

Net One Systems Websites

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

■ Annual Report 2021

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



■ Positioning of the print and web editions

<https://report.netone.co.jp/ja/guide.html> (Japanese version only)



■ Annual Reports Archive

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



■ Glossary

https://report.netone.co.jp/en/index/main/017/teaserItems1/03/link/AR21E_glossary.pdf



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 research 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



Annual Report 2021
Net One Systems Co., Ltd.

charge ∠ channel ∠ change



Net One Systems Co., Ltd.

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Issued in: December 2021

ICT Utilization Helps Us Social Innovations and

Achieving Self-innovation to Support the Transformation of Society

Our corporate philosophy embodies the unwavering mission of Net One Systems. ICT technology has advanced dramatically in the 30 years since the Company was founded. Likewise, the solutions we are required to provide and the values we offer are changing day by day. In response to these changes, we have formulated a philosophy system to realize our corporate philosophy.

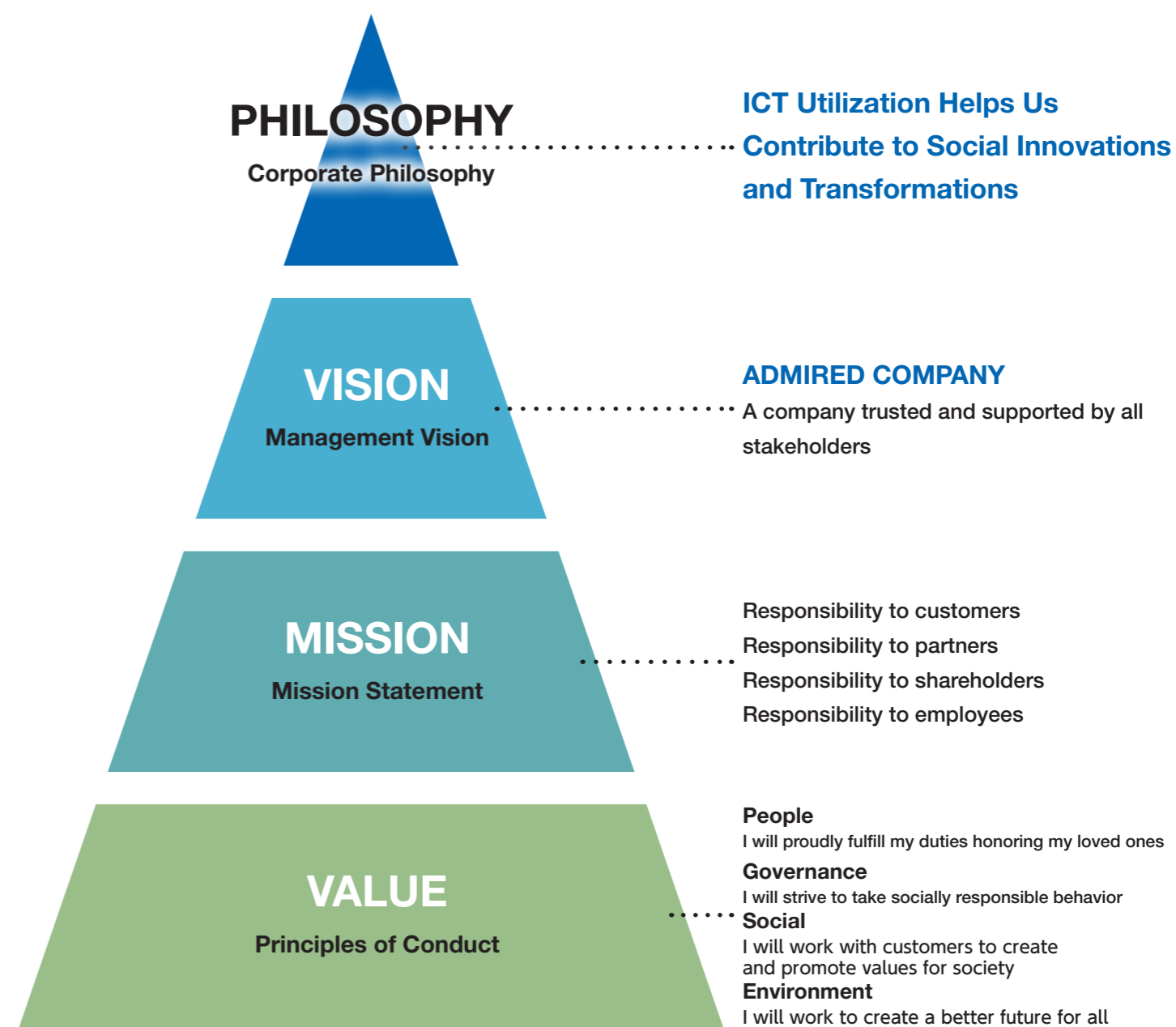
Through self-innovation, we will transform ourselves into a company that can provide new value through our unwavering philosophy, firm vision, and the skills and spirit of TAKUMI with regard to ICT utilization, thereby contributing to the transformation to a better next-generation society.



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 all aspects of ICT utilization. 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.

Contribute to Transformations



“Connect,” “Communicate,” and

Achieving Customer Success through Unique Value Creation

Since its founding, Net One Systems has expanded its business model from network professionals to ICT infrastructure professionals, under the principles of “connect,” “communicate,” and “change.”

Currently, as we enter the era of full-fledged utilization of cloud infrastructure, we are moving toward the next stage, in order to respond to increasingly sophisticated customer issues and needs.

Connect

via
Networks

Connecting via reliable network technology to spread information



Communicate

through
Information

Communication of information establishes relationships and creates new value



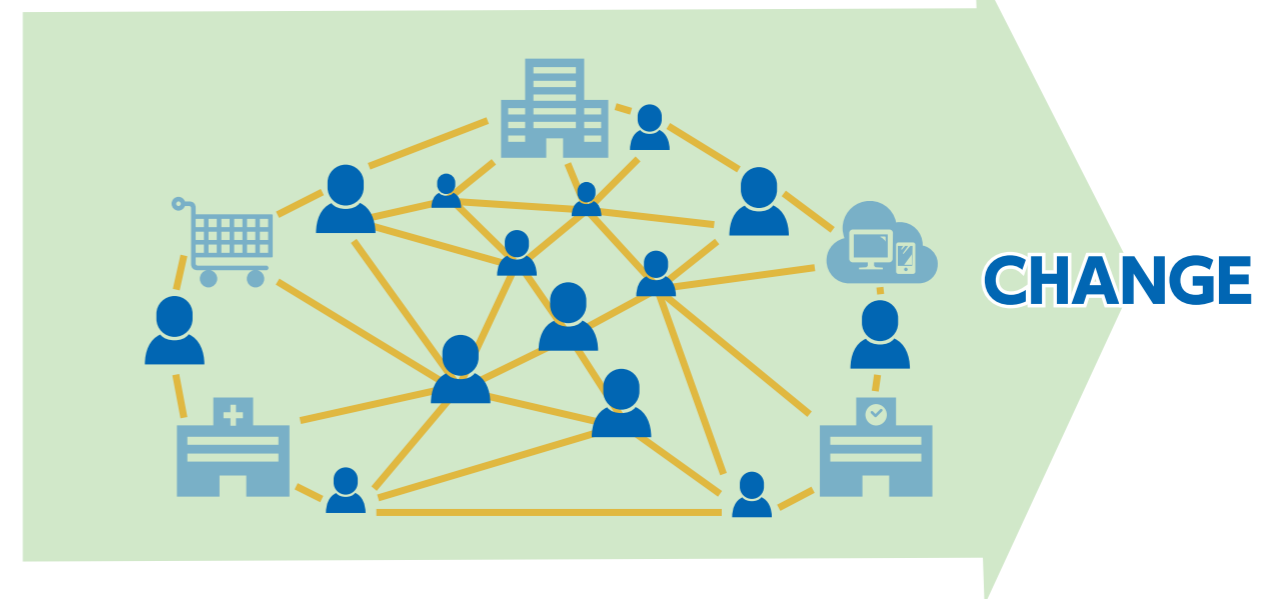
“Change”

We are promoting an Integrated Service Business that maximizes value for our customers through lifecycle services from the standpoint of customer success, by leveraging our unique assets such as human resources and intellectual property. Our goal is to be a leading company in integrated services that changes society by spreading the new value we have co-created with our customers through ripple effects, to our customers and beyond.

Change

Society

Change society as a whole, through communication between people, as well as people and society



ADMIRER COMPANY

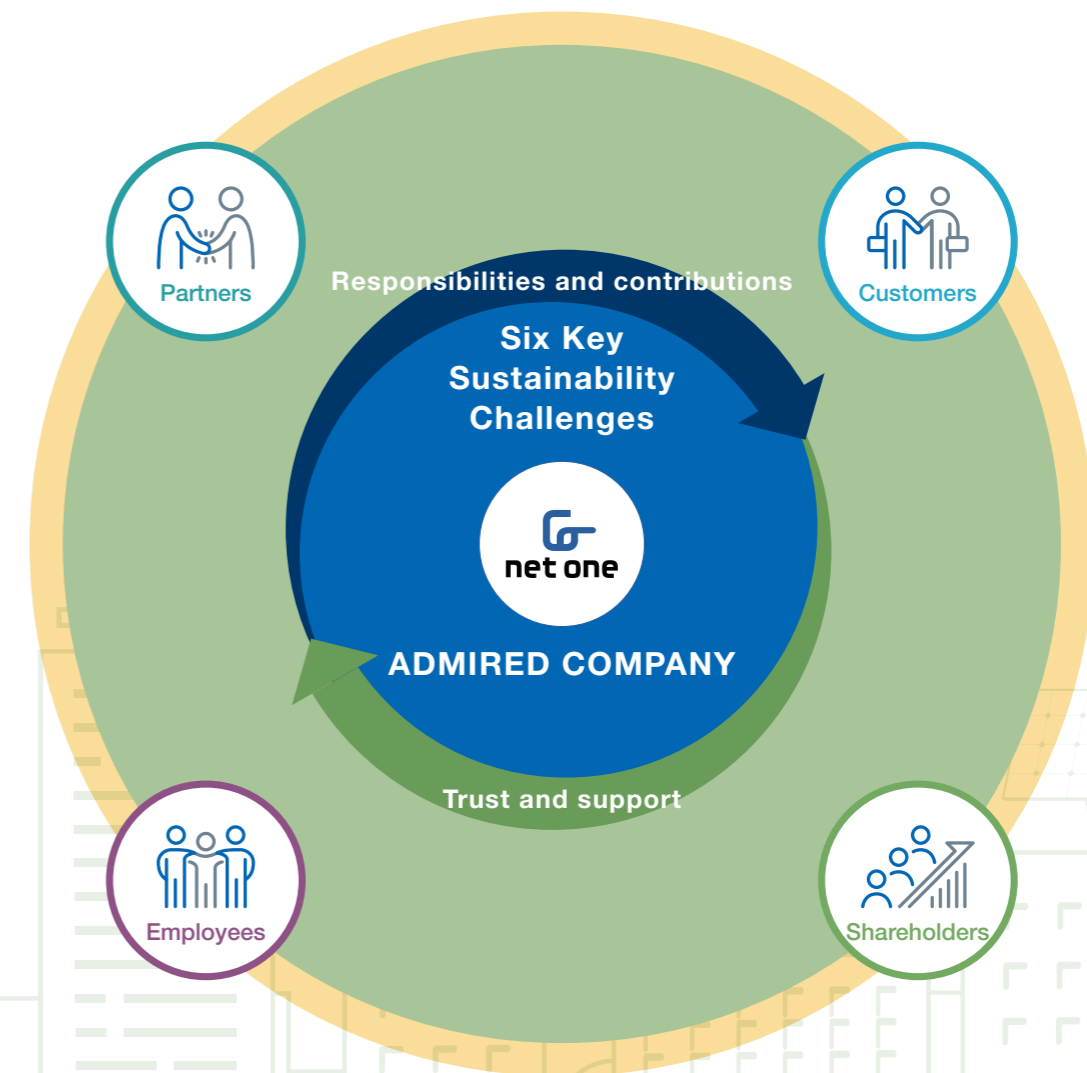
A Company Trusted and Supported by All Stakeholders

We cannot become an admired company as stated in our vision, without contributing to and fulfilling our responsibilities to all of the stakeholders who support Net One Systems.

We will grow sustainably with society by helping our customers overcome issues in their operations, and contributing to their success through our solutions and services. In addition, we will respond to the various risks that surround the Company, society, and the global environment, in order to maintain sustainability.

With these opportunities and risks in mind, we have identified six key sustainability challenges.

By confronting these key challenges and working diligently to address them, we will continue to strive tirelessly to earn the trust and support of our stakeholders, and to become a truly admired company.



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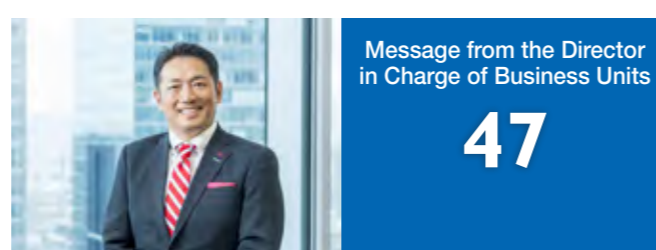
Editorial Policy

The Net One Group has been publishing an Annual Report since 2018, with the aim of providing all of our stakeholders with information regarding our approach and growth based on a medium- to long-term perspective.

In order to explain our strategies for sustainable growth and our business activities in an integrated manner, we have compiled key financial and non-financial information with reference to the Guidance for Collaborative Value Creation provided by the Ministry of Economy, Trade and Industry.

In fiscal 2020, we fundamentally reviewed our corporate practices in response to the issue of fraudulent transactions by a former employee of the Company and their related parties. As such, in our Annual Report 2021, we present the new organizational structure of the Group and the further strengthening of our governance. Moving forward from Annual Report 2020, we would like to convey our stance of continuing to evolve into a leading company in integrated services, and we present an overall view of our value creation process, an outline of our Integrated Service Business, and details regarding our pro-motion of sustainability.

Please note that financial data for the fiscal years 2014 through 2019 has been restated to reflect revisions disclosed in December 2020.



Reference Guidelines

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

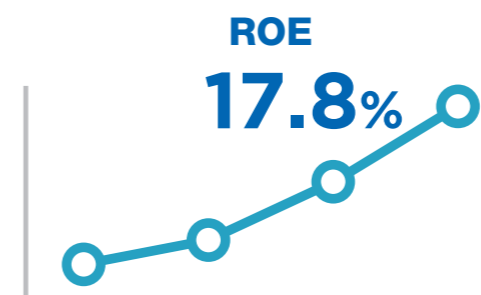


Forward-looking Statements

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.

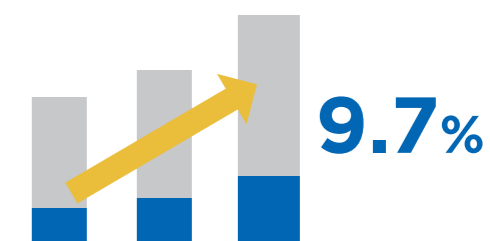
Profile

Net One by the Numbers



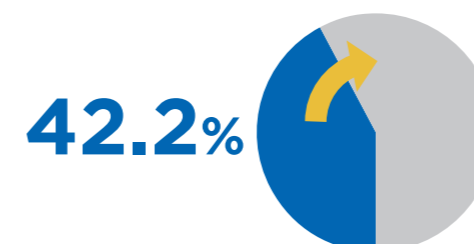
Maintaining a high level of capital efficiency

Operating margin



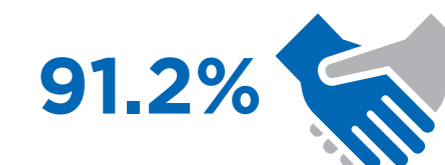
High value-added business and improved productivity

Service ratio



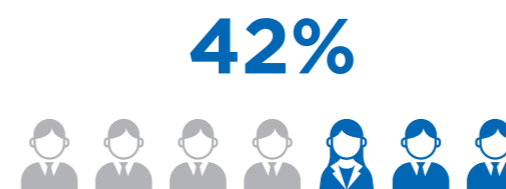
Promotion of Integrated Service Business

Customer satisfaction



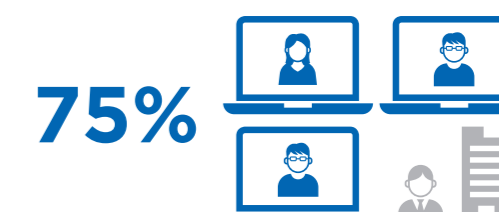
1.8pt increase year on year, reaching a record high

Ratio of Independent Outside Executive Directors



Implementation of organizational reforms to strengthen governance

Use of remote working



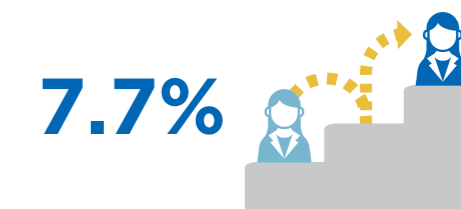
Improving productivity through work style innovation

Return to work ratio



A workplace where employees can both work and raise children actively

Ratio of female managers



Establishing an environment and culture in which women can continuously play an active role

President's Message

Building a solid platform to support sustained improvement in corporate value by balancing stronger governance with business growth



Takafumi Takeshita
President & CEO
Net One Systems Co., Ltd.

New Management Structure

Creating a truly effective internal control system under our new management structure

I was appointed President & CEO on April 1, 2021.

Since discovering transactions without the physical delivery of goods and other instances of previous misconduct we have conducted a thorough investigation with external experts to identify the causes of the misconduct. Our investigation identified weaknesses in the Group's internal control system. The process also served to highlight issues in areas such as operational effectiveness, financial integrity and compliance. To address those issues, in fiscal 2021, ending March 31, 2022, we began work on completely overhauling our management structure in order to rapidly build a truly effective internal control system. After discussions by the Advisory Committee, I was selected to become Net One's new President. The committee cited my long track record as a dedicated employee of the Company since being hired in the first-ever group of new graduate recruits, and my extensive experience in many areas of the business, from technology and services to marketing and management. The Company believes I can have a positive impact on implementing reform because of my in-depth understanding of Net One's history and the challenges faced by each part of the Group. Since 2020, as the head of the Corporate Planning & Management Division, I have led efforts to prevent any recurrence of misconduct and raise awareness of compliance. I was also on the list of candidates in the succession plan developed by my predecessor. I think another reason for my appointment was the work I have put into building close relationships with many employees, giving them confidence to freely speak their minds. Honest and open dialogue with employees will be crucial to overhauling the Group's corporate culture.

My mission is to build a framework to support both business growth and stronger governance. I believe that process will foster greater trust in Net One Systems. In fiscal 2021, we will push ahead with the completion of our Medium-Term Business Plan and implement a number of new measures to reinforce corporate governance. Over the next year, we will also formulate our new Medium-Term Business Plan after identifying issues that need to be addressed and deciding the best approach to solve them. From the first year of the plan, we will execute our strategies with a real sense of urgency.

New President's Mission

Balance "Governance / Corporate Culture Reforms" with "Sustained Growth" through leadership and dialogue with employees

Governance / Corporate Culture Reforms

- Governance reforms**
 - Board of Directors: Shift focus from business management to monitoring
 - Internal control system: Embed three effective lines of defense
 - Three-way audit system: Reinforce remit, system, cooperation
- Corporate culture reforms**
 - Honesty and ethics, management messaging, human resources development, promotion for the top emerging employees, new code of conduct and values

Sustained Growth

- Achieve targets in current Medium-Term Business Plan**
 - Accelerate Integrated Service Business
- Formulate and achieve targets in next Medium-Term Business Plan**
 - Generate sustained growth by capturing market opportunities

Interaction

Increase corporate value

Business Environment and Progress with Medium-Term Business Plan

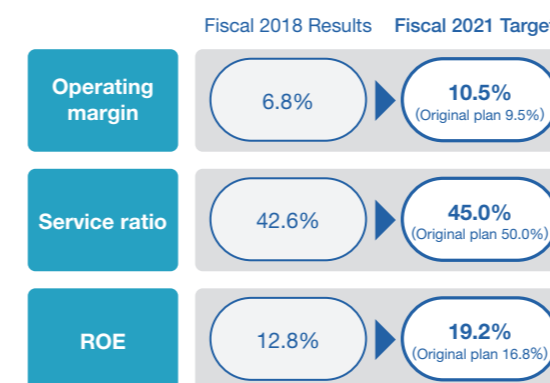
Provide value through our Integrated Service Business by accurately identifying changes in customer needs and approaches

<Medium-Term Business Plan: Fiscal 2020 Review>

In fiscal 2020, ended March 31, 2021, earnings were strong across the board, but the healthcare and smart factory markets were weak due to the impact of the COVID-19 pandemic. We anticipate continued weakness in the healthcare market in fiscal 2021, but with investment demand clearly recovering in the smart factory market, we expect to achieve our plan targets. In the public market, education boards are working to meet the requirements of the GIGA School Program, while local governments are likely to be one of the main drivers of system upgrade demand in fiscal 2021 as they work to build the next cloud-based security platforms and resilient systems. We are also seeing rising demand for remote working and learning systems that are easier to use.

Under our new model for providing support for managed service providers (MSPs), we have completed a new platform that allows our partners to leverage their individual strengths to create shared value together. New services developed through this collaboration with partners, backed by our proprietary intellectual property, will support Japan's broader shift to digital transformation and also translate into growth in Net One's market share. Our refurbishment business model is also attracting increased attention. We aim to further boost market competitiveness in the refurbishment space while also increasing the number of products with maintenance support add-ons. We expect to achieve our operating income and operating margin targets by continuing to accelerate value-added business and improving productivity.

Medium-Term Business Plan KPIs



<Business Opportunities and Risks>

At the moment, many of our customers do not want to build new systems from scratch. Their real need right now is how to get the best out of existing ICT platforms. Also, amid the current shift to digital technology, they increasingly see spending on ICT as an investment, not as a cost. Accurately identifying and responding to these changing customer needs and approaches will translate into new business opportunities for Net One. Our Integrated Service Business can handle all areas of corporate ICT investment plans, from planning and system installation to operation, allowing us to deliver complete system optimization instead of linking up piecemeal system improvements. We believe this business model is well-placed to accurately meet current market needs.

To convert these business opportunities into growth, we have to increase and enhance the Group's human resources. Redeploying engineers to services is a particularly urgent task. We aim to leverage our engineers' strong technical skills to help customers solve ICT issues. Put another way, our engineers will need to acquire the ability to apply and adapt their technical skills to services, which will be a major challenge. In recruitment, we will target qualitative and quantitative improvements in human resources. Specifically, we will put greater emphasis on hiring people who can capture business opportunities for the Group, aiming to cultivate distinctive Net One personnel who are committed to "customer success."

Reforming Governance and Corporate Culture

Acting on the recommendations of external experts and implementing our own initiatives to restore and rekindle trust in Net One

<Measures to Address Recommendations of External Investigative Committee>

The greatest risk facing Net One is loss of stakeholder trust. To avoid that risk and rekindle trust in our Group, we are implementing the following measures in response to the recommendations of the external investigative committee.

■ Governance

To prevent internal controls from becoming formalities, we partially revised the Basic Policy of Internal Control System - the Group's primary regulations governing internal controls - and updated related rules. We also stepped up efforts to increase understanding and raise awareness of internal controls across the Group through messaging to our workforce and communication between employees and the management team.

The Board of Directors will also adapt its role to focus more on monitoring activities such as business control and oversight instead of pure business management. Closer cooperation with independent outside executive directors will be key to that change. We are currently discussing with independent outside executive directors about how to achieve a high level of cooperation, such as timely sharing of information, exchanging opinions with directors and carrying out dialogue with executive officers. Looking further ahead, we plan to increase the ratio of independent outside executive directors to 50% and select independent outside executive directors to chair management and advisory committees to create a corporate governance system with powerful supervisory capabilities.

■ Business execution framework

To clearly separate control and oversight functions from business execution, we have appointed executive officers without board positions to head all business divisions. And in a first for Net One, we are restructuring our organization along defensive lines. We have incorporated three defensive lines (see page 40, Chapter 3: Establishment of the Internal Control Enhancement Council, for more details), each with clear and specific roles: the first line is a sound business framework and the second is a robust supervisory, support and oversight system.

■ Three-way audit system

We are also radically overhauling the third defensive line: internal audits. The focus of internal audits will be shifted from process audits to organizational audits, and the results will be shared with all employees in the Group. At the same time, we are overhauling the role of the Internal Audit Office itself, including reflecting the recommendations of the external experts in the office's revised role. The Internal Audit Office will be staffed by a mix of people, including personnel with marketing and engineering backgrounds and executive officers. Ultimately, we plan to include work experience in the Internal Audit Office and the Risk Management Office as part of employee career paths.

Furthermore, we have appointed a certified public accountant (CPA) as a full-time independent outside auditor & supervisory board member. By adding a CPA to existing business-focused audits, we aim to ensure trust in the Company's financial information. We have also replaced the Company's accounting auditor. The new auditor has been selected to conduct audits with an emphasis on regular communication with senior managers and frontline teams.

■ Reforming corporate culture

We have been reforming Net One's corporate culture since fiscal 2020. Specifically, we reinforced our Management Philosophy to reposition it as our corporate philosophy and established a new Code of Conduct. Every employee is required to make a declaration they will adhere to the Code of Conduct. Adherence to the code is also reviewed on a regular basis. To ensure these measures have a lasting impact, we have to introduce a human resources system that evaluates performance based on our Corporate Vision and Code of Conduct. We are currently conducting an assessment of our human resources system, including using input from external experts who are taking an objective look at the historical goals and outcomes of the system. Based on the results of the assessment, we will foster a new corporate culture by reforming all personnel systems and embedding our Corporate Vision across the Group, while also enhancing communication with employees.

<Internal Reforms Based on Recommendations of External Investigative Committee>

The so-called fraud triangle of "rationalization," "motivation" and "opportunity" accurately describes Net One's recent cases of misconduct. To eradicate this triangle from our business, we will implement a range of proprietary internal reforms in parallel with the above measures that address the recommendations of the external investigative committee.

Eliminating "rationalization" will involve continuous communication about the importance of "personal discipline" through direct messaging and the actions and stance of senior management. The goal is to encourage self-discipline in order to foster an organizational culture where employees resist even the smallest irregularity. In the case of "motivation," many investors have told us that Net One has perhaps focused too much on results-based performance. Our human resources system and target-setting process are anchored by behavioral standards, but we do have an incentive system as well. In some areas of our organization, that led to a downward spiral. Other areas of our organization work to achieve steady growth while keeping a close eye on resources, so the approach has been inconsistent across the Group. The "opportunity" aspect of the misconduct arose from weakness in supervisory systems around the illegal activity. Awareness of legal compliance is high in our organization, but the misconduct highlighted a disconnect between operational rules and legal regulations.

The latest misconduct also suggests that measures to prevent any recurrence, released in March 2020, failed to adequately address the cause and effect of the illegal activity. We suddenly imposed strict rules on frontline employees without asking some important questions, such as how did we get to this point, why were the employees' actions wrong, and why did changes need to be made? That approach risks creating inconsistencies that stop employees from doing their jobs. To address those issues, in April 2021, we reopened dialogue with our employees to clear the air. We have not watered down any "red line" rules, but we are making some targeted adjustments to make work processes smoother, while also building trust and fostering the corporate culture needed to support compliance. Instead of tying up employees in red tape, we will create a flexible, truly effective rules-based framework that only comes into play when it is needed. I will continue to regularly update you about how all these reforms are progressing.

Sustainability

Contributing to a sustainable society through a value creation story that reflects Net One's unique business characteristics

<Tackling issues faced by society>

During our next Medium-Term Business Plan, we will continue to update Net One's materiality while communicating our roadmap, goals and message for tackling and solving issues faced by society. For example, on the face of it, our business does not appear to have much connection with climate change, but virtualization technology can help customers reduce energy consumption. By providing technologies and solutions that solve issues for customers, we also contribute to society as a whole. This is one of the ways Net One can have a positive impact. We are currently trialing ways of using virtualization technology to reduce energy consumption and we plan to present proposals to customers in the future. In addition to providing ICT services and capabilities, we aim to partner with customers to solve social issues. This is a new way that Net One can create value.

<Enhancing human capital>

Human resources are one of the Group's most important types of capital. We are working to reinforce human capital in various ways, including work style innovation and skills training.

■ Human resources training

In our new human resources training strategy, we have added more programs and content related to compliance and accounting. Until now, our emphasis in training has been on frontline business, but we recognize that we have to fundamentally change our whole approach to achieve our aim of balancing governance with business growth. We also plan to add expertise in governance, internal controls and compliance to criteria for promotions. Furthermore, we will invest in long-term training for new graduate employees, such as providing basic skills training every few years. From their tenth year with the Company, when they become mid-level managers, we want graduate recruits to be comfortable with the common language of accounting and governance and be able to lead collaborative projects that drive business growth. We have positioned personnel training based on a longer-term perspective as a key part of efforts to reinforce the business base.

■ Targets and performance evaluation

We introduced a new job description system in fiscal 2020 to create clear, common expectations and roles in target-setting. This visualization of the necessary skills and expertise for each job grade now allows employees to independently build their own career paths. Due to the different nature of work in business divisions, there is some inconsistency about expectations and roles between each division. We are closing these gaps in order to create an even fairer performance evaluation system that is supported by employees. We also plan to introduce entirely new performance benchmarks. Customers give positive feedback about our employees' problem-solving abilities. But that alone will not be enough to take the Group to the next level. It is vital that Net One employees shift from "reactive" to "preventative" thinking. With technology becoming more advanced each day, we will put greater emphasis on problem-prevention abilities in our human resources strategy.

■ Work style innovation

We have upgraded tools and systems through work style innovation, but there is still room for improvement in integrating analog and digital elements of the workplace environment. As remote working gains momentum, managing work processes is becoming a wider social issue. The idea that "working hours" is the same as "time in the office" is losing ground in modern Japan, but what is the best way of managing personnel and their activities as flexible working becomes more common? And how should we communicate with employees? Communication is vital to fostering corporate culture and supporting the mental health of employees. Our customers also urgently need to answer these same questions. We plan to explore and identify the best approaches to continue providing a reference point for customers.

Financial and Investment Strategy

Rewarding shareholders, employees and society with rising returns, backed by an appropriate capital policy

We announced a new capital policy in May 2021. We lifted our consolidated dividend payout ratio target from 30% or more to 40% and set out clearer goals for increasing shareholder returns and uses of retained earnings.

To continue generating growth under the next Medium-Term Business Plan, we will scrutinize operating costs as part of our shift to services. Until now, we have not invested that heavily in facilities or R&D, but as the shift to cloud-based computing gathers pace and customers no longer require their own facilities, we will need to own and operate proprietary facilities to support service provision. After governance issues severely impacted Net One's corporate value, we will invest aggressively in measures to restore corporate value and adapt to changes in the operating environment. In terms of KPIs, our current Medium-Term Business Plan uses ROE, and we plan to continue using that benchmark going forward. We are also looking at adopting EPS, which has been suggested by many of our investors.

Meanwhile, we have appointed our new CFO. He will lead efforts to drive business growth and increase corporate value through an appropriate capital policy. He has experience and expertise in corporate governance from his work implementing measures to prevent any recurrence of misconduct, as well as strengths in the financial field. Under his leadership, we will gather information to explore and develop our financial strategy to take the Group forward.

These efforts will be anchored by a commitment to generating returns for three stakeholder groups: returns for shareholders who support our vision, strategy and business, returns for employees through opportunities for personal development, and returns for the wider community. In this way, we aim to grow with stakeholders to create shared prosperity.

Medium- to Long-term Vision

Transform Net One into a corporate group that generates steady growth, while building our position as a professional team of experts

Our purpose is to help transform society through ICT proposals born out of repeated in-house real-world testing by a professional team of experts. All our employees, not just those in engineering divisions, contribute to Net One's value as a company. I believe that everybody who works at Net One should be part of our professional team of experts (TAKUMI in Japanese) – in sales, our people have the expertise to optimize costs while satisfying the needs of customers, while in back-office departments, our employees have the expertise to actively leverage the specific characteristics of their work in real-world ICT system testing.

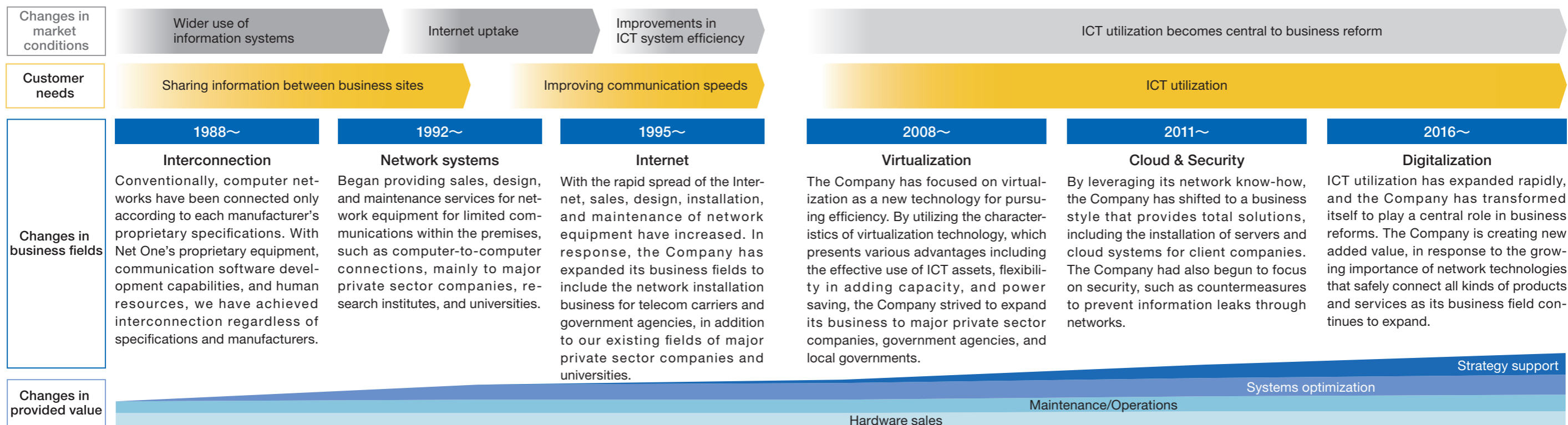
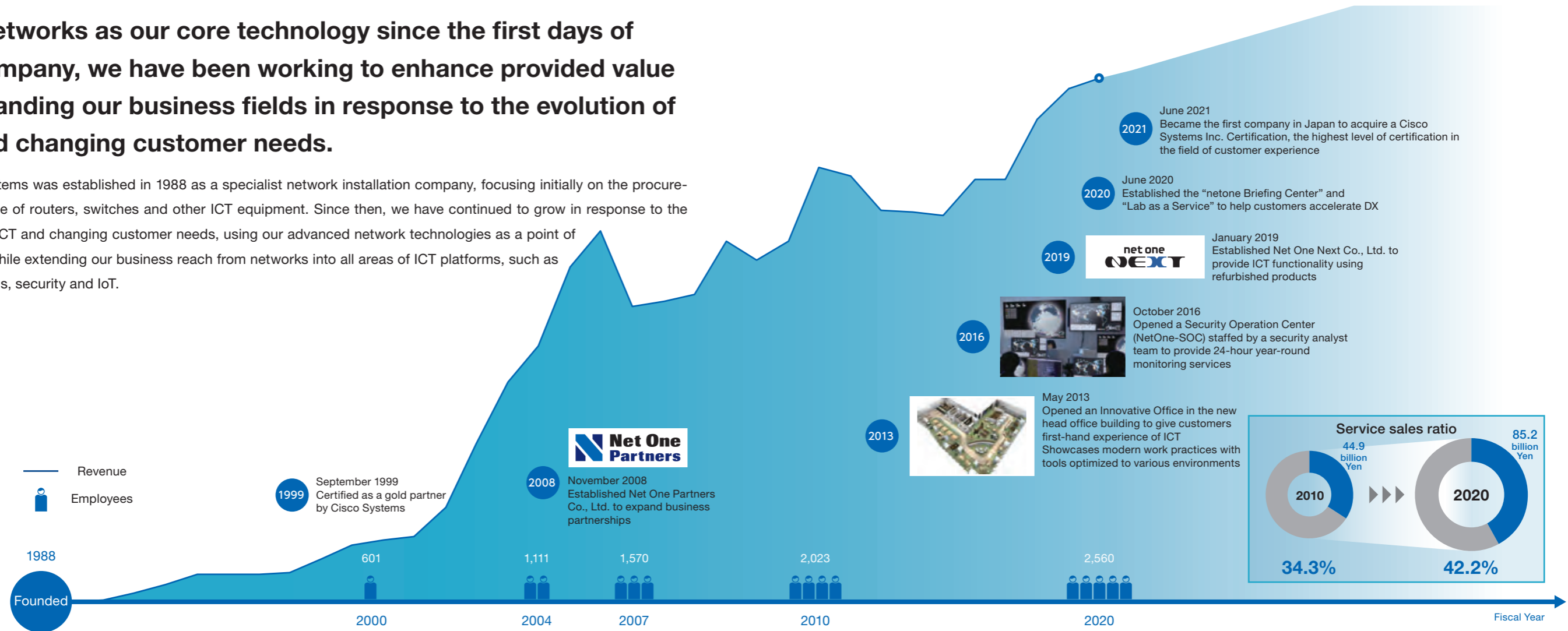
We will enhance this expertise to lift profits, while also building a governance system that ensures trust in Net One. In this way, we aim to build a platform that supports sound growth. This is our vision for the medium and long term. The ultimate goal is to transform Net One into a corporate group that generates stable profit growth and consistently increases corporate value, instead of a cycle of instability with peaks and troughs. Over the next year, we will review Net One's past business strategies to carefully study and visualize their impact and outcomes. Based on the results of the review, we will develop a new strategy to reinforce the Group's position during the next Medium-Term Business Plan and lay out the roadmap for future growth. I hope we can count on your continued support as we work to realize this vision.



1 Value Creation | Corporate History

With networks as our core technology since the first days of the Company, we have been working to enhance provided value by expanding our business fields in response to the evolution of ICT and changing customer needs.

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. Since then, we have continued to grow in response to the evolution of ICT and changing customer needs, using our advanced network technologies as a point of difference, while extending our business reach from networks into all areas of ICT platforms, such as cloud systems, security and IoT.

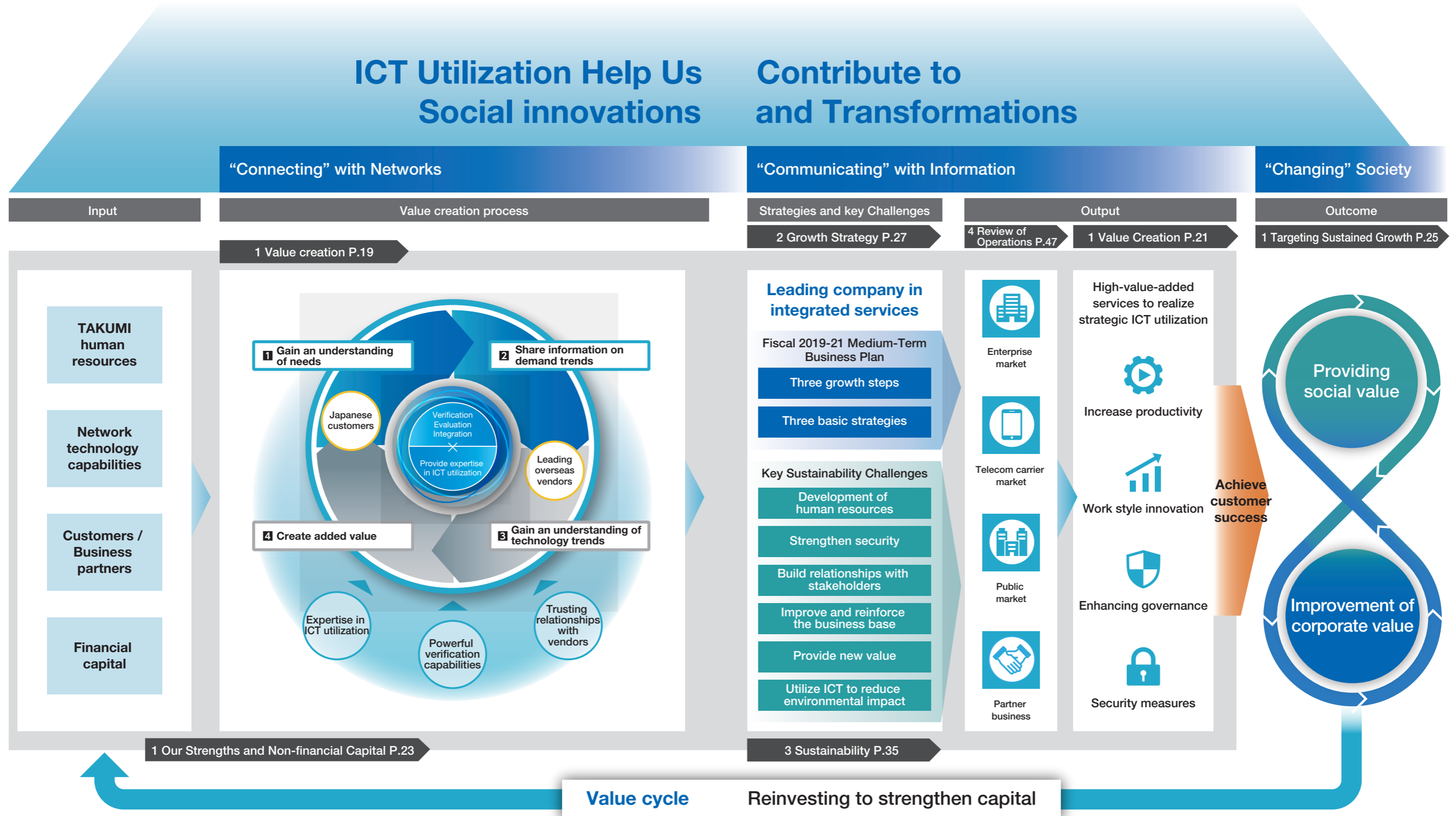


1 Value Creation | Overview of the Value Creation Story

Net One Systems provides support for ICT utilization, 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 social innovations and transformations by ICT utilization and to be an admired company trusted and supported by all stakeholders.



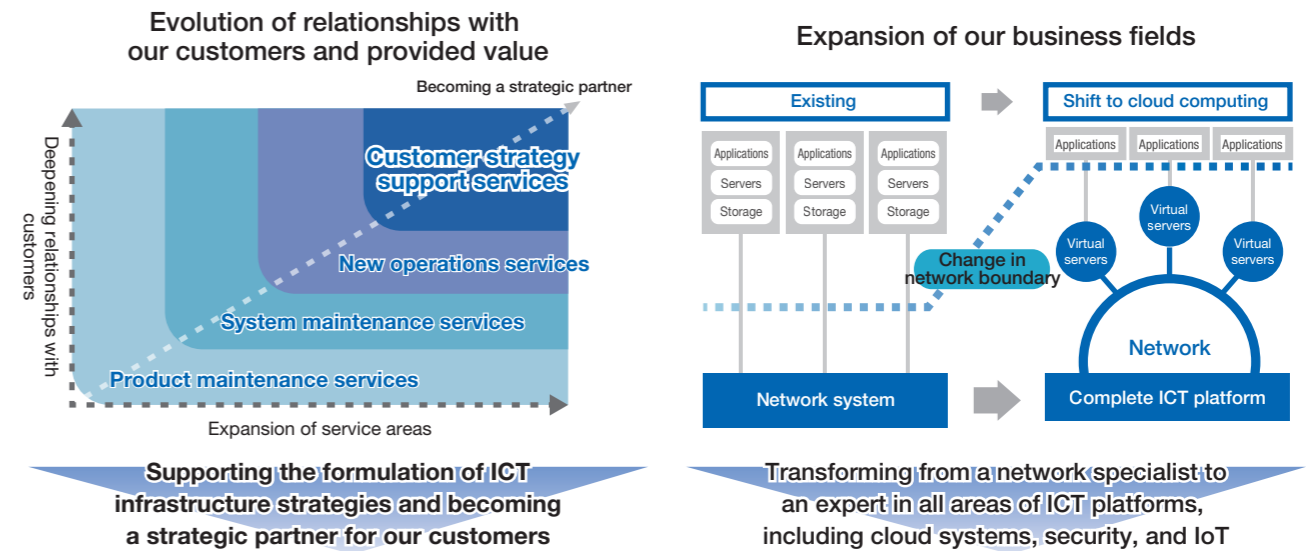
1 Value Creation | Our Value Creation

We will evolve our business model to accelerate the implementation of our Integrated Service Business by strengthening our relationships with customers and expanding our business fields.

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 providing 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.

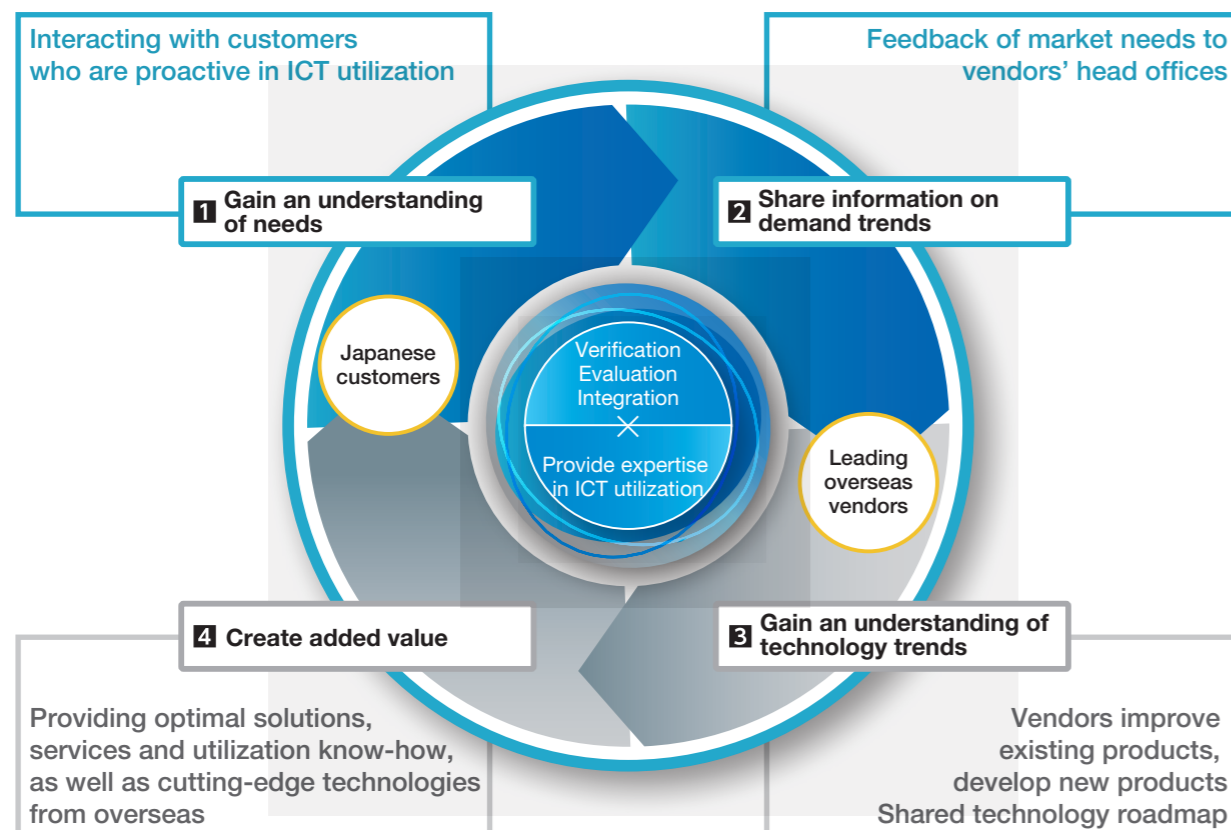
Responding to the needs of our customers will raise their expectations, and their needs will become increasingly sophisticated. In response, we will expand our business fields by accelerating our Integrated Service Business, and evolve into a partner that supports our customers' business strategies by providing higher value-added solutions and services.

Evolution of our business model



Networks enable people to “connect” to exchange data

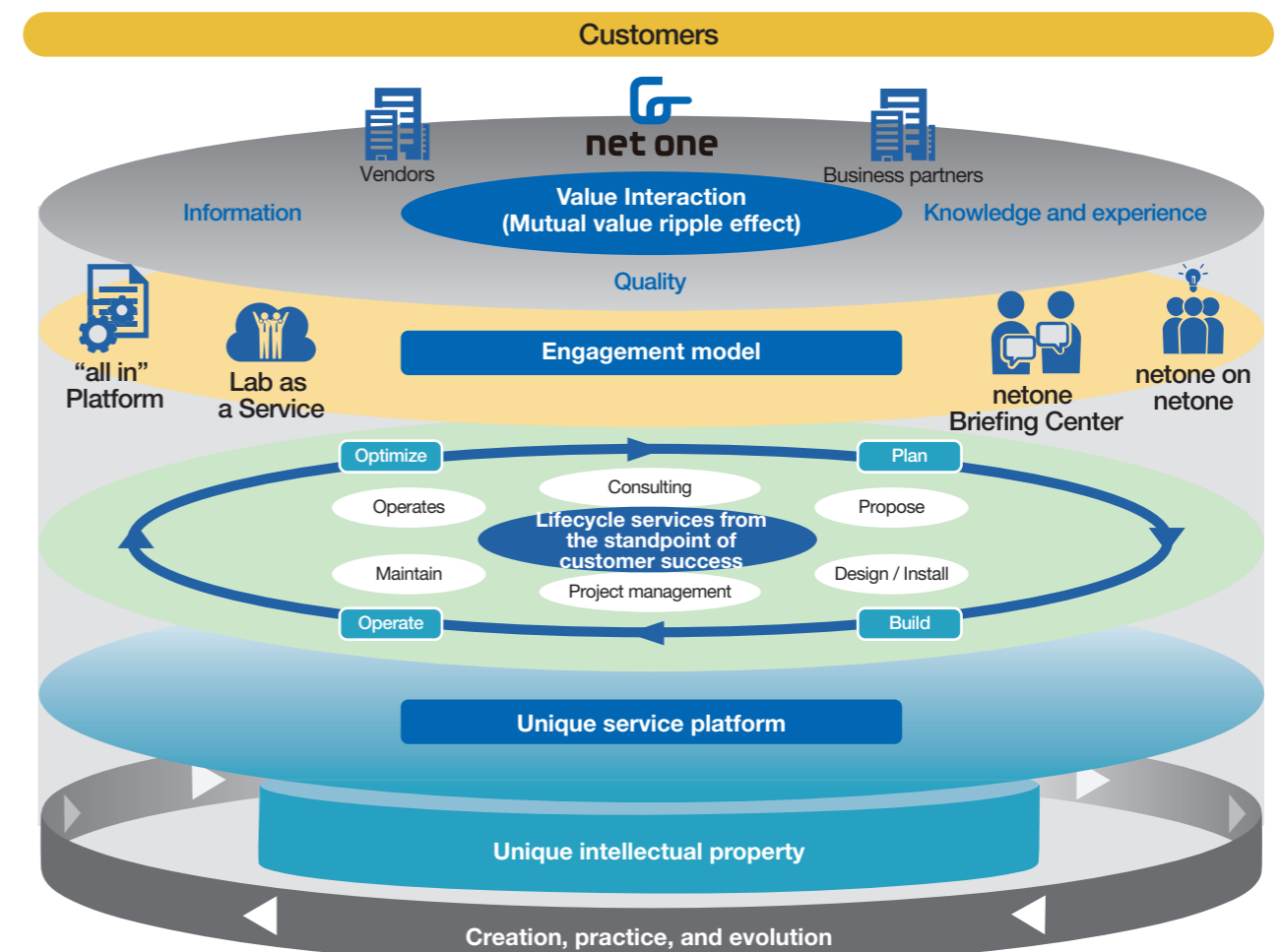
Combine products from vendors to create solutions and services optimized to Japan's quality requirements



- Net One Systems uses solutions and systems in-house
- Accumulates expertise in how to use systems, as well as merits and pitfalls

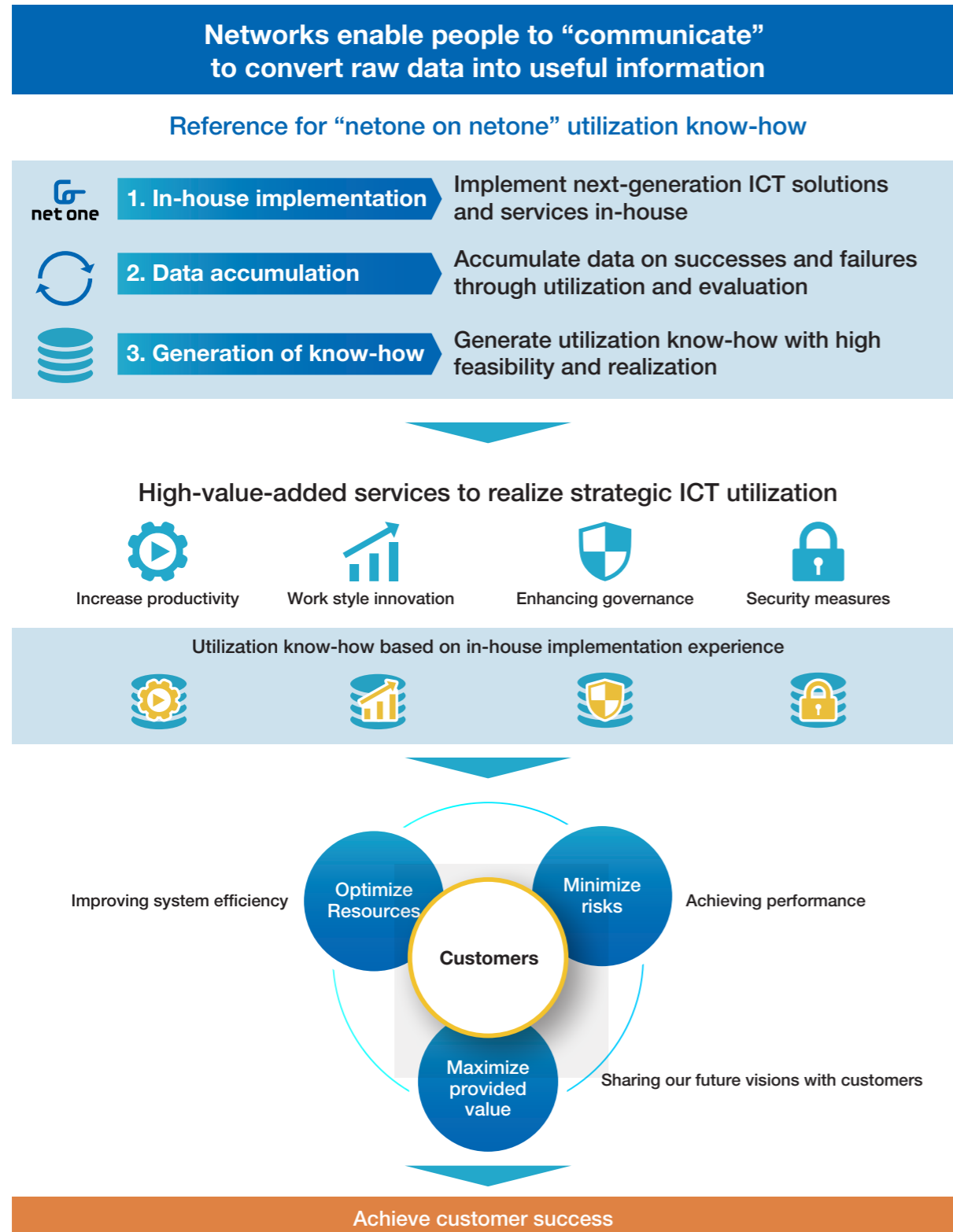
Integrated Service Business

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.



1 Value Creation | Our Created Values

Net One will achieve customer success through “netone on netone” by creating our unique added value.

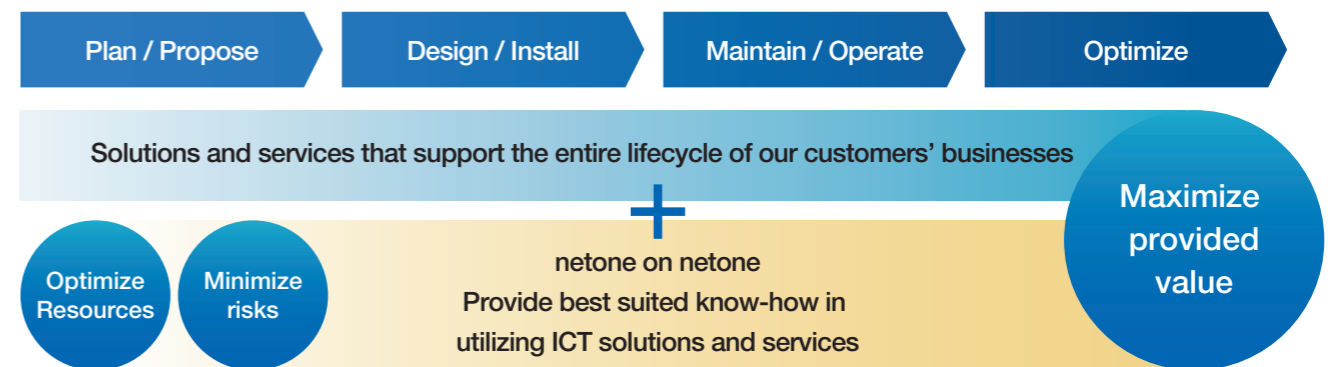


Net One provides value-added services that lead to the optimization of resources and minimization of risks, by first introducing next-generation ICT solutions and services in-house, and then accumulating know-how through utilization and evaluation, and providing the utilization methods to our customers. From the design of ICT platforms to their operation, Net One creates unique added value while putting ourselves in customers’ shoes, in order to achieve customer success.

Creating added value with netone on netone

By providing solutions and services as well as the utilization know-how we have accumulated through netone on netone, we can minimize trial-and-error processes for our customers, and enable them to launch projects promptly. In addition, we can bring out high performance by providing the optimal combination of hardware and software that efficiently utilizes resources. We maximize the value provided to our customers by utilizing verification data obtained from a series of actual operations, in order to provide additional improvements and proposals.

netone on netone maximizing provided value of solutions and services



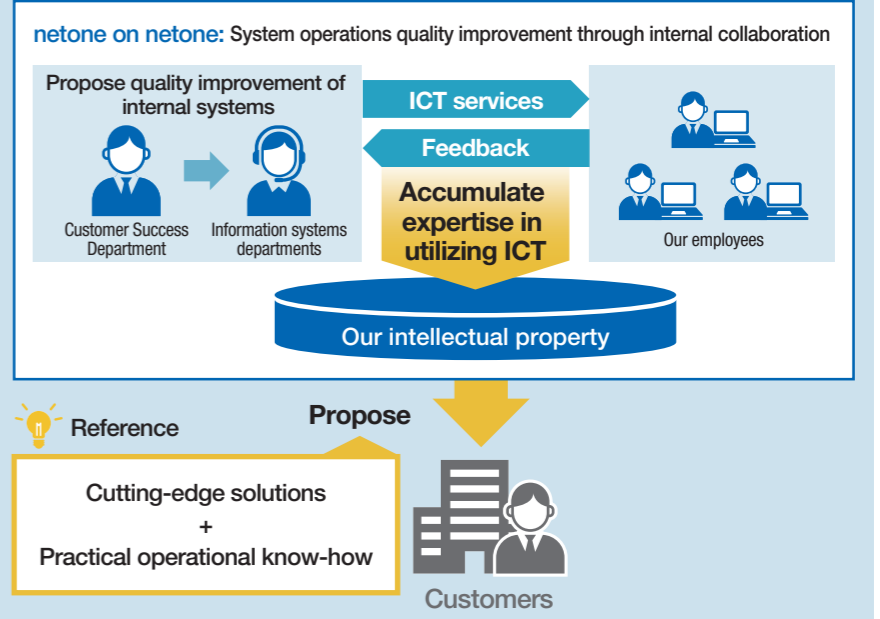
Examples of netone on netone proposals

Generate a reference through the enhancement of the operational quality of our internal systems

1. Verification for quality improvement
The Customer Success Department supports assessment, design, and migration of internal systems to enhance operational quality by treating the information systems departments as its assumed customer.

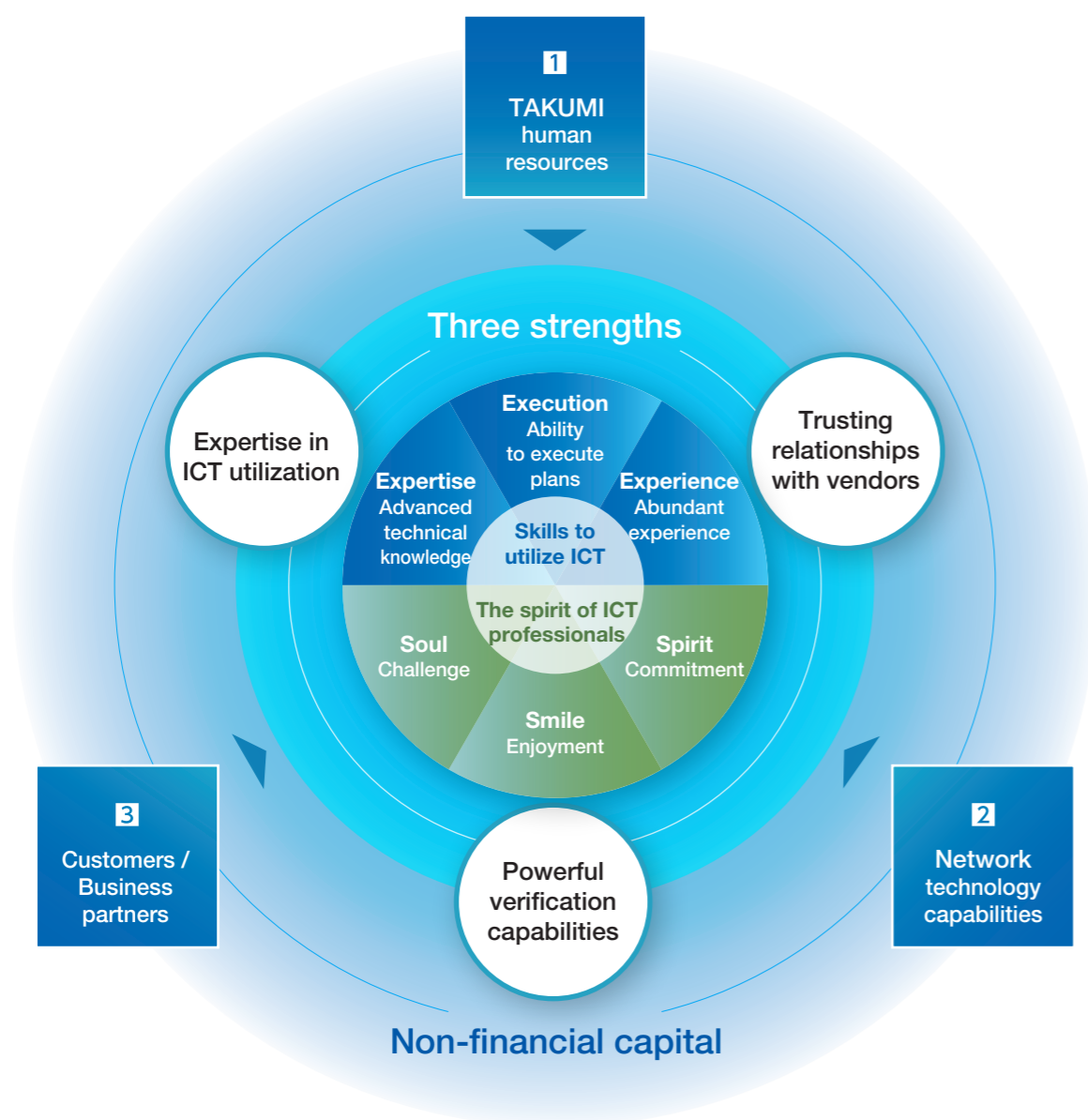
2. Accumulation of utilization know-how
We have introduced cutting-edge ICT services and systems in our information systems departments, and are accumulating know-how through repeated trial and error by implementing them in our internal systems and operating them in-house.

3. Provision of services to customers
We propose highly concrete and feasible operational know-how that has been cultivated in 1. and 2. to our customers, as a reference.



1 Value Creation | Our Strengths and Non-financial Capital

We support ICT utilization by leveraging our human resources, technologies, and customer/partner base with a high level of demonstration capabilities based on our extensive track record, experience, and know-how



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 devising combinations of the best products from vendors in Japan and overseas, through various collaborations and exchanges based on relationships of trust with vendors. 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.

We aim to continue growing together with our customers by further enhancing our three strengths and non-financial capital, based on our shared values of the skills to utilize ICT and the spirit of ICT professionals, to provide high-quality, high-value-added optimized solutions.

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

Non-financial capital	Indicators	Focus themes	Key Challenges
TAKUMI human resources Characteristics and strengths A group of professionals that leads to the combined utilization of advanced technologies	GAIT* score rate 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 486.9 (fiscal 2020), significantly higher than the industry average (413).	Growth of employees: Initiative 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.	Development of human resources Improve and reinforce the business base
Network technology capabilities Characteristics and strengths Core technologies that support unique value creation, and design and optimization that enables a wide range of responses	Number of engineers 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 2020, there were 1,441 engineers, which is 59.2% of all employees.	Growth of the company: Uniqueness 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.”	Provide new value Strengthen security
Customers / Business partners Characteristics and strengths A unique position to create ecosystems that leverage each company’s strengths from the customer’s perspective	Share of top organizations in our revenue The top 100 companies account for just under 80% of our revenue (fiscal 2020), 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.	Growth of customer / partner: Value co-creation We create new value together with our customers through our “Integrated Service Business,” which contributes to improvement in productivity.	Build relationships with stakeholders Utilize ICT to reduce environmental impact

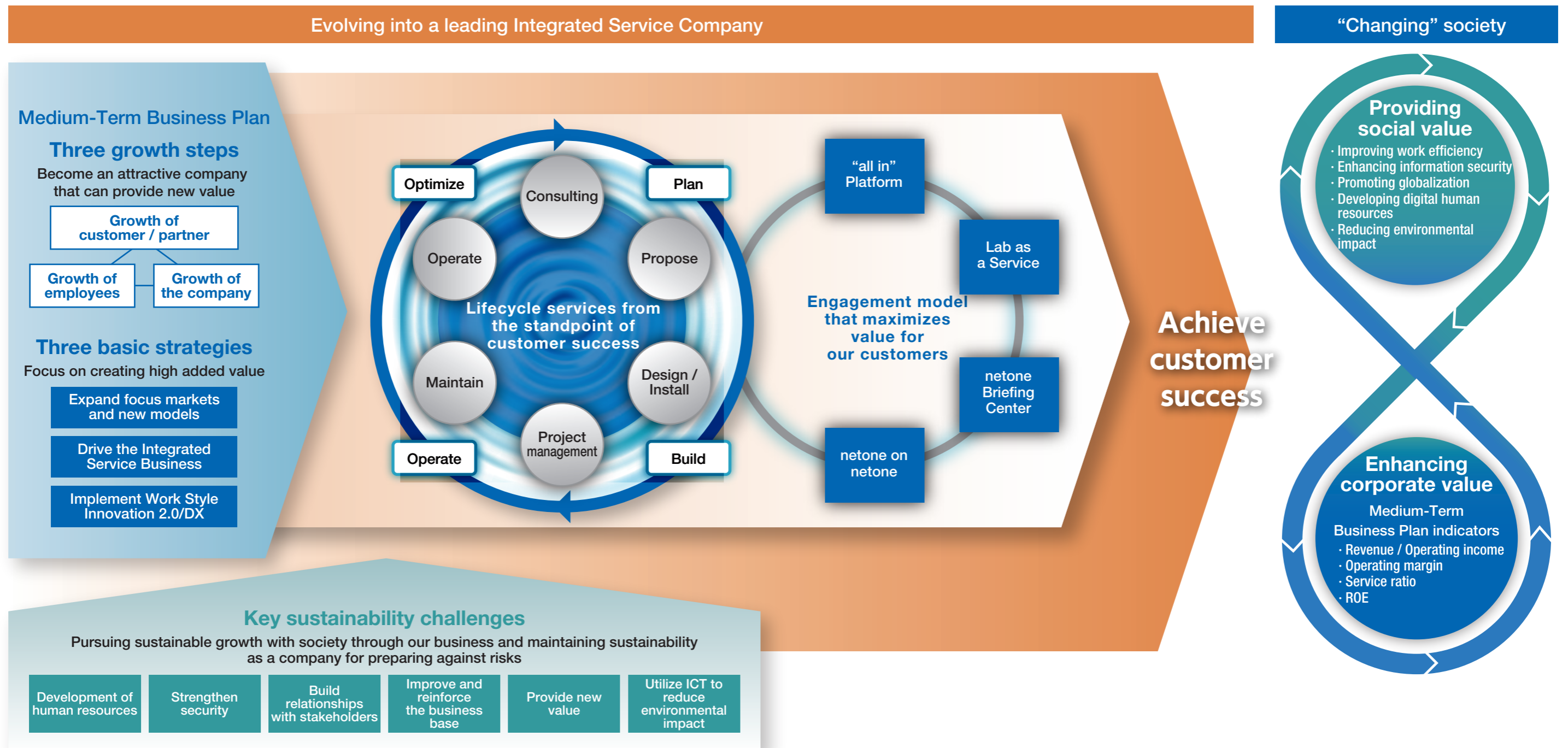
* GAIT: Global Assessment of Information Technology: A globally universal assessment tool for accurately and quantitatively assessing the skills of ICT engineers in seven key areas required in the cloud era (DB, OS, applications, storage, security, network, and virtualization).

1 Value Creation | Targeting Sustained Growth

We aim to provide social value and enhance corporate value by promoting our Integrated Service Business and contributing to the resolution of social issues

Net One Systems has created new value by integrating cloud systems and providing network security services. Going forward, we will further evolve our business to ensure the Group is capable of providing new added value that supports the growth of customers. Through the three growth steps and three basic strategies set forth in the current Medium-Term Business Plan, which is centered on promotion of the Integrated Service Business, we will realize customer success and contribute to social innovation.

In addition, Net One Systems has identified a number of key sustainability challenges related to its business activities: development of human resources, 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 challenges as a matter of priority, in order to respond to changes in the ICT market and to ensure the Group grows in a sustainable manner with society. In each category, we aim to contribute to the resolution of social issues, and be an admired company trusted and supported by all stakeholders.

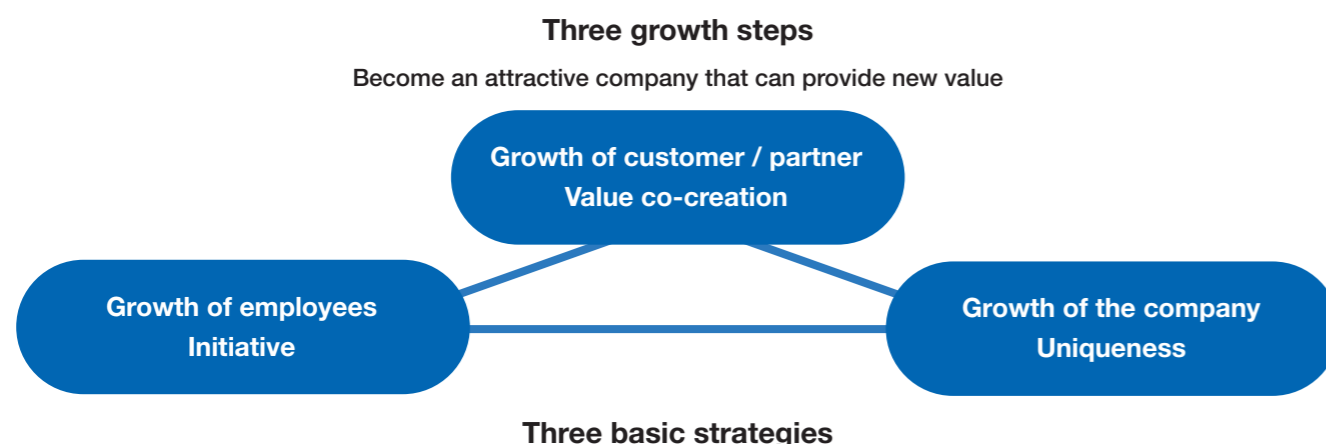


We are transforming into a company that creates new added value together with our customers

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 ICT utilization. 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 ICT utilization 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.



Focus on creating high added value		
Expand focus markets and new models Extend market coverage	Drive the Integrated Service Business Increase the service ratio	Implement Work Style Innovation 2.0/DX Increase productivity
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 MSP and development of the refurbishment business) that capture the growing demand for the shift from ownership to use.	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.	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.

Forecast for the Final Year (Fiscal 2021) of the Medium-Term Business Plan

Operating margin: 10.5% (Target: 9.5%)	Service ratio: 45.0% (Target: 50.0%)	ROE: 19.2% (Target: 16.8%)
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We will achieve sustained growth centered on accelerating integrated services, while implementing measures that will lead to the next fiscal year and beyond

By strategy: Review of Fiscal 2020 and future initiatives

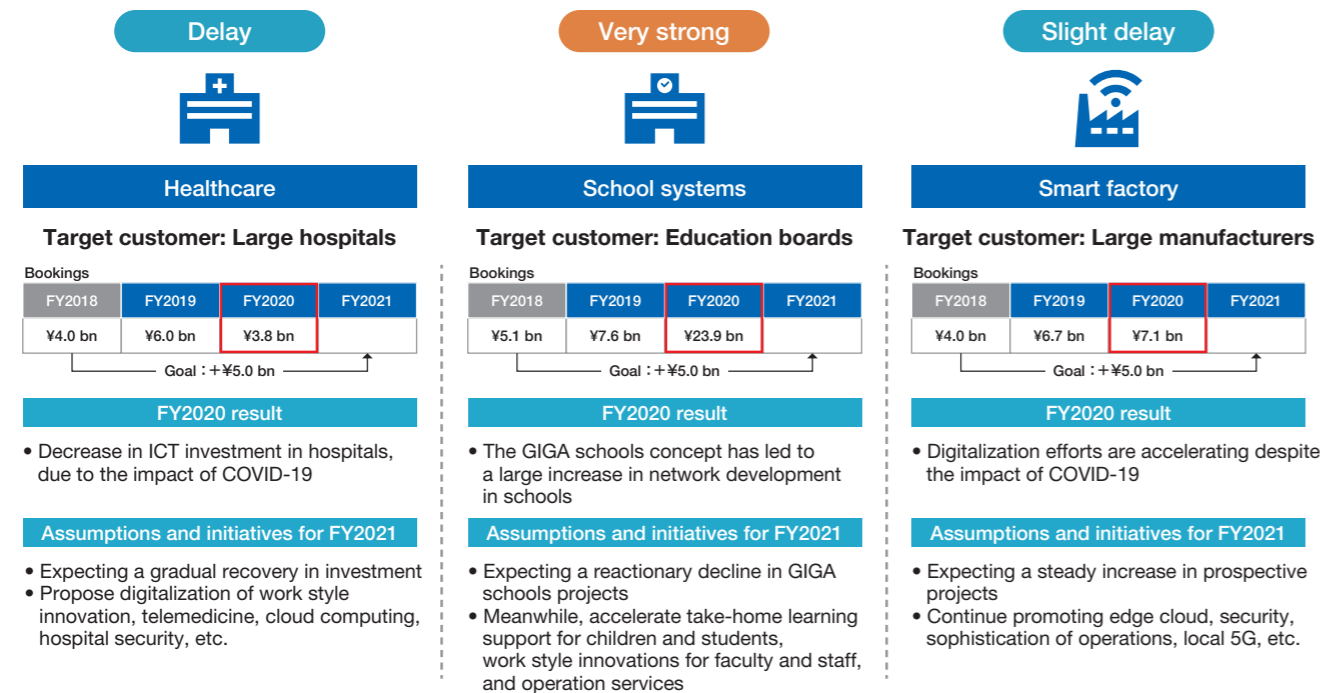
	Review of Fiscal 2020	Future initiatives
Generally on track Expand focus markets and new models	Initiatives to promote digitalization accelerated, such as the GIGA schools concept in school systems, expansion of telework, and the use of the cloud, while network-based infrastructure development and security measures continued to be strong. On the other hand, healthcare remained sluggish due to the impact of COVID-19.	We will continue to accelerate proposals for network systems, security measures, and cloud utilization that meet the needs of our customers, with customer success as the primary focus in each market and model. We will also continue to verify and evaluate advanced technologies and develop solutions based on market trends, such as the fusion of virtual and real worlds in offices and factories.
Strong Drive the Integrated Service Business	Various initiatives made steady progress, including the expansion of operation and optimization services to provide high-value-added services, proposals from the grand design stage of increasingly sophisticated ICT platforms, and the development of facilities for having a dialogue with customers regarding value creation.	In addition to the introduction of high-quality ICT platforms, we will provide consistent support for the acceleration of utilization to maximize the provided benefits, and establish our position as a partner in digitalization. In addition, for projects with common specifications, such as municipal information security clouds, we will improve quality and productivity by unifying the solutions we provide.
As planned Implement Work Style Innovation 2.0/DX	In response to COVID-19, we realized new work styles and digitalization, centering on telework. In addition, in digital platforms, we made progress in detailed design for the realization of data visualization and automation of operations, as well as preparations for compliance with the new revenue recognition standards.	We will proceed with the study of offices that combine the virtual with the real world that accelerate collaboration in new work styles. In addition, with regard to netone DX, we will prioritize the addition of governance enhancement functions as a measure to prevent recurrence.

Progress of the Medium-Term Business Plan

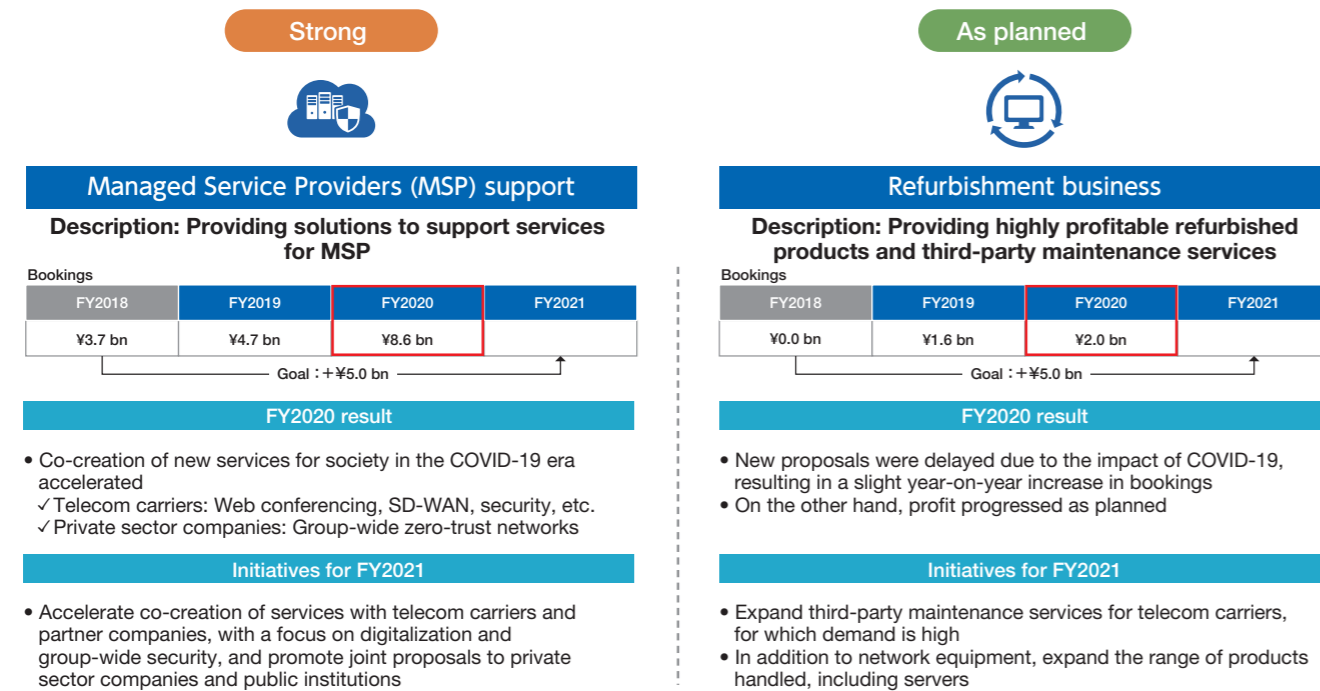
Performance highlights for Fiscal 2020	Review of Fiscal 2020	Outlook for FY2021 (final year of the Medium-Term Business Plan)
Operating margin: 9.7% (Up 0.8 pt YoY) Service ratio: 42.2% (Down 0.6 pt YoY) Operating income: ¥19.6 bn (Up 19.2% YoY)	Although the service ratio declined due to the impact of increased sales in the equipment product group, mainly for the GIGA schools concept project, profitability improved due to progress in the Integrated Service Business, and the operating margin exceeded the target figure for the final year of the original Medium-Term Business Plan.	Although the service ratio is expected to be lower than the initial target, the operating margin and ROE are expected to exceed the initial targets, due to the continued acceleration of high-value-added business and expected improvements in productivity, against the backdrop of strong progress in the Integrated Service Business.

We are accelerating the co-creation of new services through collaboration and capturing solid needs for digitalization

Focus markets



New models



We are responding to changes caused by the COVID-19 outbreak, while implementing structural reforms

Response to the COVID-19 outbreak

In fiscal 2020, although some manufacturers, hospitals, and partner companies showed a tendency to reduce investment, the Group worked to acquire new business opportunities by supporting business continuity and work style innovations of customers, while enhancing our business continuity.

Acquisition of new business opportunities	Our customers are implementing a drastic review of their work styles from the perspective of business continuity, with an eye on telework responses in times of a state of emergency, and society in the COVID-19 era. The Group has supported its customers' business continuity and work style innovations by providing various systems for realizing a telework environment, such as virtual desktops and web conferencing, as well as security measures to ensure security while working outside of the office.
Improvement in the business continuity of the Group	The Group had already established an environment that enabled employees to carry out their work through telework (Work Style Innovation 1.0), and was able to respond promptly and flexibly when a state of emergency was declared. Subsequently, we optimized our human resource system and shifted to a principally telework-based work style from October 2020. In addition, the Contact Center, which is a maintenance and operation service facility for ICT platforms, has been fully converted to telework-based operations by utilizing web conferencing, chat, virtual desktops, and mobile devices. In this manner, we have built a system in which the provision of services to our customers is not affected, even in situations where it is difficult to commute to work.

Implementing structural reform

We implemented the following structural reforms on April 1, 2021, to promote our growth strategy, establish a strong management base, and strengthen internal control.

Promotion of compliance by top management	<ul style="list-style-type: none"> Established Compliance Office as an organization reporting directly to the President
Strengthening and optimizing corporate functions	<ul style="list-style-type: none"> Reorganized the Corporate Planning & Management Division into the Corporate Planning Division and the Corporate Planning & Management Division Established Business Control Division to strengthen internal control
Reorganization of the Corporate Planning Division	<ul style="list-style-type: none"> Merged the Finance Department and Accounting Department into the Finance & Accounting Department with the aim of deepening expertise The Capital Services Department was renamed as the Finance Services Department, with the aim of strengthening planning and promotion of business expansion using finance The Investor Relations function was split from the Public Relations & Investor Relations Office and renamed as the Investor Relations Office, and the Public Relations function was transferred to the General Affairs Department of the Corporate Planning & Management Division The legal function was split from the Legal & CSR Office and renamed as the Legal Office, and the CSR function was transferred to the Compliance Office, which reports directly to the President
Reorganization of the Corporate Planning & Management Division	<ul style="list-style-type: none"> Integrated the Human Resources Department and Human Resources Development Office into the Human Resources Department, with the aim of strengthening human resources strategies Integrated the Strategic Information Office and the Information Systems Department into the Digital Transformation and IT Department, with the aim of promoting DX Established the General Affairs Department to strengthen internal and external public relations, facility management, and internal office management functions
Establishment of the Business Control Division	<ul style="list-style-type: none"> Established the Business Planning Office, to strengthen functions related to the planning and implementation of business rules Transferred the Sales Supervisory Office from the direct control of the President, to strengthen overall control of sales transactions In order to optimize and strengthen control of sales management operations, the Sales Management Offices, which had been located in each business unit, were transferred, merged, and renamed the Business Management Department Transferred the Procurement Department from Net One Partners, a consolidated subsidiary, to strengthen control of overall purchasing
Strengthening business development functions	<ul style="list-style-type: none"> Reorganized the Business Development Division, and changed the Advanced Technology Engineering Department 1, Advanced Technology Engineering Department 2, and Advanced Technology Engineering Department 3 into two departments, the Advanced Technology Engineering Department 1 and Advanced Technology Engineering Department 2

Your strategic partner in ICT infrastructure Striving to be the leading company in integrated services by generating maximum value from minimum resources



Fumihiko Shinoura
CMO
In charge of Business Development Division and
Customer Service Division

FY2020 Review

The “bigger picture” advanced by our Integrated Service Business is raising customer and vendor expectations

In fiscal 2020, we stepped up efforts to extend our Integrated Service Business both inside and outside the Group. Inside the Group, employees in each division took the initiative in standardizing and automating business processes and aggregating intellectual property (IP) to support the development of integrated services, spurring Groupwide activities. Some employees took a more advanced approach, exploring ways of leveraging and combining Net One's proprietary IP to realize true digital transformation (DX).

These internal changes also had a positive impact outside the Group. Improvements to marketing quality helped lift expectations in our Integrated Service Business, with value interactions becoming more common, especially with local government customers. Specifically, early projects in the business focused on system platform integration, but the scope of projects has now expanded to include ways of using the platforms in a business context. Net One is becoming the hub of an ecosystem that creates opportunities for value creation through collaboration with various vendors. We can now generate significant value for customers, as seen in the comprehensive alliances we have formed with vendors to help local governments implement DX from every angle.

Our relationship with vendors is also changing as a result. In the past, system integrators typically developed proposals based on vendor portfolios. However, by demonstrating complete business models through our Integrated Service Business, that relationship has been reversed. Vendors are now increasingly asking us to incorporate their thinking, not just products, into our business model ideas. We are also receiving more proposal ideas from vendors because of our reputation for focusing on customer success. Some major overseas vendors only select Net One to trial new products in Japan. Looking back over the past year, I get the sense that vendors see Net One as a more valuable partner as they overhaul their business models, and that overseas companies understand that Net One is moving into a new stage.

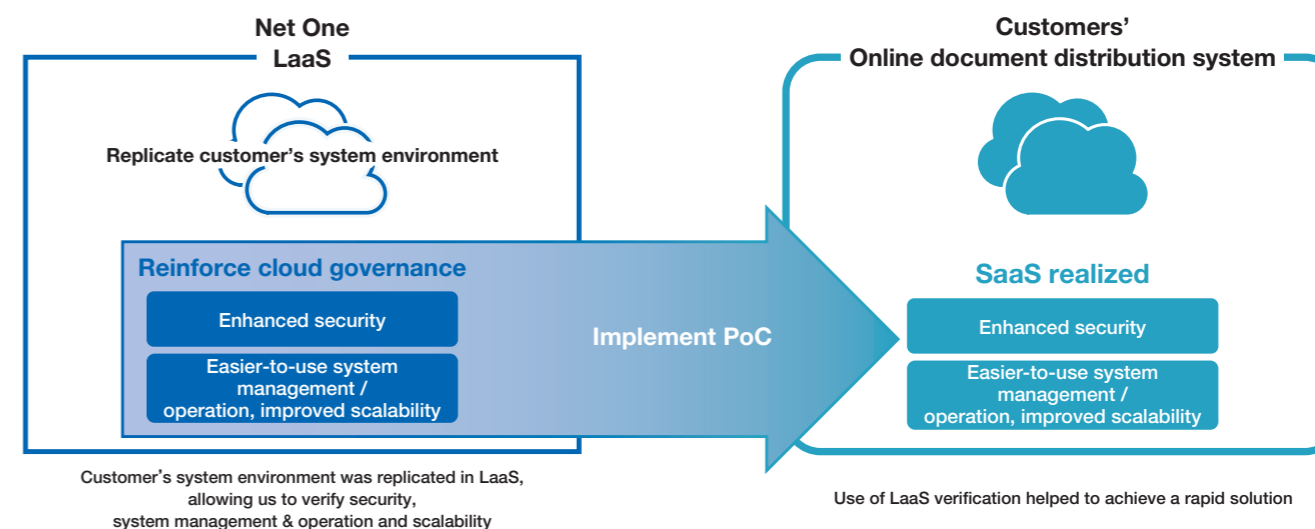
Utilizing Our New Engagement Engine

Working on problem-solving and verification with customers delivers results, while also enhancing Net One's IP

Despite the COVID-19 pandemic, our Lab as a Service (LaaS) environment, launched in 2020, is being used more widely than we expected (58 times, including 11 times by customers). Backed by vendors, we also expanded our LaaS menu. One of the features of LaaS is that various ICT verification tests can be conducted in a real-world multicloud environment. Normally, tests would have to be run in actual customer environments, but LaaS removes that requirement, reducing the impact on customers.

In some cases, LaaS has helped us secure new contracts. One example is a project for a customer in the publishing industry, where online subscriptions are increasingly common. The customer needed a cloud-based distribution system with better security, easier-to-use system management and operation functions and scalability. To address those issues, we used our LaaS environment to verify proof of concept (PoC; process of assessing the feasibility and effectiveness of new systems or technology in a test environment before the start of a project) to help the customer rapidly reinforce cloud governance. We put forward a Software as a Service (SaaS)-based solution and used LaaS to accelerate the decision-making process. This limited the drag on the customer's business and led to a rapid solution.

LaaS case study: Reinforcing cloud governance (publishing industry)



We also launched the netone Briefing Center (nBC) in 2020. The center is used to develop and propose solutions for customers' DX issues, while also facilitating communication. Net One employees sit down with customers to define project objectives, system architecture design, migration procedures and other concrete plans. Unlike conventional ICT consulting companies, Net One focuses on developing achievable system proposals based on realities faced by customers. With the support of strategic vendors, we have introduced an outcome-focused approach (process of providing effective solutions for highest-priority project areas) and enhanced our facilitation capabilities, allowing us to develop proposals that go beyond system construction to directly contribute to the success of customer businesses. Despite the pandemic, we used nBC 14 times in fiscal 2020, with some system proposals already at the project initiation stage.

LaaS and nBC both enable customers to finalize project guidelines and examine investment plans for ICT issues while also giving Net One deeper insights into market needs and access to more technology IP. We call this our Integrated Service Business “engagement engine.”

Business Environment, Risks and Opportunities

Accelerating Net One's transformation to tap into post-pandemic needs and longer-term opportunities

The COVID-19 pandemic has triggered major changes in our business environment. We are also seeing a major debate in the global ICT sector about what kind of engagement and collaboration customers, vendors and their partners need to pursue going forward. As face-to-face communication and negotiation declines, engineer work styles are also changing, raising questions about how they can provide dedicated support for customers' entire business lifecycles. To overcome that challenge, companies urgently need to digitize all aspects of their operations - from upstream through downstream areas - by building systems that gather information in real time and support follow-up responses. In the last year, we stepped up efforts to move LaaS and nBC online amid the pandemic. We are also progressively accumulating expertise to help create a seamless digital society where there are no barriers between places, environments or systems.

Ten years from now, there will be no place in our industry for system integrators that fail to adapt their business models. That is abundantly clear. As standardization and automation accelerates, companies where engineers simply design, build and maintain systems are likely to fall by the wayside. At the same time, we see growing needs for more advanced security, technology and services amid the shift to multicloud environments, opening up business opportunities for Net One. In other words, to stay competitive, we have to push ahead with our strategic switch to services and build a high-quality business model that supports customers' entire business lifecycles. This transformation also represents the best chance Net One has of delivering growth in the future. We are already taking the first steps down this road.

However, the speed of our transformation is a risk factor. Going forward, we need to automate system design and installation, which is the most time-consuming phase of system development, and engineers will need to focus on generating more value. Talented personnel are more likely to satisfy the complex requirements of customers, but combining standardized components to create systems reduces the risk of system disruption and reduces costs. To verify this approach, we will introduce a standardized menu of tariffs for system development in fiscal 2021. For projects that require more customization, we will systemize efforts to prevent any issues before they occur by continually reviewing system requirements and quality right from the project initiation phase. We also plan to transform employee thinking to fully support this approach.

Measures to Reinforce the Integrated Service Business

Standardizing, automating and autonomizing systems to deliver advanced services by an elite few

We have established GitLab to accumulate, centrally manage and reuse technology IP. Our employees use GitLab to search for and locate know-how, technology and other IP that matches their system requirements, helping to make work processes more efficient. We are also securing rights to IP developed by Net One within customer projects to allow us to reuse the IP in the future. Our goal is to further expand GitLab to support the automation of code generation and other processes. We have already completed automation testing for many processes.

We also implemented a number of structural reforms in April 2021. Under the new structure, the Business Development Division and the Customer Service Division will now lead the development of the Integrated Service Business.

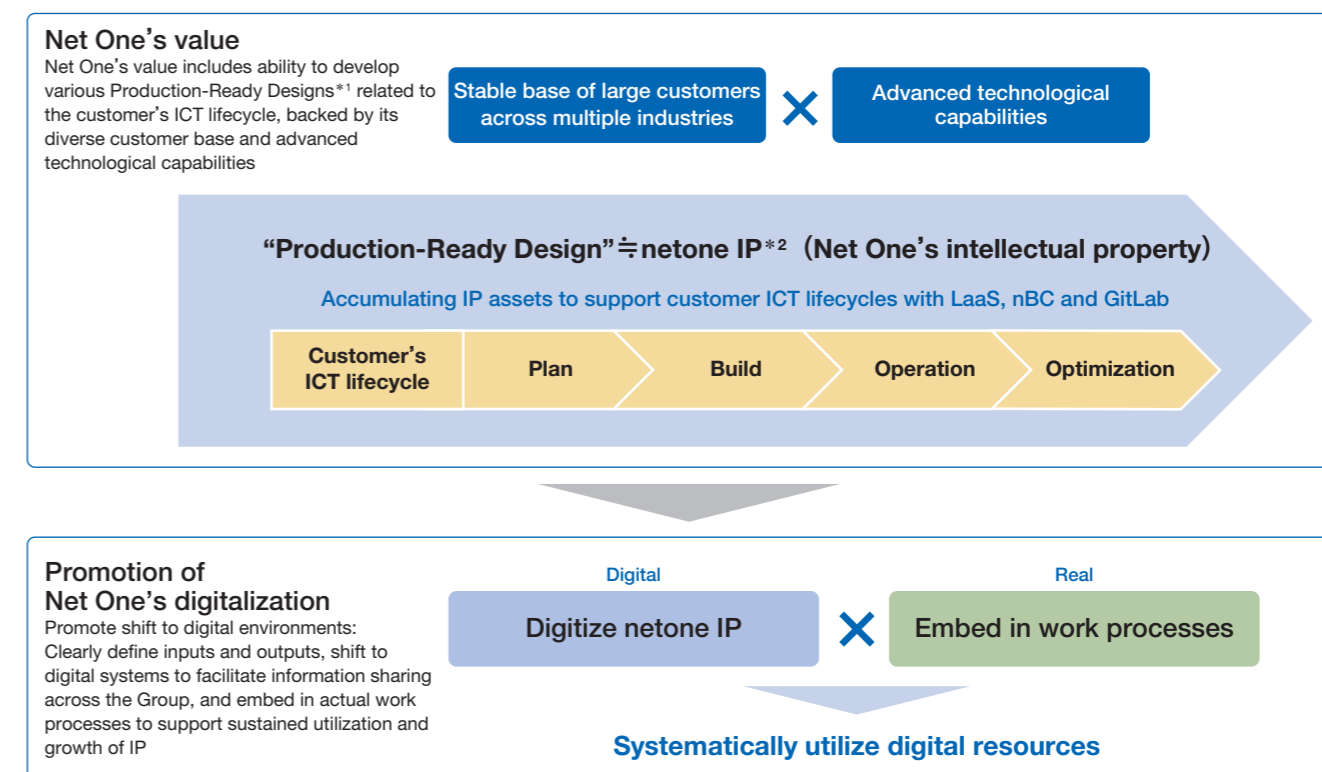
To prepare for future trends, such as the growing shift to multicloud environments, we are currently focusing on testing architecture to support the elastic infrastructure, which offers higher levels of automation and autonomy. The Business Development Division is responsible for vendor relationships and for planning, developing and managing all the products and service platforms that underpin data control and security in multicloud environments, as well as verification testing using LaaS and other tools. The division was restructured in April to ensure the latest technologies are more rapidly introduced into projects.

Also, the Customer Service Division has introduced cutting-edge infrastructure from vendors worldwide, in addition to the latest technologies, to drive the standardization and automation of system operation. With this infrastructure, we have created a platform that automatically responds to low-level security alerts and escalates only high-level alerts to human handlers. We are also promoting internal skill transfers to increase expertise in teams responsible for system security. Together, these measures are designed to reinforce our service provision framework, allowing us to respond to advanced system operation needs without increasing headcount.

In another step, we combined the Strategic Information Office and the Information Systems Department to create

the Digital Transformation and IT Department to accelerate the transformation of our business, including the integrated management of IP. We also appointed a new Chief Information Officer (CIO) to oversee and lead Net One's technology strategy.

Shifting to digital environments to generate more value



* 1 Specification and design data from verified Production-Ready Designs can be used in other projects
 * 2 IP : Intellectual property

Medium- to Long-term Outlook

Building stable, long-term relationships with customers to reinforce our stock business

Our goal is to build a long-term, recurring revenue business model that handles all aspects of customer systems, from optimization, maintenance and operation in multicloud environments to financial modeling. Human resources will be crucial to that approach. The skills they need are likely to change on an almost daily basis. Net One will require engineers who understand all areas of system architecture but who can also participate in sales activities. And we will need sales personnel who can think strategically from the perspective of customer success. We plan to redefine our criteria for human resources in 2021.

In the new Medium-Term Business Plan, which starts from fiscal 2022, we will step up efforts to implement netone DX across all areas of our operations and reinforce our service-focused stock business to drive forward the Integrated Service Business.

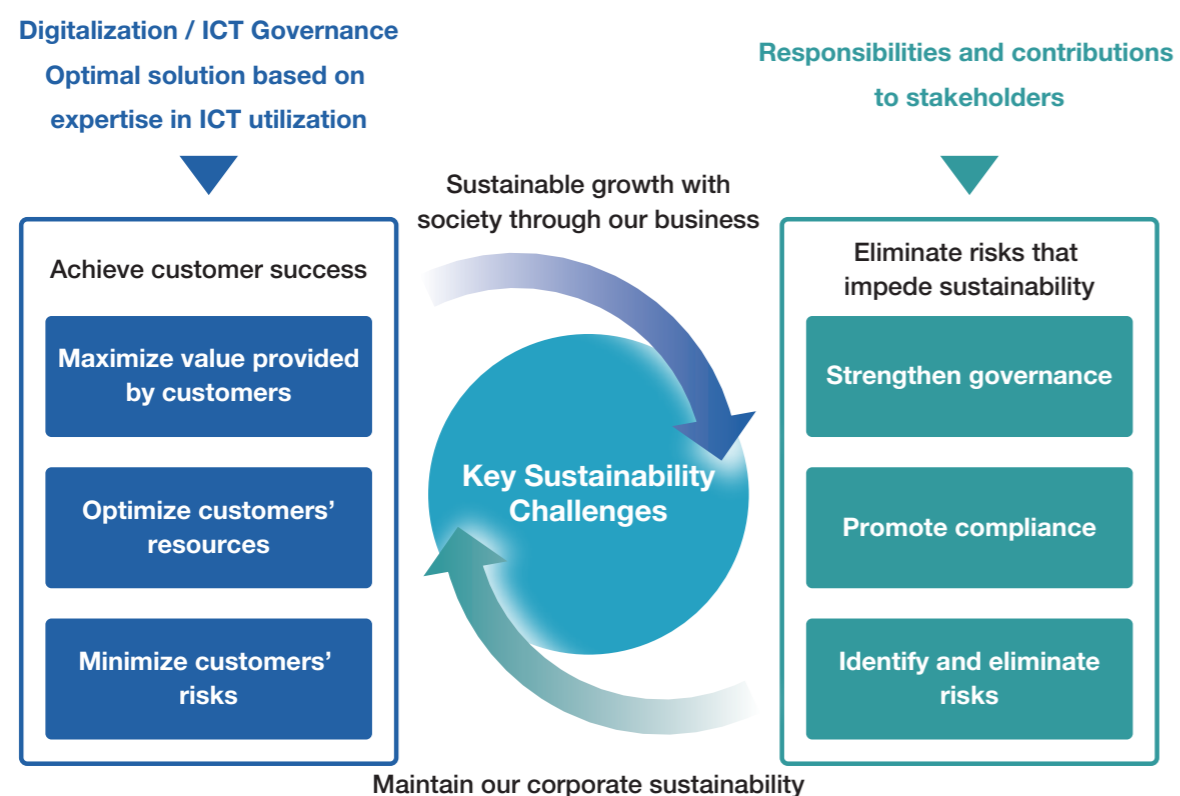


3 Sustainability | Basic Approach and Key Sustainability Challenges

We aim for sustainable growth with society through our business and pursue our corporate sustainability

Basic approach

Our corporate philosophy is “ICT utilization helps us contribute to social innovations and transformations”. We provide our customers with our knowledge and expertise as well as state-of-the-art ICT platforms, which solve their outstanding issues and lead them to success. We have defined key sustainability challenges 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.”



Operation of management system

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

- ISO/IEC27001: Information security management system certification standard
- ISO/IEC27017: Security 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
- COPC® CX Standard CSP Version Release 6.1: Response speed and quality in ICT platform maintenance and operation services

Sustainable growth with society through our business

Key sustainability challenges	Background	Initiatives	Indicators and results
Development of human resources	Human resources are the driving force and imperative to corporate growth. As we utilize the experiences of success and failure in our business as a reference and provide solutions for customers, all the knowledge and experience of our employees are linked to the creation of value-added solutions for our customers.	<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 •Implementing work-style innovations, and providing services and knowledge 	<ul style="list-style-type: none"> •Number of technical qualification holders: 1,479 as of March 31 2021 •Average years worked at Net One Systems: 9.24 years for fiscal 2020
Strengthen Security	Since its founding, the Company has grown with networks as its core technology. In the modern highly informatized society where cloud computing has advanced, the importance of networks and security is increasing and becoming more closely related.	<ul style="list-style-type: none"> •Achieving safe and secure access to ICT networks •Developing and providing cyber security technologies 	<ul style="list-style-type: none"> •Major information security incidents requiring external reporting: 0 •Information security comprehension test: Completed, with a perfect score by all employees
Build Relationships with Stakeholders	Our management vision is to be “an admired company trusted and supported by all stakeholders”. Moreover, we conduct our corporate activities with support, trust and expectations from many people, including our customers. In addition to meeting the expectations and trust of our stakeholders, it is essential for us to contribute to the society of this planet as its citizens, in order to achieve sustainable growth.	<ul style="list-style-type: none"> •Gaining an understanding of customers' satisfactions and changing expectations through continuous customer-satisfaction surveys •Verification of the Company's policies through regular internal surveys •Developing external human resources in the ICT field •Conducting social contribution activities as a member of civil society •Visualizing management and disclosing non-financial information 	<ul style="list-style-type: none"> •The holistic satisfaction level of customer-satisfaction survey (satisfied and somewhat satisfied): 91.2% •Internal opinionnaire: employees' satisfaction level (compared to the previous year) increased by 0.19 points •Adoption as the ESG index
Improve and Reinforce the Business Base	Based on its management vision, 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, it is essential to enhance and strengthen corporate governance to realize transparent and fair decision-making in a swift and decisive way.	<ul style="list-style-type: none"> •Strengthening management systems for governance and risks •Promoting compliance •Inculcation of our corporate philosophy •Promoting netone DX 	<ul style="list-style-type: none"> •Status of implementation of measures to prevent recurrence of irregularities •Progress of netone DX
Provide New Value	We have enhanced our expertise and our unique role in connecting various types of networks, while also supporting our own innovation. Currently, we aim to structure the process of netone DX and provide it as a solution for our customers, and to create new value together with our customers	<ul style="list-style-type: none"> •Creating value co-creation opportunities to promote ICT utilization •Providing services and knowledge to achieve customer success that contributes to the innovation necessary to realize a sustainable society 	<ul style="list-style-type: none"> •Service bookings (fiscal 2020): ¥89.4 billion •NetOne Blog* Annual number of posts (fiscal 2020): 89 •Number of references (actual number of cases in fiscal 2020): 18 •Orders for support for MSPs (fiscal 2020): ¥8.6 billion
Utilize ICT to Reduce Environmental Impact	As a global and social citizen, it is our corporate social responsibility to protect the environment, thereby ensuring that the world's rich environment is preserved for future generations.	<ul style="list-style-type: none"> •Reduction of energy consumption 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: ¥2.0 billion (fiscal 2020)

*As a point of contact with new customers, the blog aims to increase awareness of Net One and strengthen engagement by building trust.

3 Sustainability | Stakeholder Engagement





Relationship between Net One and our stakeholders, society, and the environment

We aim to contribute to our customers, partners, shareholders, and employees, as well as to society and the environment.



Stakeholder engagement

In order to achieve our goals, we will fulfill four responsibilities that we must carry out.

Mission statement	Dialogue methods and activities
 <p>Responsibility to customers - The success of our customers' businesses - We will contribute to customer success by optimizing ICT utilization, with the aim of realizing a sustainable society together with our customers.</p>	<p>We are engaged in customer satisfaction surveys and dialogue with customers. In the fiscal 2020 customer satisfaction survey, 91.2% of respondents were satisfied or somewhat satisfied, an increase of 1.8 percentage points from the previous survey.</p>
 <p>Responsibility to partners - Maintaining a win-win relationship with our partners - We will work together with our partners to build fair relationships, while adhering to rules and social norms and supporting the growth of our customers, with the aim of realizing a sustainable society together with our partners.</p>	<p>We have formulated the Partner CSR Guidelines to share our philosophy and policies with our suppliers. In fiscal 2020, we once again conducted compliance questionnaires to gain an understanding of the situation of our partners and build relationships based on mutual understanding.</p>
 <p>Responsibility to shareholders - Continuous growth of the Net One Group - We will promote sustainable business growth and solutions to social issues by implementing in-house innovation and providing our experience and knowledge as services, with the aim of realizing a sustainable society.</p>	<p>We disclose information and actively engage in dialogue with market participants in accordance with our disclosure policy. In fiscal 2020, the Company's Chairman and President held meetings with investors in Japan and overseas 32 times, while the Public Relations & Investor Relations Office held 235 investor meetings.</p>
 <p>Responsibility to employees - Pursuing the happiness of our employees - We will provide a rewarding workplace where all employees can thrive, based on moral and ethical principles, and we will foster an environment of mutual respect for each other's character.</p>	<p>Net One 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 employees' health. We are also promoting the concept of RCT*. We conducted internal awareness surveys in fiscal 2020 as well, to verify our measures.</p>

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

3 Sustainability | Improve and Reinforce the Business Base

Basic approach to corporate governance

Our management vision is to be "an admired company trusted and supported by all stakeholders". 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.

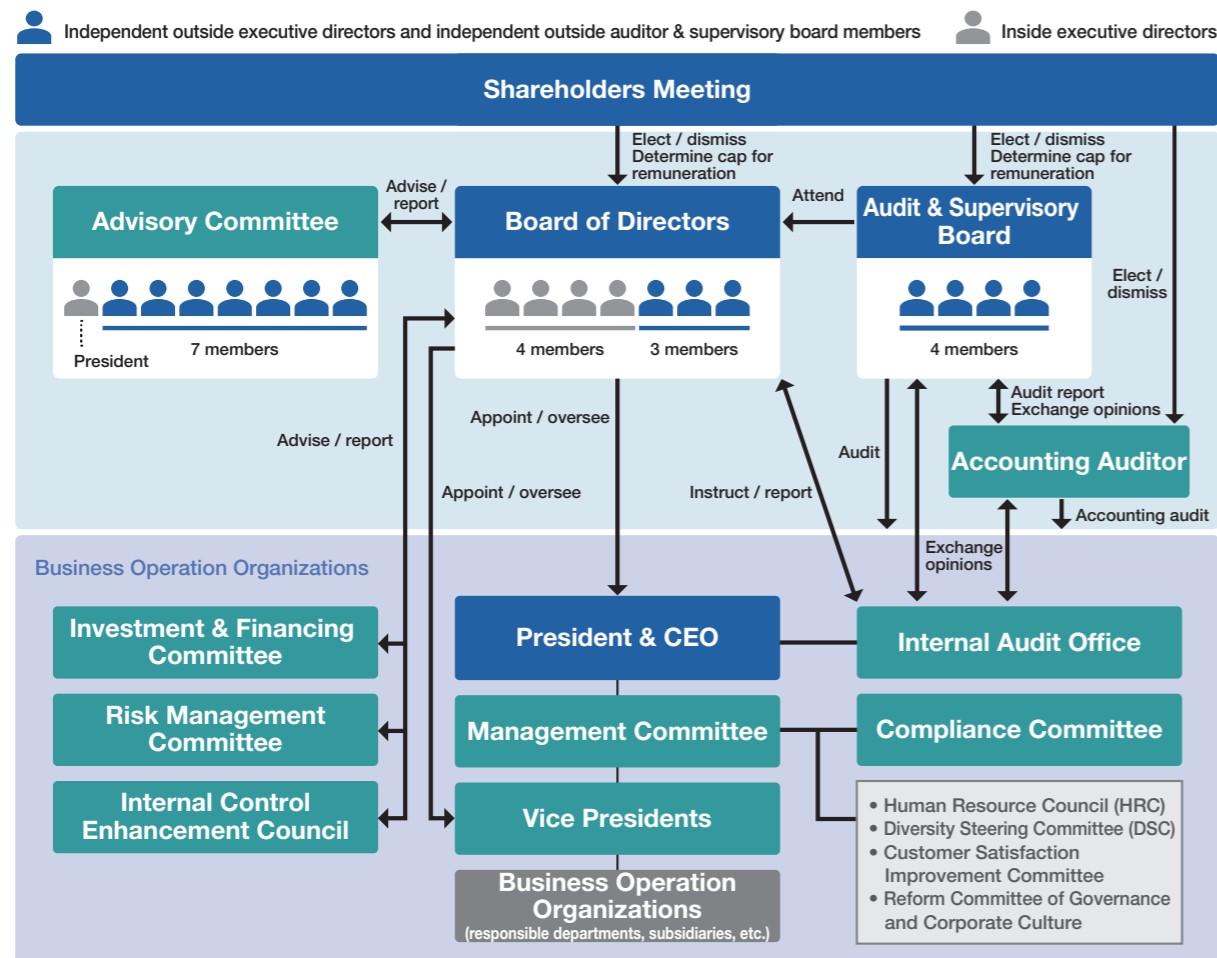
Based on its management vision stated above, the Company advocates sustained growth as its foremost priority. In order to attain this objective and to enhance its corporate value over the medium to long term, the Company continuously strives to enhance and strengthen corporate governance to realize transparent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

Progress in strengthening corporate governance

	Board of Directors / Audit & Supervisory Board	Committees	Other
- 2005	<ul style="list-style-type: none"> One outside executive director appointed (2004) 	<ul style="list-style-type: none"> Compliance Committee established (2003) 	<ul style="list-style-type: none"> Group Compliance Manual established (2003)
2006	<ul style="list-style-type: none"> Term of office for executive directors reduced from two years to one 		<ul style="list-style-type: none"> Whistleblower system introduced
2007		<ul style="list-style-type: none"> Risk Management Committee established Investment & Financing Committee established 	
2009		<ul style="list-style-type: none"> Advisory Committee established Vision Inculcation Committee established (-2015) 	<ul style="list-style-type: none"> Vision Book published
2011			<ul style="list-style-type: none"> Vice President system introduced
2012			<ul style="list-style-type: none"> Stock option compensation system introduced
2015	<ul style="list-style-type: none"> Female outside executive director appointed 	<ul style="list-style-type: none"> Compliance Committee and Risk Management Committee integrated as the Risk & Compliance Committee 	<ul style="list-style-type: none"> Corporate Governance Guidelines published
2016	<ul style="list-style-type: none"> Assessment of effectiveness of Board of Directors started 		
2017			<ul style="list-style-type: none"> Audit & Supervisory Board member contact point added to compliance reporting and advice line
2020		<ul style="list-style-type: none"> Risk & Compliance Committee divided into Risk Management Committee and Compliance Committee Vision Inculcation Committee reestablished 	<ul style="list-style-type: none"> Sales Supervisory Office established Vision Book revised
2021		<ul style="list-style-type: none"> Vision Inculcation Committee renamed to Reform Committee of Governance and Corporate Culture Internal Control Enhancement Council established 	<ul style="list-style-type: none"> Compliance Office established Business Control Division and Business Planning Office established

3 Sustainability | Improve and Reinforce the Business Base

Governance structure



Key elements of corporate governance structure

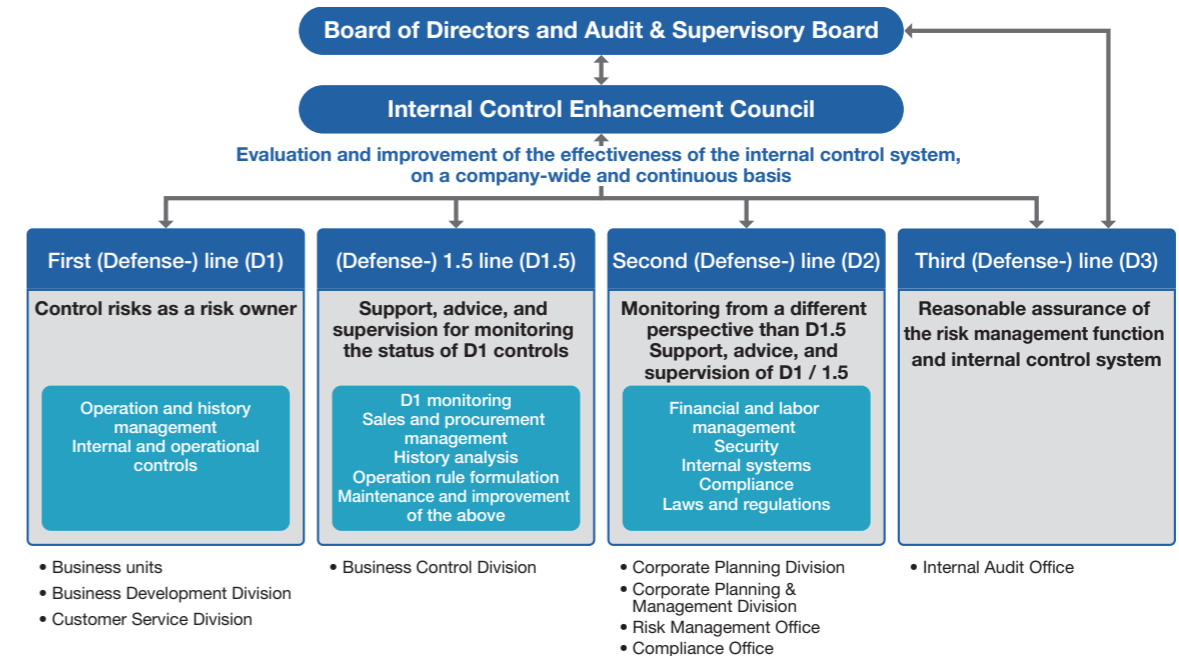
Fiscal 2021		
Governance structure: Company with an Audit & Supervisory Board	Term of office for Executive Directors: 1 year	Number of independent executives: 7
Number of Executive Directors: 7	Number of Independent Outside Executive Directors: 3	Number of Board of Directors meetings: 15 * In FY2020
Number of Audit & Supervisory Board Members: 4	Number of Independent Outside Auditor & Supervisory Board Members: 4	Number of Audit & Supervisory Board: 13 * In FY2020
Vice President System ✓	Advisory Committee ✓	Accounting Auditor Grant Thornton Taiyo LLC

Establishment of the Internal Control Enhancement Council

Overview of the Internal Control Enhancement Council

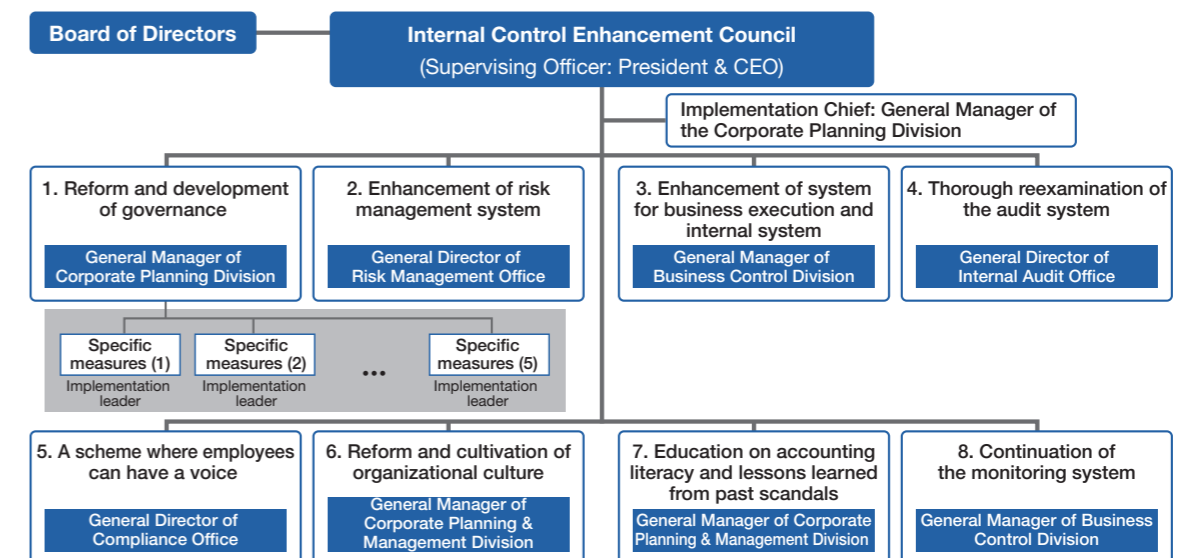
In March 2021, after receiving recommendations from the external investigative committee on an analysis of the causes of fraudulent transactions and measures to prevent recurrence, the Company started the activities of the Council in April, with the aim of strengthening its overall internal control system with a focus on the three (Defense-) lines model, which promotes governance and risk management.

In its three (Defense-) lines model, the Company has established its own (D-) 1.5 line. In order to ensure active and substantial communication between the management departments and business divisions, which have experienced problems with individual optimization, the Company has established a new Business Control Division, and ensures discipline as well as the establishment of highly effective operation rules.



Implementation system

The President & CEO is appointed as the supervising officer, while the Vice President and General Manager of the Corporate Planning & Strategy Division is appointed as the implementation chief. The Company has appointed a person in charge for each of the eight recurrence prevention measures, from among the Vice President and General Manager in charge of the management divisions and General Managers of the organizations who report directly to the President. Under each person in charge, a General Manager of the department or office responsible for implementing specific measures is assigned as the implementation leader. Based on the above, measures to prevent recurrence are implemented on a company-wide, cross-sectional organizational level.



Increasing the effectiveness of governance and reinforcing organizational resilience to underpin long-term growth



Shigeki Kusaka
Independent Outside Executive Directors

Ryugo Hayano
Independent Outside Executive Directors

Maya Ito
Independent Outside Executive Directors

We sat down with the Company's independent outside executive directors to discuss their role in Net One's new management structure, how to improve the effectiveness of measures to prevent misconduct, and issues that need to be overcome to achieve long-term growth.

The role of independent outside executive directors in the new management structure

Ito : I was appointed as an independent outside executive director from fiscal 2021. As a lawyer, I've helped to develop effective internal whistleblower systems for corporate clients, including working as the primary contact for whistleblowers and conducting employee questionnaires, with a focus on compliance. Using knowledge gained through that work, I hope to help reinforce Net One's organizational resilience to underpin future growth.

Kusaka : I've now been in my position for a year and I feel that the functions of independent outside executive directors have not yet been fully embedded in Net One's organization. There still seems to be some sort of disconnect between inside and independent outside executive directors. With the external investigative committee also recommending more input from external executive directors, I intend to be more actively involved in discussions under the new management structure to take a more prominent role in Net One's future.

Hayano : I was appointed as the Chairman of the Advisory Committee from fiscal 2021. Since becoming an independent outside executive director in 2018, the Company has uncovered several cases of misconduct. This has motivated me to work even harder to increase Net One's corporate value and restore trust in the Group. My track record in the ICT sector goes back to before the term "internet" had even been coined. Leveraging that experience and my expertise as a university lecturer, I intend to conduct detailed discussions with the Company's executive directors and vice presidents about how we should address customer needs as the Group pivots to services, and what skillsets our employees require to support that shift.

Improving the effectiveness of measures to prevent misconduct

Hayano : Under Net One's previous management structure, it was hard to see a clear separation between the functions and roles of the Board of Directors and the Management Committee. With the new structure, which has been overhauled to ensure no further cases of misconduct, management and executive functions have been separated, clarifying the roles and responsibilities within the organization and in the minds of senior managers. Directors are now clearly responsible for business oversight, while vice presidents are focused on business execution.

Kusaka : We have implemented more than 80 targeted measures to prevent misconduct in the future, resulting in a sophisticated business framework. These steps are undoubtedly necessary, but all we have done at this stage is build the platform and tools to support sound business management. More importantly, we have to make full use of these tools and ensure they are well-established within the Group. We implemented similar measures in the past in response to other cases of misconduct. However, we were too complacent and failed to check whether they were embedded in our organization. So, what do we have to do to ensure the measures are effective this time? Put simply, there has to be enthusiasm for reform at the senior management level. I've heard some people say that the message from senior management is not reaching employees. That has given the sense that senior management is ineffective, which has been reflected in employee behavior. Senior managers now need to show how enthusiastic and committed they are to long-term reform.

Hayano : It's also important that we foster a corporate culture where every single person working in the Group "does the right thing." Making rules and being aware of them is only the beginning. The next stage is to ensure everybody is sincerely committed to complying with the rules. Instead of squaring away the latest misconduct as an accounting issue, we need to take a long, hard look across our organization to find signs of anything, however small, that could undermine Net One's corporate value, report them without hesitation to managers and deal with them as an organization. Changing our corporate culture will not be easy, but now is the time for every part of the Group to do just that.

Ito : I agree with Mr. Kusaka. Net One's measures to prevent misconduct go well beyond what other companies have done in similar situations. Going forward, the active involvement of senior management will be crucial. Managers unfortunately become more distant from employees when they are appointed to the board or other senior positions, but I think senior managers at companies in general increasingly need to communicate directly with employees to ensure the workforce grows with the company. As an independent outside executive director, I aim to hit the ground running and offer insights from various perspectives, including how to address the risk of misconduct.

Kusaka : The Company is looking into creating opportunities for dialogue between independent outside executive directors and employees. I think it's a good idea, because one of the roles of independent outside executive directors is to offer a different perspective from internal management in the evaluation of organizations and personnel to help the Company select future business leaders. Until now, almost all this work has been carried out within the Board of Directors, which doesn't give independent outside executive directors the opportunity to get a full and detailed picture of the candidates. I also think we should foster future leaders by giving employees involved in business execution more management experience. This is something we need to do without delay. In particular, we have to deepen communication with employees who are being lined up for future management roles to get a clearer picture of who they are, right down to their personality traits.

Addressing risks and issues related to medium- to long-term growth

Ito : I used to work for one of Japan's megabanks, which has a long and venerable history. At Net One, I've caught some glimpses of vulnerability in its organization, when compared to more established companies. That probably reflects the fact that Net One has expanded rapidly in a short time without putting solid foundations in place, such as compliance and internal control systems. I think Net One needs to proactively learn from other companies, even if they operate in different markets or have different business models. As an independent outside executive director, I want to support that process by introducing better ways of doing things from outside the Company.



Kusaka : In the past, Net One had a very simple role: selling the latest communications equipment and technologies to Japan's leading telecom carriers. More recently, Net One's customer base has expanded to include conventional companies and local governments, and its business model has pivoted away from pure equipment sales to integrated solutions covering both services and equipment. Typically, when a company changes its business, it also needs to overhaul its organization, including reinforcing corporate divisions. Net One's current management team understands this and is rebuilding the relationship between corporate and sales divisions.

Hayano : Reinforcing research & development will also be key to Net One's further growth. Without doubt, technological capabilities have been Net One's main strength so far. To develop the Integrated Service Business, we have to work out which service packages generate the most profits. To do that, we will need to level-up research & development capabilities to meticulously analyze the outcomes of each project. In today's world, where ideas and technologies rapidly become obsolete, we have to create services with long lifecycles. That will mean investing quite substantial amounts in research & development.



Kusaka : Companies that achieve success in one business are usually slow to develop their next ones. Also, when a company is overly dependent on its primary business, it can end up losing its initial market to new entrants from other sectors before it has worked out its strategy for secondary businesses. That's why Net One has to add other strings to its bow to complement its existing technological strengths and support the next phase of development. In sales as well, we have to develop truly effective proposals that are almost strategic in nature, based on a clear understanding of industry trends, market characteristics and conditions in customer businesses. To do that, we will have to improve the skills of employees, and in some cases, explore M&A opportunities to bring in new blood.

Ito : Looking ahead, Net One might need to consider extending the scope of its target markets. For example, expanding its presence in Asia, such as providing services to Southeast Asia's growing companies, could support the Company's sustained growth. Similarly, the accelerating shift to digital systems and technology offers the opportunity for Net One to utilize ICT in more fields, just as we are seeing with the GIGA School Program.

Hayano : To address those kinds of social needs, Net One will need to reinforce management from the perspective of sustainability. We have to revisit the way we contribute to the environment based on the latest trends in society and within the Group, as well as promote women to management level positions. The proportion of women in Net One's workforce is rising, underscored by the higher ratio of new female recruits, so we need to put in place training systems that give them the best chance of success.



Ito : Yes, human resources development will definitely need a framework that is tailored to the needs of diverse human resources, including women. Diversity is a key part of Japan's revised Corporate Governance Code, so it's a theme we should be focusing on. I believe I can contribute to Net One's efforts in this area as somebody who is directly involved in promoting diversity.

Creating an audit system optimized for changes in society and business models

Audits tailored to the characteristics of Net One's business

In my 34-year career as a certified public accountant at several auditing firms, I have worked on audits of many listed companies across different industries. Drawing on that expertise, my duty as a member of the Audit & Supervisory Board will be to conduct appropriate audits under the Company's new management structure. In a previous role auditing a game software company, I saw how value can be created through the accumulation of intellectual property assets. I therefore understand how business practices in the ICT sector differ from those in the conventional manufacturing sector. Net One is also involved in the relatively new industry of network infrastructure, so instead of conventional audit approaches, we have to design audits that are optimized to the characteristics of its business, while also ensuring accuracy and compliance.



Kazuhiro Noguchi
Full-time Independent Outside Auditor & Supervisory Board Member

Radically overhauling the audit system

We are radically overhauling Net One's audit system as part of the package of measures to prevent any further cases of misconduct. The overhaul is far-reaching and elaborate. The Internal Audit Office is tasked with implementing some of the reforms, which are aimed at strengthening audit policies to ensure the Group has the ideal framework to support sustained growth. My feeling is that the reforms are heading in the right direction. Implementing the system and measures appropriately should also naturally lead to an improvement in dialogue between management and employees.

Looking at previous cases of corporate misconduct, some companies have continued to repeat their mistakes, despite reinforcing controls and approval procedures after the original misconduct. In many cases, it turns out that "people" are the reason for the problem, and of course, organizations are formed from people. Control systems only start to be effective if we train people to speak out about any concerns they have, rather than using a top-down approach to compel them to follow stricter rules. Net One employees are probably a bit on edge at the moment, but by continuing to follow the correct procedures and make the right decisions, they should steadily acquire solid foundations for basic conduct. Net One is likely to change as a company as these measures are implemented.

As a full-time independent audit & supervisory board member, I will personally assess controls in sales divisions and carefully monitor operations to gain a deeper understanding of Net One's frontline business. I will also conduct painstaking checks of operational controls and financial reporting systems at consolidated Group companies. And to ensure there are no gaps in our three-way audit system, we will improve communication between the accounting auditors and Internal Audit Office to support substantive audits, while also joining management bodies and committees to clearly communicate measures to our personnel, ensuring appropriate business operations.

Audit & supervisory board members are also responsible for overseeing the executive actions of directors. To ensure oversight is effective, senior management needs to reflect our advice and insights in the decision-making process. My feeling is that the current management team is fully committed to making the necessary improvements, which is driving real progress in the Company's audit system.

Contributing to Net One's growth as an Audit & Supervisory Board Member

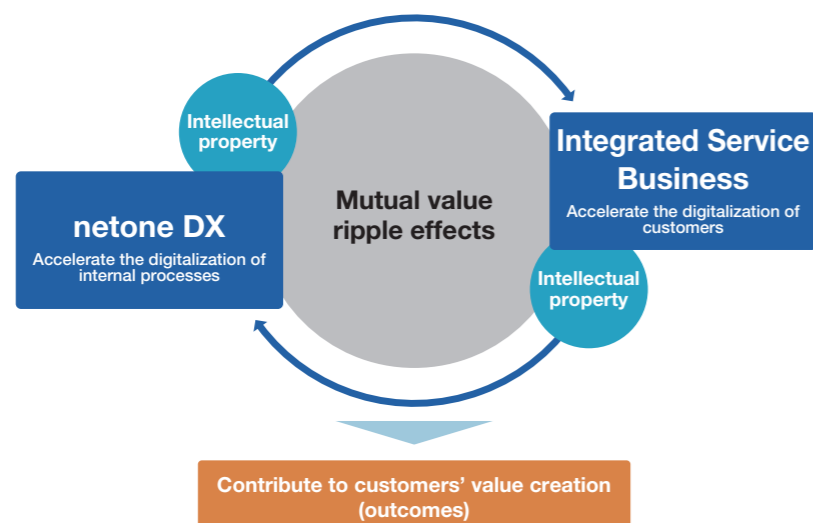
In addition to reforms to address cases of misconduct, the audit system also has to change to keep up with developments in business models. Net One's Integrated Service Business develops proposals based on the use of ICT assets over a long-term cycle. That creates difficulties from an accounting standpoint, such as the timing of sales recognition and how costs are apportioned. Customers also have a wide range of demands, which can change on an almost daily basis. That kind of business needs employees with a higher level of accounting literacy to help them develop cost estimates using historical data, supporting decisions on whether to accept orders and enabling appropriate accounting procedures. From an operational perspective, we will also need to continuously review budget and project cost analysis methods and project approval procedures to ensure monitoring and business process control systems continue to evolve.

Japan's Corporate Governance Code was revised in June 2021, raising the bar for what is expected of Audit & Supervisory Board members. As a full-time audit & supervisory board member, I will fulfill my audit duties while steadily adapting our approach to changes in Net One's business and society in general.

3 Sustainability | 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. The Company is currently aiming to transform itself into a service-oriented business model in the digital age through the acceleration of both netone DX and the Integrated Service Business. By working on netone DX, we will accelerate the digitalization of internal processes, and achieve improvements in productivity through automation and quantification. At the same time, we are supporting the acceleration of digitalization of our customers by implementing the Integrated Service Business, and rebuilding our relationships with our customers. We will contribute to the creation of value (outcomes) for our customers through ICT utilization, by creating mutual value ripple effects through the coordination of all of our intellectual properties.



Initiative 1: Accelerating netone DX

We are focusing on the digitalization of data and the operation processes necessary to provide lifecycle services to our customers, and on strengthening the coordination of our corporate platform for data sharing. In implementing DX, behavioral changes are also required, including a review of our organization and personnel systems, in addition to digitalization of our operation processes. In March 2020, we launched operations at the Employee Service Center, and subsequently during fiscal 2020, with an eye on the COVID-19 era, we have been studying ways to improve the quality of work irrespective of time and place under the theme of “work styles in the COVID-19 era and the acceleration of netone DX.”

Key initiatives	Details of Initiatives
March 2020 • Launched operations at the Employee Service Center	• Established a framework for personnel services. In addition to providing six services, such as the issuance of certificates of employment and social security, it also allows for analysis of person-hours and tendencies for each task.
First half of FY2020 • Established countermeasures against COVID-19 • Expanded the inquiries function of the Employee Service Center	• Started trial operations of a chatbot for inquiries regarding FAQs, for the COVID-19 Countermeasures Headquarters • Implemented a request system for commuting to offices under the COVID-19 pandemic • Implemented a physical condition reporting system • Provided functional modifications of released services
October 2020 • Shifted to a personnel system that matches work styles centered on telework	• Changed operations to have employees who are commuting to offices submit an application in advance, in accordance with the policy of teleworking in principle • Changed from a commuting allowance system, to a reimbursement system for actual transportation costs • Established a new work-life balance allowance to support working from home • Shifted to attendance management that matches telework, by introducing performance-based work based on job descriptions and a deemed work system • Established a system for changing work locations (from April 2021)
From the second half of 2020 • Studied office concepts and work spaces	• Reduced the number of office floors (from May 2021) • Created an environment to improve facility utilization through the use of ICT

Initiative 2: Accelerating the Integrated Service Business

In order to accelerate the digitalization of our customers, we are working on initiatives to increase customer contact points and strengthen the provision of intellectual property, with the aim of strengthening customer engagement based on a more customer-oriented perspective. Specifically, we are working on measures to enhance the references provided to customers through netone on netone, and utilizing and passing on technological intellectual property for enhancing the references.

Strengthening customer engagement

netone Briefing Center

This is a facility to visualize the elements required for DX, to design the architecture of the customer's overall system, and to interact with the customer for value co-creation. In addition to clarifying DX policies of our customers, examining the necessary ICT platforms, formulating plans, and conducting demonstrations, we also conduct workshops that focus on the outcomes of ICT utilization.

Lab as a Service

The Lab as a Service launched operations in 2020, as a multi-cloud verification facility to jointly demonstrate the functionality and operability of new ICT platforms in a virtual environment, in order to accelerate customers' DX. Currently, we are accumulating verification knowledge for design and installation, and working on digitalizing the process for utilizing such knowledge.

netone on netone

In addition to introducing our ideas for business innovation in the digital age, work style innovations in response to the COVID-19 pandemic, and our case studies on cloud computing and business systems to individual customers, we also introduce many of our findings on our NetOne Blog.

Related indicators

- Reference: Actual number of cases: 18 (fiscal 2020)
- Annual number of posts on NetOne Blog: 89 (fiscal 2020)

Examples of initiatives

Building a Citizen Relationship Management platform to digitalize administrative services

We have built a Citizen Relationship Management (CRM) platform for connecting the local government of Higashi-Hiroshima City with its citizens, using ServiceNow's Now Platform, a cloud platform for business use.

This platform provides guidance and service instructions that are tailored to the needs of users, by retaining the user information of citizens. By combining this platform with Digital Garage's message delivery platform, CONNECT BAY, it can be linked to the LINE app while protecting personal information, thus realizing services with enhanced user convenience. In addition, because the platform is capable of updating content and implementing services in a low-code or code-less format, it allows for quick in-house responses to requests from citizens to add or improve functions, thereby contributing to the enhancement of the city's digital services, from the citizens' perspective.

* The company names and product names mentioned above are trademarks or registered trademarks of their respective owners.

4 Review of Operations | Message from the Director in Charge of Business Units

Steadily implementing the Medium-Term Business Plan by working closely with partners to develop value-added proposals while carefully monitoring developments in the business environment



Takuya Tanaka
Executive Director, Executive Vice President
In charge of business units*
(East Japan Business Unit 1, East Japan Business Unit 2,
Central Japan Business Unit, West Japan Business Unit)
*In May 2021, when the message was written,
Mr. Tanaka was also in charge of
the Corporate Planning & Strategy Division.

Business Environment

In fiscal 2020, ended March 31, 2021, we made steady progress towards the targets in our Medium-Term Business Plan, despite dramatic changes in the business environment caused by the COVID-19 pandemic, which had only a modest impact on the Group's operations overall. However, we faced calls from some of our customers and partners to overhaul our business relationships with them after the discovery of cases of misconduct. In fiscal 2021, ending March 31, 2022, restoring trust in Net One Systems and rebuilding relationships with all stakeholders will be our priority issue.

Conditions in the Business Environment and Performance in Each Market

Accurately identifying risks and opportunities in each market to develop high-value-added proposals

· Enterprise market

After the declaration of the state of emergency in April 2020, growth in remote working supported firm demand for related security measures and cloud platforms. In the manufacturing sector, demand was slightly weak due to reduced appetite for investment and delays to some projects amid the pandemic. After a temporary lull, the shift to digital systems and technology continues to accelerate in the manufacturing sector, so we will continue to focus on the smart factory market in fiscal 2021. We will also offer business life cycle solutions services that encompass solutions, services, finance and other fields to support all areas of customers' corporate groups, which should also open the door to comprehensive "grand design" proposals in the future.

Guided by these strategies, we plan to accelerate the Integrated Service Business by extending our customer base beyond the ICT divisions of major companies that are our key customers to target all their divisions, as well as companies in different sectors and with different business models.

· Telecom carrier market

Our business was strong in this market, spurred by upgrades to communication networks related to growth in remote working. In addition to service platform integration, we will continue to work closely with telecom carrier customers, including providing support for enterprise businesses and MSPs, to facilitate the shift to digital systems and technologies and enhanced security at private sector companies and public institutions. For communication facility-related business, we will need to keep a close eye on the characteristics and profitability of each project but also carefully address customer needs. We plan to actively participate in projects with good prospects for shared value creation while also monitoring market conditions.

· Public market

The school systems market expanded in fiscal 2020, driven by the government's GIGA School Program. Targeting business opportunities from the program, we leveraged our ability to formulate high-quality proposals and the frontline capabilities of our engineers and sales personnel to improve order success. Those efforts, along with growth in direct business with local governments, led to higher sales and profits in the public market. However, in the healthcare market, ICT investment by hospitals stalled due to the impact of the COVID-19 pandemic. We plan to step up our efforts in the healthcare market, which will be part of our strategy in the next Medium-Term Business Plan.

We expect system upgrade demand to gain momentum in the public market, including increased investment by local governments to create next cloud-based information security platforms and resilient systems. We aim to expand earnings in the public market by providing value-added proposals. That will mean redeploying personnel, working closely with consolidated subsidiary Net One Partners Co., Ltd. and building stronger relationships with partners that have close links to public institutions and local customers.

· Partner business

Sales in the partner business were weak, reflecting the impact of COVID-19 on partner companies and a review of business relationships with some partners after the discovery of cases of misconduct. However, our business relationships are gradually recovering and we expect the impact of the pandemic to ease somewhat in fiscal 2021. Going forward, we plan to rebuild our joint business model with partners and reinforce our position as a "high-value distributor." We will also extend our reach into new business fields, such as operation technology (control and operation of facilities) in the manufacturing sector.

Developing New Models

Aiming to provide remote working solutions to SMEs through our MSP model

Under the current Medium-Term Business Plan, we are establishing new models, such as providing support for MSPs and developing the refurbishment business.

In fiscal 2020, we booked a large rise in orders for MSP support, backed by the joint development of new services for the remote working market. Businesses are being encouraged to switch to remote working that is independent of specific locations, but only around 10% of Japanese companies, primarily large enterprises, have adopted that approach. Remote working is expected to become more common at SMEs. Through the MSP model, which allows us to approach more customers, we expect to capture a greater share of the SME market and generate solid growth. The use of remote working varies widely between regions and companies, so our solutions provided via MSPs will help companies close that gap. In addition, our solutions should encourage companies to migrate to 5G technology, which will be a tailwind for Net One, and using the highly efficient MSP model to develop new proposals will also boost profit margins.

The refurbishment business is still seeing demand from customers who want to optimize their ICT investment and system operation costs. However, orders fell short of our target due to delays in new projects amid the pandemic. Despite that, we achieved our profit target, thanks to high profit margins in the business.

In the MSP model, semiconductor shortages are leading to equipment delivery delays, which could restrict growth. We think the refurbishment business is well-placed to solve this issue. Our service business, which is also struggling to procure semiconductors, could also source and supply alternatives from the refurbishment business. One of the features of the business is that it can add new capabilities to meet customer needs in various ways. We plan to explore this potential going forward.

4 Review of Operations | Message from the Director in Charge of Business Units

Outlook

Backed by a new management structure, the Net One Group will develop a new strategy tailored to the latest market trends

Our main priority in fiscal 2021 is to achieve the final-year targets of the Medium-Term Business Plan. Also, we will step up efforts in strong-performing markets to create shared value with customers who understand and recognize the value that Net One provides.

Based on the assumption that the major changes in the market in 2020 are now here to stay, we will identify new opportunities and formulate a new strategy for the next Medium-Term Business Plan, backed by the Group's new management structure. We are also looking at updating the way we develop medium-term plans. Specifically, we want to link top-down management thinking with bottom-up employee ideas to develop a well-defined strategy that represents the whole Net One Group. Along with rapid messaging and promotion of the plan, we think this approach will increase awareness of the strategy and encourage every employee to act more independently.

Human Resources

We have launched a radical overhaul of human resources systems to prevent further cases of misconduct — a priority issue for the Group. We have also formulated a new Human Resources Development Policy and revised the Code of Conduct to encourage employees to grow and develop independently. We will build a corporate culture with bottom-up input in business management and focus on strategic human resources who can grow with the company.

New Human Resources Development Policy

Creating an organization of independent-minded employees who always do the right thing

To prevent further cases of misconduct, we are revising regulations and guidelines, refreshing Net One's corporate culture and overhauling personnel systems. One of the issues with our previous human resources strategy was a lack of clarity about which division was responsible for devising and executing strategy. The mission of the Human Resources Department has been redefined to cover this role. Going forward, the Human Resources Department will lead the development and provision of training programs for employees, monitor implementation and uptake, and make improvements as needed. The goal is to reinforce and embed compliance in our organization and strategically train personnel.

From fiscal 2021, our new Human Resources Development Policy is to "help every employee grow and develop independently." In line with the four core elements of our Personnel Training Strategy, which is underpinned by the netone Group Code of Conduct and the new Human Resources Development Policy, we will implement a range of training programs to reinforce skill levels and expertise in areas such as accounting literacy, compliance and J-SOX regulations.

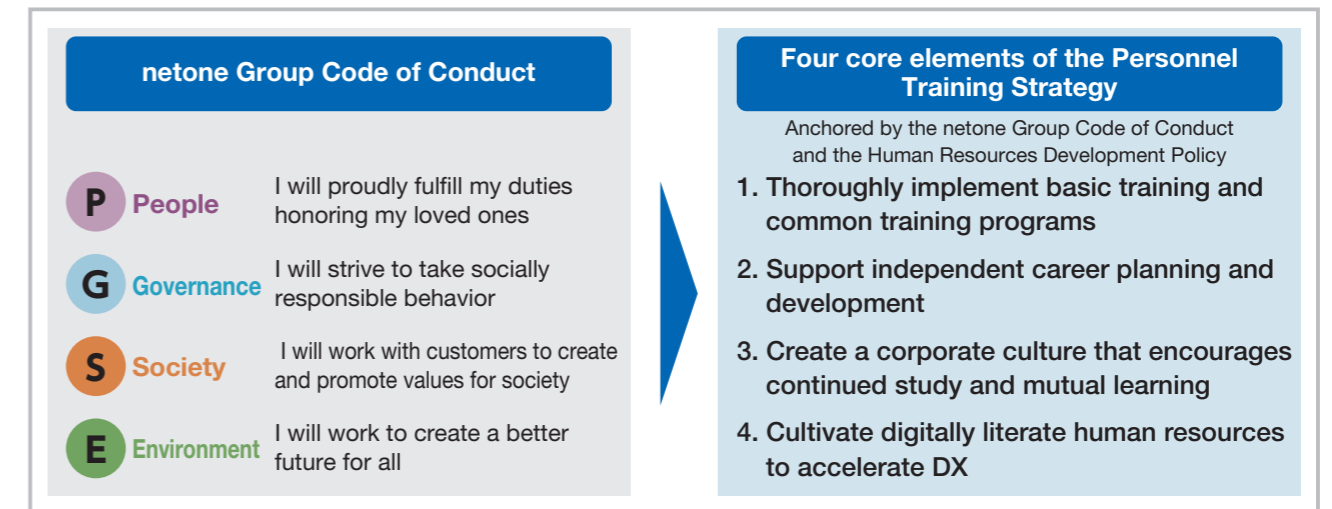
From my perspective as the executive director in charge of the Corporate Planning & Strategy Division (until June 22, 2021), I want every employee to have the skills to make the right choice by themselves, without relying on others to guide them. Our aim is to create an organization that continuously improves — where our employees, regardless of seniority or position, can advocate and push through their best ideas, and where every person asks themselves whether current approaches really are the best way of doing things. I am confident that our new Human Resources Development Policy and Personnel Training Strategy will help us create that kind of organization. Becoming rich in human nature and personality, a more humane person can only come from within, but as an organization, we need to gain a clearer picture of the individual differences and traits of each employee and think about how we can extend a hand of support to them to complement our personnel systems.

Human Resources Development Policy and Personnel Training Strategy

Human Resources Development Policy

Help every employee grow and develop independently

Personnel Training Strategy



Creating a Diverse Organization

Pursuing true diversity by focusing on promoting employees at the business execution level

Net One Systems has one female independent outside executive director and one female independent outside auditor & supervisory board member, but we need to promote more women to senior positions. Some of our employees are currently taking part in the Japan Women's Innovative Network (J-WIN), an organization committed to cultivating female business leaders, to independently map their career paths.

To create a truly diverse organization, we have to promote women to senior executive positions, while also increasing the proportion of women and foreigners on the Board of Directors. To achieve that, we have to help employees build up a wide range of experiences and provide our full backing to promising managerial candidates as part of a supportive and motivating corporate culture. We will also explore other ways of ensuring greater diversity.

To put the recent cases of misconduct firmly behind us and reform Net One, employees will need to speak their minds. Management will also have to create a framework that addresses their insights and opinions. We will build better systems and relentlessly reform Net One's culture to create an organization brimming with positive ideas that can take us to the next stage.



4 Review of Operations | Business Overview

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.

Revenue (fiscal 2020) **¥202.1 billion**



* Note that the sum of the above percentages does not add up to 100%, due to other business segments that are not included in the reportable segments (the Global business segment, etc.).

Enterprise market

Revenue: ¥54,547 million
Operating income: ¥5,089 million

Key markets / sectors

Manufacturing / non-manufacturing / finance / ISP*

- Cloud systems
- Security measures
- Work style innovation

Focus market: Smart factories

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.

* Internet service providers

Telecom carrier market

Revenue: ¥36,489 million
Operating income: ¥3,688 million

Key markets / sectors

Telecom carriers

- Service platforms
- Corporate business

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

Public market

Revenue: ¥69,795 million
Operating income: ¥8,260 million

Key markets / sectors

Central and local governments / education / universities, research centers / social infrastructures

- Cloud systems
- Security measures
- Campus networks
- Work style innovation

Focus markets: School systems and healthcare

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

Partner business

Revenue: ¥39,730 million
Operating income: ¥3,507 million

Key markets / sectors

System integrators

- Specializes in collaboration with partner companies
- Network
- Cutting-edge ICT equipment and related solutions

Operating environment

- Strong demand from system integrators

Strengths and characteristics

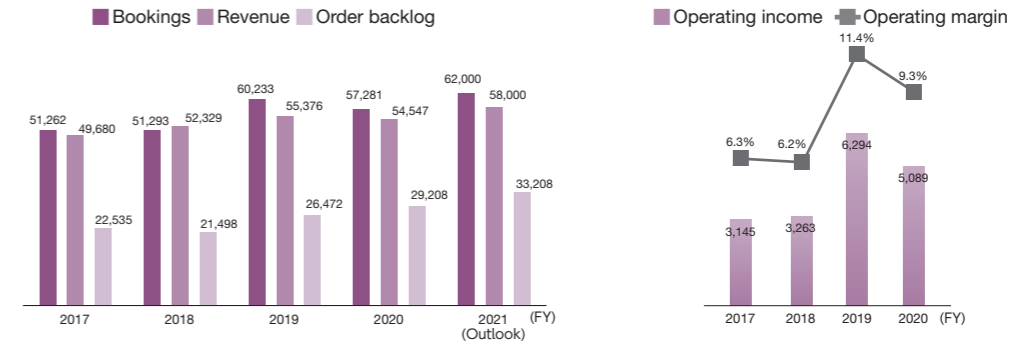
- Handles a wide range of products from overseas
- Provides quality assurance, technology verification and value-added services such as proposal support and system maintenance

* Revenue for external customers is used in revenue by segment section presented in Chapter 4.

Segment performance and outlook

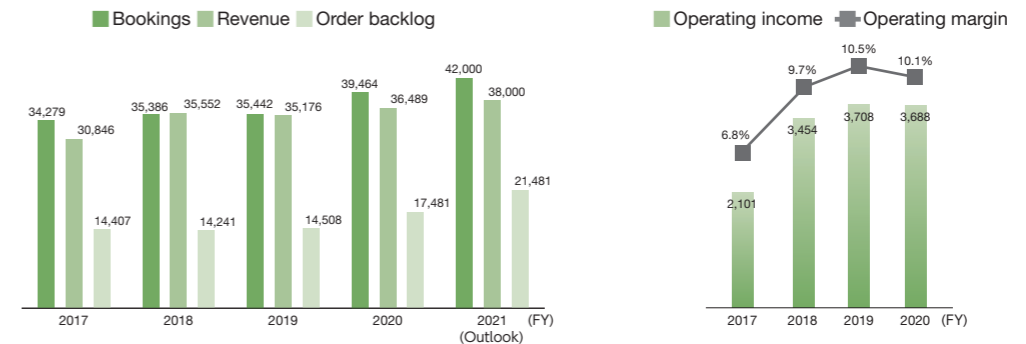
Enterprise market CAGR (3 years): Revenue 3.2% Operating income 17.4%

(Million yen)



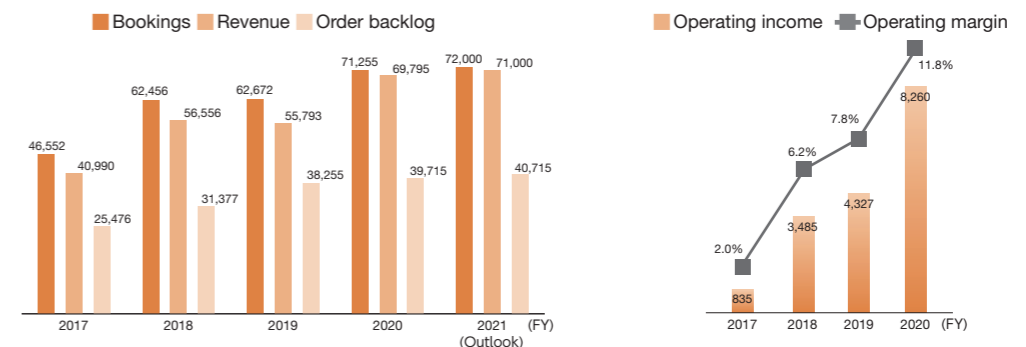
Telecom carrier market CAGR (3 years): Revenue 5.8% Operating income 20.6%

(Million yen)



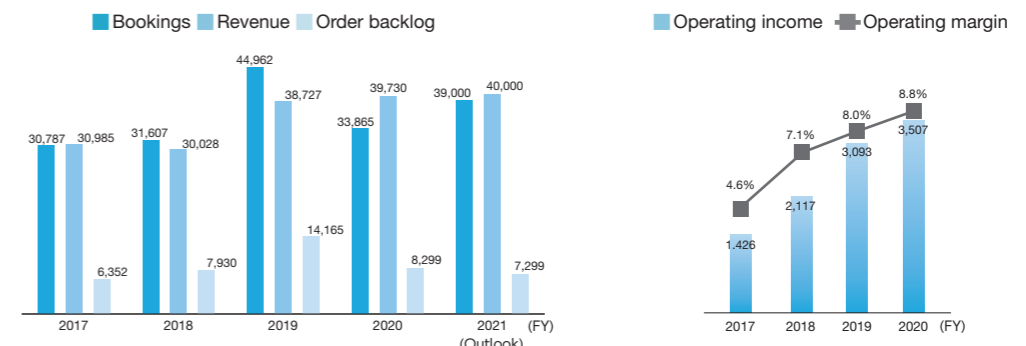
Public market CAGR (3 years): Revenue 19.4% Operating income 114.7%

(Million yen)



Partner business CAGR (3 years): Revenue 8.6% Operating income 35.0%

(Million yen)



* CAGR (3 years): Average annual growth rate for the 3 years up to fiscal 2020

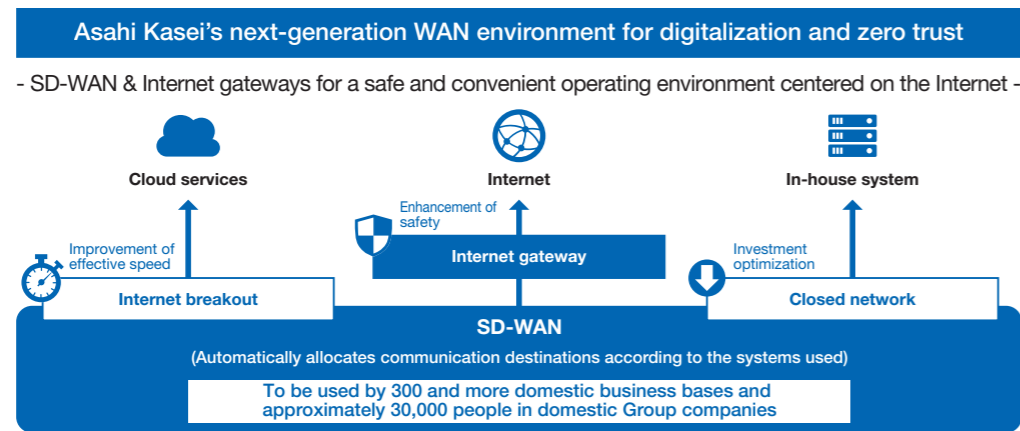
4 Review of Operations | Medium- to Long-term Outlook

Enterprise market

Demand for telework is increasing rapidly in anticipation of the spread and prolongation of the COVID-19 pandemic. As such, continuous efforts are being made to improve business efficiency through work style innovations and collaboration based on the cloud and Internet. In addition, with regard to security measures, reviews of the perimeter defense model, in which communications with the outside world are consolidated in data centers and other locations, are also being encouraged in response to the situation.

While next generation network environment (SD-WAN) is attracting attention in anticipation of the utilization of the zero-trust model, which confirms the safety of all access from inside and outside the company, we are proposing a highly productive ICT platform that utilizes the Internet safely, by combining our expertise in networking and security measures. In addition, our comprehensive proposals are gaining popularity as the importance of security measures in the supply chain increases.

Operations that are free from external connections are becoming increasingly limited, and it is essential to take measures to achieve a balance between digitalization and a safe and secure work environment. With the increasing use of multi-cloud computing, we will strive to continue supporting the entire ICT platform through drastic security measures and network reviews.



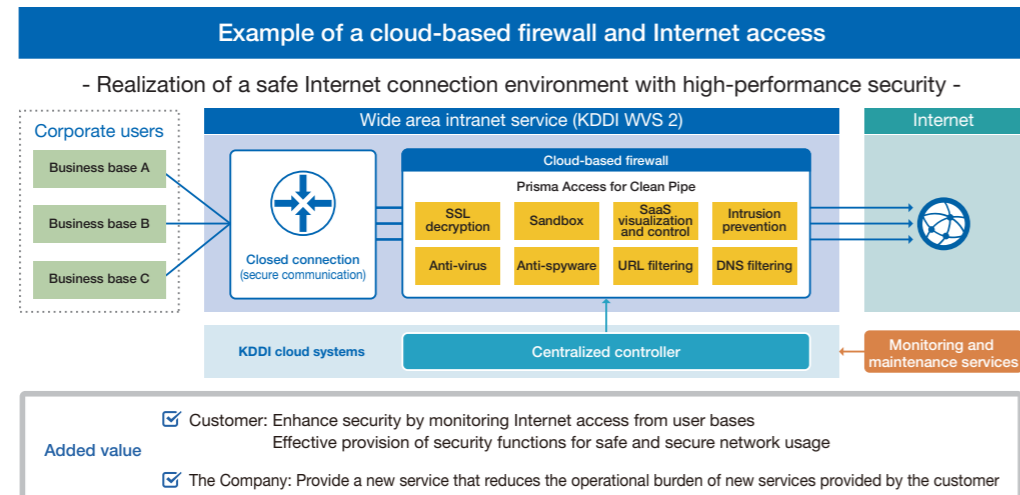
Telecom carrier market

In the Telecom carrier market, we are working with our customers to achieve value co-creation through ICT utilization, toward the realization of a safe and secure society.

In the corporate business, where customers are focusing their efforts, the risk of hidden cyber-attacks in the use of cloud services via the Internet is increasing in line with the increasing use of cloud services. In response to this risk, our customers are providing advanced security services combined with highly functional cloud-based firewalls.

In order to launch a new security service that utilizes the customer's cloud system, we have started to install an operational system for this service, and began providing comprehensive operation services. This new operation service effectively unifies the monitoring of security operation systems and cloud systems, thereby improving quality and reducing operational costs, in order to achieve stable system operations and reduce the operational load for the customer.

The MSP model created in this project will allow us to support the early launch of new services, and reduce planning and development costs. We will continue to expand our services for value co-creation, and continue to make proposals that will earn our customers' continued trust.

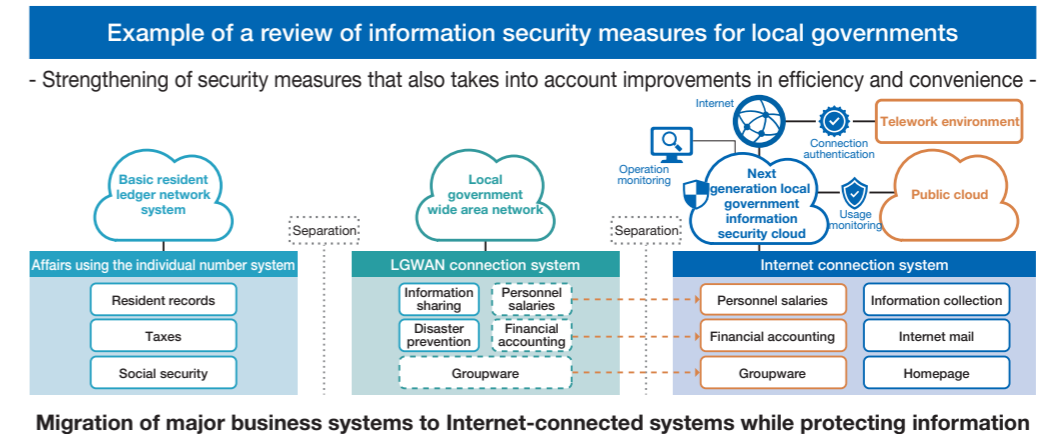


Public market

The Public market is the field where the most progress has been made in the strengthening of ICT platforms, in recent years. The needs for digitalization are continuing to become stronger and increasingly specific, including the joint use of cloud-based systems, comprehensive security measures, and work style innovations.

In the market of local governments, while drastic security enhancements were made in a short period of time in 2016, there has been an increase in requests for ICT utilization, such as cloud computing proposed by the government, online administrative procedures, and work style innovations centered on telework. In terms of new information security measures, ICT platforms using the Internet are being reviewed in order to improve administrative services and clerical efficiency. It is expected that the demand for advanced operation services that combine the most suitable products and services will continue due to their unique value, especially in key system designs, where a series of proof-of-concept (PoC) experiments are being conducted to verify performance and operability.

We will continue to support our customers in their efforts to promote DX, by utilizing new technologies such as AI and Deep Learning. In February 2021, we signed a comprehensive cooperation agreement with Sagami City (in Kanagawa Prefecture) for the purpose of promoting DX. We believe that this will contribute not only to the realization of a sustainable society through participation in businesses with high social significance, but also to achieving a further transformation within the Company through utilization of the knowledge cultivated through this project.



Partner business

In order to meet the ever-changing DX needs of the market, Net One Partners has positioned the DX elements and values to be provided to partner companies as "DX Core," and aims to expand the value provided and establish its position as a leading IT distributor.

Under DX Core, the elements and values required to realize DX are divided into five categories: (1) digital workplaces, (2) mobile and wireless, (3) new-generation and next-generation networks, (4) cloud infrastructure and management, and (5) digital security. Through DX Core, we are providing products that achieve the co-creation of markets, in collaboration with our partner companies.

Particularly in the field of digital security, we will respond to the rapid increase in cyber-attacks in terms of both cyber security and physical security, with an eye toward improving safety in preparation for the advent of a smart society where virtual and real spaces interact. Specifically, in the field of cyber security, we will continue to differentiate ourselves by strengthening our network security, while at the same time, promptly deploying new products and technologies that enable us to support zero trust.

In the fields of mobile & wireless and new-generation and next-generation networks, it is expected that further improvements to business efficiency and productivity will be made by utilizing data and connecting many devices using advanced technologies such as local 5G, mainly in manufacturing plants.

