What we are doing in fiscal 2016 based on the medium-term vision

We have announced a 3-year vision (fiscal 2016 to fiscal 2018) to increase revenue from ¥145.1 billion in fiscal 2015 to ¥170 billion in fiscal 2018 and improve the operating margin from 1.7% to 6.5% during the same period.

We aim to generate incremental revenue consisting of ¥14 billion from new markets (¥6 billion from the corporate market and ¥4 billion each from the global market and the IoT market) and ¥10 billion from new solutions in cloud systems & security.

There are two pillars in the realization of this vision: revenue growth through initiatives in new markets and the provision of new solutions on the installed base; and a reduction in the SG&A expense ratio through internal sourcing and a productivity improvement.

Regarding tapping into new markets, a dedicated team or a project team has been set up for each market to expand points of contact with customers. In the cloud systems & security domain, we are enhancing our sales organization to deepen exploration of customers, which have separate divisions in charge of network systems, cloud, and security.

Let me further discuss our major initiatives in the new markets and solution areas and our outlook for the second half of this fiscal year.

New solution initiatives

In the cloud system & security domain we are aiming to become one of the world’s unique cloud integrators to ensure the security of inter-cloud network and provide secure, highly convenient cloud environment.

Policy implemented for local governments to enhance cybersecurity and separate their Internet use

Starting with this fiscal 2016, we have been witnessing emerging needs in security measures and cloud infrastructures, particularly in the Public sector. Behind such needs is the implementation of national identification numbers dubbed “My Number” in January 2016. Municipalities will use such ID numbers to efficiently manage personal information for social security, tax, and disaster contingency planning. In fact, management of a massive amount of My Numbers and personal information has burdened many municipalities. In the meantime, many personal information leakage accidents which
occurred in 2015 were a reminder of the need to take decisive measures against targeted e-mail attacks and other new types of threat. Subsequently, the Ministry of Internal Affairs and Communication set out a new direction where local governments are required to improve security measures (enhancement of cybersecurity) and strengthen their monitoring capacity by consolidating Internet connection points for each prefecture (the “Local Government Information Security Cloud” to separate this Internet usage from the Local Government WAN). The government has set up a supplementary budget to promote this move and has been strengthening its support.

Providing safe reliable cloud systems that match market needs
Under this policy, local governments all at once have begun to invest in systems to enhance cybersecurity and to separate their Internet use. The investment objective is to comprehensively enhance the cloud environment and cybersecurity. The biggest challenge, however, is that security enhancement cannot be ensured simply by introducing a system. For example, today’s technology may not be effective tomorrow against fraudulent operation of computer or telecommunication systems and the hacking of confidential information. After setting up the system, the most critical thing is to continuously update the system to respond to daily-advancing hacking technologies.

We disclosed the Local Government Information Security Cloud project for Fukuoka Prefecture* in July 2016, as a prime example of adopting a broad menu in terms of security level and range. We are also working on various cloud & security projects with other local governments.

Enhancing next-generation network technology infrastructure
Initiatives related to increasingly important cybersecurity technology
Many people tend to assume that a cyber-attack means that data is stolen by an intruder who pretends to be an internal operator. In fact, however, many data leakage cases occur without being recognized by internal operators. It is therefore important to think about blocking information from flowing from inside to outside, in addition to blocking information from coming inside and going outside. In other words, needs are emerging for 24/7 real-time analysis and speedy detection as well as fast resolutions to cyber-attacks.

As the cybersecurity field is expanding in a complex way, from not just physical security such as fingerprint authentication, face authentication, and monitoring by camera but also to logical security, it is almost impossible for one company to address all areas. Threats to cybersecurity in Japan are extremely strong, as in the U.S., and demand for cybersecurity professionals is likely to increase more and more. At Net One Systems, we have strived hard to enhance our workforce through various measures, including a program to send some engineers to U.S. companies, which are ahead of us in the technological field, and other measures.

New market exploitation initiatives
Let me present some of our recent approaches.

Trialing the B to B (to B) model by using the security-oriented cloud service formula
In the corporate market, our initiatives have two aspects: to expand points of contact with new customers and to deepen business with existing customers. We have established dedicated security analyst teams to work on these. For example, we are trialing a model to make major telecom carriers use our cloud service formula as their service menu and to jointly make sales efforts to their customers. We provide the physical network environment to telecom carriers in a conventional manner but we are also exploring the Win-Win model, which allows us to grow by helping our customers’ customers (B to B to B) with our unique service creation.

Deploying a business model to add more services to indirect sales
Our subsidiary Net One Partners Co., Ltd. (NOP) is engaged in the distribution of vendors’ products for partner companies. With regard to Cisco Systems products, in particular, NOP is aggregating domestic handling and is increasing the number of mainly major partners.

In the first half of fiscal 2016, product revenues materialized ahead of schedule, but in the second half, we are expecting service-added revenues to kick in and margins to improve. This initiative is also expected to lead to the enhancement of our purchasing power versus vendors and our capacity to collect market information.

* See page 5, Topics 1 “Case example: Fukuoka Prefecture Local Government Information Security Cloud” for details.
Message to our shareholders

Net One Systems has generated annual revenues of around ¥145 billion for three years in a row. A decrease of roughly ¥45 billion in revenues in the Telecom Carrier sector, from around ¥85 billion five years ago to over ¥40 billion in fiscal 2015, was offset by revenues in other sectors. One of the contributing factors, for example, was growth in demand for systems related to work style innovation in the virtual environment in the Public sector. These systems have begun to be used by private companies. As we are accumulating a more extensive track record in security enhancement and other systems, we are confident we will be able to accelerate cross-market horizontal development. Moreover, we intend to drive forward new challenges from a comprehensive perspective, including the development of a Win-Win model. Based on this model, we will achieve growth together with our customers by expanding the conventional “B to B” business to “B to B to B” and shifting the business model from the conventional flow type to a stock type. In order to realize such a vision, each of our employees must be aware of shareholders’ expectations and try to grow themselves. I would like to ask for your continued cooperation and support as the Net One Group strives to connect the technological advances of networks and computing with the aim to become the world’s unique cloud integrator.

Financial Highlights (million yen)

<table>
<thead>
<tr>
<th>Financial Highlights</th>
<th>1st half</th>
<th>2nd half</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bookings</td>
<td>154,582</td>
<td>146,216</td>
</tr>
<tr>
<td></td>
<td>146,890</td>
<td>142,551</td>
</tr>
<tr>
<td></td>
<td>148,000 (estimated)</td>
<td>154,869</td>
</tr>
<tr>
<td></td>
<td>142,427</td>
<td>143,173</td>
</tr>
<tr>
<td></td>
<td>145,180</td>
<td>146,000 (estimated)</td>
</tr>
<tr>
<td>Revenue</td>
<td>8,451</td>
<td>3,142</td>
</tr>
<tr>
<td></td>
<td>4,205</td>
<td>4,500 (estimated)</td>
</tr>
<tr>
<td>Operating income</td>
<td>2,453</td>
<td>2,453</td>
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</tbody>
</table>

Key Points

**POINT 1**

**Growth in revenue and income**
During the first half of fiscal 2016, revenue and operating income exceeded the company’s plan. Bookings increased 20% year-on-year due to growth in the Public, Enterprise, and Partner sectors.

**POINT 2**

**Results in the first half**
In the Enterprise sector, businesses in security and cloud infrastructure were favorable. In the Telecom Carrier sector, the cloud service platform business expanded but carriers continued to restrain network investment. Growth in the Public sector was mainly driven by the growth of security business for local governments. In the Partner sector, the key partner business expanded significantly.

**POINT 3**

**Key points for the second half**
We will accelerate cloud system proposals with security as added value by applying the contents of the Public sector security projects received in the first half to the Enterprise and Telecom Carrier sectors. In the Partner sector, we will strive to achieve volume growth.
Business Overview

Net One Systems conducts unique assessment/accreditation of vendors’ cutting-edge products in and outside Japan and combines those products to provide optimum solutions that meet our customers’ needs. In addition, we ourselves employ next-generation ICT infrastructure, and the resulting accumulated experience and expertise forms a base that will enable us to raise our added value and better support our customers.

Revenue by Product Category*

**Products**
Revenue increased by 9.8% year-on-year to ¥39.5 billion, mainly due to growth in security business for local governments and expansion of key partner business.

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<tbody>
<tr>
<td>104,518</td>
<td>88,664</td>
<td>87,762</td>
<td>88,944</td>
<td>88,000</td>
</tr>
</tbody>
</table>

*Given the progress in the integration of ICT infrastructure such as the expansion of the cloud business, we have reclassified our product categories from the current fiscal year: we have changed the three categories of “Network products,” “Platform products” and “Service business” to the two categories of “Products” and “Service business,” by combining “Network products” and “Platform products” into “Products.”

**Service business**
Revenue increased by 0.3% year-on-year to ¥26.9 billion, due to growth in design, construction, and maintenance services, accompanied by growth in revenues from “Products.”

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<tr>
<td>50,350</td>
<td>53,763</td>
<td>55,410</td>
<td>56,235</td>
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</tbody>
</table>

Overview by Market Sector

In addition to enhancing network equipment for telecom carriers, we have been expanding business into the construction of cloud infrastructure that effectively links the platforms with the network. We are also promoting the Utilizing and leveraging ICT to accelerate business innovation, such as to establish a work style innovation base that takes advantage of communication tools and to construct safe and reliable cloud systems with security as a value-added feature.

**ENT ENTERPRISE**
For the private sector

<table>
<thead>
<tr>
<th>Targets</th>
<th>Revenue (million yen) 1st half 2nd half</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-scale ICT systems</td>
<td>49,000 (estimated)</td>
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<tr>
<td>Work style innovation</td>
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</table>

**SP TELECOM CARRIER**
For telecom carriers

<table>
<thead>
<tr>
<th>Targets</th>
<th>Revenue (million yen) 1st half 2nd half</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network infrastructure</td>
<td>37,000 (estimated)</td>
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<td>Service delivery platform</td>
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</tbody>
</table>

**NOP NET ONE PARTNERS**
For partners

<table>
<thead>
<tr>
<th>Targets</th>
<th>Revenue (million yen) 1st half 2nd half</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborative business with partners</td>
<td></td>
</tr>
<tr>
<td>Provision of platform solutions</td>
<td>21,000 (estimated)</td>
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</table>

**PUB PUBLIC**
For the public sector

<table>
<thead>
<tr>
<th>Targets</th>
<th>Revenue (million yen) 1st half 2nd half</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unified platform infrastructure</td>
<td></td>
</tr>
<tr>
<td>Work style innovation</td>
<td></td>
</tr>
</tbody>
</table>

**Highlights**

**Favorable security and cloud platform businesses.**

31.4%

**Strong growth in business with major partners.**

16.0%

23.7%

28.4%

**Strong growth driven by the cybersecurity projects for local governments.**

15,277

18,984

10,669

10,089

16,000
Case example: Fukuoka Prefecture Local Government Information Security Cloud

In Japan, the “Local Government Information Security Cloud” and other measures have been promoted to enhance wire fraud monitoring and take advanced security measures. In July 2016, we received an order for the construction of the “Fukuoka Prefecture Local Governments Information Security Cloud” from Fukuoka Prefecture and its 49 local governments, including those in Kita-Kyushu City and Fukuoka City. The system is scheduled to start operation in April 2017.

As a key feature, our system provides local governments with a variety of sophisticated security functions as a “standard menu” and at the same time flexibly responds to the specific security needs of each local government as an “option menu.”

In receiving the order for system construction with such a wide range of menus, our high engineering capabilities in the security, cloud, and network fields have been highly evaluated in addition to the strong appraisal of our track record as well as technical aspects and management systems.

* What is the “Local Government Information Security Cloud”?

The “Local Government Information Security Cloud” is promoted by the Ministry of Internal Affairs and Communication to local governments nationwide, in light of the more complex and devious cyber-attacks occurring in recent years. It aims to enhance cybersecurity by consolidating the Internet connection points of local governments such as cities, towns and villages into a prefecture-wide shared system. This enables local governments to use the Internet more safely without bearing the burden of having to implement advanced security measures on their own.

Enhancing cybersecurity by consolidating Internet connection points of local governments in the prefecture

Functions to be provided by the Fukuoka Prefecture Local Government Information Security Cloud

- Firewall
- IDS (Intrusion defense system) and IPS (Intrusion prevention system)
- Sandbox (to detect malware behavior)
- URL filtering
- Measures against spam mails, etc.
In August 2016, we launched the Cloud HUB Service, which provides safe, multi-function, high-performance connections with private clouds*1 and the public cloud*2. We are targeting ¥1 billion in revenue in three years for this service, mainly for big companies, public offices, and local governments.

As the background to the launch of this service, our clients have had strong needs to ensure the cybersecurity of their inter-cloud network, which lies between the private cloud ensured by companies and the public cloud ensured by cloud operators.

Based on our long-accumulated know-how as a network integrator, we have now managed to launch this service as a cloud integrator. Through this service, we can solve issues such as multi-cloud connection, cost management, access management, and threat management, and help accelerate our customers’ shift to cloud computing. Using this new solution as a differentiating factor, we will expand revenues in the cloud and security fields.

*1 Private cloud
A private cloud is provided by a company to its departments and group companies through its own cloud computing system.

*2 Public cloud
The public cloud is an open service space where a provider provides a cloud computing environment to individuals or companies, regardless of their industry or type of business.

Supporting the realization of secure cloud systems with our sophisticated network and cloud technologies

Constructing advanced and convenient private clouds

Ensuring the security of inter-cloud network

Voice of a service developer
We have seen an increase in services to connect corporate private clouds and the public cloud, mainly for cloud operators. While few companies can provide grand network architecture that suits the cloud, we have focused on the network business for big companies, which has enabled us to establish strength in advanced technology and abundant know-how.

Managing Director, Market Development Division
Yoichi Matsumoto
Use of the Internet of Things (IoT) in manufacturing means pioneering unknown territory to integrate Factory Automation (of production processes) and Office Automation (of office work). Manufacturing workplaces are uncertain about what happens next… In order to resolve such concerns, we have opened the “Net One IoT Toyota Lab” as a dedicated verification facility in Toyota City, Aichi Prefecture, where Japan’s key industries are located.

The place, equipment, and information infrastructure required for IoT operation verification are available at the Lab. Our customers and partners can be exposed to the latest IoT solutions and get a clear sense of them. They can also bring in their own equipment and systems for operation verification. While IoT in the manufacturing workplace is complicated with a variety of technologies, we make the Lab open to companies and promote joint development of IoT solutions for factories, which is hard for each company to do alone. The Lab has been highly accredited by our companies as one of the rare facilities that offer the environment needed for IoT verification.

**Topics**

3 Opened “Net One IoT Toyota Lab”

Verification is better than debate in IoT. We provide an environment that allows immediate joint verification to be conducted with all parties involved.

Photo (left): A meeting room has been established next to equipment space (back on the left)
Photo (right): Verification equipment

4 Business expansion in the ASEAN region

With the aim of expanding business with Japanese companies’ bases in the ASEAN region, we have entered a capital alliance with Asiasoft Solutions Pte. Ltd. It specializes in cloud solutions with advanced technological capability and is based in Singapore, with additional operations in Malaysia and Indonesia. Together we intend to enhance our high-grade ICT infrastructure support system.

**CSR Topic**

Family Day

Office visit by families of Net One Systems employees

Family Day, an office visit by families of Net One Systems employees, was held at the headquarters and some other offices on August 5, 2016. A total of 544 people from 172 families participated in the event.

Family Day is held each year so that the families of our employees better understand how our employees work and how they contribute to society. This encourages more family support, which will make employees more satisfied with their work.

We will continue to foster a pleasant work environment for our employees and support them in achieving their work-life balance.
Corporate Profile (As of October 30, 2016)

Company Name: Net One Systems Co., Ltd.
Established: February 1, 1988
Capital Stock: 12,279 million yen

Business Activities:
- Networking business
- Network platform business
- Service business

Number of Employees:
- 2,273 (non-consolidated)
- 2,047 (non-consolidated)

Major Banks:
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Mizuho Bank, Ltd.
Sumitomo Mitsui Banking Corporation
Mitsubishi UFJ Trust and Banking Corporation
Sumitomo Mitsui Trust Bank, Limited

Consolidated Subsidiaries:
- Net One Partners Co., Ltd.
- Xseed Co., Ltd.
- System Solution Engineering K.K.
- Net One Systems USA, Inc. (subsidary based in the United States)
- Net One Systems Singapore Pte. Ltd. (subsidiary based in Singapore)

Executives (As of October 30, 2016)

Board of Directors:
- President: Takayuki Yoshino
- Director: Toru Arai, Tsuyoshi Suzuki, Norihisa Katayama
- Director (Outside): Kunio Kawakami, Rieko Nishikawa

Audit & Supervisory Board Members:
- Full-time Member: Toru Matsuda
- Outside Member: Masamichi Kikuchi, Keiichi Horii, Hideki Suda

Shareholder Information

Basic Information
- Stock Listing: First Section of Tokyo Stock Exchange
- Securities Code: 7518
- Share Unit (Trading Unit): 100 shares
- Fiscal Year: April 1 through March 31
- Annual Shareholders Meeting: June
- Dates of Record: Annual Shareholders Meeting March 31, Year-End Dividend March 31, Interim Dividend September 30

Method of Public Notice: Public notices of the Company shall be made via electronic notification. In the event that this method is not available due to accidents or other circumstances, the Company will publish announcements via the Nhon Keizai Shim bun.

Net One Systems Co., Ltd.
JP TOWER, 2-7-2 Marunouchi, Chiyoda-ku, Tokyo 100-7024
Email: ir@netone.co.jp
http://www.netone.co.jp/english.html

Major Shareholders (As of October 30, 2016)

Number of Shares Issued: 86,000,000
Number of Shareholders: 23,447

Distribution of shares by type of shareholder:
- Individuals and other: 35.27%
- Securities companies: 30.99%
- Financial institutions: 1.90%
- Overseas corporations and others: 1.66%
- Others: 0.83%

IR Calendar

<table>
<thead>
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<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<tr>
<td>12</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

Indicators

(FY) 2013 2014 2015
Earnings per share (yen) 11.40 29.07 17.85
Book value per share (yen) 676.65 674.49 655.43
Dividends per share (yen) 34.00 30.00 30.00
Dividend payout ratio (%) 498.2 103.2 168.1
Return on equity (%) 1.7 4.3 2.7

Interim dividend
(1) 15.00 yen per share
(2) Effective date and payment start date: November 22, 2016

Procedures Relating to Share Transactions

Shareholders who have an account with a securities firm

Procedures, inquiries, etc.
Contact address

Designating/changing the dividend receipt method
Securities firm or equivalent
Requests to purchase fractional shares
where you hold your account

Sending and return of mailed material
<Shareholder Registry Administrator>
Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, Chiyoda-ku, Tokyo, 100-8233, Japan

Shares registered in special accounts
(shareholders who do not have an account with a securities firm)

Contact address

Procedures, inquiries, etc.

Postal address and telephone contact number
Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited
2-8-4 Izumi, Suginami-ku, Tokyo 168-0063, Japan
Tel: 0120-782-031 (toll free within Japan)