Reviewing operations

Since we moved to a new head office in 2013, we have been working on diverse initiatives, aiming to become professionals in utilizing and leveraging Information and Communication Technology (ICT). The way we have pursued was not to put together a jigsaw puzzle but to paint and color on white canvas. This reflects our desire to create new markets and businesses with no competitors.

Through such attempts, three solution domains that are in need beyond the existing user markets have begun to emerge: (1) cyber security; (2) dealing with the Industrial Internet of Things (IIoT), or the use of IoT technologies in manufacturing to improve operational efficiency; and (3) providing services that require less human work on our side.

(1) Cyber security measures

No user of digital processing can safely, totally avoid being exposed to a cyber security threat, when they are connected in the worldwide network. We have expanded business of our Cloud System with Security plan, which combines security solutions with our own cloud system. The business has been tailored to needs of each market, such as need for security for local governments, workstyle innovation for private companies, and a cloud service platform for telecom carriers.

The need for ICT or for security can be diverse and change, depending on a customers’ scale, business activity, and ways of thinking. We find it a great challenge to find and provide the best solutions, tailored for each customer.

(2) Dealing with IIoT

As a way to do good business in the IIoT market, we are focusing on measures specifically targeted to the manufacturing industry. In 2016, we began verification and IoT solution services at an IoT lab. We are promoting the connection of all kinds of production equipment in a manufacturing plant to implement IIoT solutions in order to comprehensively control and manage traceability, preventive maintenance, and security, based on data analysis.

In another venue, we became one of the “eco partners” in a team of major automobile, robot, and machine tool makers of Japan, who are our customers, to undertake practical implementation of IIoT and have been building up a track record of IIoT projects in factories.

More and more customers have been speaking to us about their projects and achievements, and we have been receiving inquiries from new customers in the manufacturing industry in Japan and overseas.
(3) Providing services that require less human work on our side

With the objective of exploring the corporate market where there is high growth potential, we set up a dedicated sales team in 2016 to make sales efforts through a use of a call center, rather than to use the traditional style of visiting customers and making proposals to them. Moreover, we began talking to customers about Managed Services* that can be efficiently provided with cloud-type networking in the East Japan area. By forming a partnership with a telecom carrier and using their sales outlet network, we are making community-based sales efforts. Next, we are planning to expand business in the West Japan area. Thanks to such initiatives, we are expanding business in the corporate market faster than planned. What we plan to do next is to add more to our service portfolio, more coverage in areas, and have more partners and alliances, in order to accelerate growth.

* Monthly-payment support services of monitoring, operation and maintenance, in addition to installation and setting-up of equipment

Outcome of recent efforts, evidenced in the results of the first half of fiscal 2017

These initiatives have led to better-than-expected results in the first six months of fiscal 2017. Favorable trend can be even more clearly seen in the longer-term performance. Revenues from the telecom carrier sector represented 53.8% of total sales in fiscal 2011, the year marking the peak of capital expenditures by telecom carriers, but 23.7% in fiscal 2016, although total sales of both years are similar. This means that revenues from other sectors had expanded as we successfully transformed our business portfolio for utilizing ICT.

Another positive development is improvement of the operating margin. It had been on a declining trend but picked up from 1.7% in fiscal 2015 to 3.7% in fiscal 2016. Reasons behind this include promotion of insourcing, detailed profit checking for each project, cost control, and progress in productivity improvement through in-house workstyle innovation. I believe, however, that the most critical was a changing mind-set of employees. Our people have built up successful experiences of creating markets and businesses with no competition, which has led to their willingness and enthusiasm for profit-generating business creation. These achievements have made us become more confident and determined to further carry out internal reforms, so as to achieve the medium-term business plan’s targets of ¥170 billion in revenues and ¥11 billion in operating income (operating margin of 6.5%) for fiscal 2018.

Emerging changes in market and Net One Group’s growth scenario

Make our positioning as non-manufacturer into our strength

In the context of the powerful trend for industry’s shift in focus from hardware to software and cloud computing, I believe that more and more users have recognized that utilizing ICT can be a driving force for management efficiency. This has brought a significant change to global vendors, our major trading partners. Historically, advantage of Net One Systems being a non-manufacturer was to understand users and to provide timely solutions that satisfy their needs, while our weakness was that technologies three years from now were up to vendors. In addition, despite our long-term good relationship with vendors, they often regard us merely as a powerful business agent.

However, in the last few years, vendors have begun to ask us what is going on in utilizing ICT and what customers want. It means that the user market in Japan has become so significant for vendors and that Net One Systems is now at a favorable stage to strengthen our positioning.

Uniquely creating added value and expanding service business

In the midst of changes in both the user market and the vendor market, Net One Systems’ growth scenario is to become a unique presence in both markets and for customers and vendors. This will be a driving force to accelerate service businesses, as we began to emphasize from this fiscal year.

Establishing Net One Connect G.K.

One example of materializing our growth scenario is the establishment of Net One Connect in April 2017 (see details, pages 7-8). The company was established to develop solution services from a perspective of efficient management and maintenance of the ICT system in an open environment.

One of its prominent features is to have a world-leading global vendor in advanced technology as an eco-partner to provide functions in need. Using analogy from painting, it is an arrangement that we make basic colors jointly with the eco-partner and draws a colorful painting, according to the needs of a customer.
Adopting a new financial scheme to all solution services
In the ICT age, an important point is not what type of ICT assets you own, but how to make utilizing ICT according to your strategy. However, one of the obstacles in adopting new technologies lies in financing schemes, which in general have a long depreciation or leasing period on assets in the form of innovative technologies. Based on our views of the growing need for financial schemes that match the ICT age and financial arrangement that enables quick decision making and flexibility for management in the medium term, Net One Systems has introduced a subscription model to all of our solution services. This model, in which a customer pays a price for the duration of use of services and equipment, allows assets to be more liquid, rather than fixed. As the model helps raise management efficiency of the customer, we believe we can give an additional support to our customers’ utilizing ICT from a financial aspect.

Message to our shareholders
“Contribute to innovation in society through utilizing ICT” is Net One System’s vision from this fiscal year. We have incorporated a word, society, in the vision as we want to raise our presence and value in society. At present, utilizing ICT and workstyle innovation have become a powerful trend in society. I am expecting each of our employees to become a true professional in utilizing ICT, a professional who is more conscious of being engaged in society, and thinks about how to feed back our insights in “charging” and “channelling” to society. Sharing a passion that “Net One Group will create a next stage,” we are striving to make fiscal 2017 a year of a leap forward toward a next stage. I would like to ask for your continued cooperation and support.
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 customers’ needs. In addition, we ourselves employ next-generation ICT infrastructure, and the resulting accumulated experience and expertise form a base that will enable us to raise our added value and better support our customers.

**Revenue by Category**

<table>
<thead>
<tr>
<th>Products</th>
<th>Service business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue increased by 7.1% year-on-year to ¥42.4 billion, mainly due to steady growth in security and cloud infrastructure projects.</td>
<td>Revenue increased by 4.9% year-on-year to ¥28.2 billion, due to growth in projects including design, construction, maintenance and operating services, along with progress in solution proposals.</td>
</tr>
</tbody>
</table>

**Overview by Market Sector**

Network infrastructure business, centered on information security measures, and cloud infrastructure business have been expanding. We are also promoting the Utilizing and Leveraging of ICT to accelerate business innovation, such as by establishing a workstyle innovation base that takes advantage of communication tools, and to construct IIoT (Industrial Internet of Things) infrastructure in manufacturing plants.

**Highlights**

- **ENT ENTERPRISE**
  - For the private sector
  - Favorable business in security measures, cloud infrastructure, and workstyle innovation

- **SP TELECOM CARRIER**
  - For telecom carriers
  - Steady business in cloud service platform

- **NOP NET ONE PARTNERS**
  - For partners
  - Sustained and expanded business with major partners

- **PUB PUBLIC**
  - For the public sector
  - Steady business in security and cloud infrastructure projects for local governments, health care institutions, universities, boards of educations, etc.
Net One Connect is promoting use of cloud

Q: Net One Systems established Net One Connect G.K. in April 2017. What does it do?
A: Along with globalization and advanced ICT technologies, how quickly you can materialize an idea into a business has become critically important for the success of a company. Companies therefore are accelerating use of the cloud that enables a prompt, low-cost start-up of a new business. There are several cloud computing types, including private cloud, public cloud and hybrid cloud, which is a composition of two or more clouds. Cloud-based system configuration involves a higher burden in management and control, and security concerns. Net One Connect was established to provide solutions to such issues.

Net One Connect has developed Artimate Package, a core component of SD-HCI (Software Defined – Hyper Converged Infrastructure), which is a concept proposed by Net One Systems. The SD-HCI is a cloud converged infrastructure model that safely connects multiple clouds by using advanced network technology, and operates and controls it in an integrated manner.

Artimate Package helps customers to achieve significant cost reduction in management and control of a cloud system and in security measures. While use of the cloud reduces customers’ capital spending, adoption of the Artimate Package reduces their operating costs. This impact can boost customers’ transformation into a new business model.

It has only been six months since Net One Connect was established, but we have been receiving inquiries from many customers through our marketing activities. We feel more convinced that our service can become one of the keys for customers to solve problems.

Q: How do you differentiate your service from that of competitors?
A: I believe that, in addition to the efficacy of the SD-HCI, our capability to provide optimal service to customers by combining advanced technologies and products and verifying them is our most distinctive point. The Net One Group’s long-accumulated network, cloud and security technologies, system configuration capability in a multi-vendor environment, and maintenance and support system are also working to our advantage.

Q: Please explain your business strategy?
A: We envision quickly building up a track record mainly in services to major private companies and customers in the public sector, and to promote use of cloud. We also plan to expand our service portfolio by introducing new functions, such as for the enhancement of security and for management and control of network and systems. By doing so, we aim at expanding our customer base and profit base.

Furthermore, through such work process, the Net One Group will obtain more insights and knowhow on cloud configuration and its management, which we plan to utilize to develop new services.

In light of such prospects, we are considering more joint work within the group as well as alliances with new partners. Business expansion outside Japan is another thing under consideration, in coordination with the Net One Group’s global development.

Q: Will you discuss the future of Net One Connect?
A: Nowadays, ICT is a base and a booster for businesses. We would like to lead the ICT industry as a promoter of use of cloud, based on the SD-HCI. In the emerging new environment where all the information is digitized and connected, and new data-based services are announced, the SD-HCI can help customers to strengthen operational efficiency, accelerate innovation, and realize growth. Net One Connect is determined to lead this market in Japan, grow together with customers, and ultimately contribute to the Net One Group’s development.

*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: A 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.
How the Workstyle Innovation Team works

In Japan, a decline in working-age population is a serious issue and such themes as balancing elderly care and childcare with work, and promoting women’s empowerment, are receiving more attention. Here we introduce Net One Systems’ new team which is implementing innovations desired by companies and society.

Desired workstyle innovation and forming of the new team

In April 2017, Net One Systems formed a Workstyle Innovation Team to implement, firsthand, diverse ways to empower women employees. This is also a challenge for Net One Systems, which has been utilizing advanced ICT tools for our own workstyle innovation and bringing our insights and knowhow to our customers. We have promoted diversity by tackling issues such as discrepancy in titles and ranking for women employees, and their difficulty in continuously displaying capability. As part of the background, the Act on Promotion of Women’s Participation and Advancement in the Workplace became fully effective in Japan in April 2016. This stimulated us to develop an action plan to foster corporate culture that facilitates women’s participation and advancement. We are supporting our women employees in their own efforts to balance their work with their home life and to advance careers.

Ms. Tezuka (front row, second from right on the photo), head of the team, said as follows: “While many women employees wish to keep working, they find it hard to actually do so at the workplace, as they have to encounter diverse life events and anticipate others in the future. If each of them can choose a workstyle, depending on her specific circumstances, it will be possible for them to work while raising a child, and beyond that to aim at a desired assignment earning a promotion. I also find it important to create an atmosphere that allows flexible workstyle for both women and men.”

Innovative team that makes firsthand practices in promoting women’s empowerment

The Workstyle Innovation Team is comprised of two men and eight women. Among them, four women members are currently raising children and working. In addition to supporting customers’ workstyle innovation, the team’s mission includes devising its own ways to balance their work and family life.

When our women employees have to make a business trip nationwide to promote “vitalization of local economy” jointly with local governments1 or when a child needs to be picked up urgently, we have tools and programs to accommodate such situations, enabling each employee to work her best, according to her lifestyle.

Net One Systems was granted “Eruboshi” company certification2 by the Minister of Health, Labour and Welfare. Some customers told us that they found our real experience and process of workstyle innovation very useful.

---

1 Net One Systems is participating in the “furusato telework project” of Japan’s Ministry of Internal Affairs and Communications, in cooperation with Taketomi-cho in Okinawa Prefecture, Shiojiri City in Nagano Prefecture, and Shizuoka City in Shizuoka Prefecture. Furusato means “hometown” in Japanese.

2 The “Eruboshi” is a system of certifying companies that promote the active involvement of women employees. It is implemented by the Minister of Health, Labour and Welfare.

CSR TOPIC

Hosting Waku-Waku Challenge Cup U-8

Net One Systems has been supporting Oita Trinita, a J. League professional football team, as an official partner, since 2009. Jointly with the club, which aims to be a youth soccer development academy, Net One Systems has been hosting the Under 8 Challenge Cup every year since 2014, as a part of its contribution to communities. This year, on September 2, when the Waku-Waku Challenge Cup U-8 was held in Oita Prefecture, young footballers from 12 soccer teams enjoyed competitive matches.

We intend to increase opportunities for children to enjoy playing and interaction with each other and to encourage them to stay engaged in sports for better health.
Corporate Profile (As of September 30, 2017)

Company Name: Net One Systems Co., Ltd.
Established: February 1, 1988
Capital Stock: 12,279 million yen
Business Activities: Networking business
Number of Employees: 2,309 (consolidated; +36 vs. previous year)
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

Executives (As of September 30, 2017)
Board of Directors: President Takayuki Yoshino, Director Toru Arai, Shunichi Suemitsu, Tsuyoshi Suzuki, Takahisa Kawaguchi, Norihisa Katayama
Audit & Supervisory Board Members: Full-time Member Toru Matsuda, Outside Member Masamichi Kituchi, 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

Major Shareholders (As of September 30, 2017)

Number of Shares Issued: 86,000,000
Number of Shareholders: 16,690

Major Shareholders

Name | Number of shares held | Ownership ratio (%)
--- | --- | ---
Japan Trustee Services Bank, Ltd. (Trust Account) | 11,154,700 | 13.18
Master Trust Bank of Japan, Ltd. (Trust Account) | 6,028,100 | 7.12
Japan Trustee Services Bank, Ltd. (Trust Account 9) | 4,491,200 | 5.31
Japan Trustee Services Bank, Ltd. (Trust Account 5) | 1,613,200 | 1.91
Government of Norway | 1,552,800 | 1.84
Trust & Custody Services Bank, Ltd. (Security investment trust account) | 1,469,800 | 1.74
Meiji Yasuda Life Insurance Company | 1,440,000 | 1.70
Japan Trustee Services Bank, Ltd. (Trust Account 4) | 1,354,000 | 1.60
The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 1,324,800 | 1.57
Association of Net One Systems Employees participating the Employee Stock Ownership Program | 1,204,273 | 1.48

Indicators
(FY) 2014 2015 2016
Earnings per share (yen) 29.07 17.85 45.20
Book value per share (yen) 674.49 655.43 676.30
Dividends per share (yen) 30.00 30.00 30.00
Dividend payout ratio (%) 103.2 168.1 66.4
Return on equity (%) 4.3 2.7 6.8

Interim dividend
(1) 15.00 yen per share
(2) Effective date and payment start date: November 22, 2017

Distribution of shares by type of shareholder

<table>
<thead>
<tr>
<th>Type of Shareholder</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals and other</td>
<td>41.59%</td>
<td>32.43%</td>
<td>21.82%</td>
</tr>
<tr>
<td>Other domestic corporations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial institutions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net One Systems Co., Ltd</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas corporations and others</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Procedures Relating to Share Transactions

Shareholders who have an account with a securities firm

Procedure, inquiries, etc. | Contact address
--- | ---
Designating/changing the dividend receipt method | Securities firm or equivalent where you hold your account
Requests to purchase fractional shares
Sending and return of mailed material | <Shareholder Registry Administrator>
Dividends after the payment period | Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, 100-8233, Japan
(Shareholder Registry Administrator) | <Special Account Management Institution>
Sumitomo Mitsui Trust Bank, Limited 2-8-4 Izumi, Sugarnami-ku, Tokyo 168-0063, Japan

Shares registered in special accounts

Contact address
Procedures, inquiries, etc. | <Special Account Management Institution>
Securities firm or equivalent where you hold your account

Net One System 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

| The First Six Months of Fiscal Year March 2018 | 07 |