to strengthen relationships with focus markets and markets and customers we serve Establishment of new engineering departments to increase the flexibility and speed of customer service in the technology field
Review of business control systems	<ul style="list-style-type: none"> Establishment of the Sales Supervisory Office, an organization reporting directly to the president, to control and manage operational rules for the entire company, including sales transactions Establishment of a Sales Management Office in each business unit to promote the optimization of sales operations and to control business operations in cooperation with the Sales Supervisory Office
Expansion of the sales support system	<ul style="list-style-type: none"> Establishment of the Product Marketing Department to strengthen product strategy and vendor relations Establishment of the Field Marketing Department to capture focus markets, accumulate knowledge on each market, and create new business models Establishment of the Advanced Technology Strategy Office to keep abreast of the latest technology trends, discover new technologies, and study business models from a medium- to long-term perspective Establishment of the Business Management Department to strengthen management of the service business
Promotion of human resource strategy	<ul style="list-style-type: none"> Establishment of the Human Resources Development Office to promote the recruitment and development of human resources

Topics / Executive Interview

--Our Integrated Service Business

We will evolve into a leading company in integrated services that achieves value interaction

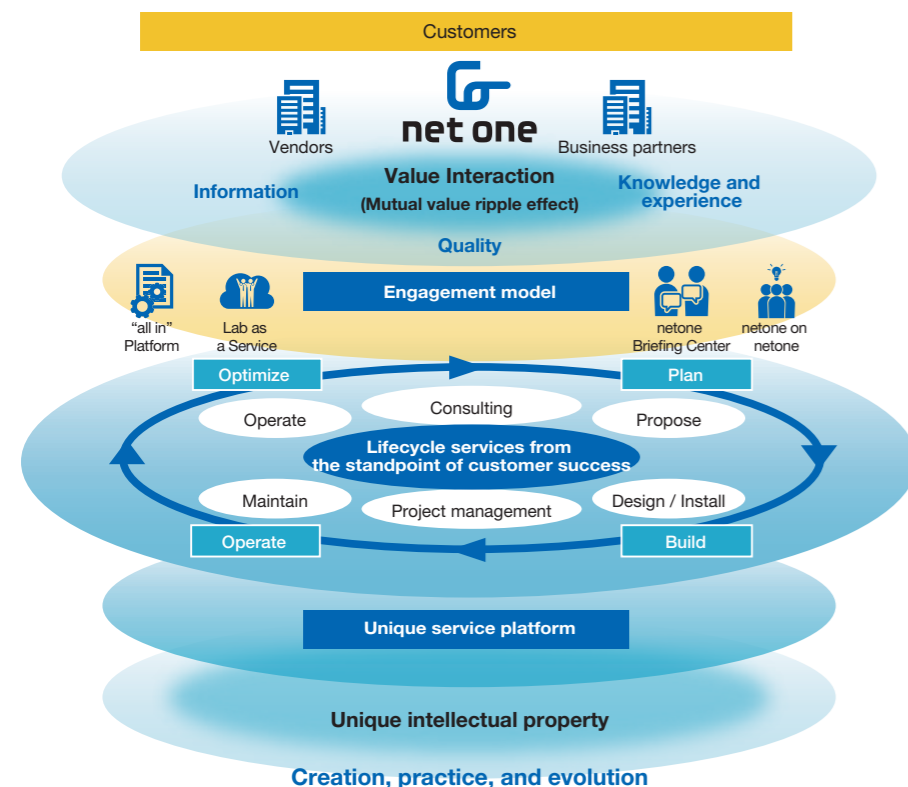


Fumihiko Shinoura
Senior Vice President
In charge of Business Development
Division and Customer Service Division

Overview of Net One's Integrated Service Business

We will reconsider the nature of tangible and intangible assets, with the aim of creating new value and ripple effects

Since fiscal 2018, we have defined all of the Group's activities as "Integrated Service Business," and have been working to increase the service ratio. "All of the Group's activities" refers to the various tangible and intangible assets of the Group. Everything ranging from our facilities and equipment to our technological capabilities, experience, solutions, and systems operations and optimization represents our unique intellectual property. In fiscal 2020, we are realigning the nature and value of these assets and accelerating the effective utilization of our intellectual property and the expansion of our service platform, with the aim of value interaction between ourselves and our customers, vendors, and partners.



Overview of the Integrated Service Business

We are leveraging the unique intellectual property we have accumulated to evolve our service platform, while simultaneously expanding and linking our lifecycle services from the standpoint of customer success. By building and delivering an engagement model that maximizes value for our customers, the new value that we have co-created with our customers will create ripple effects for our customers, and beyond.

Features of Net One's Integrated Service Business (1): A Service Platform Backed by Unique Intellectual Property Establishment of facilities dedicated to accelerating customers' DX, by leveraging the tangible and intangible assets we have cultivated Capturing business opportunities as a player capable of providing total services

One example of our unique intellectual property is our multiple variety of facilities and equipment. Although the Group possesses a Technical Center, Quality Assurance & Management Center, Security Operation Center (NetOne-SOC) and eXpert Operation Center (XOC), other companies have reduced or eliminated facilities and equipment with a view toward asset or cost efficiency, as the focus of the ICT industry has shifted from hardware to software. Furthermore, an increasingly smaller number of companies are retaining their hardware quality control know-how. On the other hand, the fact that the Group has retained its facilities and equipment and has continued to refine its technology, which is grounded in material things, has led to the creation of new relationships with partners who wish to conduct joint verification. We are also able to create new value by combining our unique solutions and onsite strengths with these new relationships.

In June 2020, we renovated the "Solution Briefing Center", which demonstrates state-of-the-art ICT, into the "netone Briefing Center", which focuses on interactive value co-creation. We also established "Lab as a Service" to verify ICT utilization in a multi-cloud environment with our customers. These efforts will enable us to verify the effectiveness of ICT platform utilization, in terms of both the overall DX concept and cutting-edge technology, in order to help customers realize their ideal future vision. We are very excited about the contributions we will make toward helping our customers accelerate DX.

In addition, as the shift to cloud computing progresses and the major players in the industry change, we believe that we can become an ICT platform advisor because we can propose entire systems without competing with cloud services. By effectively leveraging all of our assets, we believe that we can accelerate our Integrated Service Business and uniquely position ourselves as a player who can design, build, operate, and optimize the entire system and capture new business opportunities.

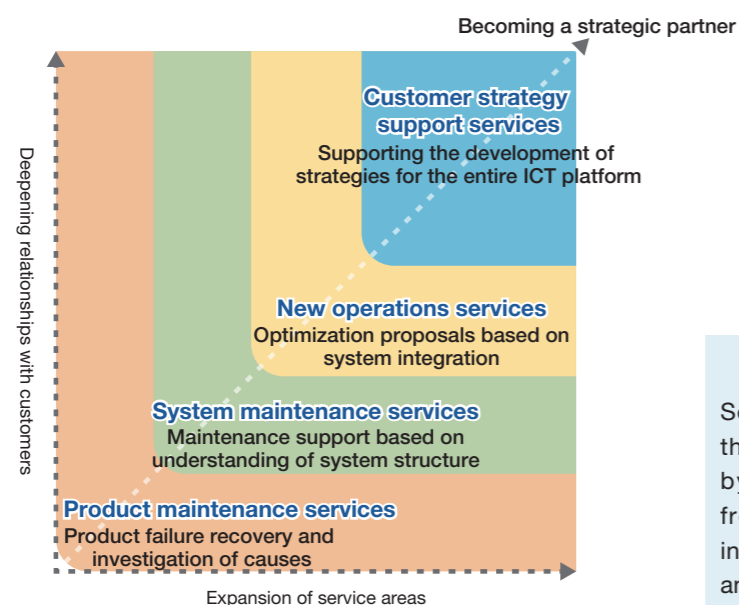
Features of Net One's Integrated Service Business (2): Lifecycle Services from the Standpoint of Customer Success

Achieving optimization by taking charge of system integration, including onboarding training Promoting the standardization of services to enable roll out

In fiscal 2019, we expanded and standardized our service menu, which was focused on design, installation, and maintenance to include monitoring, operations management, and optimization services as standard services, which had previously been provided on a customer-by-customer basis. The standardized service menu now consists of 16 services, several of which are unlikely to be available at other companies.

For example, our operations management services include training services. Operations management services are generally services in which an engineer manages the system on the behalf of the customer. However, it can be beneficial for both the customer and ourselves, if the customer understands and is able to utilize their own system. For this reason, we provide onboarding training services that go beyond simply training customers on how to use their systems, to assist them in making the most effective use of their systems.

We also have a proven track record in installing cloud systems, starting with the installation of network systems. One of our strengths is our thorough knowledge of system integration, which allows us to make proactive optimization proposals. Through our organizational reforms in April 2020, we have shifted to an organizational structure that enables us to provide services more efficiently on a company-wide scale. We would like to provide high-value-added services to customers, even for those to whom we only provide maintenance services at the moment, by promoting optimization proposals based on system integration.

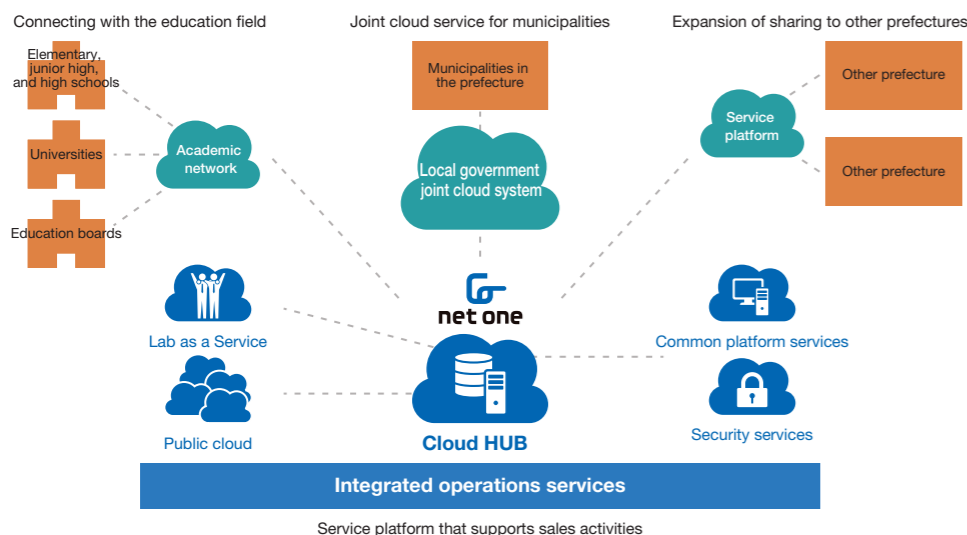


Lifecycle services targeted by Net One

Services that support the development of the ICT platform strategies of customers, by expanding the scope of proposals from traditional services such as design, installation, and maintenance to operations and overall system optimization.

Strategy (1): Market Strategy Based on Model Case Studies
Moving to a new stage of collaboration with customers and becoming an ecosystem hub

The joint cloud service for municipalities in prefectures is a model case of the Integrated Service Business. We initially installed an integrated platform for a prefecture, and have expanded our services to include the provision of a security cloud, as well as storage services which include the education boards. In fiscal 2020, we will install a joint-use platform that will include local governments in the prefecture, and launch a joint cloud service for municipalities. This platform has already been connected to other prefectures, and allows the system of one prefecture to be expanded horizontally across the prefecture to municipalities, education boards, and other local governments, enabling customers to level ICT costs and enhance security. This is creating new collaboration models, not only in the vertical deployment of services in terms of expansion of services, but also in terms of spreading out services from one prefecture to other municipalities in the prefecture and beyond. At the present time, our market strategy is to focus on expanding collaborative models, particularly with public institutions, and creating new collaborative models in the enterprise market. As we increase such collaborative models, we intend to become the core of these models, and build win-win relationships with participating businesses and serve as a hub of the ecosystem, with the aim of value interaction.



Joint cloud services for municipalities

The functions necessary for cloud services, including multi-cloud connectivity and security measures, are provided as the Cloud HUB service. Public clouds can also be used safely and securely, and the service is also connected to the education field. In addition to providing an ICT platform to municipalities in the prefecture, it will also be possible to expand the sharing of cloud systems to other prefectures in the future.

Strategy (2): Business Strategy for the COVID-19 Era
Digitalizing and expanding customer contact points / By making the onsite strength which is demonstrated at times of emergency more accessible, we will promote DX and contribute to social innovation

I personally believe that standardizing the business flow and rolling it out is only one step in DX. A perspective that includes the entire value chain, not just internal processes, is indispensable for DX. Because our business model still relies on the number of employees to increase the value we provide, we can say that the ultimate DX is to shift to a model that creates value through structures. Close relationships with world-leading partners and customers are essential when considering new business models. For this reason, through our organizational reforms in April 2020, we established a new Advanced Technology Strategy Office to capture next-generation technologies and study new business models.

Our communication with customers is becoming increasingly centered on digital channels, and is expanding due to COVID-19. In fiscal 2019, we made significant progress in making a variety of information available, including maintenance information provided to customers through the launch of a customer portal. Although there were some engineers who were concerned prior to the launch that all of the information would be open, this structure is now supporting communication with customers, and the engineers have shifted to a mindset of creating new value.

The momentum for DX, including the advance of telework, has never been greater in fiscal 2020. Against this backdrop, it will be necessary for us to further communicate our successes and failures in the utilization of ICT to customers. In addition, while it was necessary in the past to convince vendors to open up their APIs (Application Programming Interfaces), as they promote DX, vendors are now rethinking the way they create value, and are opening up their APIs themselves. In April 2020, we established a Field Marketing Department to strengthen our new proposal model for customers under the impact of COVID-19, as well as a Product Marketing Department to further strengthen our relationships with vendors from a value chain perspective.

We are also observing transformation within the Company. I believe that our greatest strength is our onsite strength. When a system problem occurs, people naturally come together, even if they are not involved, to come up with ideas and solve the problem. This is the best example of our onsite strength, but it has only been clearly demonstrated in times of emergency. However, unexpected constraints have arisen due to the impact of COVID-19, and autonomous and spontaneous problem-solving actions have emerged throughout the Company. DX is inevitably part of the framework of a grand design, and it is not always possible to see the progress made in day-to-day operations by each individual. Meanwhile, I strongly feel that if there are a few guideposts, many employees will be able to realize their own personal growth, and it will be possible to innovate the Company in a way that is recognizable. In order to do so, I want to create many structures and opportunities for employees to



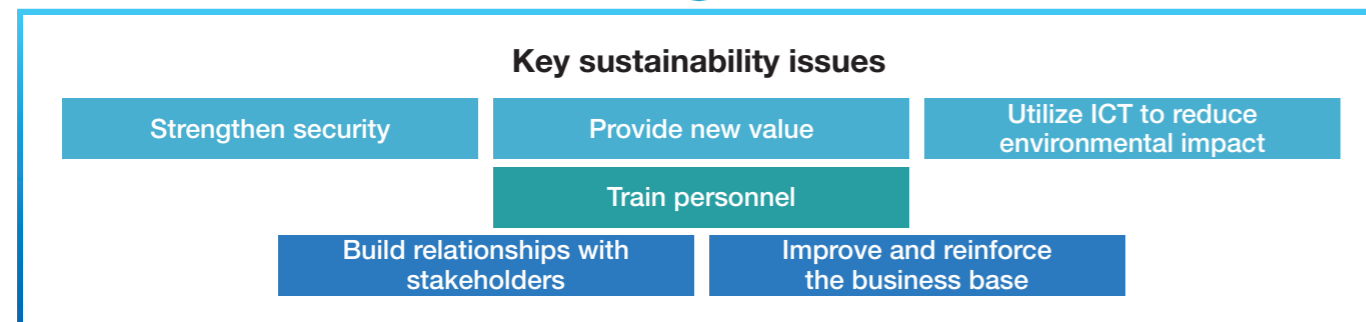
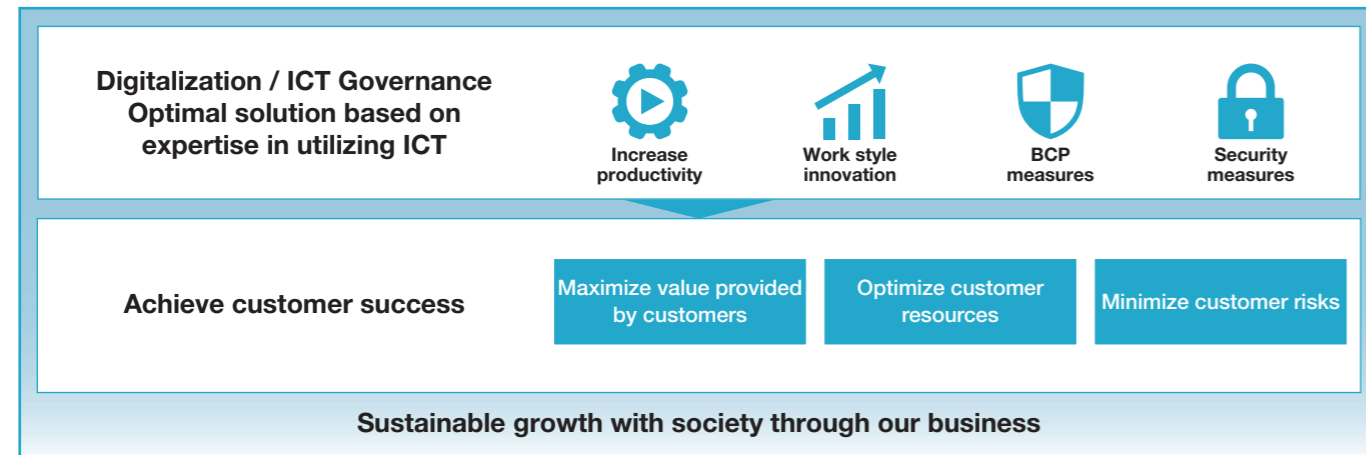
grow on the frontline. It is important to provide strategic services and install a platform that incorporates the entire value chain. As we move forward with the formation of an ecosystem, we will continue to promote DX for the Company and our customers in order to achieve value interaction, without missing out on harnessing the momentum for innovation created by the impact of COVID-19.

Basic Approach and Key Sustainability Issues

Pursuing sustainable growth with society through our business and maintaining sustainability as a company

Our management philosophy is to “Contribute to innovation in society by utilizing ICT,” and we aim to contribute to social innovation through our business. We are using our expertise in utilizing ICT and advanced ICT platforms to help customers overcome issues in their operations and contribute to their success. We have defined key sustainability issues from two perspectives: a perspective of sustainable growth with society through business and a perspective of maintaining sustainability as a company for preparing against risks.

Approach to key sustainability issues



Key Sustainability Issues

	Initiatives	Results
Train personnel	<ul style="list-style-type: none"> Cultivating personnel who can put customers' ideas into practice Creating a working environment where all employees can maximize their abilities 	<ul style="list-style-type: none"> Number of technical qualification holders: 1,411 Average years worked at Net One Systems: 9.27 years Promoted six industry-academic collaboration projects
Strengthen security	<ul style="list-style-type: none"> Achieving safe and secure access to ICT networks Development and provision of cyber security technologies 	<ul style="list-style-type: none"> Number of engineers certified by Palo Alto Networks*: Top company in Japan Number of participants in training courses for Group employees: 354 (fiscal 2019)
Build relationships with stakeholders	<ul style="list-style-type: none"> Gaining an understanding of customer satisfaction and changing expectations through ongoing customer satisfaction surveys Verification of the Company's policies through regular employee awareness surveys 	<ul style="list-style-type: none"> Customer satisfaction "Satisfied / Somewhat satisfied": 89.4% (fiscal 2019) Employee awareness survey: Valid response rate of over 90% (fiscal 2019)
Improve and reinforce the business base	<ul style="list-style-type: none"> Reinforcing risk management Promoting compliance 	<ul style="list-style-type: none"> Measures to prevent recurrence (P.46)
Provide new value	<ul style="list-style-type: none"> Creating value co-creation opportunities to promote ICT utilization 	<ul style="list-style-type: none"> Established facilities dedicated to accelerating DX Service bookings: +11.5% (compare to fiscal 2018)
Utilize ICT to reduce environmental impact	<ul style="list-style-type: none"> Reduction of energy usage and CO₂ emissions in our business activities Developing the refurbishment business 	<ul style="list-style-type: none"> Unit energy consumption: Achieved a reduction of average of 1% each year over five fiscal years Refurbishment business bookings: +¥1.6 billion (compare to fiscal 2018)

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

Operation of management system

We have obtained system certifications related to the management system for the promotion of key sustainability issues.

ISO27001:	Information security management system certification standard
ISO27017:	Security quality management system for cloud services
ISO14001:	Environmental management system certification standard
ISO9001:	Quality management system (inspection and verification of computer network equipment at our Quality Assurance & Management Center)
Privacy mark:	Personal information protection management system

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



Key Issue (1) Train Personnel

Basic approach to human resources development and empowering diverse personnel support systems

As a company that uses the experiences of success and failure in our business as reference cases to utilize in solutions for customers, all the knowledge and experience of our employees is used to create added value.

In our Medium-Term Business Plan, we are promoting the Integrated Service Business as a basic strategy to convert the actions of each employee into a service, and our human resources are the driving force behind our growth. We are focusing our efforts on training personnel who can work independently and create solutions.

We are also promoting diversity with the aim of creating synergies and innovation through the integration of people from diverse backgrounds. By creating a workplace environment in which each employee can proactively express personal ideas and work with enthusiasm, regardless of any differences, including gender, age, nationality, disability, work experience, or values, we aim to draw out various strengths of each individual, foster a corporate culture of openness, and achieve sustainable growth through increased productivity.

Implementation system

To promote personnel training and empowerment of diverse personnel, we manage and operate various cross-company organizations and systems under the strong commitment of the management team. We established the Human Resources Development Office in April 2020 to strengthen the recruitment and training of human resources that will contribute to the growth of the Net One Group.

Top commitment	We position the growth of employees (initiative) as our growth strategy and promote personnel measures under the strong commitment of the management team.
Human Resources Development Office	Newly established in April 2020. Human Resources Development Office promotes the enhanced recruitment and early development of human resources.
Human Resources Department	Human Resources Department is responsible for the overall management of human resources to establish and maintain the business base that will support the growth of the entire Net One Group over the medium to long term.
Human Resources Council (HRC)	As an advisory body for the Management Committee, it discusses key systems and initiatives related to organizations, personnel and human resources development, and reports to the Management Committee. The HRC consists of general managers, directors, and others, is supervised by an executive director, and is chaired by a general manager.
Diversity Steering Committee (DSC)	As an advisory body for the Management Committee, it discusses key systems and initiatives related to promotion of diversity, and reports to the Management Committee. The DSC consists of directors, deputy directors, and others, is supervised by an executive director, and is chaired by a director.

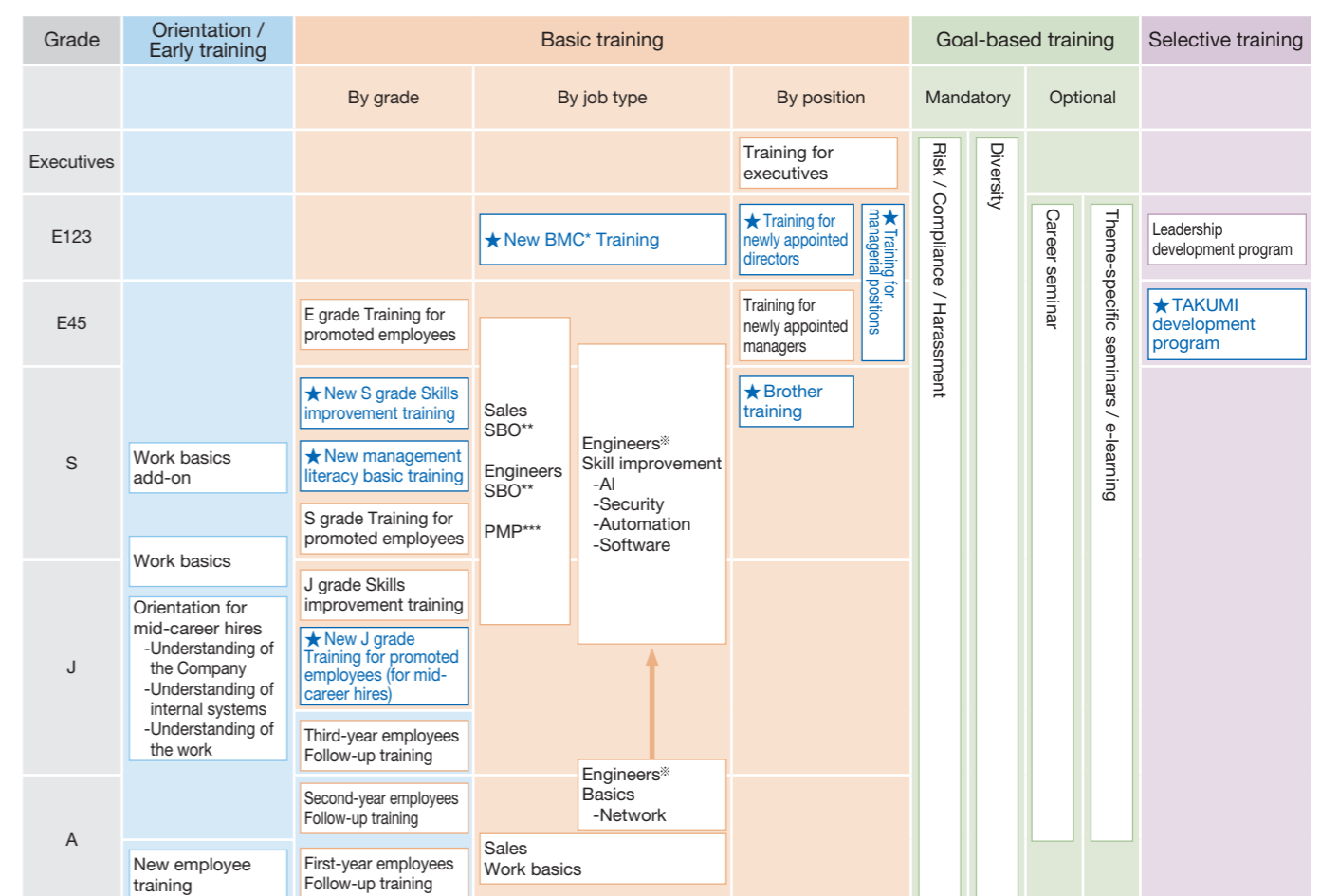
Training framework and the employees Net One needs

At Net One Systems, we strive to cultivate personnel who can put customers' ideas into practice, based on our belief that "there is an optimal solution for every customer." We have a variety of training and education systems in place to enhance our human resource training programs.

<Employees Net One needs>

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

Net One Systems' training framework



※ Provided by our Network Academy ★ Additional training from fiscal 2020
 *Business Model Canvas (Inspection method that visualizes business structure) ** Strategic Business Orientation (Training for strategic business thinking) ***Project Management Professionals

In fiscal 2020, we will strengthen basic training by expanding grade-specific training at a wide range of levels, and also strengthen sales training through Business Model Canvas (BMC) training.

In addition, in response to organizational reforms, we have expanded training for newly appointed directors and managerial positions, and introduced a TAKUMI development program to leverage the strengths of upper-level engineers in the professional field as well.

Related indicators
 ■ Number of technical qualification holders: 1,411 (as of August 4, 2020)

President's Message
Value Creation
Growth Strategy
Sustainability
Review of Operations
Key Data

Support for career development that draws out the initiative of employees

Full operation of the job description system started

We started the full operation of the job description system in 2020, in order to support the autonomous career path building by employees. Job descriptions visualize the roles expected of individuals, which were previously defined by job grade, and link them to the missions of each organization and skills, clearly verbalizing the responsibilities, actions and skills expected for individuals. The introduction of a job description system allows each employee to picture more clearly his or her own goals, which will enable employees to proactively communicate their goals in one-on-one meetings with superiors, thereby promoting autonomous career development, and fostering a corporate culture that encourages employees to proactively express their ideas.



Key measures to support career development

Development based on one-on-one dialogue and understanding

We believe daily experience in the workplace is the basis for employee growth, and to make that experience more effective, we have established a one-on-one system. Currently, through the proactive efforts of each department, the one-on-one system has been expanded to include Skip One-On-One, a dialogue with a director or deputy director who is not a direct supervisor, and Cross One-On-One, a dialogue with mentors across departments. In fiscal 2019, we introduced a Development One-On-One Sheet system to visualize the progress with implementation and content of one-on-one dialogue and link them to initiatives to improve quality. We plan to utilize the one-on-one implementation rate as a key indicator for our initiatives. In fiscal 2020, we will hold study sessions for managerial positions with the aim of sharing know-how on the implementation of the Development One-On-One in order to strengthen our management level to support the career development of employees.

Establishing systems and fostering an organizational culture to promote the empowerment of diverse human resources

In addition to a Flexi Work System and Remote Working System, we have established a Work Select System that allows employees to limit their time, place, and job duties, and a Multi-Job System that allows employees to work at other companies to acquire skills, thereby supporting career development through continued employment. Moreover, we support career development beyond the scope of current operations by implementing personnel transfers, an internal job posting system, and even industry-academic collaboration projects. Furthermore, we are working to create an organizational culture that encourages the empowerment of diverse human resources through the Diversity Promotion Day as a company-wide event, holding workshops, and ongoing educational activities on diversity through the distribution of top management messages and columns.

- Related indicators**
- Average years worked at Net One Systems: 9.27 years (fiscal 2019)
 - Personnel transfer implementation rate: 6.3% company-wide average, 9.3% for managers (implemented in April 2020)
 - Use of the internal job posting system: 17 applicants for 32 (17 cases) openings, transfer decided on for 12 applicants (fiscal 2019)
 - Number of industry-academic collaboration projects: 6 (as of the end of July 2020)

Occupational health and safety initiatives

Net One Systems believes that empowerment of our employees is essential for the growth of the Company and that ensuring the health and safety of our employees is extremely important to achieve this, and we have established a health and safety management system based on this belief.

Key measures in occupational health and safety

Prevention of overwork

We are working to establish a comfortable and healthy work environment by setting Work-Life Balance Targets for compliance with laws and regulations, ensuring employee health, and improving productivity.

- Related indicators**
- Amount of overtime hours worked (monthly average): Target of 30 hours or less; fiscal 2019 result: 24.0 hours
 - Paid leave utilization rate: Target of 80% or more; fiscal 2019 result: 68%
 - * We are further promoting the use of the planned annual leave system and considering the introduction of an hourly paid leave system in order to achieve the target for the paid leave utilization rate.

Consideration for mental health

We conduct stress checks to prevent mental health problems and improve the workplace environment. The participation rate has improved each year, at 89.7% in fiscal 2017, 92.2% in fiscal 2018, and 96.2% in fiscal 2019. We are also disclosing trends and analysis by organization to those in managerial positions in each department to help them respond. The level of stress in the workplace is low and favorable compared to the national average.

- Related indicators**
- Level of stress in the workplace: 88 (If the national average is set at 100)

Measures against COVID-19

In response to the spread of COVID-19, the Net One Group is encouraging its employees to work a hybrid work schedule with a focus on remote working with some office work, as well as web and video conferencing both inside and outside the Company in order to prevent damage to the health of employees of Net One Group and partner companies, customers, and business partners, and to continue to fulfill our social responsibilities in our business.

- Related indicators**
- Remote work utilization rate: 82.8% (as of May 25, 2020 *The date when the state of emergency was lifted for all prefectures)

Key Issue (2) Strengthen Security

Basic approach

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

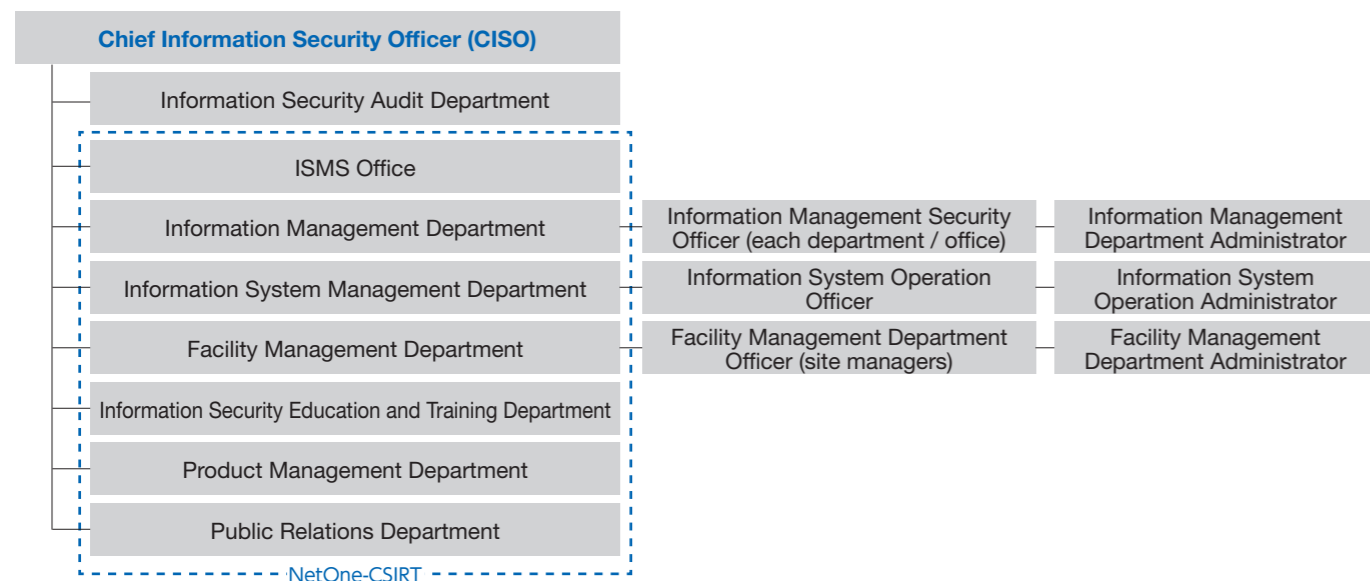
Information security is becoming increasingly important in modern society. In response, we are strengthening the Group's security stance based on internal risk management guidelines and our lineup of security products and services. We plan to reference our own experience from moves to strengthen security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

Basic policy on information security

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

CSIRT framework

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



Related indicators

- Major information security incidents requiring external reporting: 0 incidents
- Employee participation rate in information security e-learning courses: 100%
- Number of engineers certified by Palo Alto Networks: Top company in Japan

Providing security services

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

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

Solutions

Cloud security:	Provision of solution with optimized security packages tailored to the cloud development stage of customers
Network security:	Provision of solution with comprehensive network security for entire organizations, including secure cloud access and internal LAN
IoT security:	Optimal security solutions based on visualizing all IP devices, including IoT devices and PCs
Endpoint and mobile security:	Solutions that provide protections against sophisticated endpoint attacks and rapid response based on threat activity detection, analysis and control
Physical security:	Integrated physical solutions and image analysis solutions

Security services that support the customer's life cycle

MSS (managed security services):	IDS/IPS (intrusion detection and prevention system) monitoring services and next-generation firewall monitoring services that conduct real-time monitoring and analysis of log output from target devices installed in the customer's environment
MDR (managed detection & response) services:	Security monitoring and operation services for detecting, identifying, and responding to devices infected with malware within an organization's network
Cloud security services:	Respond to ICT governance risks stemming from loss of control during cloud usage. Security monitoring and operation services that maintain and strengthen internal cloud governance by visualizing security risks in the cloud
Security diagnosis services:	Assessment services that inspect and analyze the vulnerabilities (security holes) in an organization's network and information systems and report the results with measures to be taken

Education / Training

Network academy:	Cultivating information security personnel and providing security courses to customers tailored to the level of user proficiency
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**Examples of contribution to resolution of social issues through our business:
Joint development of information security education programs**

The shortage of information security human resources has become a social issue. According to the "Findings of METI's Study of Recent Trends and Future Estimates Concerning IT Human Resources" released by the Ministry of Economy, Trade and Industry, there was a shortage of 193,000 information security personnel in Japan in 2020.





Kagawa University Faculty of Engineering and Design established a Program in Computer Science, Systems, and Security in April 2018 to develop human resources for information security, and it is conducting a variety of educational and research activities to address the lack of human resources mentioned above. We are jointly developing an information security education program together with Kagawa University. The program includes classes on information security with instructors from our Network Academy, as well as practical information security exercises using actual network equipment with our network engineers serving as instructors.

Key Issue (3) Build Relationships with Stakeholders

Basic approach




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

Key measures and highlights

Four responsibilities	Basic approach	Key measures and highlights
 Responsibility to customers	Pursuing business success for customers	We have set up a committee to improve customer satisfaction. As part of its activities, the committee runs customer satisfaction surveys and engages in dialogue with customers. In the fiscal 2019 customer satisfaction survey, 89.4% of respondents were satisfied or somewhat satisfied, an increase of 0.9 percentage points from the previous survey.
 Responsibility to partners	Building win-win relationships	We have formulated the Partner CSR Guidelines to share our philosophy and policies with our suppliers. In fiscal 2019, we once again conducted compliance questionnaires to gain an understanding of the situation of our partners and build relationships based on mutual understanding.
 Responsibility to shareholders	Realization of continuous growth	We disclose information and actively engage in dialogue with market participants in accordance with our disclosure policy. In fiscal 2019, the Company’s Chairman and President held meetings with investors in Japan and overseas 36 times, while the Public Relations & Investor Relations Office held 255 investor meetings.
 Responsibility to employees	Pursuing the happiness of our employees	Net One Systems has set up training programs to support personal growth and development and ensure equal opportunities for all employees. The Company is also working to provide safe and comfortable working environments that take into account employee health. We are also promoting the concept of RCT*. In fiscal 2019, we conducted a trial for the full operation of the job description system, and also conducted an employee awareness survey.

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

Key measures

Three contributions	Basic approach	Key measures
 Contributions to the ICT market	Contributing to the development and expansion of the ICT market	We are constantly monitoring market trends, proactively introducing new technologies, and contributing to the development and expansion of the ICT market as one of the leaders in the field of ICT technologies with a focus on network technologies.
 Contributions to civic society	Realizing a prosperous society for people	Although ICT has dramatically increased the convenience of society, technology alone cannot enrich the lives of people. This is why we are engaged in activities that contribute to the enrichment of people’s lives, such as support for social welfare organizations and sports activities.
 Contributions to the global environment	Contributing to the creation of an environmentally friendly society	We contribute to the creation of a sustainable society by using cutting-edge ICT to prevent global warming and by taking steps to save energy and resources.

Case studies of communication with stakeholders ▶
<https://report.netone.co.jp/en/sustainability/issues/issues3/feature.html#a01>



Implementation of a customer satisfaction survey
 In the fiscal 2019 customer satisfaction survey, of the overall satisfaction level (satisfied and somewhat satisfied), the score for "satisfied," in particular, was the highest level since the survey began, rising by 9.8 percentage points. While customers’ expectations for the Company have been for “sales support” and “SE support” up until now, future expectations are “design and installation related” and the “provision of information from Net One.” Because there is a strong correlation between satisfaction and the survey item “intention to continue doing business,” we are focusing on activities and initiatives to improve customer satisfaction.

Implementation of an employee awareness survey
 In February 2020, we conducted an employee awareness survey in order to gain a better understanding of employee attitudes and to identify issues related to the Company’s policies in order to reflect them in the future policies.
 Because this employee awareness survey was conducted after the revelation of fraudulent acts in December 2019 and before the announcement of measures to prevent recurrence in March 2020, we believe that the timing of this survey was most conducive to identifying issues for the Company with respect to items such as trust in management policies. With a valid response rate of over 90%, we were able to confirm that employees felt they were making a real contribution to customers. However, there were also many requests for a more effective training system.
 We will continue to conduct employee awareness surveys on a regular basis going forward so that we can verify the results of regular initiatives and reflect them in future policies.

Key Issue (4) Improve and Reinforce the Business Base

Basic approach to corporate governance

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

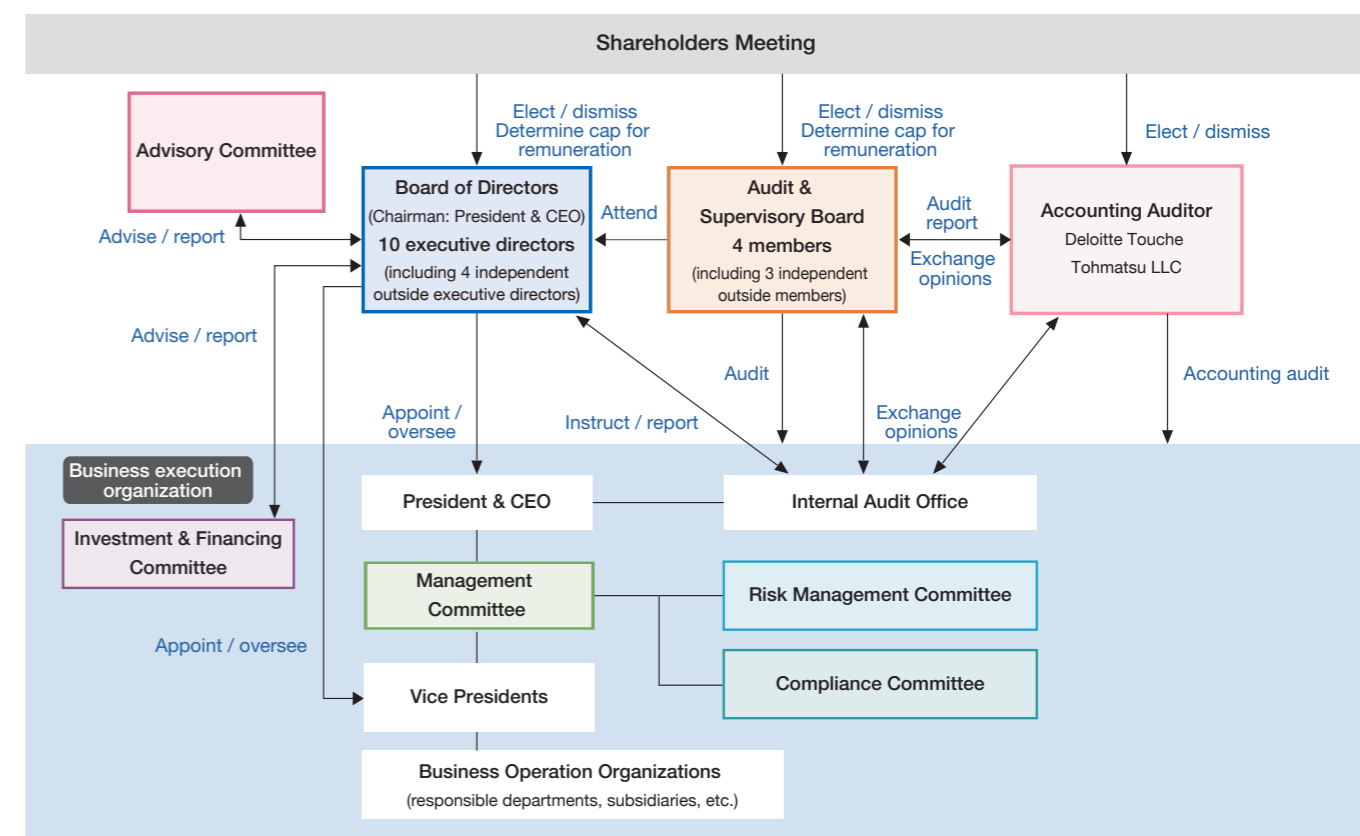
Based on its management vision stated above, the Company advocates sustained growth as its foremost priority. In order to attain this objective and to enhance its corporate value over the medium to long term, the Company continuously strives to enhance and strengthen corporate governance to realize transparent and fair decision-making in a swift and decisive way.

Progress in strengthening corporate governance

	Board of Directors / Audit & Supervisory Board	Committees	Other
Until 2005	•One outside executive director appointed (2004)	•Compliance Committee established (2003)	•Group Compliance Manual established (2003)
2006	•Term of office for executive directors reduced from two years to one		•Whistleblower system introduced
2007		•Risk Management Committee established •Investment & Financing Committee established	
2009		•Advisory Committee established	•Vision Book published
2011			•Vice President system introduced
2012			•Stock option compensation system introduced
2015	•Female outside executive director appointed	•Compliance Committee and Risk Management Committee integrated as the Risk & Compliance Committee	•Corporate Governance Guidelines published
2016	•Assessment of effectiveness of Board of Directors started		
2017			•Audit & Supervisory Board member contact point added to compliance reporting and advice line
2020		•Risk & Compliance Committee divided into Risk Management Committee and Compliance Committee	•Sales Supervisory Office established •Vision Book revised

Governance structure

Fiscal 2020



Board of Directors (Fiscal 2019: Held a total of 15 times)

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.

Audit & Supervisory Board (Fiscal 2019: Held a total of 13 times)

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

Advisory Committee (Fiscal 2019: Held a total of 4 times)

As an advisory organ for the Board of Directors, discusses and reports on matters related to executive compensation and the appointment and dismissal of executive directors and vice presidents, with the remit of increasing management transparency and fairness and reinforcing corporate governance.

Management Committee (Fiscal 2019: Held a total of 21 times)

Established under the President & CEO, carries out appropriate and timely discussions and decisions with respect to fundamental and important Company matters, while allowing the Board of Directors to focus on the management and supervisory functions in order to ensure management transparency and fairness and establish a system for the prompt and efficient execution of operations.

Investment & Financing Committee (Fiscal 2019: Held a total of 18 times)

As an advisory organ for the Board of Directors, discusses and decides on matters related to investment and financing to ensure an appropriate and efficient decision-making framework for investment and financing matters in the Board of Directors.

Risk Management Committee

The Risk Management & Compliance Committee was reorganized and the Risk Management Committee was established in April 2020, as an advisory organ for the Management Committee. The committee is responsible for assessing and controlling risk management activities and discussing and reporting on important matters related to Group risk management in order to ensure sustained growth in the Group's corporate value.

Compliance Committee

The Risk Management & Compliance Committee was reorganized and the Compliance Committee was established in April 2020, as an advisory organ for the Management Committee. The committee is responsible for assessing and controlling compliance activities and discussing and reporting on important matters related to Group compliance activities in order to strengthen compliance at the Group.

Board of Directors and Audit & Supervisory Board members

	<p>Chairman Takayuki Yoshino</p>	<p>Takayuki Yoshino became an Advisor of the Company in 2007 after serving positions including Senior Managing Director of Cisco Systems, K.K. (now Cisco Systems G.K.). He was appointed President & CEO of the Company in 2008 and Chairman & CEO in 2018, before assuming his current position in June 2020. He has a wealth of experience and a proven track record in a wide range of fields, including management experience as Executive Director at an industrial company. In addition, upon assuming the position of President & CEO of the Company, he led the Group based on his strong leadership. Moreover, since assuming the position as Chairman of the Company, he has supervised the entire management of the Company from a broad perspective to strengthen the management base under the new management system of the Company.</p>
	<p>President & CEO Toru Arai Chairman of the Board of Directors Chairman of the Management Committee</p>	<p>Toru Arai joined the Company in 1990. He was appointed Vice President of the Network Technology Division in 2006, became an Executive Director of the Company in 2006, and assumed his current position in 2018. He has made every effort to strengthen the management base of the entire Group and to optimize management, among others, as Executive Director of the Company in charge of corporate planning operations and others. In addition, since assuming the position as President & CEO, under the new management system, he has been responsible for overall management of the Company to strengthen its management base.</p>
	<p>Executive Vice President In charge of East Japan Business Unit 1 Shinji Hirakawa</p>	<p>Shinji Hirakawa joined the Company in 2011 after serving positions including Operation Director in charge of the Public System Business Division of Cisco Systems K.K. (now Cisco Systems G.K.), and was appointed Vice President of the Company in the same year. He has been in his current position since 2018 and has been in charge of the East Japan Business Unit 1 since April 2020. He has a wealth of experience and a proven track record through many years of practical experience in sales operations. Since assuming the position as Vice President, he has made every effort to expand sales of the Company's products and services.</p>
	<p>Senior Vice President In charge of Corporate Planning & Management Division Takafumi Takeshita Chairman of Vision Inculcation Committee In charge of Risk Management Committee In charge of Compliance Committee In charge of Human Resources Council</p>	<p>Takafumi Takeshita joined the Company in 1989. After being appointed as Vice President of the Technical Service Headquarters of Network Service and Technologies Co., Ltd. (now Net One Systems Co., Ltd.) in 2006 and serving as an Executive Director of the same company, he was appointed to his current position in 2018. He has been in charge of the Corporate Planning & Management Division since April 2020. He has a wealth of experience and a proven track record through many years of practical experience in technology operations. Since assuming the position as Executive Director in charge of divisions such as the Corporate Planning & Management Division, he has made every effort to strengthen management and other functions of the entire Group.</p>
	<p>Senior Vice President In charge of Investment and Financing, Corporate Planning & Management Division Takuya Tanaka Chairman of the Investment & Financing Committee</p>	<p>After serving positions including Vice President in charge of Western Japan Sales Headquarters of Cisco Systems K.K. (now Cisco Systems G.K.), Takuya Tanaka joined the Company in 2009 and was appointed Vice President, in charge of Western Japan Sales Headquarters of Net One Partners Co., Ltd. Then, after serving positions such as Executive Director and Vice President of Net One Partners, he became the President & CEO of Net One Partners and assumed his current position in 2018. He has been in charge of Investment and Financing of the Corporate Planning & Management Division since April 2020. He has a wealth of experience and a proven track record through many years of practical experience in sales operations. Since assuming the position as Vice President at one of the Company's subsidiaries, he has led and made every effort to develop subsidiary.</p>
	<p>Senior Vice President In charge of Business Development Division and Customer Service Division Fumihiko Shinoura In charge of Customer Satisfaction Improvement Committee In charge of Diversity Steering Committee</p>	<p>Fumihiko Shinoura became an Advisor of the Company in 2008 after serving positions including the General Manager of the Product Planning Division and Managing Director of Nihon Cisco Systems, K.K. (now Cisco Systems G.K.). He has been in his current position since 2019, after having been appointed as Vice President of Net One Partners Co., Ltd. in 2009. He has a wealth of experience and a proven track record through many years of practical experience in the product planning department, and has made efforts to expand products and services of the Company since assuming the position as Vice President.</p>
	<p>Outside Executive Director Mitsuo Imai Chairman of the Advisory Committee Independent Executive Officer</p>	<p>Mitsuo Imai served positions including Representative Executive Officer, President, Chief Executive Officer and Director of Hitachi Cable, Ltd. (now Hitachi Metals, Ltd.) before assuming his current position in 2012. He makes full use of his extensive knowledge and experience in the field of information and communications business and his experience as a corporate executive to oversee the Company's management.</p>

Executives ▶

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



	<p>Outside Executive Director Rieko Nishikawa Independent Executive Officer</p>	<p>Rieko Nishikawa is a Professor Emeritus at Faculty of Law at Keio University. After serving as Visiting Researcher at Harvard Law School, Visiting Foreign Scholar at Fordham University, School of Law, Visiting Scholar at the George Washington University Law School, Professor of the Faculty of Law at Keio University, and an outside consultant of the Inter-American Development Bank, she assumed her current position in 2015. She makes full use of her extensive knowledge and experience as a university professor specializing in legal studies to oversee the Company's management.</p>
	<p>Outside Executive Director Ryugo Hayano Independent Executive Officer</p>	<p>Ryugo Hayano is currently a Professor Emeritus at the University of Tokyo, a Councilor of the Radiation Effects Research Foundation, President of the Talent Education Research Institute (Suzuki Method), Science Fellow of Hobonichi Co., Ltd., Representative of Office-Hayano LLC, Director of Shigeta Education Foundation, and Director of International Physics Olympiad 2023 Association, and assumed his current position in 2018. He makes full use of his extensive knowledge and experience as a university professor specializing in physics and his insights he attained through practical experience at various organizations to oversee the Company's management.</p>
	<p>Outside Executive Director Shigeki Kusaka Independent Executive Office</p>	<p>After serving as an Executive Officer of Mitsubishi Corporation, Representative Director, Executive Officer, President and COO of IT Frontier Corporation (now Tata Consultancy Services Japan, Ltd.), President and Representative Director of INTEC Inc., and Director of TIS Inc., Shigeki Kusaka assumed his current position in June 2020. He makes full use of his extensive knowledge and experience in the information and communications business field and his experience as president and director at other corporations to oversee the Company's management.</p>
	<p>Full-time Audit & Supervisory Board Member Toru Matsuda Chairman of the Audit & Supervisory Board</p>	<p>Toru Matsuda joined the Company in 1991. After serving as General Manager of the Quality Assurance & Management Center, Manager of the ISMS Promotion Office, General Manager of the CSR Promotion Department, General Manager of the General Affairs Division, and Manager of the Internal Audit Office, he assumed his current position in 2015. He brings a wealth of experience gained from working in the Company's administrative and internal audit divisions, as well as a deep insight into the Company's business to his audits.</p>
	<p>Outside Audit & Supervisory Board Member Keiichi Horii Independent Executive Officer</p>	<p>Keiichi Horii was registered as a lawyer in 1979. He is a Partner at South Toranomon Law Offices and a member of the Operating Committee of the Arbitration Center of the Dai-ichi Tokyo Bar Association. He assumed his current position in 2016. He brings a broad knowledge and experience in the field of corporate legal affairs he has garnered to date as an attorney to his objective and neutral audits of the Company's management.</p>
	<p>Outside Audit & Supervisory Board Member Hideki Suda Independent Executive Officer</p>	<p>After serving as President of Fujikura Development Co., Ltd. and Corporate Auditor of Fujikura Ltd., Hideki Suda assumed his current position in 2016. He makes full use of his broad knowledge and experience in the field of information and communications business and his experience as a corporate manager in his objective and neutral audits of the Company's management.</p>
	<p>Outside Audit & Supervisory Board Member Sachiko Iizuka Independent Executive Officer</p>	<p>Sachiko Iizuka was registered as a Certified Public Accountant in 1998. She is currently serving as Representative Director of LAULEA CORPORATION, Outside Auditor of KORAKUEN HOLDINGS CORPORATION, and Outside Auditor of BeeX Co., Ltd., and assumed her current position in June 2020. She makes full use of her broad knowledge and experience in finance and accounting developed as a certified public accountant and her experience as a representative director at other companies in her objective and neutral audits of the Company's management.</p>

Key elements of corporate governance structure

Fiscal 2020

Governance structure: Company with an Audit & Supervisory Board	Term of office for Executive Directors: 1 year	Number of independent executives: 7
Number of Executive Directors: 10	Number of Outside Executive Directors: 4	Number of Board of Directors meetings: 15 * In FY2019
Number of Audit & Supervisory Board Members: 4	Number of Outside Audit & Supervisory Board Members: 3	Number of Audit & Supervisory Board meetings: 13 * In FY2019
Vice President System ✓	Advisory Committee ✓	Accounting Auditor Deloitte Touche Tohmatsu LLC

Composition of corporate bodies and committees

Fiscal 2020

Name	Position	Execution of duties	Board of Directors	Audit & Supervisory Board	Advisory Committee	Management Committee	Investment & Financing Committee	Risk Management Committee	Compliance Committee
Takayuki Yoshino	Chairman		○			○			
Toru Arai	President & CEO	○	Chairman		○	Chairman			
Shinji Hirakawa	Executive Vice President	○	○			○		Observer	
Takafumi Takeshita	Senior Vice President	○	○			○	○	In charge	In charge
Takuya Tanaka	Senior Vice President	○	○			○	Chairman		
Fumihiko Shinoura	Senior Vice President	○	○			○			
Mitsuo Imai	Outside Executive Director		○		Chairman	Observer		Observer	
Rieko Nishikawa	Outside Executive Director		○		○	Observer			Observer
Ryugo Hayano	Outside Executive Director		○		○	Observer			
Shigeki Kusaka	Outside Executive Director		○		○	Observer			
Toru Matsuda	Full-time Audit & Supervisory Board Member		Attend	Chairman	○	Observer	Observer	Observer	Observer
Keiichi Horii	Outside Audit & Supervisory Board Member		Attend	○	○	Observer			
Hideki Suda	Outside Audit & Supervisory Board Member		Attend	○	○	Observer			
Sachiko Iizuka	Outside Audit & Supervisory Board Member		Attend	○	○	Observer			

Board of Directors: Number of meetings and discussion topics

Fiscal 2019

		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec (1st mtg)	Dec (2nd mtg)	Jan	Feb (1st mtg)	Feb (2nd mtg)	Mar (1st mtg)	Mar (2nd mtg)	Total (Average)	
Attendance	Executive Directors	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	11/11	—
	Audit & Supervisory Board members	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	—
	Attendance rate	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
No. of proposals	Resolutions	8	8	16	6	1	0	3	0	1	2	3	3	1	6	4	62	(4.1)
	Reports	3	2	3	7	3	4	3	5	0	3	2	1	3	1	6	46	(3.1)

*In addition to the above, three written resolutions were passed that were deemed to have been approved by the Board of Directors.

Details of main proposals discussed by the Board of Directors in fiscal 2019

- Medium-Term Business Plan
- Report on the process of investigations on fraudulent acts and discussion of measures to prevent recurrence
- Assessment of board effectiveness

Assessment of Board of Directors effectiveness

Basic approach and implementation and assessment methods

To realize a more effective Board of Directors, we assess the effectiveness of the Board of Directors in accordance with Article 6 of the Corporate Governance Guidelines.

Specifically, executive directors and Audit & Supervisory Board members are asked to complete named questionnaires based on the following points, which are analyzed and evaluated, and then used to determine future policies.

- (1) Composition of the Board of Directors
- (2) Management of the Board of Directors
- (3) Contents of discussions by the Board of Directors
- (4) Supportive structure for the Board of Directors
- (5) Relationship with stakeholders
- (6) Summary

Results of the fiscal 2019 analysis and assessment and the future response

The results of the questionnaire confirm that the measures that have been taken are having an effect on (3) Contents of discussions by the Board of Directors and (4) Supportive structure for the Board of Directors above, which were pointed out as issues in the past questionnaires. Specifically, in fiscal 2019, we discussed terms of office of the members and compensation at the Advisory Committee and conducted officer training, primarily for Inside Executive Directors and future senior management candidates.

Meanwhile, a questionnaire survey conducted in 2020 for the Board of Directors in fiscal 2019 revealed that further enhancement of the oversight function was needed in response to the discovery of transactions with no actual deliveries. As stated on page 46, the Company has announced measures to prevent the recurrence of transactions with no actual deliveries and the progress of these measures, and the Board of Directors will continue to monitor the progress of these measures. The Board of Directors will continue to make further improvements to realize a more effective Board of Directors based on the results of the above analysis and evaluation.

Executive remuneration system

Basic approach and characteristics of the executive remuneration system

For its executive remuneration system, the Company adopts basic policies to continue its growth and enhance the corporate value of the Company continuously by strengthening the link between executive remuneration and the Company's business performance, and to ensure fairness and objectivity in the process of determining executive remuneration, etc. Note that the basic policies are determined, after deliberation at the Advisory Committee, by resolution of the Board of Directors.

Remuneration, etc., for the Company's executive directors (excluding outside executive directors) is set based on their position. Remuneration consists of a basic remuneration, which is fixed; bonuses, which is corporate performance-linked compensation over the short term offered annually based on performance; and stock compensation-type stock options, which is corporate performance-linked compensation over the medium to long term. Remuneration, etc., of outside executive directors and Audit & Supervisory Board members consists only of the basic remuneration, from the perspective of securing their independence.

Percentage split of remunerations for executive directors by title

Fiscal 2020

Rank as executive director or rank as vice president	Percentage split of remunerations for executives			Total
	Basic remuneration	Performance-linked compensation		
		Bonuses	Stock compensation-type stock options	
Chairman	63%	27%	10%	100%
President & CEO	63%	27%	10%	
Senior Vice President	63%	26%	11%	
Vice President	63~66%	25~26%	9~11%	

(Notes) 1. The percentages in the table above represent the percentage split of remunerations by title/position when the performance targets are 100% achieved.
2. For vice presidents, the percentages vary from position to position, even if they hold the same title, as the remuneration table differs depending on positions.

Targets and results for indicators related to bonuses

Fiscal 2019

Indicator		Target (Million yen)	Results (Million yen)
Company-wide consolidated performance	Productivity per employee in terms of consolidated revenue	71.7	76.6
	Productivity per employee in terms of consolidated operating income	5.7	6.8
Performance of business division responsible for	Productivity per employee in terms of bookings accepted by the division	115.3~154.2	127.7~178.5
	Productivity per employee in terms of revenue earned by the division	114.8~152.8	122.5~169.4
	Productivity per employee in terms of operating income earned by the division	7.6~16.7	10.3~16.7

(Notes) 1. Productivity per employee for each management indicator is calculated by dividing each management indicator, by the number of employees at the beginning of the fiscal year for the target, and, by the number of employees at the end of the fiscal year for the actual results.
2. The reason for different performance targets is that each executive director has a different scope of responsibility.

Stock compensation-type stock options are performance-linked in the sense that an indicator of the market price of the stock is used to determine the amount of remuneration. However, because there is no target indicator for calculating the amount of remuneration, targets and results are not stated.

Total amount of remuneration, etc., by executive classification, total amount by type of remuneration, etc., and the number of applicable executives

Fiscal 2019

Executive classification	Total amount of remuneration, etc. (Million yen)	Total amount by type of remuneration, etc., and the number of applicable executives					
		Basic remuneration		Bonuses		Stock compensation-type stock options	
		Number of applicable executives	Total amount (Million yen)	Number of applicable executives	Total amount (Million yen)	Number of applicable executives	Total amount (Million yen)
Executive directors (excluding outside executive directors)	398	8	225	6	136	7	36
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	26	1	26	—	—	—	—
Outside executives	86	7	86	—	—	—	—

(Notes) 1. Although the Company has eleven (11) executive directors as of the end of fiscal 2019, the number of persons paid, and amount paid shown above includes one (1) executive director retired at the conclusion of the 32nd Annual Shareholders Meeting on June 13, 2019.
2. Stock compensation-type stock options states the amount recorded as expenses in fiscal 2019.

Initiatives by Vision Inculcation Committee

Re-establishment of the Vision Inculcation Committee

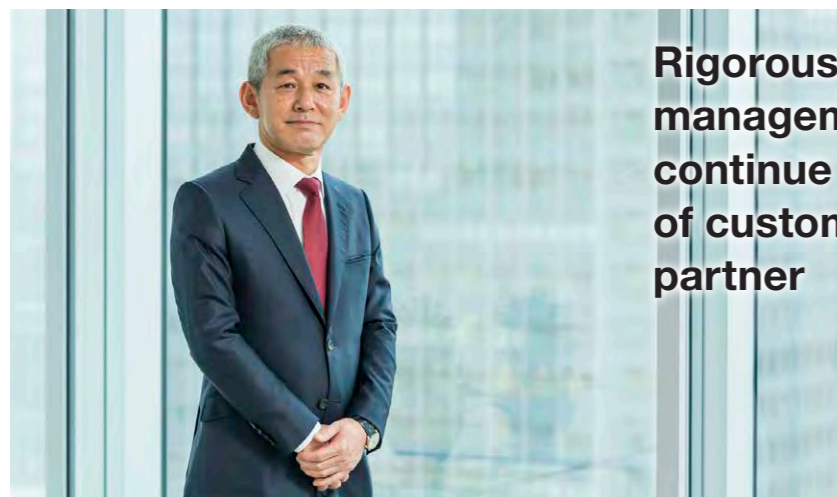
In April 2020, we re-established the Vision Inculcation Committee, which was established in 2009 and dissolved in 2015, with the aim of improving our corporate culture. The Vision Inculcation Committee is chaired by an executive director and consists of employees from all divisions and Group companies, including outside executive directors. The Committee continuously implements activities that emphasize engagement with the goal of having all employees participate, based on the theme of how one should act as an employee of the Net One Group.

Re-editing the vision book and inculcation activities

We established the Group's vision book in 2009 to clarify our mission and actions toward our stakeholders. By the end of September 2020, we reviewed the Principles of Conduct in this book to bring it in line with current conditions and re-edited the book to ensure that the lessons learned from fraudulent acts would not be forgotten and that all employees would continue to take action with a sense of ownership.

Furthermore, we will position the new vision book as a tool for improving our corporate culture, disclose the Vision Code of Conduct Declaration to all executives and employees, provide one-on-one feedback on the implementation status, and conduct quarterly reviews on officers and executives. In addition, we will hold interactive workshops with the management team and general employees as well as employees from different divisions and evaluate inculcation activities with reference to the results of employee awareness and customer satisfaction surveys as part of ongoing improvement efforts.

Message from the CRO / CCO



Rigorously implementing risk management and compliance to continue meeting the expectations of customers as a trusted strategic partner

Takafumi Takeshita
Senior Vice President,
in charge of Corporate Planning &
Management Division
Chief Risk Officer (CRO)
Chief Compliance Officer (CCO)

Companies face dramatic changes in the operating environment. Rapid advances in technology, market globalization, increasingly diverse customer needs, and now the impact of COVID-19, mean risks are becoming more complex and sophisticated. In that environment, risk management and compliance are key issues for companies.

Despite reinforcing internal controls after an incident of fraudulent acts in 2013, transactions without the physical delivery of goods recently came to light in the Group. A special investigative committee that was set up to look into the fraudulent acts has issued its final report and we take its findings and advice very seriously. In April 2020, I was appointed Chief Risk Officer (CRO) and Chief Compliance Officer (CCO) to ensure measures to prevent any recurrence are thoroughly enforced and to strengthen the Group's management structure. My mission is to exhaustively identify and prioritize risks then rigorously implement and establish effective risk mitigation measures across the Group.

In its final report about transactions without the physical delivery of goods, the special investigative committee made two key recommendations – management and executives need to have a clearer picture of transactions within the business, and risk management, internal control and compliance activities need to be overhauled. In order to strengthen business controls, we are rapidly reforming organizational structures to segregate areas of authority and to prevent employees from staying too long in certain organizations. We are also digitizing risk management mechanisms as part of Work Style Innovation 2.0/DX, one of the basic strategies in the current Medium-Term Business Plan.

At the same time, we need to recognize that we had a false sense of confidence in our existing framework of controls to prevent fraudulent acts, which was focused on rules and systems, as well as a lack of controls to rapidly detect and address issues based on the assumption that this kind of fraudulent act would occur. In response, we are making a number of improvements. Each division now has to prepare a risk survey sheet, which is submitted to the Risk Management Office. Using the sheets, the office identifies material risks and reinforces mitigation measures. We are also using training and other approaches to give all our employees more knowledge about and sensitivity to fraud risk. Most importantly, we have to foster an organizational culture where employees are free to speak their minds. We want to create an environment where every single employee has the confidence to speak out responsibly based on a clear understanding of what their role entails, based on the Group's vision.

We plan to provide quarterly updates about progress with the implementation and validation of preventive measures. We will also look into setting KPIs for risk management activities and disclose information about our initiatives on an ongoing basis in the coming fiscal years.

Some customers have upbraided us for the fraudulent acts, which was painful to hear for a Company that is expected to be their strategic partner. Our employees are now trying hard to ensure we meet those expectations. Harnessing all the experience and trust I have built up over the years, I will do everything in my role to ensure even higher levels of trust in Net One Systems, while also working to maintain a close relationship between management and employees on the front line of our business.

Measures to prevent recurrence

Updates about measures to prevent any recurrence of fraudulent acts will be disclosed on a regular basis. The information below is accurate as of September 30, 2020, but the Company has continued to take steps since that date.

Preventive measures based on the findings of the special investigative committee and current status

Review of basic policy on business transactions	Eliminate the risk of fictitious transactions	Provision of Group's added value (unique services, solutions, etc.) to be confirmed	Started: February 13	
		Bundled projects with no item breakdown prohibited (physical verification)	Started: February 13	
		Only direct transaction projects allowed (verification of actual goods, services, suppliers)	Started from May	
		Closure of Kasumigaseki Office, which only handled central government agency projects	Moved: April 1	
		Strengthen project screening using a Process Management System (PMS)	Started from May	
Strengthen risk management systems	Fundamental review of risk management activities	Clarify role of Chief Risk Officer (CRO) (risk identification, risk response, evaluation of risk management activity effectiveness and ongoing improvements, responsible for other risk management processes)	Adopted: March 27	
		Split the Risk & Compliance Committee into the Risk Management Committee (responsible for evaluation and control of risk management activities) and the Compliance Committee (responsible for evaluation and control of compliance activities). CRO to chair both committees and members to include outside executive directors to provide objective opinions and feedback	Implemented: April 22	
		Clarify which departments are responsible for risk management	Implemented: April 9	
	Identify and evaluate significant major risks in each division	Develop risk management action plans	Implemented: April 22	
		Strengthen risk management with risk survey sheets	Started: May 27	
		Strengthen internal audits	Introduce additional audit methods (hearings and identification of parties involved in suspicious cases)	Started to be addressed from April
Increase scope of audits (internal audits as separate actions to accounting audits, procurement activities and checks of preventive measures)	Started to be addressed from April			
Enhance business controls	Review authority of sales divisions	Remove authority for order placement and customer acceptance inspections from sales divisions	Started to be addressed from April	
		Revise operational regulations (update rules and processes)	Started to be addressed from June	
		Overhaul ICT systems in line with revised operational regulations	Started to be addressed from July	
	Strengthen purchasing functions	Make purchasing function independent by establishing Group Procurement Department (currently performed by the Group Procurement and Logistics Department)	Implemented: April 1	
		Redefine and strengthen procurement processes and functions related to equipment procurement and acceptance	Started to be addressed from June	
		Improve effectiveness of measures to prevent recurrence	Establish a Sales Supervisory Office (reports directly to the President, responsible for leading unified Group approach to revising and monitoring all rules to prevent recurrence)	Implemented: April 1
Review of compliance activities	Prevent overreliance on certain individuals	Implement personnel rotations (prevent lack of clarity in operational processes and management failures)	Implemented: April 1	
		Revise operation of whistleblower system	Overhaul whistleblower system (split system into harassment and misconduct streams and give responsibility for each to the relevant division)	Implemented: June 1
		Strengthen compliance awareness	Develop compliance activity plans (conduct quarterly and year-end reviews, formulate plans for next fiscal year)	Implemented: May
	Compliance activity declaration (Board of Directors or Management Committee to review every quarter)		Implemented throughout the year	
	Run compliance training (hold workshops for each division, review e-learning programs, formulate annual plans)		Started to be addressed from July	
	Create new corporate culture	Reconvene the Vision Inculcation Committee (implement continuous dialogue-focused activities for all employees, including outside executive directors)	Implemented: April 22	
Update the Group's vision book (formulate a new Code of Conduct Declaration linking the Group's seven missions, businesses and SDGs, review the Principles of Conduct)		Implemented: September		
Implement activities to promote the Group's vision (one-on-one feedback with executives and employees, quarterly reviews by Board of Directors or Management Committee, workshops for management and ordinary employees run by the Vision Inculcation Committee)		Implemented throughout the year		
		Remuneration system validation and improvements (assess need for incentives in sales divisions or areas for improvement)	Implemented: July	

Reinforcing risk management

Basic approach to reinforcing risk management

We believe that it is our social responsibility to appropriately identify changes in the business environment surrounding the Company and to conduct stable and continuous corporate management based on our internal control system in a way that satisfies our customers, shareholders, and other stakeholders. We implement risk management activities through mutual cooperation with Group companies based on this approach.

Risk management framework



Key measures

Fundamental review of risk management activities

We are conducting a fundamental review of risk management activities, including clarification of the role of the CRO, splitting the Risk & Compliance Committee, and designating the Risk Management Office as the department responsible for general risk management activities, including risk of fraudulent acts.

Identify and evaluate significant major risks in each division

We are formulating risk management action plans for operational risk assessment and improvement measures, as well as fraud risk assessment and improvement measures for all departments. In addition, we have introduced a system in which risk survey sheets are distributed to each department. Operational risks and fraud risks in a department's own operations are identified on a quarterly basis using these risk survey sheets, and the status of recognition and initiatives for these risks is reported on. The Risk Management Office verifies the risk management activities of each department based on these risk survey sheets and reports its evaluation to the Risk Management Committee, which then provides guidance as necessary.

Strengthen internal audits

From fiscal 2020, in addition to audits focusing on systems and evidence up until now, the Internal Audit Office will confirm with the relevant departments and suppliers any suspicious projects including doubts or disbelief raised as a result of interviews with sales personnel and their superiors, in order to ensure the effectiveness of audits.

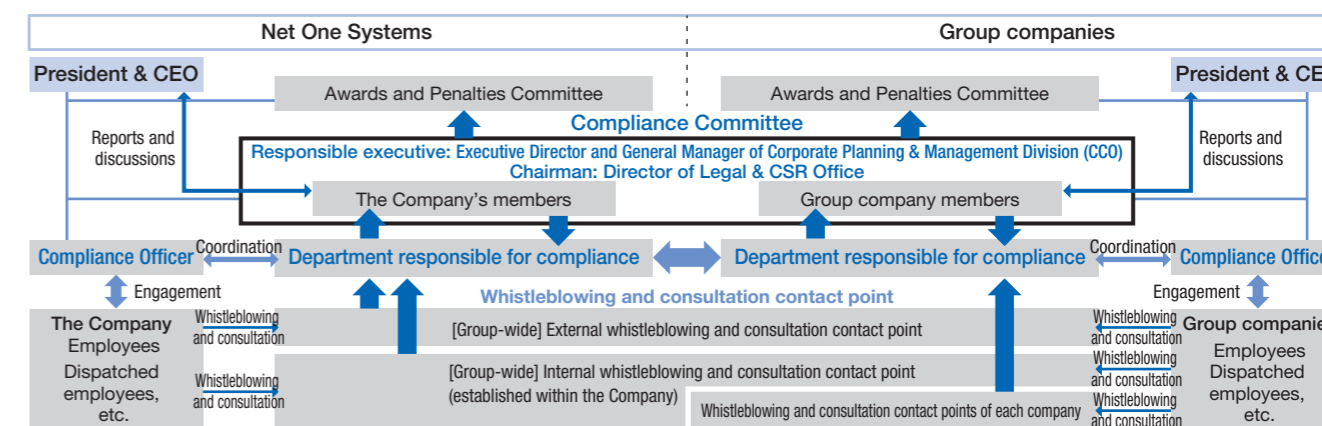
In addition, from fiscal 2020, we will determine the scope of internal audits in accordance with the Company's standards, regardless of whether the transactions are subject to audit by the accounting auditor. Furthermore, in order to audit the status of checks and balances on drop ship transactions and the existence of such transactions, we will conduct audits of purchasing operations, which had not previously been conducted, and monitor the implementation of various measures to prevent recurrence as a key audit item in the internal audit plan.

Promoting compliance

Basic approach to compliance

Our management vision is to be a company trusted and supported by all stakeholders (an admired company). However, without compliance, we have no hopes of becoming even a surviving company, let alone an admired company. Compliance is not just about being on the defensive by preventing fraud and misconduct; it is also an essential element of an offensive approach to enhancing corporate value and continuing to be the brand of choice for many customers. Our basic approach to true compliance is to take seriously the expectations and trust of the many stakeholders who support the Group, and to respond to their expectations and trust with integrity.

Compliance promotion framework



Key measures

Revise operation of whistleblower system

To further enhance the effectiveness of the whistleblower system, we separate the contact point for reporting harassment from the contact point for reporting fraudulent acts, and continue to provide education and raise awareness on the protection of users and the purpose and necessity of the whistleblower system.

Strengthen compliance awareness

Each department prepares a compliance activity plan and reviews the implementation status of the plan on a quarterly basis. The CCO and the Legal & CSR Office review the contents of these plans, and the Compliance Committee discusses the status of plan implementation and provides necessary guidance.

In addition, all executives and employees are required to make a declaration on their own compliance-related activities and disclose them internally. Regarding these compliance activity declarations, executives and employees give feedback to each other on the status of implementation through one-on-one meetings and supervisor evaluations by employees. Each department holds workshops on compliance activities to exchange opinions in order to encourage active compliance awareness and activities by employees on their own.

Create new corporate culture

We are verifying the activities of the Vision Inculcation Committee as well as the remuneration system. We have examined the change in the percentage of incentives for sales personnel going back about 10 years, and confirmed an improvement from the past.

Discussion with Outside Executive Directors

Focusing on reinforcing the business base of Net One Systems and achieving sustainable growth



Outside Executive Director
Ryugo Hayano

Outside Executive Director
Mitsuo Imai

Outside Executive Director
Rieko Nishikawa

Outside Executive Director
Shigeki Kusaka

The roundtable discussion this time focused on fraudulent acts and measures to prevent recurrence as well as measures to strengthen governance with a view toward enhancing corporate value over the long term.

Views on fraudulent acts and points to focus on to prevent recurrence

Nishikawa: I believe that the reason for the occurrence of the fraudulent acts was the fact that there were insufficient countermeasures based on the assumption that fraudulent acts can occur. At the Kasumigaseki Office, where the fraudulent acts occurred, it was difficult to get a good view of the situation from the head office. In order to prevent this kind of situation, regular personnel transfers should have been carried out. In addition to preventing fraudulent acts, I believe that personnel rotation is also essential from the perspective of management education, as they allow employees to experience various departments, and obtain a deeper understanding of the Company and its industry.

Hayano: As you said, it is true that personnel transfers were not active in some areas, and I think it is highly likely that these fraudulent acts could have been stopped sooner if personnel rotation had been implemented. In addition, the Company has a Vision Book. Through this Vision Book, it is possible to share the value of the Company, as well as the joy of working together. If both your value and the value of the Company increase, and this makes you happy, then you will always take care not to damage the value of the Company. This kind of corporate culture is important.

Nishikawa: We used this incident as an opportunity to participate in the Risk Management Committee, the Compliance Committee, and the Vision Inculcation Committee as observers. While it is important to educate employees on compliance, our challenge going forward is to go beyond legal compliance, and instill in each and every employee a fundamental axis for making judgments regarding right and wrong.

Hayano: In addition to enhancing management, as mentioned earlier, it is necessary to create a corporate culture that allows employees to feel a sense of unity between the improvement of corporate value and their own growth. This is also one focus of the Vision Inculcation Committee. Reviewing a system does not eliminate fraudulent acts, and it will also have an impact on motivation. The key is to design a system that truly encourages employee growth.

Imai: It is necessary to review risk management from the bottom up. Although a certain level of success has been achieved through countermeasures in response to an incident involving a fraudulent act in 2013, the recent fraudulent acts occurred in an area that was outside the scope of these countermeasures. Measures to prevent recurrence alone are not sufficient to deal with unprecedented risks. All possible risks should be identified and managed comprehensively under the responsibility of the executive in charge. In addition, while the intrinsic motive of the former employee who committed the fraudulent acts has not yet been determined, it would be better to be able to delve into the motivational causes of these acts. Gaining an understanding of the motivations behind employee actions should lead to the prevention of recurrence.

Kusaka: Because I was appointed to my post after the occurrence of the fraudulent acts, I would like to offer my comments based on my experience thus far. The operation of a whistleblower system alone is insufficient to ensure the early detection of fraudulent acts. At other companies, I have heard that senior management periodically visits work sites and conducts direct interviews with employees, and in some cases, fraudulent acts are discovered during these visits. Furthermore, when a fraudulent act occurs, the objective often becomes to simply formulate measures to prevent recurrence, so that subsequent monitoring is neglected. The formulation of measures is the starting point, not the goal. What is important is the continuous implementation of measures afterwards.

Imai: Perhaps it is necessary to have direct interviews with employees on site. The most important element in preventing fraudulent acts involves the eyes of the surrounding people. Because management cannot observe everything that occurs in the field, the key to preventing fraudulent acts is to create a corporate culture that allows employees to speak up about what they are seeing and hearing.

Strengthening the corporate governance of Net One Systems / The role of outside executive directors

Hayano: The diversity of the Board of Directors is important. Outside executive directors are called upon to express their views from a perspective that is not available to inside executive directors.

Imai: Even before the introduction of the Corporate Governance Code in 2015, Chairman Yoshino actively worked to create an organization that incorporates external opinions, including the appointment of multiple outside executive directors. Meanwhile, while we are making every effort to learn about the situation at the Company as much as possible, such as by attending meetings of the Management Committee, where management activities are deliberated and decided upon, as observers, it is also true that we have felt limits in our ability to understand the actual situation, when considering better policies. Given these limitations, the creation of a mechanism for stopping the president from making decisions continues to remain an issue.



Nishikawa: For an outside executive director, it's not so much about how much we know about what's going on inside the Company, but rather, how we can maintain an appropriate distance from the Company. I believe that the role of an outside executive director is to point out what they feel is wrong from the outside, and to put the brakes on management, and alert them when the need arises.

Kusaka: I feel that many Japanese companies are often managed based on the belief that human nature is fundamentally good, and there are many managers who believe, or who would like to believe that fraudulent acts are special cases. Although mutual trust between management and employees is essential for efforts to improve corporate value, this may be one reason why management is hesitant to take the initiative to introduce measures that call into question the assumption of trust with employees. However, by strengthening governance, both management and employees can feel more secure in their work, which leads to a strengthening of the business foundation. I believe that it is the role of an outside executive director to dare to focus on such hesitation by management, and encourage them to take action.



Nishikawa: In order to strengthen governance, in addition to oversight by outside executive directors, the Company must also gain more insight into governance. For example, even if the Board of Directors and the Management Committee are handling the same topic, the viewpoints of the Board of Directors, where we are engaged in exercising management and oversight functions, and the Management Committee, which is responsible for running the day-to-day operations of the Company, are different. We attend meetings of the Management Committee as observers to understand the business. Even though the discussions should differ for this reason, explanations are sometimes omitted, as they involve the same explanations. The internal awareness of the state of corporate governance is still not sufficient.

I believe that strengthening governance essentially means establishing the ideas and guidelines on which the governance of the Company is based, and continuing to strive to find the best form of governance. I think that an organization needs to have a core; however, because the organization here changes every year, we are still trying to find the best approach to governance.

Kusaka: The governance challenges of Net One Systems could stem from the way the business model has worked, until now. For many years, the core business was to sell products from global blue-chip companies to the Japanese market. However, the Company is now moving in the direction of proactively creating its own services. Management must set a firm management direction and strengthen the organization to prepare for possible risks, and the role of outside executive directors will become increasingly important in this regard. I myself would like to contribute to a strengthening of governance by drawing on my many years of experience in the ICT field and in launching new businesses.

Medium-Term Business Plan of Net One Systems / Achieving sustainable growth

Nishikawa: We are making good progress in our Medium-Term Business Plan, and our employees are also proactively involved. The renovation of the existing Solution Briefing Center and its launch as the netone Briefing Center to strengthen DX support is a representative strategy of the Company for converting existing technologies into new added value.

Imai: While ambitious targets have been set in both the previous Medium-Term Business Plan and the first year of the current Medium-Term Business Plan, we have generally achieved these targets. The service menu has also been enhanced to promote the proactive provision of services, and the groundwork is being steadily laid for a further shift to service provision.



Hayano: Business performance has been strong, and employees seem to be motivated toward profit. The Company has improved its performance even under large-scale remote work. By continuing to accelerate netone DX, and returning that experience to our customers, we will be better able to meet their expectations than ever before.

Kusaka: While most companies in the ICT industry have announced a shift to service provision to some degree, the vast majority of the Company's current services rely on the products of other companies. Whether we are able to establish services that are truly driven by the Company and make these services a major source of revenue represents a medium- to long-term challenge for the future. However, the number of employees we have now presents limits when

it comes to creating services that are driven by the Company. It is important to develop human resources, whether our approach involves scaling up or building a new business model that is not an extension of the current one.

Hayano: Yes, I agree. How do you create high added value when you are not an agency like the trading companies of the past, or when you do not aim to be a manpower agency with a large number of engineers? In a rapidly changing market, the Company should develop a unique strategy that is strong enough to adapt to changes, and rethink the future of the Company as well as its approach toward the allocation of human resources and their roles.

Nishikawa: Something that we have learned from COVID-19 is the magnitude of external risks, and the importance of preparation and BCP to respond to these risks. If we can draw on this experience, we will be able to strengthen not only our own risk management, but also our services in response to these types of situations.

Kusaka: While Japanese companies have been reluctant to embrace ICT in the past, relying instead on human resources to manage their businesses in an analog manner, a growing number of companies are likely to reconsider ICT as the core of corporate management in the future. Against this backdrop, we can expect to see an increase in subscription-based services that offer greater convenience to businesses, without the need to purchase ICT assets. Although we may be entering an era where traditional business models may not work, sensible management could bring us great opportunities.

Imai: I believe that we have laid the foundation and set the direction for the future with this Medium-Term Business Plan. We will further develop human resources that our customers can rely on, and provide solutions to their problems. If we can continue to strengthen our organizational structure to manage these initiatives, we should be able to grow in the wake of the impact of COVID-19. I look forward to the future growth of Net One Systems.



Key Issue (5) Provide New Value

Basic approach

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

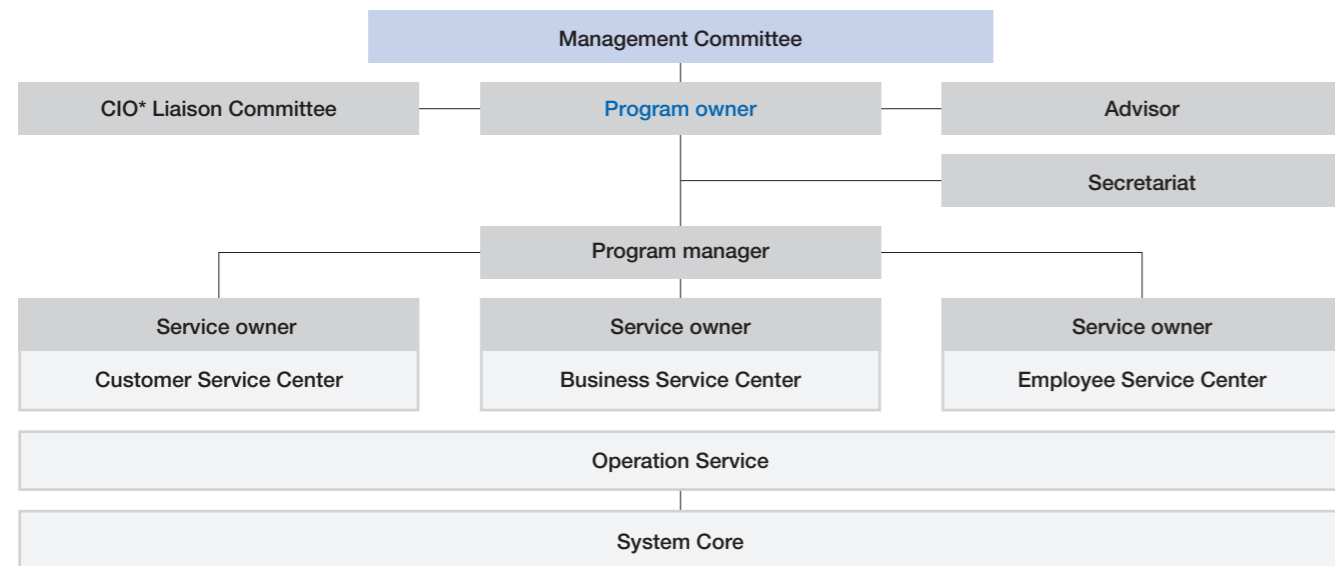
We define the innovation we are currently undergoing as Net One's own experiences in digital transformation (netone DX), and aim to provide it as a solution for our customers by structuring the process. At the same time, we will create new value with our customers by deepening our relationship with them and improving customer engagement.

Initiative (1): Promotion of netone DX

Our DX promotion framework is characterized by the fact that we use a single common system for all internal and customer-facing operations, along with an ICT service that aims to improve efficiency and focus on customers through the establishment of three digital platforms (Service Center), depending on the recipient.

Under the strong control of the management team and program owners, and an organizational structure of cross-company organizations, the entire Group is working to promote netone DX and develop services for customers.

netone DX promotion framework



* Chief Information Officer

- Customer Service Center: Provides applications that centralize business collaboration with our customers, for operations ranging from contracting to project implementation
- Business Service Center: Provides database information on everything ranging from customer management to employee skills to two Service Centers
- Employee Service Center: Provides applications for various operations, such as human resource training and application filing, for the use by employees
- Operation Service: Provides operations management that integrates system and business operation
- System Core: Provides the core architecture and data structure for the three Service Centers

Human resources services through Employee Service Center (launched in March 2020)

This is the first service from the netone DX initiatives to create a common platform with customers and then provide a reference for the Implementation of Work Style Innovation 2.0/DX as a service. The service provides mobile support for six services, including the issuance of certificates of employment and social security, and inquiries, as well as online manuals. It eliminates email operations and allows for analysis of person-hours and tendencies for each task.

netone DX is being pursued through both short-term, implementable initiatives and long-term initiatives. We began by structuring our human resources services as an area that is independent of others, both in terms of operations and data, and as an ideal area for training engineers through practice.

Initiative (2): Helping customers accelerate their DX

We provide support for the overall conceptualization and demonstration of cutting-edge technology to meet the needs of both management and information systems departments to promote effective DX. We are expanding our points of contact for engagement with customers and are working together to create new value.

netone Briefing Center (opened in June 2020)

This is a facility to visualize the elements required for DX, design the architecture of the customer's overall system, and to interact with the customer for value co-creation. We help customers to clearly identify their DX policies, study the necessary ICT platforms, formulate plans, and conduct demonstrations.

Through dialogue between the customer, the person in charge who has a deep understanding of the customer's ICT environment and status of utilization, and the person in charge of each DX theme, we aim to gain an accurate understanding of the needs and challenges of customers and work together to create specific solutions.

Lab as a Service (opened in June 2020)

This is a multi-cloud verification facility to jointly demonstrate the functionality and operability of new ICT platforms designed for DX in a virtual environment. It enables the verification of functionality, security, cost management and other factors in multi-cloud and hybrid cloud environments in accordance with the technical requirements of DX that have been embodied through dialogue at the netone Briefing Center, and specifically confirm the operational stability and operational procedures, etc.

Our goal is to strongly support the acceleration of DX by customers, by implementing the requirements of customers as an ICT platform with highly effective utilization.

Key Issue (6) Utilize ICT to Reduce Environmental Impact

Basic approach

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

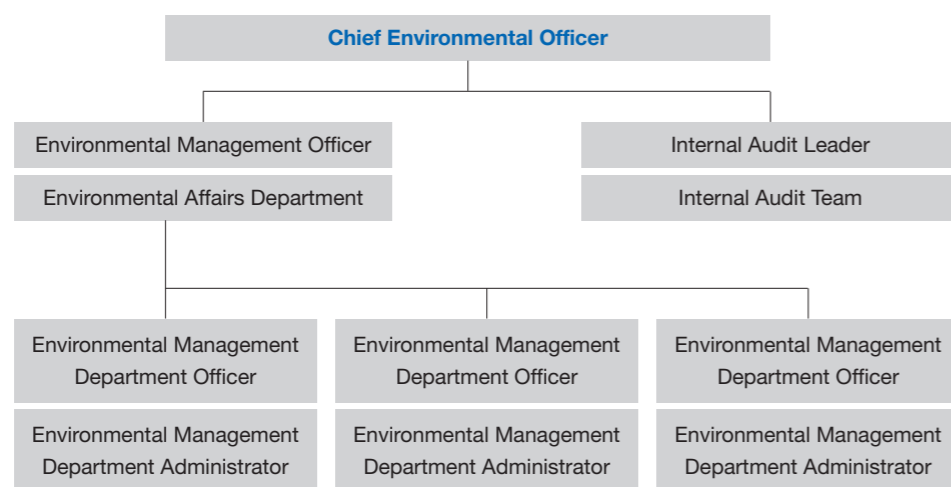
As a global corporate citizen, Net One Systems aims to ensure the world's rich environment is preserved for future generations through various measures in its daily business activities designed to create an environmentally friendly society. Specifically, we aim to prevent global warming, reduce energy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

Basic policy

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

Implementation structure

In addition to establishing an EMS* implementation structure, we have acquired ISO14001 certification, an international standard for environmental management systems.



*All departments have an environmental management officer and administrator

* Environmental Management System

Initiatives to reduce environmental impact of Net One's business operations

Reducing environmental impact at data centers

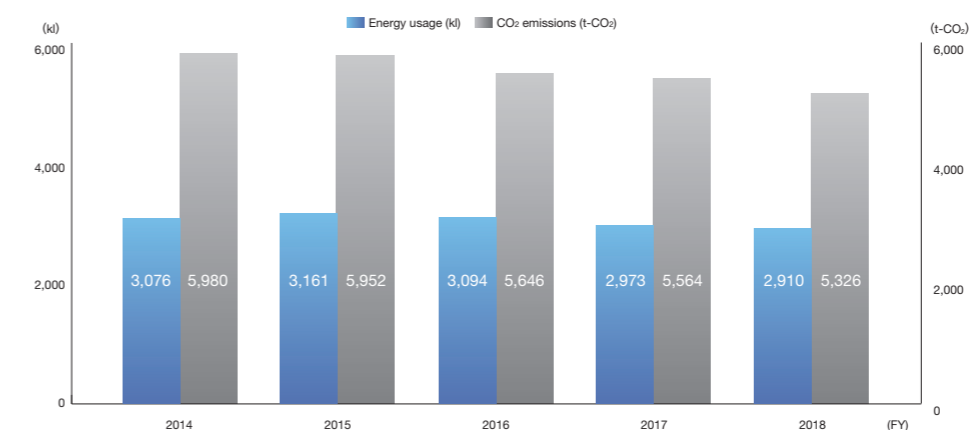
Net One Systems has introduced an electricity monitoring system (temperature based) at its data center. Electricity flow is monitored on an individual outlet basis and alerts are displayed when electricity usage exceeds set values. The system also allows us to manage power use in the whole data center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

Reducing environmental impact of business operations

Related indicators

- Medium- to long-term environmental target: Reduce unit energy consumption by an average of 1% each year over five fiscal years
- Target achieved, with average change in unit energy consumption below 99.0; average change for fiscal 2014-18 is 93.8

Energy usage, CO₂ emissions and unit energy consumption



	FY2014	FY2015	FY2016	FY2017	FY2018
Unit energy consumption (energy usage / revenue)	0.02163	0.02255	0.02021	0.01939	0.01664

The approach and possibility of reducing environmental impact of customers and society through Net One's services

Development of the refurbishment business - Supporting the realization of the 4Rs and the construction of sustainable social infrastructure through the use of refurbished products

Net One has been offering the NetOne "all in" Platform since 2017 as a service that allows customers to use products on a subscription basis (pay-per-use) to help customers shift from ownership to use of ICT platforms. In 2019, we established Net One Next to handle refurbished ICT platform products in an aim to expand the use of this service.

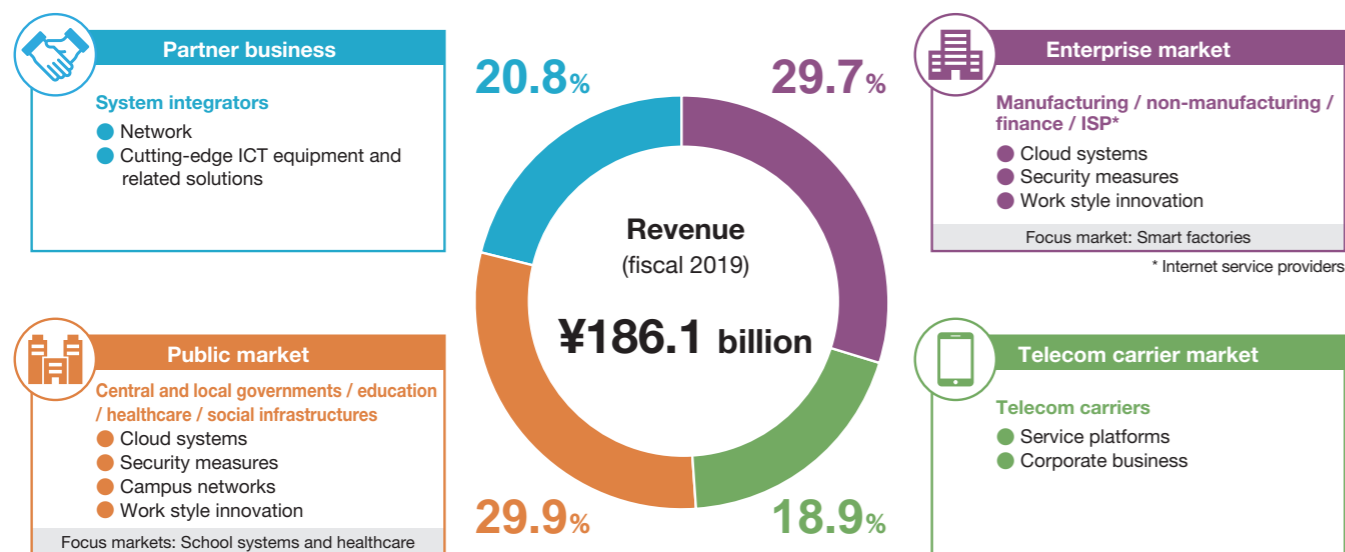
Refurbished products handled by Net One Next are used by a portion of the NetOne "all in" Platform. In addition, Net One Next offers rental services for ICT assets, maintenance services that provide a product replacement service in the event of failure, regardless of the manufacturer's support period, and sales of refurbished products.

These initiatives lead to the realization of the 4Rs, which include the 3Rs of reducing waste (reduce), reusing products and parts (reuse), and recycling resources (recycle), as well as recurring relationships with customers through better service provision (recurring). The Group is committed to supporting the building of sustainable social infrastructure through ICT utilization services.

Business Overview

Our business is broadly divided into four segments based on the industry 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 measures. In all the markets where the Net One Group operates, we install efficient systems by optimally configuring networks, cloud systems and security measures. We also show customers how to get the best out of their systems. Going forward, we will step up efforts to transform the Net One Group into an organization that can provide new added value by working with customers to support their growth.



There are other business segments that are not included in the reportable segments shown above.

Impact of COVID-19 by market

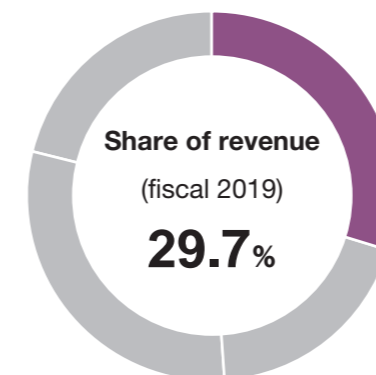
	Risks	Opportunities
Enterprise market	Decrease in bookings and revenue due to the temporary curtailment of capital expenditures by customers and the possibility of delays in the Company's work	High demand for security measures, cloud systems, and work style innovation Growing potential need for DX
Telecom carrier market	Possibility of work delays is limited because of the limited number of customers and work areas	Expanding cloud service platforms and supporting value creation through MSP business support
Public market	Decrease in bookings and revenue due to the incorporation of possibility of delays in the Company's work	High demand for security measures, cloud systems, and work style innovation Growing potential need for DX
Partner business	Possibility of delays in the introduction of new equipment by partners	Growing need for video conferencing and other digital workplaces

Enterprise Market

Revenue ¥55,376 million Operating income ¥6,294 million

Business Overview

Objectives Utilize ICT to expand the use of security measures, cloud systems and work style innovation



Key markets / sectors

Large enterprises in the financial, manufacturing, non-manufacturing and ISP sectors

Operating environment

Sustained strong demand related to security measures, cloud systems 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 systems.

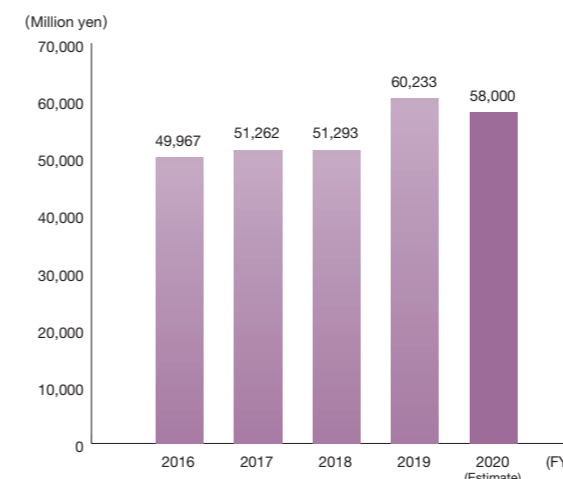
Backed by that trust, we share with customers the Group's knowledge and experience of utilizing ICT. Our approach allows customers to use cloud systems, reinforce security and implement work style innovation in a more flexible and practical way.

Key growth themes

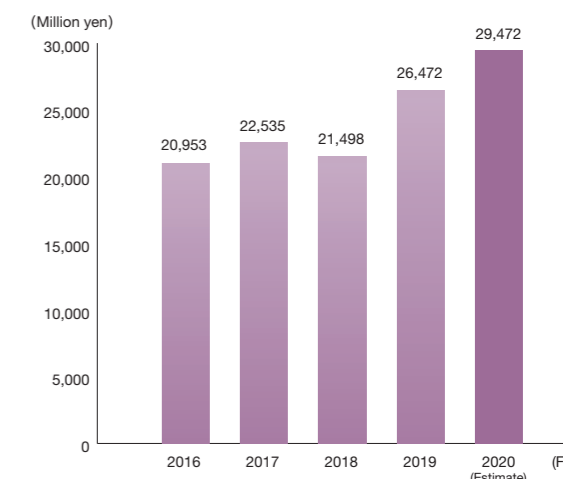
- Implement Work Style Innovation 2.0/DX
- Smart factories
- Solutions for MSP
- Develop the refurbishment business
- Prediction and detection of cyber-attacks and system failures

Segment performance (reference only)

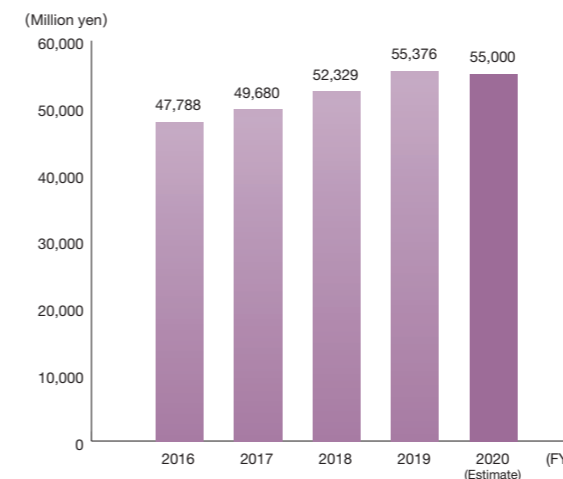
Bookings



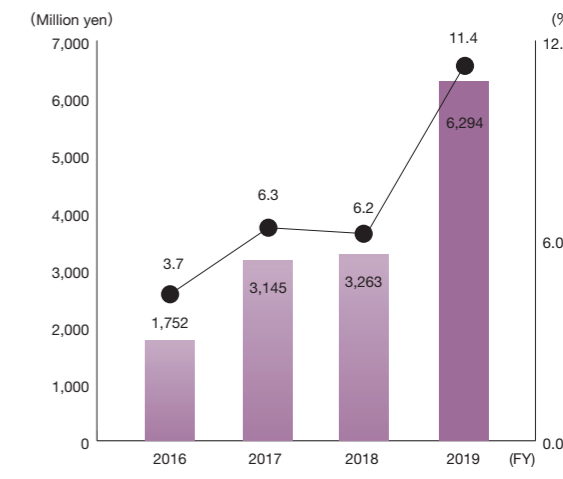
Order backlog



Revenue



Operating income / Operating margin



Business Results and Outlook

Performance in fiscal 2019

Demand for security measures and cloud systems remained strong in fiscal 2019, and business related to work style innovation was firm. The smart factory business was also solid, resulting in growth in both bookings and revenue, with bookings rising 17.4% year on year to ¥60,233 million and revenue increasing 5.8% year on year to ¥55,376 million. Operating income increased substantially to ¥6,294 million, up 92.9% year on year, and the operating margin improved to 11.4%, up 5.2 percentage points year on year, thanks to supporting lifecycle services and assisting in the formulation of a grand design for future ICT platforms.

Outlook for fiscal 2020

In fiscal 2020, we expect bookings and revenue to decline by 3.7% and 0.7% year on year to ¥58.0 billion and ¥55.0 billion, respectively, due to concerns such as the temporary curtailment of capital expenditures by customers and delays in the Company's work as a result of COVID-19.

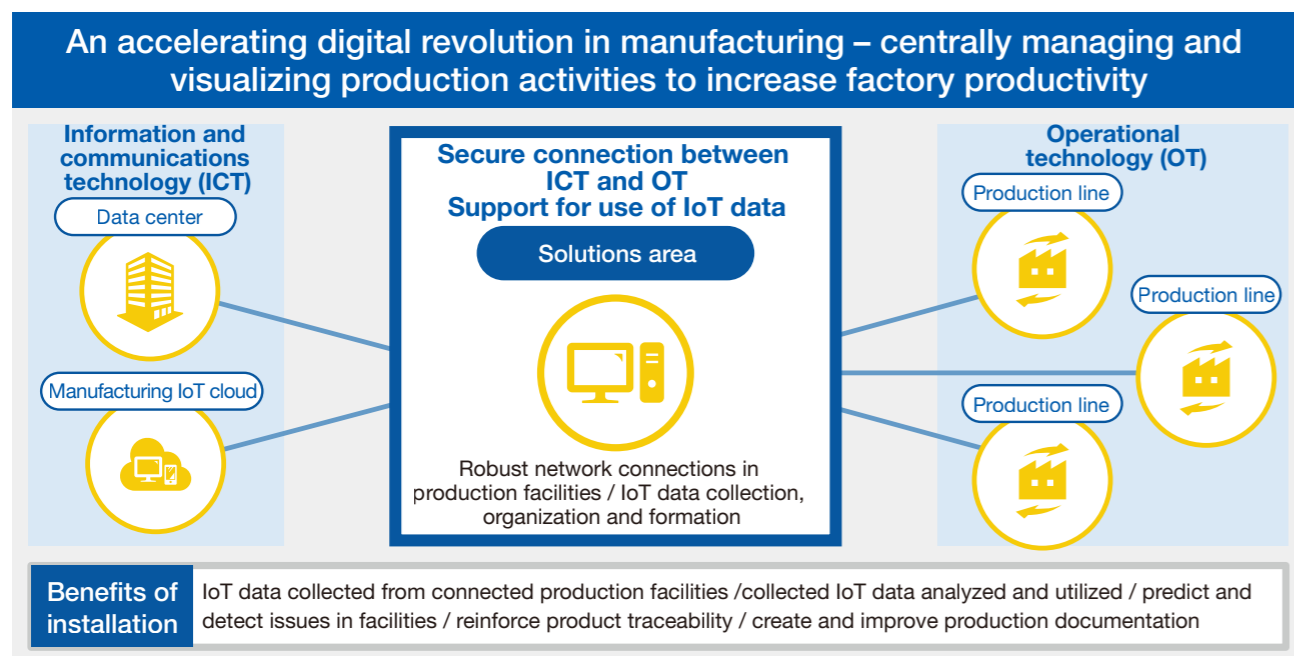
On the other hand, the COVID-19 outbreak is expected to increase the potential needs for work style innovation and DX. We will continue to focus on the expansion of the security measures, the installation of cloud systems including multi-clouds, the smart factory market, and solutions for MSP, one of our new models.

Medium- to long-term outlook

Because the needs for our focus areas of security measures, cloud systems, and work style innovation is expected to continue, our medium- to long-term goals remain the same. A common capital investment theme for customers in the enterprise market is DX that leverages ICT utilization to drive business innovation. In addition to the need to create grand design for network systems and cloud systems, we are also seeing an increase in the number of consultations with customers regarding the development of their ICT human resources.

The utilization of data in manufacturing plants is showing progress in smart factories. We can expect to see advances in IoT that will continue to improve the efficiency of entire factories, including data collection, visualization, analysis, and improvement that will boost the utilization rate of production facilities.

Security measures is our basic approach for utilizing ICT. Net One Systems will continue to provide support for all areas of ICT platforms, including developing proposals for cutting-edge security systems that utilize AI (artificial intelligence) and Deep Learning (machine learning and deep learning).

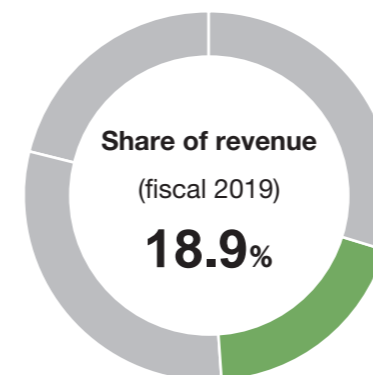


Telecom Carrier Market

Revenue ¥35,176 million Operating income ¥3,708 million

Business Overview

Objectives Explore new business opportunities through collaboration with telecom carriers



Key markets / sectors

- Leading domestic telecom carriers

Operating environment

- Telecom carriers continue to invest steadily to expand their corporate businesses
- Carriers are shifting their focus to the installation of cloud systems and other service platforms

Strengths and characteristics

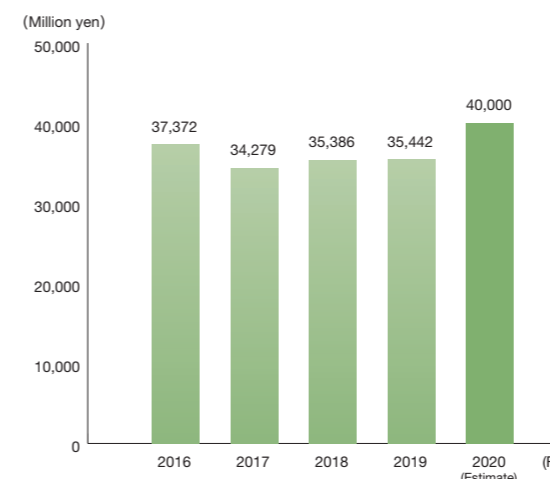
- Extensive track record in the design and installation of large-scale networks
- Strong position in multivendor product integration and automated system operation, backed by advanced network design capabilities

Key growth themes

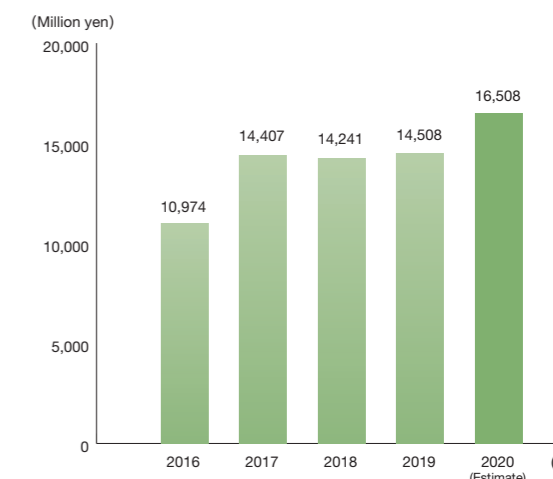
- Work with telecom carriers to strengthen their corporate business
- Set up joint businesses in other markets and expand solutions for MSP

Segment performance (reference only)

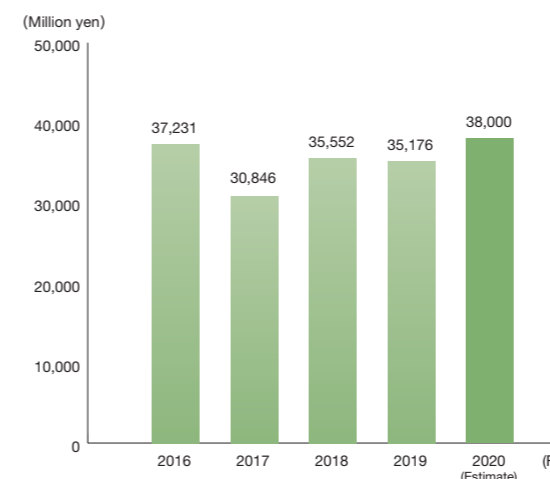
Bookings



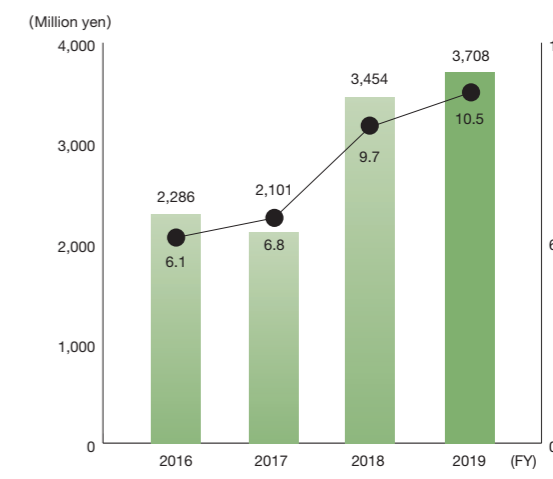
Order backlog



Revenue



Operating income / Operating margin



Business Results and Outlook

Performance in fiscal 2019

In fiscal 2019, while bookings were ¥35,442 million, up 0.2% year on year, as the service platform business, including those for MSP, remained strong, revenue decreased to ¥35,176 million, down 1.1% year on year, due in part to delays in delivery due to COVID-19. Operating income increased by 7.4% year on year to ¥3,708 million, and the operating margin improved to 10.5%, up 0.8 percentage points year on year.

Outlook for fiscal 2020

With respect to telecom carriers, because the number of customers and work areas are limited, we expect that the potential for work delays due to the COVID-19 outbreak will be limited. We expect to continue to expand our service platform business and MSP business support in fiscal 2020. In addition to capturing demand for service platforms, there are projects carried over from fiscal 2019, and accordingly, we expect fiscal 2020 bookings of ¥40.0 billion, up 12.9% and revenue of ¥38.0 billion, up 8.0% year on year.

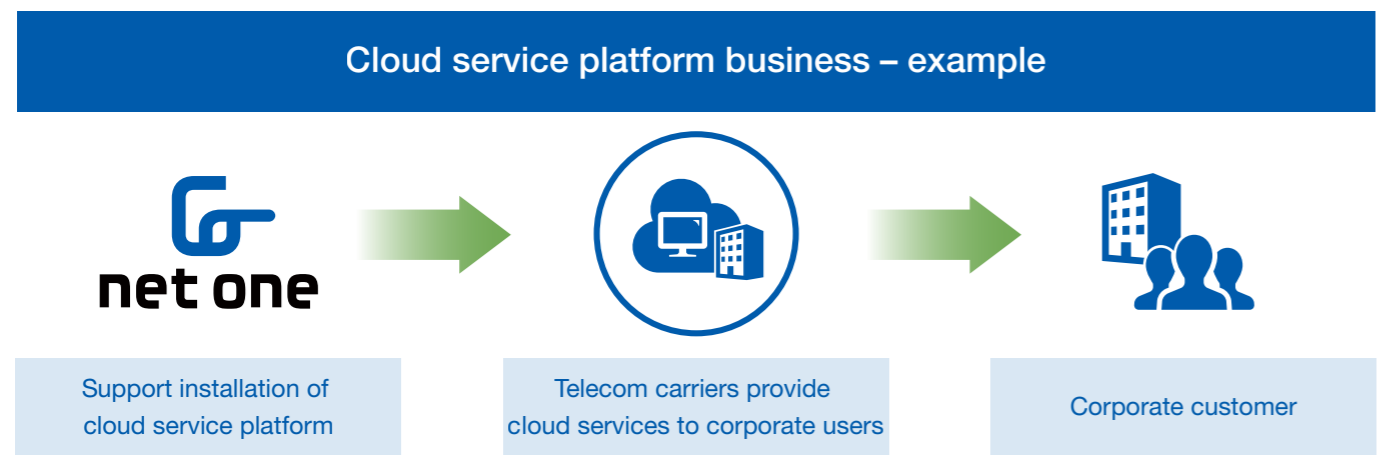
In cloud service platforms, we will sell optimized configurations of the latest products, such as network equipment for data centers, servers, storage equipment, virtualization software and automation systems. Product sales will also be combined with design, installation and maintenance support as part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

Medium- to long-term outlook

As telecom carriers have a large number of corporate customers and are continuing to step up efforts to reinforce their business with those customers, our medium- to long-term goals remain the same. We will further develop solutions for MSP by providing the Group's advanced technology to telecom carrier customers. In addition, the development of the refurbishment business is an effective way to maintain and sustain the duration of service provided by telecom carriers.

We are not actively expanding business in the 5G facility market, as we are currently putting priority on profit margins. However, 5G-enabled systems have the potential to create a range of new business opportunities and markets. Following proposals to combine face recognition and access systems, we believe that the number of solutions will continue to increase, and we will focus on providing services that use 5G networks.

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

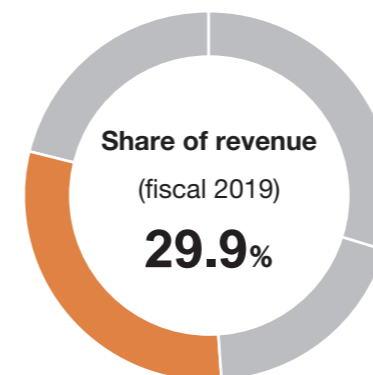


Public Market

Revenue ¥55,609 million Operating income ¥4,304 million

Business Overview

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



Key markets / sectors

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

Operating environment

- Strong demand for security measures and cloud systems

Strengths and characteristics

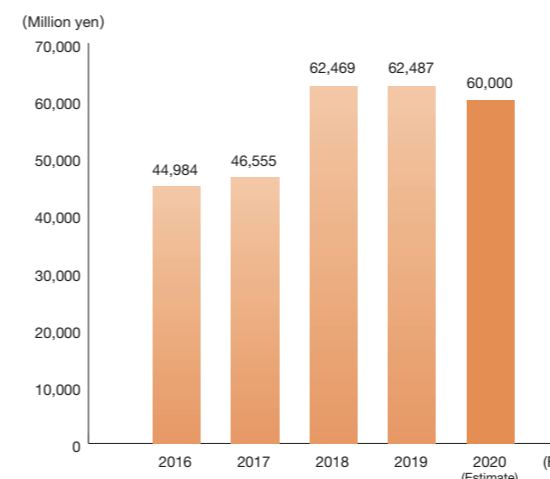
- Consulting services that help customers clearly identify the issues they face
- Optimization of the full ICT lifecycle, from design, installation and maintenance to operation, optimization and in-field improvement of ICT platforms

Key growth themes

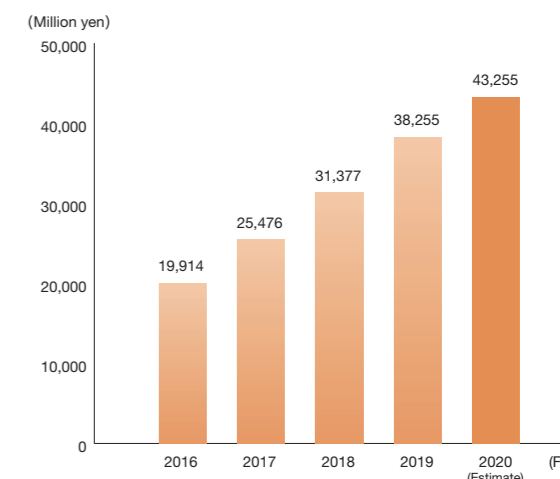
- Trend towards cloud-based ICT platforms and increased security
- Growth in the healthcare market and school systems market

Segment performance (reference only)

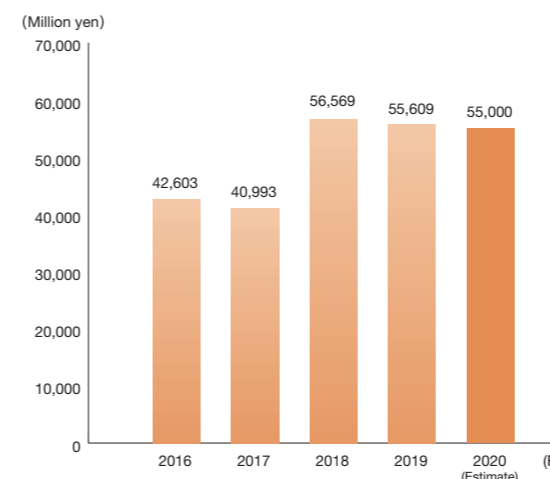
Bookings



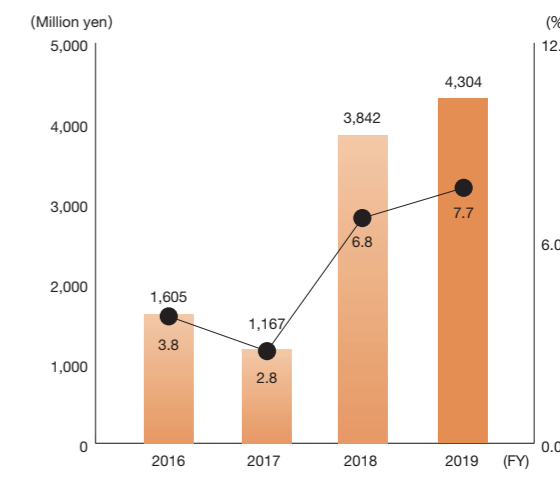
Order backlog



Revenue



Operating income / Operating margin



Business Results and Outlook

Performance in fiscal 2019

While performance was strong for security measures and the cloud systems businesses, mainly for local governments, healthcare, and school systems, there was an impact from the dropping out of large projects booked in the previous fiscal year and scrutiny of business for central government agencies as a result of fraudulent acts. As a result, bookings showed a slight increase year on year to ¥62,487 million, revenue fell 1.7% to ¥55,609 million, operating income increased 12.0% to ¥4,304 million, and the operating margin improved 0.9 percentage points to 7.7%.

Outlook for fiscal 2020

In fiscal 2020, although we will continue to focus on security measures and cloud systems, and develop solutions for the healthcare and school systems markets, because there is a risk of the Company's work being delayed as a result of the impact of COVID-19, we expect bookings to decrease 4.0% year on year to ¥60.0 billion and revenue to drop 1.1% year on year to ¥55.0 billion.

In the public market, although the issues that must be resolved differ from customer to customer, there are strong common needs for ICT utilization, including the trend towards cloud-based ICT platforms and work style innovation, and we believe that we will be able to demonstrate the strength of our security services.

Medium- to long-term outlook

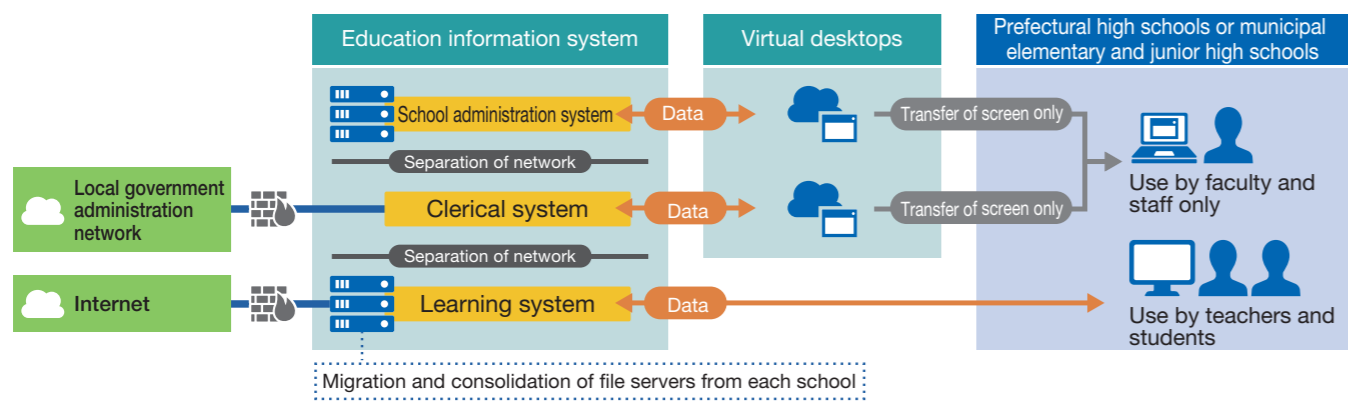
Because the needs for our focus areas of security measures, cloud systems, and work style innovation is expected to continue, our medium- to long-term goals remain the same. The Group's business strategy of offering cloud-based ICT platforms and improved security has gained the most traction in the public market. Customers are investing in "offensive" ICT and DX to transform their business models. We aim to help them achieve that transformation with the use of AI, Deep Learning and other new technologies.

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

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

An example of enhancing cybersecurity for school systems

Separation of networks between systems and integration of file servers managed by each school with remote backup



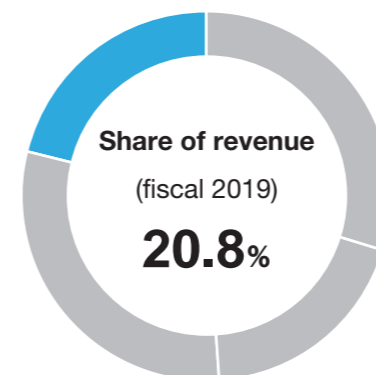
- Benefits**
- Isolation of the school administration system, which handles sensitive student information, from the network of other systems to enhance security
 - Consolidation of learning file servers that have been managed by each school to prevent data loss and leakage due to theft, damage, disasters, etc.
 - Remote backup system for disaster preparedness, business continuity, and information asset protection

Partner Business

Revenue ¥38,727 million Operating income ¥3,093 million

Business Overview

Objectives Explore the potential of new added-value collaborative businesses that utilize the latest technologies



Key markets / sectors

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

Operating environment

- Strong demand from system integrators

Strengths and characteristics

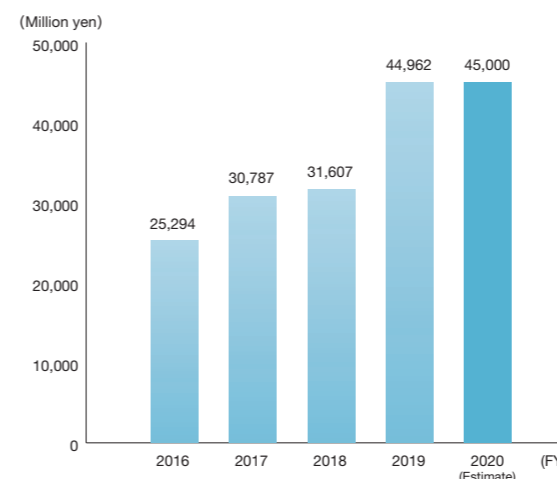
- Handles a wide range of products from overseas
- Provides quality assurance, technology verification and value-added services such as proposal support and system maintenance
- Identifies cutting-edge ICT equipment and solutions in overseas markets and helps introduce them into Japan

Key growth themes

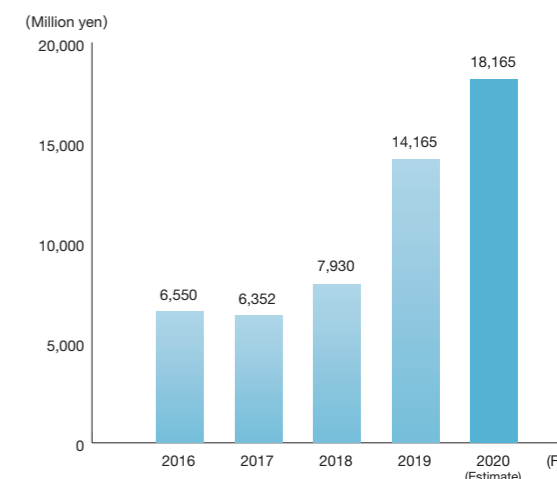
- Expand the solutions business aimed at partner companies
- Develop and launch solutions for MSP
- Leverage Group synergies with Net One Systems

Segment performance (reference only)

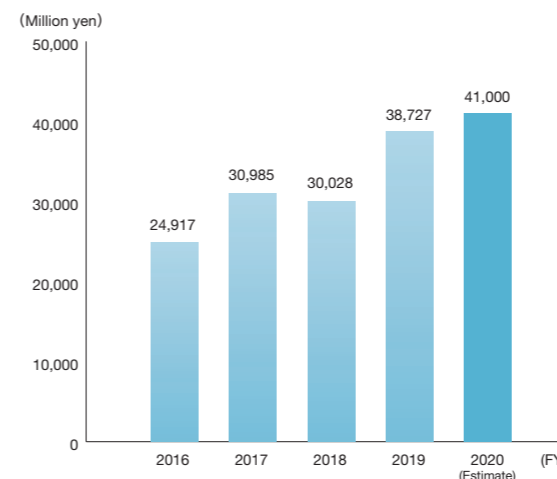
Bookings



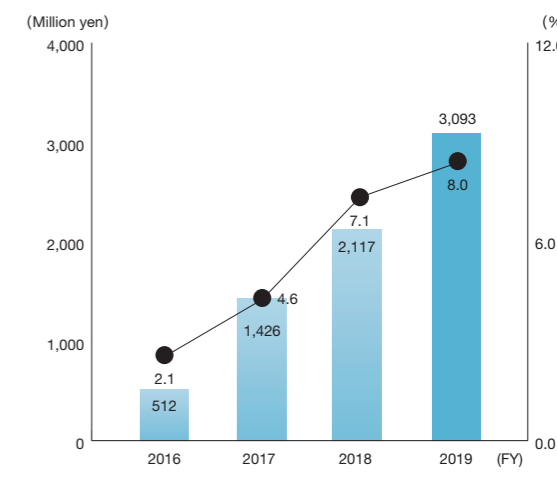
Order backlog



Revenue



Operating income / Operating margin



Business Results and Outlook

Overview of the Partner Business

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

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



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

Performance in fiscal 2019

In fiscal 2019, business for our major partners remained strong and we received bookings for 5G projects in the third quarter, resulting in a significant increase in bookings by 42.3% year on year to ¥44,962 million and an increase in revenue by 29.0% to ¥38,727 million. Operating income increased 46.1% to ¥3,093 million, and the operating margin improved 0.9 percentage points to 8.0%.

Outlook for fiscal 2020

In fiscal 2020, we will work to expand our solutions business with all types of partners and deploy solutions for MSP. We forecast bookings of ¥45.0 billion, up 0.1% year on year, and revenue of ¥41.0 billion, up 5.9%.

In the solutions business, we will roll out solutions that combine all types of products and equipment, from IoT and ICT platform to cyber-physical security systems. For MSP, we will target demand from SMEs by supplying partners with solutions that allow their users to easily install and manage equipment.

However, due to COVID-19, we will need to monitor the impact on the timing of deployment, depending on the market characteristics of partner companies.

Medium- to long-term outlook

Net One Partners supports DX for partner companies.

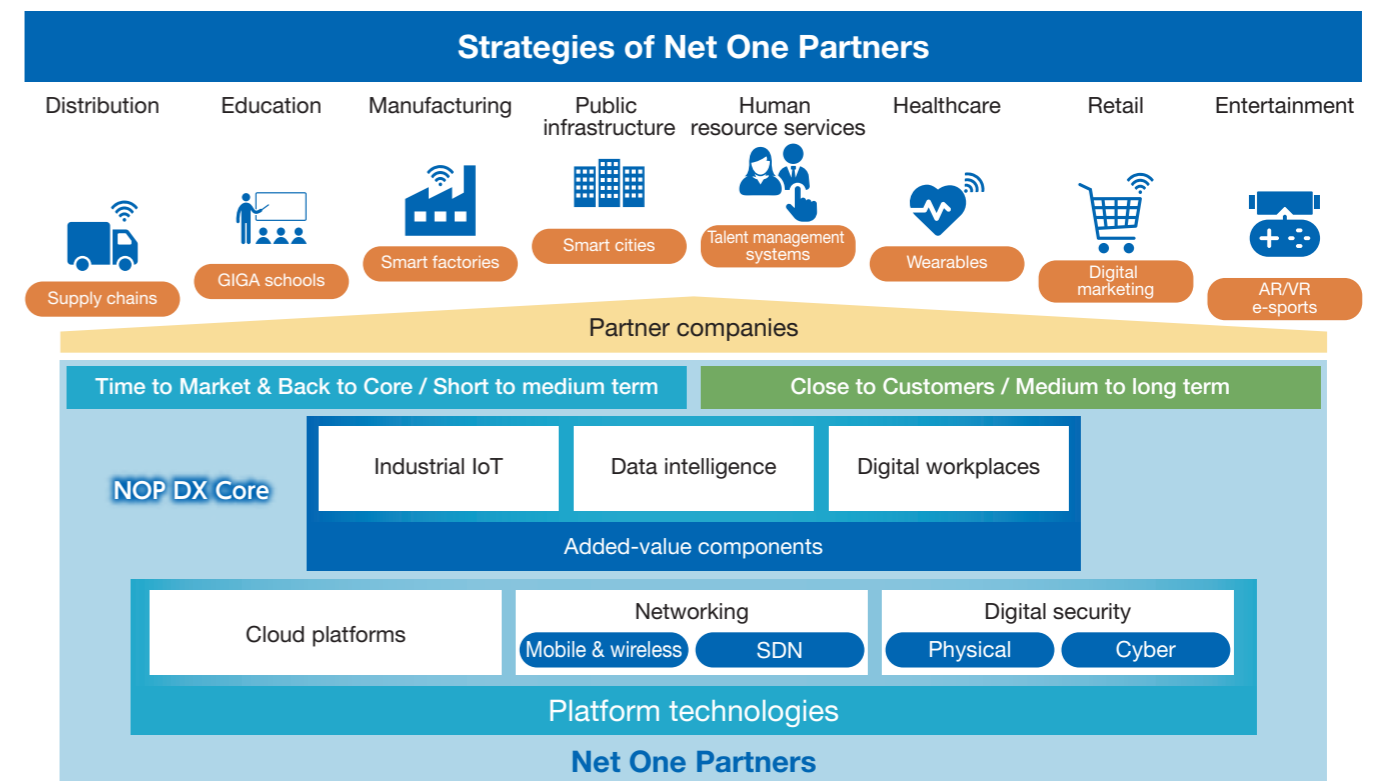
We have defined cloud platforms, networking, and digital security as base platform technologies, which are also provided by Net One Systems, to support DX. On top of that, industrial IoT, data intelligence for solutions utilizing data, and digital workplaces, including video conferencing, have been defined as the unique sources of added value of Net One Partners.

The pillars of our partner business strategy are "Time to Market & Back to Core" and "Close to Customers."

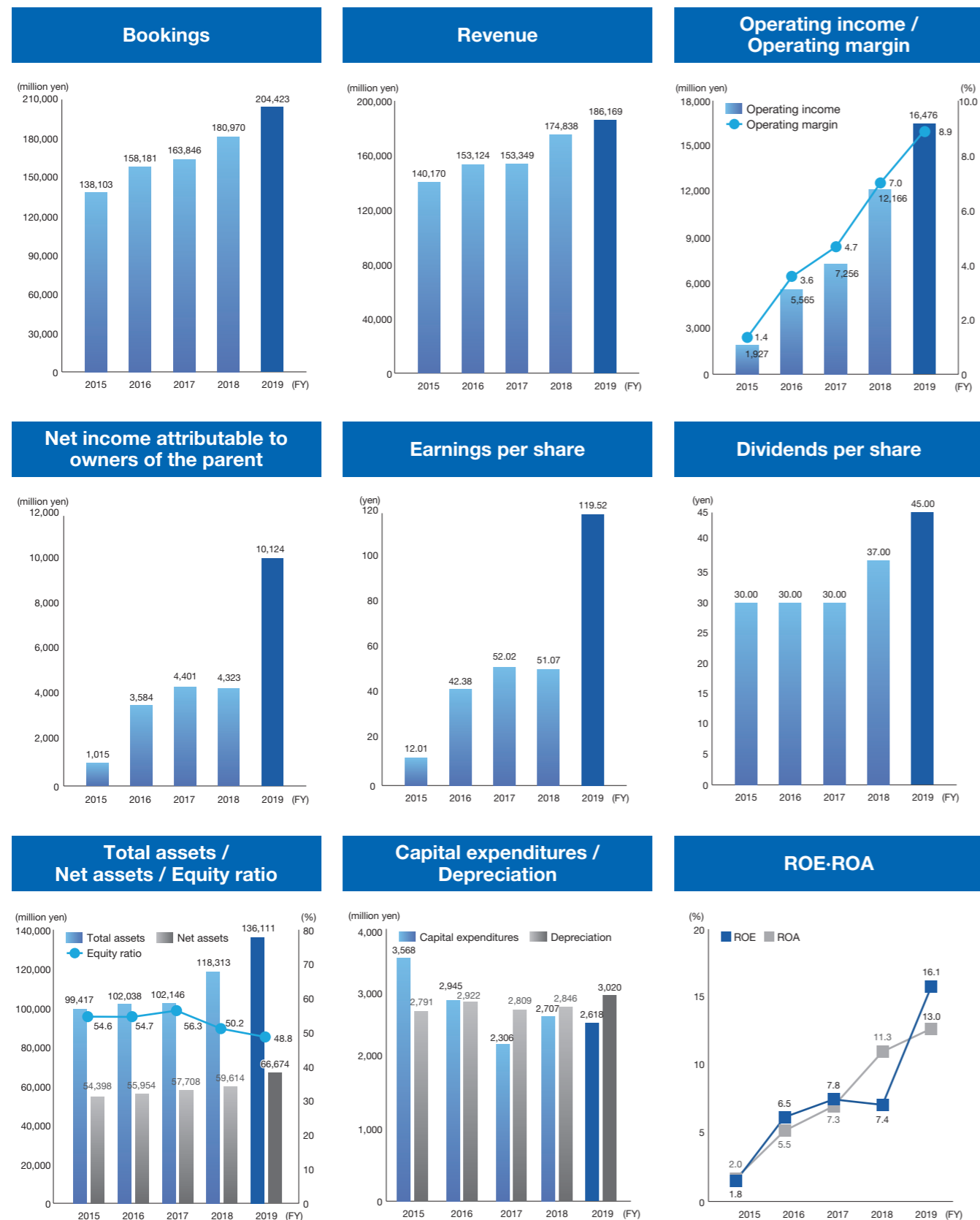
Time to Market & Back to Core is a short- to medium-term activity to promptly provide partners with cutting-edge products to take advantage of market opportunities as well as to strengthen the core business of Net One Partners, including network and security including network and security solutions.

Close to Customers is a medium- to long-term activity that aims to gain a deeper understanding of the strategies of partner companies and immediately share new product knowledge and utilization know-how to find added value in the collaborative models.

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

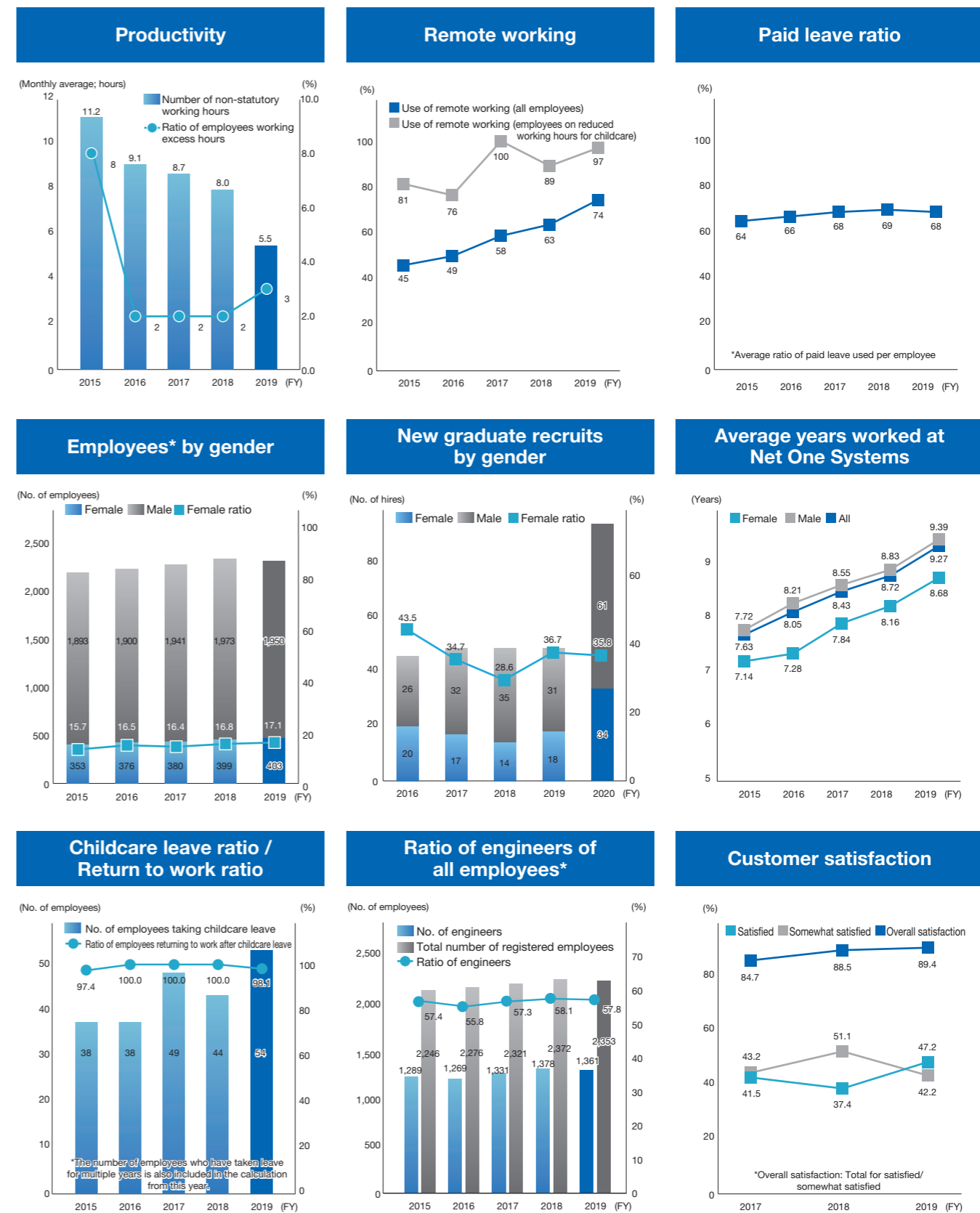


Financial Highlights



*ROE: Net income attributable to owners of the parent / average equity during the period × 100
ROA: Ordinary income / average total assets during the period × 100

Non-financial Highlights



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