Results for Q4 FY16
Ended March 31, 2017
FY16 Results
P. 2-9

FY17 Outlook
P. 10-13

Business Strategy
P. 14-24
FY16 Results
# Results summary for FY16

Revenue and operating income were higher than the company plan. The gross profit margin increased by 1.8 percentage points compared to the previous year. Booking and revenue increased thanks to continued strength in the Public, Enterprise and Partner sector.

## Financial Summary

<table>
<thead>
<tr>
<th>(JPYmn, % to revenue)</th>
<th>2017/03</th>
<th>2017/03</th>
<th>2016/03</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017/03</td>
<td>2017/03</td>
<td>2016/03</td>
<td>Amount</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Q1 Results</td>
<td>Q2 Results</td>
<td>Q3 Results</td>
<td>Q4 Results</td>
</tr>
<tr>
<td></td>
<td>29,475</td>
<td>100.0%</td>
<td>37,063</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Cost of revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23,075</td>
<td>78.3%</td>
<td>29,230</td>
<td>78.9%</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,400</td>
<td>21.7%</td>
<td>7,833</td>
<td>21.1%</td>
</tr>
<tr>
<td><strong>SG&amp;A</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,673</td>
<td>22.6%</td>
<td>7,264</td>
<td>19.6%</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(273)</td>
<td>△ 0.9%</td>
<td>569</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(333)</td>
<td>△ 1.1%</td>
<td>608</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>Net Income attributable to owners of the parent company</strong></td>
<td>(256)</td>
<td>△ 0.9%</td>
<td>384</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>Bookings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>36,088</td>
<td></td>
<td>39,391</td>
<td></td>
</tr>
<tr>
<td><strong>Backlog</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>59,979</td>
<td></td>
<td>62,306</td>
<td></td>
</tr>
</tbody>
</table>
Trend of gross profit margin

- Initiatives to provide solutions
- Thorough profit management on a case-by-case basis
- Improve awareness of profit in sales division

Compared to Q1 and Q2 which contain a large amount of revenue for the previous term bookings, the gross profit margin improved for Q3, which is mainly revenue for the current term bookings. Q4 also maintains this trend.
Performance by market sector

Bookings

- **Enterprise**
  - Bookings and revenue increased by the strong demand of security and cloud business.

- **Telecom Carrier**
  - Bookings and revenue went according to plan by the expansion of cloud service infrastructure business.

- **Public**
  - Bookings and revenue increased significantly by the growth of security business in local governments.

- **Partner**
  - Bookings and revenue increased significantly by the expansion of key partner business.

(Notes) From the current fiscal year, bookings and backlog of sublease are indicated in the net.
Performance by product category

- **Bookings**
  - **Products**: Bookings and revenue increased by the growth of security business in local governments and the expansion of key partner business.
  - **Service business**: Bookings and revenue increased by the growth of products.

(Note) 1. From the current fiscal year, with the expansion of the cloud business, combines "Network products" with "Platform products" to "Products". "Service business" remains the same.
2. From the current fiscal year, bookings and backlog of sublease are indicated in the net.
## Consolidated balance sheets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>102,613</td>
<td>103,365</td>
<td>752</td>
</tr>
<tr>
<td>Current assets</td>
<td>91,519</td>
<td>92,425</td>
<td>905</td>
</tr>
<tr>
<td>Cash and deposits + CD・CP</td>
<td>22,167</td>
<td>17,236</td>
<td>(4,930)</td>
</tr>
<tr>
<td>Notes and accounts receivable-trade</td>
<td>41,077</td>
<td>44,530</td>
<td>3,453</td>
</tr>
<tr>
<td>Inventory assets</td>
<td>16,575</td>
<td>16,642</td>
<td>67</td>
</tr>
<tr>
<td>Other</td>
<td>11,699</td>
<td>14,015</td>
<td>2,315</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>11,093</td>
<td>10,940</td>
<td>(153)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>5,536</td>
<td>5,505</td>
<td>(30)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2,309</td>
<td>2,142</td>
<td>(167)</td>
</tr>
<tr>
<td>Investment etc.</td>
<td>3,247</td>
<td>3,291</td>
<td>44</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>47,079</td>
<td>46,037</td>
<td>(1,041)</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>42,444</td>
<td>41,009</td>
<td>(1,434)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>4,635</td>
<td>5,027</td>
<td>392</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>55,533</td>
<td>57,328</td>
<td>1,794</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>55,878</td>
<td>57,186</td>
<td>1,307</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(463)</td>
<td>13</td>
<td>477</td>
</tr>
<tr>
<td>Subscription rights to shares</td>
<td>119</td>
<td>128</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>102,613</td>
<td>103,365</td>
<td>752</td>
</tr>
</tbody>
</table>
Revenue and P/L by reportable segment

<table>
<thead>
<tr>
<th>(million yen)</th>
<th>Reportable segment</th>
<th>Enterprise</th>
<th>Telecom</th>
<th>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>Revenue</strong></td>
<td></td>
<td>47,790</td>
<td>37,231</td>
<td>46,715</td>
<td>24,917</td>
<td>156,655</td>
<td>1,602</td>
<td>158,258</td>
<td></td>
<td>(1,021)</td>
<td>157,236</td>
</tr>
<tr>
<td>External revenue</td>
<td>47,788</td>
<td>37,231</td>
<td>46,715</td>
<td>24,917</td>
<td>156,653</td>
<td>583</td>
<td>157,236</td>
<td>-</td>
<td></td>
<td></td>
<td>157,236</td>
</tr>
<tr>
<td>Inter-segment revenue or transactions</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>0</td>
<td>2</td>
<td>1,019</td>
<td>1,021</td>
<td>(1,021)</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Segment income [new criteria]</strong></td>
<td>1,719</td>
<td>2,259</td>
<td>1,864</td>
<td>494</td>
<td>6,338</td>
<td>33</td>
<td>6,371</td>
<td>(624)</td>
<td>5,747</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Segment income [previous criteria, approx.]</strong></td>
<td>2,451</td>
<td>3,038</td>
<td>356</td>
<td>494</td>
<td>6,341</td>
<td>33</td>
<td>6,375</td>
<td>(627)</td>
<td>5,747</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation [new criteria]</strong></td>
<td>1,241</td>
<td>534</td>
<td>720</td>
<td>397</td>
<td>2,894</td>
<td>38</td>
<td>2,932</td>
<td>(10)</td>
<td>2,922</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation [previous criteria, approx.]</strong></td>
<td>1,156</td>
<td>466</td>
<td>873</td>
<td>397</td>
<td>2,894</td>
<td>38</td>
<td>2,932</td>
<td>(10)</td>
<td>2,922</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Revenue**    |                   | 46,837     | 40,287  | 37,998  | 19,515 | 144,639 | 1,579 | 146,219 | (1,038) | 145,180 |
| External revenue | 46,834            | 40,287     | 37,998  | 19,506  | 144,627 | 553  | 145,180  | -     |       |            | 145,180 |
| Inter-segment revenue or transactions | 3               | -          | -       | 9       | 12    | 1,026 | 1,038    | (1,038) | -     |            | |
| **Segment income [new criteria]** | 2,025            | 956        | (90)    | 282     | 3,174 | (108) | 3,065    | (612) | 2,453 |
| **Segment income [previous criteria]** | 2,872            | 1,600      | (1,580) | 282     | 3,174 | (108) | 3,065    | (612) | 2,453 |
| **Depreciation [new criteria]** | 1,205            | 506        | 714     | 314     | 2,741 | 60   | 2,802    | (10)  | 2,791 |
| **Depreciation [previous criteria]** | 1,103            | 500        | 822     | 314     | 2,741 | 60   | 2,802    | (10)  | 2,791 |

(Notes) 1. From the current fiscal year, in order to more appropriately reflect the reportable segment's results, we changed the allocation cost of the indirect departments, based on the reasonable allocation criteria that matches the business realities of each segment.
2. The “Other” segment is not included as a reportable segment. It contains the server service business and other businesses.
3. 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.
## Exchange rate, EPS, Employees

<table>
<thead>
<tr>
<th></th>
<th>2016/3 Q1-4</th>
<th>2017/3 Q1-4</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Change</td>
</tr>
<tr>
<td>Exchange rate ($JPY)</td>
<td>119.60</td>
<td>110.35</td>
<td>(9.25)</td>
</tr>
<tr>
<td>Earnings per share (JPY)</td>
<td>17.85</td>
<td>45.20</td>
<td>27.35</td>
</tr>
</tbody>
</table>

### Employees

<table>
<thead>
<tr>
<th></th>
<th>2016 3.31</th>
<th>2017 3.31</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Change</td>
</tr>
<tr>
<td>Employees</td>
<td>2,246</td>
<td>2,266</td>
<td>20</td>
</tr>
</tbody>
</table>

(Notes)
1. On November 22, 2016, an interim dividend of 15.00 yen per share was paid to shareholders of record as of September 30, 2016.
2. The Company is planning to the year-end dividend payment of 15.00 yen per share that was announced at the beginning of fiscal year.
FY17 Outlook
# FY17 Outlook

<table>
<thead>
<tr>
<th>(JPYmn, % to revenue)</th>
<th>H1</th>
<th>H2</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bookings</td>
<td>71,000</td>
<td>89,000</td>
<td>160,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>65,000</td>
<td>92,000</td>
<td>157,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>50,146</td>
<td>71,129</td>
<td>121,275</td>
</tr>
<tr>
<td>Gross profit</td>
<td>14,853</td>
<td>20,871</td>
<td>35,724</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>13,953</td>
<td>14,571</td>
<td>28,524</td>
</tr>
<tr>
<td>Operating income</td>
<td>900</td>
<td>6,300</td>
<td>7,200</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>900</td>
<td>6,300</td>
<td>7,200</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>500</td>
<td>4,100</td>
<td>4,600</td>
</tr>
<tr>
<td>Dividends per share</td>
<td>15.00 Yen</td>
<td>15.00 Yen</td>
<td>30.00 Yen</td>
</tr>
</tbody>
</table>

**Annual Exchange rate**

114.13 USD/JPY
**FY17 Outlook by market sector**

### Bookings

<table>
<thead>
<tr>
<th></th>
<th>2017/3</th>
<th>2018/3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>157,236</td>
<td>157,000</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>47,788</td>
<td>46,715</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td>37,231</td>
<td>35,000</td>
</tr>
<tr>
<td><strong>Cloud</strong></td>
<td>24,917</td>
<td>26,000</td>
</tr>
</tbody>
</table>

### Revenue

<table>
<thead>
<tr>
<th></th>
<th>2017/3</th>
<th>2018/3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>157,236</td>
<td>157,000</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>47,788</td>
<td>46,715</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td>37,231</td>
<td>35,000</td>
</tr>
<tr>
<td><strong>Cloud</strong></td>
<td>24,917</td>
<td>26,000</td>
</tr>
</tbody>
</table>

**Investment** will continue to expand mainly in security measures, work style innovations, and cloud infrastructure. In the manufacturing industry, investment for the factory's IoT network will gradually increase.

**Investment** in the cloud service infrastructure will continue.

**Investment** in the security measures and the cloud infrastructure will continue.

**Business** for key partners will continue to grow.
## FY17 Outlook by product category

### Bookings

<table>
<thead>
<tr>
<th>Year</th>
<th>FY17</th>
<th>FY18</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bookings</td>
<td>163,935</td>
<td>160,000</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Revenue</td>
<td>99,941</td>
<td>96,500</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Revenue</td>
<td>63,994</td>
<td>63,500</td>
<td>-0.8%</td>
</tr>
</tbody>
</table>

### Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>FY17</th>
<th>FY18</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bookings</td>
<td>157,236</td>
<td>157,000</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Revenue</td>
<td>97,729</td>
<td>96,000</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Revenue</td>
<td>59,507</td>
<td>61,000</td>
<td>+2.5%</td>
</tr>
</tbody>
</table>

### Products

Cloud infrastructure business and security measures business will continue.

### Service business

Design, install and maintenance services will continue in association with cloud infrastructure business and security measures business.

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*With the expansion of the cloud business, combines "Network products" with "Platform products" to "Products." "Service business” remains the same.*
Business Strategy
Growth strategy: Driving/Initiative incremental business

Expansion of installed base and development of new market
Switch from the hardware-based business model, to the software-based service business

Development of new market

IoT  Global  Corporate

Solution expansion

Keep of installed base

No.1 Cloud integrator

Challenge

Driving service business

Expansion of installed base

Cloud system with security

New solution

Security everywhere

New Opp.

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Medium-term business plan

Revenue expansion with new market and new solution
Reduction of SG&A by promoting internalization and improvement productivity

Revenue, operating income

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (JPYmn)</th>
<th>Operating Income (JPYmn)</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY15</td>
<td>145,181</td>
<td>1.7%</td>
<td></td>
</tr>
<tr>
<td>FY16</td>
<td>157,236 (Outlook 146,000)</td>
<td>3.7% (Outlook 3.1%)</td>
<td></td>
</tr>
<tr>
<td>FY17</td>
<td>157,000 (Previous plan +2,000)</td>
<td>4.6% (Previous plan +0.1%)</td>
<td></td>
</tr>
<tr>
<td>FY18</td>
<td>170,000 (24,000)</td>
<td>6.5%</td>
<td></td>
</tr>
</tbody>
</table>

New market / New solution

- Cloud system with security: 10,000
- Global market: 4,000
- Corporate market: 6,000
- IoT market: 4,000

Operating income (Outlook JPY4.5bn)

Operating income (Previous plan +0.1%)
Progress of new market/new solution

“Cloud system with security” and “IoT” increased more than plan “Global” and “Corporate” went according to plan

- **Cloud system with security**
  - Security system for municipalities
  - Work style innovation for enterprises
  - Cloud service infrastructure for telecom carriers

- **IoT**
  - IoT network for manufacturing industry
Cloud system with security

Building private cloud with security system
Secure connection to public cloud/internet

Private cloud

Public cloud

Cloud HUB

Security cloud

Solution expansion

- Solution expansion
  - Arista-VMware alliance
  - Cloud HUB service
  - Managed security service

- Many cases
  - Municipalities security

- Security skill dev.
  - Cisco/Palo alliance

Driving service business

- Architectural approach
  - “Net One Connect” developed software
  - Cloud HUB service
  - Managed security service
  - SD-WAN service
  - New solution

- Utilizing cases
  - ENT/PUB security
  - Workstyle innovation
  - Utilizing cloud

- Security skill dev.
  - Cisco/Palo alliance

Work style

Cyber attack

BigData/IoT

Hybrid cloud

Biz. speed

Cost efficiency
IoT market

Network connection between production machines in the manufacturing plant (Automobile, robot, machine-tool, engine, etc.)

Information network

Controller network

Field network

Target area

ERP

Visualization

PLC

Production line

PLC

Production line

PLC

Production line

FY2016

Trial (hypothesis and verification)

- System verification in IoT dedicated lab
- Build IoT networks in verification and production environment
- Partnership with FA system integrators
- Build-up of business pipeline

FY2017

Monetize

- Monetize by best practices
- Target extension to primary suppliers
- Company-wide expansion of initiatives
- Surveying new target areas

Traceability

Preventive maintenance

Security

Network connection between production machines in the manufacturing plant (Automobile, robot, machine-tool, engine, etc.)

Information network

Controller network

Field network

Target area

ERP

Visualization

PLC

Production line

PLC

Production line

PLC

Production line

FY2016

Trial (hypothesis and verification)

- System verification in IoT dedicated lab
- Build IoT networks in verification and production environment
- Partnership with FA system integrators
- Build-up of business pipeline

FY2017

Monetize

- Monetize by best practices
- Target extension to primary suppliers
- Company-wide expansion of initiatives
- Surveying new target areas

Traceability

Preventive maintenance

Security
Global market

Support for overseas expansion of domestic customers
Inbound business through alliances with global partners

Global ICT governance
Overseas support with Japan quality

FY2016

Singapore to APAC

- Capital tie-up with Asiasoft Solutions (Singapore)
  - Strengthening building and maintenance service system in ASEAN
  - Speed-up service provision in ASEAN
  - Share technical know-how

- Expansion of other partners in ASEAN

FY2017

APAC to US/EU

- Expanding collaboration with Asiasoft Solutions
  - Expanding Japan originated company business of ASEAN
  - Development of ASEAN business for non-Japan originated company

- Expansion of partners for US/EU
Corporate market

New customer development with efficient new approach

Corporate market

Cloud services gain momentum
Enhanced security in using cloud service

Exploring market development scenario

- Launch of department in charge for capital area
- Efficient proposal activities by the NetOne selling cloud services provided by customers
- Start of vendor collaboration

FY2016

Market creation/expansion

- Provide cloud network service, cloud collaboration service, cloud desktop service with security
- Expansion of vendor collaboration
- Expand market by adding western Japan metropolitan area

FY2017
Driving service business

Provide cloud system to support good operation of customer's business applications (announced at April 5)

Provide the entire ICT infrastructure architecture as a service model to improve the profit ratio
Switch the business model from hardware-based to software-based service

New company “Net One Connect” specializing in SD-HCI software development and sales

SD-HCI software (Software Defined Hyper Converged Infrastructure)

Connect securely

Private cloud

Consolidate securely

Public cloud

Utilize securely

Headquarter
Branch
Group
Global
Industrial IoT

Work space
Profit management / Human resource development

**Profit management**

- Improve accuracy of forecast management by advancing visualization of income and expenditure
- Continually systematically review the profit of each project to improve profit
- Improve awareness of profit in sales division

**Human resource development**

- Demand for security will expand in all business areas, collaborate with vendors to train the world's most advanced security personnel
- Continue efforts to improve cloud technology
- Strengthen internal education system for long-term and systematic accumulation and transfer of technical know-how
Revenue trend

**Revenue by market sector**

- **Total**
- **Telecom Carrier**
- **Public**
- **Enterprise**
- **Partner**

**Revenue by product category**

- **Network**
- **Services**
- **Platform**

(Note) From the current fiscal year, "Network products" with "Platform products" to "Products".