Results for Q2 FY15
Ended September 30, 2015

Net One Systems Co., Ltd.
October 29, 2015(Stock Code 7518: JP)
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Executive Summary

- **FY15 Plan**
  Bookings and Revenues: Stay as same as previous period
  Operating Income: Improve +0.9 points from the previous period
  Increasing “Cloud Builder” business, for seeing a reduction of Telecom Carrier investment. Promoting internalization and improving productivity.

- **First half results**
  Bookings: 62,886M yen (-5.9%, YoY | -9.9%, plan)
  Revenues: 62,919M yen (+6.7%, YoY | +1.2%, plan)
  Operating Income: -75M yen (-40M yen, previous period)
  Due to foreign exchange rate changes, certain project was declined significantly in margin

- **Second half outlook**
  Bookings: Recover the unachieved portion of first half
  Revenues: Stay in the planning line
  Operating Income: The low-margin project was ended in first half. Recovering more than planning by ensuring the profit.

  ENT: In line with our plan in the same trend as the first half
  SP: In line with our plan by additional replacement investment in a particular Telecom Carrier
  PUB: Aiming for our plan by many bids including large-scale project
  NOP: Aiming for our plan by expanding the collaboration with major partners

- **Full-year outlook**
  No change from the previous outlook

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**First half results by market sector**

- **ENT**
  Bookings: 19,150M yen (+18.2%, YoY | -3.3%, plan)
  Revenues: 20,899M yen (+27.6%, YoY | +5.0%, plan)
  Operating Income: 1,054M yen (401M yen, previous period)
  Steady growth in work style innovation business at finance industry and cloud infrastructure business at ISP industry. On the other hand, the investment of manufacturing industry remains slow.

- **SP**
  Bookings: 17,130M yen (-2.9%, YoY | -5.9%, plan)
  Revenues: 18,693M yen (-7.5%, YoY | +14.7%, plan)
  Operating Income: 351M yen (1,392M yen, previous period)
  A Telecom Carrier advanced the timing of replacement investment. In the other Telecom Carrier, revenues were in line with our plan, bookings were slightly unachieved to the Q1 plan, but reached at Q2.

- **PUB**
  Bookings: 16,394M yen (-26.6%, YoY | -21.6%, plan)
  Revenues: 14,682M yen (+13.5%, YoY | -5.3%, plan)
  Operating Income: -1,138M yen (-2,041M yen, previous period)
  A Telecom Carrier advanced the timing of replacement investment. In the other Telecom Carrier, revenues were in line with our plan, bookings were slightly unachieved to the Q1 plan, but reached at Q2.

- **NOP**
  Bookings: 9,636M yen (-9.3%, YoY | -8.2%, plan)
  Revenues: 8,389M yen (-10.5%, YoY | -16.9%, plan)
  Operating Income: 77M yen (435M yen, previous period)
  Both of bookings and revenues carried over to second half.

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Q1-2 FY15 (Apr-Sep 6months)
## Results Summary for Q1-2 FY15 (Apr-Sep 6months)

<table>
<thead>
<tr>
<th></th>
<th>2015/03 Q1-2 Results</th>
<th>2016/03 Q1-2 Results</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(million yen)</td>
<td></td>
<td>Amount</td>
</tr>
<tr>
<td>Bookings</td>
<td>66,813</td>
<td>62,886</td>
<td>(3,926)</td>
</tr>
<tr>
<td>Revenue</td>
<td>58,971</td>
<td>62,919</td>
<td>3,947</td>
</tr>
<tr>
<td>Operating Income</td>
<td>(40) [ △0.1%]</td>
<td>(75) [ △0.1%]</td>
<td>(35)</td>
</tr>
<tr>
<td>[Margin]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary Income</td>
<td>88 [ 0.2%]</td>
<td>17 [ 0.0%]</td>
<td>(71)</td>
</tr>
<tr>
<td>[Margin]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income attributable</td>
<td>31 [ 0.1%]</td>
<td>(94) [ △0.1%]</td>
<td>(125)</td>
</tr>
<tr>
<td>owners of the parent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>company</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Margin]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Higher revenue, lower profit due to certain project declined significantly in margin.
Performance by Market Sector

**Bookings**

- **Enterprise**
  - Steady growth in work style innovation business at finance industry and cloud infrastructure business at ISP industry. On the other hand, the investment of manufacturing industry remains slow.

- **Telecom Carrier**
  - A Telecom Carrier advanced the timing of replacement investment. In the other Telecom Carrier, revenues were in line with our plan, bookings were slightly unachieved to the Q1 plan, but reached at Q2.

- **Public**
  - Bookings carried over to second half. Revenues were almost in line with our plan.

- **Partner**
  - Both of bookings and revenues carried over to second half.

**Revenue**

**Backlog**

(M yen)
Performance by Product Category

With the expansion of the virtualization business, network upgrading projects were increased. And, a Telecom Carrier advanced the timing of replacement investment.

Due to the social problem of information leakage, the demand for secure IT system raised rapidly. With the expansion of the virtualization business, security projects will also increase.

Steady growth by increasing network upgrade and virtualization business.
**Analysis of Operating Income**

Decline in gross profit margin
▲1.8%
(23.4% to 21.6%)
[Major Factor]
• Due to foreign exchange rate changes, certain project’s margin was declined.

Impact of change in gross profit margin ▼1.8%
(23.4% to 21.6%)

Reduction of SGA
[Major Factor]
• Switching from temporary staff to outsourcing
• Cost down of backbone system

Impact of change in SGA

<table>
<thead>
<tr>
<th>2015/3 Q1-2 Operating Income</th>
<th>Impact of change in gross profit margin</th>
<th>Impact of change in SGA</th>
<th>2016/3 Q1-2 Operating Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 (40)</td>
<td>(176)</td>
<td>140</td>
<td>(75)</td>
</tr>
<tr>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(200)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(300)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Outlook of Consolidated for FY15
# Outlook of Consolidated for FY15

<table>
<thead>
<tr>
<th></th>
<th>(M yen)</th>
<th>2015/03 Actual</th>
<th>2016/03 Plan</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Amount</td>
</tr>
<tr>
<td>Bookings</td>
<td></td>
<td>146,890</td>
<td>148,000</td>
<td>1,110</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td>143,173</td>
<td>144,000</td>
<td>827</td>
</tr>
<tr>
<td>Operating Income [Margin]</td>
<td></td>
<td>4,205 [2.9%]</td>
<td>5,400 [3.8%]</td>
<td>1,195</td>
</tr>
<tr>
<td>Ordinary Income [Margin]</td>
<td></td>
<td>4,249 [3.0%]</td>
<td>5,400 [3.8%]</td>
<td>1,151</td>
</tr>
<tr>
<td>Net Income attributable to owners of the parent company [Margin]</td>
<td>2,457 [1.7%]</td>
<td>3,300 [2.3%]</td>
<td>843</td>
<td>+34.3%</td>
</tr>
</tbody>
</table>

※No change from the previous outlook
Appendix
### Consolidated Balance Sheets

<table>
<thead>
<tr>
<th>(million yen)</th>
<th>Sep 30, 2014 Results</th>
<th>Sep 30, 2015 Results</th>
<th>Change</th>
<th>YoY Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>89,932</td>
<td>91,507</td>
<td>1,574</td>
<td>+1.8%</td>
</tr>
<tr>
<td>Current assets</td>
<td>78,269</td>
<td>80,429</td>
<td>2,159</td>
<td>+2.8%</td>
</tr>
<tr>
<td>Cash and deposits + CD・CP</td>
<td>21,988</td>
<td>24,189</td>
<td>2,200</td>
<td>+10.0%</td>
</tr>
<tr>
<td>Notes and accounts receivable-trade</td>
<td>29,483</td>
<td>26,077</td>
<td>(3,405)</td>
<td>△ 11.6%</td>
</tr>
<tr>
<td>Inventory assets</td>
<td>16,816</td>
<td>18,809</td>
<td>1,993</td>
<td>+11.9%</td>
</tr>
<tr>
<td>Other</td>
<td>9,981</td>
<td>11,352</td>
<td>1,371</td>
<td>+13.7%</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>11,663</td>
<td>11,078</td>
<td>(585)</td>
<td>△ 5.0%</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>5,697</td>
<td>5,549</td>
<td>(147)</td>
<td>△ 2.6%</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1,750</td>
<td>2,061</td>
<td>310</td>
<td>+17.7%</td>
</tr>
<tr>
<td>Investment etc.</td>
<td>4,214</td>
<td>3,466</td>
<td>(747)</td>
<td>△ 17.7%</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>33,837</td>
<td>35,821</td>
<td>1,983</td>
<td>+5.9%</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>31,854</td>
<td>32,206</td>
<td>352</td>
<td>+1.1%</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>1,983</td>
<td>3,614</td>
<td>1,630</td>
<td>+82.2%</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>56,094</td>
<td>55,686</td>
<td>(408)</td>
<td>△ 0.7%</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>55,736</td>
<td>55,543</td>
<td>(192)</td>
<td>△ 0.3%</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>258</td>
<td>23</td>
<td>(235)</td>
<td>△ 91.0%</td>
</tr>
<tr>
<td>Subscription rights to shares</td>
<td>99</td>
<td>119</td>
<td>19</td>
<td>+19.5%</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>89,932</td>
<td>91,507</td>
<td>1,574</td>
<td>+1.8%</td>
</tr>
</tbody>
</table>
# Revenue and P/L by Reportable Segment

<table>
<thead>
<tr>
<th>(million yen)</th>
<th>Enterprise</th>
<th>Telecom Carrier</th>
<th>Public</th>
<th>NOP</th>
<th>Sub-total</th>
<th>Other</th>
<th>Total</th>
<th>Adjustment</th>
<th>Amount recorded in consolidated income statements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Q1-2 Ended Sep 30, 2015 (Results)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>20,902</td>
<td>18,693</td>
<td>14,682</td>
<td>8,391</td>
<td>62,670</td>
<td>718</td>
<td>63,389</td>
<td>(470)</td>
<td>62,919</td>
</tr>
<tr>
<td>External revenue</td>
<td>20,899</td>
<td>18,693</td>
<td>14,682</td>
<td>8,389</td>
<td>62,664</td>
<td>254</td>
<td>62,919</td>
<td>-</td>
<td>62,919</td>
</tr>
<tr>
<td>Inter-segment revenue or transactions</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>5</td>
<td>464</td>
<td>470</td>
<td>(470)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Segment income</strong></td>
<td>1,054</td>
<td>351</td>
<td>(1,138)</td>
<td>77</td>
<td>344</td>
<td>(112)</td>
<td>231</td>
<td>(307)</td>
<td>(75)</td>
</tr>
<tr>
<td><strong>Q1-2 Ended Sep 30, 2015 (Previous)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>16,388</td>
<td>20,207</td>
<td>12,934</td>
<td>9,374</td>
<td>58,904</td>
<td>961</td>
<td>59,866</td>
<td>(894)</td>
<td>58,971</td>
</tr>
<tr>
<td>External revenue</td>
<td>16,381</td>
<td>20,207</td>
<td>12,934</td>
<td>9,373</td>
<td>58,896</td>
<td>74</td>
<td>58,971</td>
<td>-</td>
<td>58,971</td>
</tr>
<tr>
<td>Inter-segment revenue or transactions</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>0</td>
<td>7</td>
<td>886</td>
<td>894</td>
<td>(894)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Segment income</strong></td>
<td>401</td>
<td>1,392</td>
<td>(2,041)</td>
<td>435</td>
<td>187</td>
<td>172</td>
<td>360</td>
<td>(400)</td>
<td>(40)</td>
</tr>
</tbody>
</table>

(Notes) 1. The “Other” segment is not included as a reportable segment. It contains the server service business and other businesses.
2. The adjustment in segment income included corporate expenses not attributable to any reportable segment.

Corporate expenses are mainly related to general administrative expenses not attributable to reportable segment.
## Capital expenditures, Depreciation

<table>
<thead>
<tr>
<th></th>
<th>2015/3 Q1-2 (million yen)</th>
<th>2016/3 Q1-2</th>
<th>YoY Change</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures</td>
<td>1,398</td>
<td>1,788</td>
<td>390</td>
<td>+27.9%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,307</td>
<td>1,242</td>
<td>(65)</td>
<td>△ 5.0%</td>
</tr>
<tr>
<td>Exchange rate($yen)</td>
<td>102.02</td>
<td>118.24</td>
<td>16.22</td>
<td>+15.9%</td>
</tr>
<tr>
<td>Earnings per share(yen)</td>
<td>0.38</td>
<td>(1.11)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends per share(yen)</td>
<td>15.00</td>
<td>15.00</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2014 9.30 (million yen)</th>
<th>2015 9.30</th>
<th>YoY Change</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>2,419</td>
<td>2,285</td>
<td>(134)</td>
<td>△ 5.5%</td>
</tr>
</tbody>
</table>

※ 79 of seconded employees decreased. (86people to 7people)
FY15 2nd Half Strategies
Agenda

- Strategies and Action plans for the 2nd half
- Strategies and Action plans for the following years growth
• Strategies and Action plans for the 2nd half

• Strategies and Action plans for the following years growth
2nd half Strategies

[Bookings/Revenue]
Same as the previous period
- Cost Reduction in Telecom Carrier
- Increasing Cloud Builder Business

[Operating Income]
0.9 Point UP YoY
- Promoting Internalization
- Improvement Productivity

Expansion of Cloud Builder Business

Due to foreign exchange rate changes, certain project was declined significantly in margin. But the project was ended in first half.
Cloud Builder

Improve convenience of customers in the use of ICT
- Evolution to Cloud Infrastructure from Data Center Virtualization
- Provide Virtual Environment to User Area

Upgrades to Cloud-Ready Network

Advancing Cloud Infrastructure for Hybrid Cloud

Work Style Innovation

Secure Virtual Infrastructure
2nd Half Sales Pipeline

- Cloud Builder: 40.8%
- Network: 48.7%
- Others: 10.5%

- Campus network
- Telecom Carrier network
- Network upgrade
- Cloud infrastructure
- Work style innovation
- Security
For the Expansion of Cloud Builder Business

- Acceleration of “Selection and Concentration”

- Expansion of Solution/Service
  - Early deployment of Solutions
  - Management of support resources
  - Strengthen of security business

Cyber attack

Cloud Infra

Defense in depth

External Boundary

Internal Network

Server /User terminal

1st Defense line
- Firewall

2nd Defense line
- Antivirus
- Intrusion Prevention
- Sandbox

3rd Defense line
- Endpoint Security

Server /User terminal

1st Defense line
- Firewall

2nd Defense line
- Antivirus
- Intrusion Prevention
- Sandbox

3rd Defense line
- Endpoint Security
1st Half Results with Cloud Builder

- **Koriyama City Government**
  “Virtual desktop” for 1,300 staffs to work safely by strengthen security

- **Kawaguchi City Government**
  “Regional fabric network” connecting 22 bases in the city by network virtualization technology

- **Fukui-Ken Saiseikai Hospital**
  “Unified platform infrastructure” for medical systems
  Improved the security by network virtualization technology

- **University of Miyazaki**
  “Unified platform infrastructure” for education and research system used by all 10,000 students and faculty members
Strategies and Action plans for the 2nd half

Strategies and Action plans for the following years growth
Customer Requirements

**Expansion of business opportunities**

- Security and IT governance
- Business Speed
- Reduce TCO
- Private Cloud
- Public Cloud
- BCP/DR
- Hybrid Cloud

Change manager's awareness: ICT is Management & Strategy tool

Current situation of ICT

<table>
<thead>
<tr>
<th>Expansion of the ICT Field</th>
<th>Opaqueness of ICT infrastructure</th>
<th>Limited budget</th>
</tr>
</thead>
</table>

3 New Challenges

Add a new business on Cloud Builder

1. Cloud Broker
   Select suitable cloud

Private Cloud

2. Internet of Things
   Big Data

Public Cloud

3. Expansion of Market Coverage
Cloud Broker

Start providing each services sequentially

Customer Portal Service
Customer Relations, Cloud Services Portal, ICT Visualization

Work Style
Innovation
Management
Support
Multi-Cloud
Software-Defined
WAN
Security
Management
At the beginning, focusing on the network for factory.

Build IoT Network to connect management and production. (Wireless/Wired/Security)

Trial for specific customers. Establishment of a cooperate model with the manufacturing partner.

Then, using Big Date and Cloud.
Cloud Market

Forecast for Domestic Private Cloud Markets

Forecast for Domestic Public Cloud Markets


Sources: “Japan Public Cloud Market Forecast,” IDC Japan, August 6, 2015