Results for Q4 FY03/2018
Ended March 31, 2018

Net One Systems Co., Ltd.
April 26, 2018 (Stock Code 7518: JP)
■ FY03/18 Results P. 2-11
■ FY03/19 Outlook P. 12-16
■ Progress of Three-year Business Plan P. 17-25
FY03/18 Results
Achieved announced plans for bookings, revenue, gross profit margin and profit. Enterprise sector, Public sector, and Partner sector performed strongly.

<table>
<thead>
<tr>
<th>(JPYmn, % to revenue)</th>
<th>FY03/18 Q1-4 Results (A)</th>
<th>FY03/18 Q1-4 Outlook (B)</th>
<th>Compare to plan (A-B)</th>
<th>FY03/17 Q1-4 Results (C)</th>
<th>YoY (A-C)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>Bookings</td>
<td>170,164</td>
<td>160,000</td>
<td>10,164</td>
<td>6.4%</td>
<td>163,935</td>
</tr>
<tr>
<td>Revenue</td>
<td>161,107</td>
<td>157,000</td>
<td>4,107</td>
<td>2.6%</td>
<td>157,236</td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>123,278</td>
<td>121,275</td>
<td>2,003</td>
<td>1.7%</td>
<td>122,013</td>
</tr>
<tr>
<td>Gross profit</td>
<td>37,829</td>
<td>35,724</td>
<td>2,105</td>
<td>5.9%</td>
<td>35,223</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>29,587</td>
<td>28,524</td>
<td>1,063</td>
<td>3.7%</td>
<td>29,475</td>
</tr>
<tr>
<td>Operating Income</td>
<td>8,241</td>
<td>7,200</td>
<td>1,041</td>
<td>14.5%</td>
<td>5,747</td>
</tr>
<tr>
<td>Ordinary Income</td>
<td>8,418</td>
<td>7,200</td>
<td>1,218</td>
<td>16.9%</td>
<td>5,701</td>
</tr>
<tr>
<td>Net Income attributable to owners of the parent company</td>
<td>5,682</td>
<td>4,600</td>
<td>1,082</td>
<td>23.5%</td>
<td>3,822</td>
</tr>
<tr>
<td>Backlog</td>
<td>69,121</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>60,065</td>
</tr>
</tbody>
</table>
Main factor of increase in operating income

Cost reduction, service expansion, and productivity improvement

Revenue
YoY +2.5%
Exceeded plan

Gross profit margin
22.4% → 23.5%
Exceeded plan

SG&A
YoY +0.4%
Maintained

Operating income
YoY +43.4%

Cost reduction / Service expansion / Productivity improvement
Performance by market sector

**Bookings**

- Enterprise
  - Demand for security, cloud and work-style innovation continued to be strong

- Telecom Carrier
  - Cloud service infrastructure business expanded

- Public
  - Security and cloud business in municipalities/ministries, healthcare, universities, and research institute performed strongly

- Partner
  - Key partners business and managed service via Telecom Carrier remained robust

**Revenue**

- Enterprise
  - Demand for security, cloud and work-style innovation continued to be strong

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**Backlog**

- Enterprise
  - Demand for security, cloud and work-style innovation continued to be strong

- Telecom Carrier
  - Cloud service infrastructure business expanded

- Public
  - Security and cloud business in municipalities/ministries, healthcare, universities, and research institute performed strongly

- Partner
  - Key partners business and managed service via Telecom Carrier remained robust
Performance by product category

- **Bookings**
  - FY03/17: 99,941 (39.0%) to 63,994 (11.9%)
  - FY03/18: 98,555 (42.1%)

- **Revenue**
  - FY03/17: 97,729 (37.8%) to 59,507 (7.2%)
  - FY03/18: 97,320 (39.6%)

- **Backlog**
  - FY03/17: 15,987 (73.4%) to 44,078 (11.9%)
  - FY03/18: 17,221 (75.1%)

**Products**
- Security and cloud business remained robust

**Service business**
- Advances in solution proposals, projects including design, construction, maintenance and operation services increased
Revenue trend by market sector and product category

Revenue by market sector

- Telecom Carrier
- Public
- Enterprise
- Partner

Revenue by product category

- Products
- Services
### Revenue and P/L by reportable segment

<table>
<thead>
<tr>
<th>(JPYmn)</th>
<th>Reportable segment</th>
<th>Other</th>
<th>Total</th>
<th>Adjustment</th>
<th>Amount recorded in consolidated income statements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Enterprise</td>
<td>Telecom Carrier</td>
<td>Public</td>
<td>Partner</td>
<td>Sub-total</td>
</tr>
<tr>
<td>Ended Mar 31, 2018 (Results)</td>
<td>Revenue</td>
<td>49,685</td>
<td>30,846</td>
<td>48,751</td>
<td>30,985</td>
</tr>
<tr>
<td></td>
<td>Segment income</td>
<td>3,145</td>
<td>2,101</td>
<td>2,152</td>
<td>1,426</td>
</tr>
<tr>
<td></td>
<td>Segment income margin</td>
<td>6.3%</td>
<td>6.8%</td>
<td>4.4%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Ended Mar 31, 2017 (Previous)</td>
<td>Revenue</td>
<td>47,790</td>
<td>37,231</td>
<td>46,715</td>
<td>24,917</td>
</tr>
<tr>
<td></td>
<td>Segment income</td>
<td>1,719</td>
<td>2,259</td>
<td>1,864</td>
<td>494</td>
</tr>
<tr>
<td></td>
<td>Segment income margin</td>
<td>3.6%</td>
<td>6.1%</td>
<td>4.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

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

**Strong bookings and revenue**

Mainly driven by the “Cloud system with security”
IoT for manufacturing industry (Industrial IoT) remained robust

- **Enterprise**: Steady growth (Bookings: YoY +2.6% | Revenue: YoY +4.0%)
  - ✓ Cloud infrastructure and security measures in all industries
  - ✓ Industrial IoT in manufacturing industry

- **Public**: Exceeded the high-level performance of the previous term
  (Bookings: YoY +4.2% | Revenue: YoY +4.4%)
  - ✓ Continuing security measure in municipalities
  - ✓ Cloud infrastructure in healthcare

- **Partner**: Significant increase (Bookings: YoY +21.7% | Revenue: YoY +24.0%)
  - ✓ Continuing and expanding key partner business
  - ✓ Expansion of specific product for telecom carrier

- **Telecom Carrier**:
  Although the cloud service infrastructure expanded, it was decreased compared to the previous term
## Consolidated balance sheets

<table>
<thead>
<tr>
<th>(JPYmn)</th>
<th>Mar 31, 2018 Results</th>
<th>Change</th>
<th>Mar 31, 2017 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>106,827</td>
<td>3,461</td>
<td>+ 3.3%</td>
</tr>
<tr>
<td>Current assets</td>
<td>96,559</td>
<td>4,134</td>
<td>+ 4.5%</td>
</tr>
<tr>
<td>Cash and deposits + CD·CP</td>
<td>23,953</td>
<td>6,716</td>
<td>+ 39.0%</td>
</tr>
<tr>
<td>Notes and accounts receivable-trade</td>
<td>41,755</td>
<td>(2,775)</td>
<td>- 6.2%</td>
</tr>
<tr>
<td>Inventory assets</td>
<td>13,136</td>
<td>(3,505)</td>
<td>- 21.1%</td>
</tr>
<tr>
<td>Other</td>
<td>17,714</td>
<td>3,698</td>
<td>+ 26.4%</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>10,267</td>
<td>(672)</td>
<td>- 6.1%</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>5,125</td>
<td>(380)</td>
<td>- 6.9%</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1,801</td>
<td>(341)</td>
<td>- 15.9%</td>
</tr>
<tr>
<td>Investment etc.</td>
<td>3,341</td>
<td>49</td>
<td>+ 1.5%</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>46,464</td>
<td>427</td>
<td>+ 0.9%</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>41,544</td>
<td>534</td>
<td>+ 1.3%</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>4,919</td>
<td>(107)</td>
<td>- 2.1%</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>60,363</td>
<td>3,034</td>
<td>+ 5.3%</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>60,369</td>
<td>3,183</td>
<td>+ 5.6%</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>(167)</td>
<td>(181)</td>
<td>-</td>
</tr>
<tr>
<td>Subscription rights to shares</td>
<td>160</td>
<td>32</td>
<td>+ 25.5%</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>106,827</td>
<td>3,461</td>
<td>+ 3.3%</td>
</tr>
</tbody>
</table>
## Exchange rate, EPS, Employees

<table>
<thead>
<tr>
<th></th>
<th>FY03/18 Q1-4</th>
<th>YoY</th>
<th>FY03/17 Q1-4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Change</td>
<td>Ratio</td>
</tr>
<tr>
<td>Exchange rate ($JPY)</td>
<td>111.04</td>
<td>0.69</td>
<td>0.1%</td>
</tr>
<tr>
<td>Earnings per share (JPY)</td>
<td>67.16</td>
<td>21.96</td>
<td>48.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>End of FY03/18 Q4</th>
<th>YoY</th>
<th>End of FY03/17 Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Change</td>
<td>Ratio</td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>2,295</td>
<td>29</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

(Notes)
1. On November 22, 2017, an interim dividend of 15.00 yen per share was paid to shareholders of record as of September 30, 2017.
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.
FY03/19 Outlook
# FY03/19 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>80,730</td>
<td>94,270</td>
<td>175,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>73,800</td>
<td>96,200</td>
<td>170,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>56,400</td>
<td>73,100</td>
<td>129,500</td>
</tr>
<tr>
<td>Gross profit</td>
<td>17,400</td>
<td>23,100</td>
<td>40,500</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>14,700</td>
<td>14,800</td>
<td>29,500</td>
</tr>
<tr>
<td>Operating income</td>
<td>2,700</td>
<td>8,300</td>
<td>11,000</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>2,700</td>
<td>8,300</td>
<td>11,000</td>
</tr>
<tr>
<td>Net income attributable to</td>
<td>1,800</td>
<td>5,600</td>
<td>7,400</td>
</tr>
<tr>
<td>owners of the parent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends per share</td>
<td>17.00 Yen</td>
<td>17.00 Yen</td>
<td>34.00 Yen</td>
</tr>
</tbody>
</table>

| Annual                        |             |             |            |
| Exchange rate                 | 110.26 USD/JPY |           |

(Notes)
The breakdown of the interim and year-end dividends is an ordinary dividend of 15.00 yen, a commemorative dividend of 2.00 yen commemorating the 30th anniversary of foundation.
FY03/19 Outlook by market sector

**Security, cloud, work-style innovation, and IIoT business will continue to grow.**

**Cloud service infrastructure business will expand.**

**Security and cloud business in municipalities/ministries, healthcare, universities, research institute, and education committee will perform strongly.**

**Key partners business and managed service via Telecom Carrier will continue to grow.**
FY03/19 Outlook by product category

- **Bookings**
  - Products: Security, cloud, and IIoT business will continue to grow.
  - Service business: Service will increase in each life cycle of plan, build, operation, and optimization, by providing integrated service that coordinates the entire ICT infrastructure.

- **Revenue**

<table>
<thead>
<tr>
<th></th>
<th>FY03/18</th>
<th>FY03/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>170,164</td>
<td>175,000</td>
</tr>
<tr>
<td>Service</td>
<td>98,555</td>
<td>99,700</td>
</tr>
<tr>
<td></td>
<td>71,609</td>
<td>75,300</td>
</tr>
<tr>
<td>Bookings</td>
<td>42.1%</td>
<td>43.0%</td>
</tr>
<tr>
<td>Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>161,107</td>
<td>170,000</td>
</tr>
<tr>
<td>Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>97,320</td>
<td>101,000</td>
</tr>
<tr>
<td>Service</td>
<td>63,787</td>
<td>69,000</td>
</tr>
<tr>
<td></td>
<td>39.6%</td>
<td>40.6%</td>
</tr>
</tbody>
</table>

(bookings and revenue figures in JPY mn)

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Main factor of increase in operating income

Continue to focus on cost reduction, service expansion, and productivity improvement

- **Revenue**: YoY +5.5% Increase
- **Gross profit margin**: 23.5% → 23.8% Improve
- **SG&A**: YoY -0.3% Maintain

Operating income YoY + 33.5%

Cost reduction / Service expansion / Productivity improvement
Progress of Three-year Business Plan
Growth strategy: Driving/Initiative incremental business

Development of new market
- IIoT market
- Global market
- Corporate market

Driving service business
- Provide "function"

Expansion of installed base
- Cloud system with security

Keep of installed base
- New Opp.
- Challenge
- New Opp.
Progress of three-year business plan

Revenue
JPY145.1bn

Revenue
JPY157.2bn
(Outlook JPY157.0bn)

Revenue
JPY161.1bn
(Outlook JPY157.0bn)

Revenue
JPY170.0bn
(+JPY24.0bn)

Break down

New market/New solution

Global market
JPY4.0bn

IIoT market
JPY4.0bn

Corporate market
JPY6.0bn

Cloud system with security
JPY10.0bn

Operating margin
1.7%

Operating margin
5.1%
(Outlook 4.6%)

Operating margin
6.5%

Operating income
JPY2.4bn

Operating income
JPY5.7bn

Operating income
JPY8.2bn
(Outlook JPY7.2bn)

Operating income
JPY11.0bn

FY03/16

1st year
FY03/17

2nd year
FY03/18

3rd year
FY03/19

FY03/18 result
Cloud system with security

Provide cloud system securely supporting good operation of customer's business application

Customer's request
- Utilizing cloud
- Cyber attack defense
- Work-style innovation

FY2017
- Expand service menu/software
- Development of capital services

FY2018
- Driving service business
- Expand results at ENT/SP/PUB
IIoT (Industrial IoT) market

Networking at manufacturing plants
Collection, analysis and utilization of generated data

Information Technology (IT)
- Production control / Visualization

Target area
- Network infrastructure & Data collection/handling
  [Connect IT and OT]

Operational Technology (OT)
- Production line
  - Production line
  - Production line

Customer's request
- Preventive maintenance
- Traceability
- Security

FY2017
- Expand network business
- Trial business of the data collection/handling

FY2018
- Expand network business
- Gain business of the data collection/handling
- Challenge in social infra
Global market

Support for overseas expansion of domestic customers
Expansion of outbound business and entering local business

NetOne proposal, design, verification

Partners overseas build, maintenance, operation

Customer's request
Global ICT governance
Overseas support with Japan quality

FY2017
Establish of ASEAN business
Making partnership in North America and Europe

FY2018
Expansion of ASEAN business
Review of business in North America and Europe
Corporate market

New customer development with efficient new approach by combination of cloud services

Customer's request
- Cloud utilization and security measures
- Utilization of ICT for work-style innovation

FY2017
- Creating market with managed services
- Increase total business volume with new customers

FY2018
- Expansion of handling service
- Utilization of service implementation model
- Utilization of Capital Service
Define all activities of the NetOne Group as “Integrated Service Business”

Customer

Support in all phases of plan, build, operation and optimization

Plan → Build → Operation → Optimization

- Information provision
- Consulting / Project management
- Proposal
- Design / Build
- Maintenance / Operation
- Consulting

SD-HCI Framework

NetOne Group products and services

- Vendor products
- NetOne value added products
- NetOne software products
To expand service business ratio

Bring the ratio of Products and Services close to 1 : 1

- **Component ratio of bookings in FY16**
  - Products: 61%
  - Services: 39%

- **Component ratio of bookings in FY17**
  - Products: 57.9%
  - Services: 42.1%

- **Component ratio scenario of bookings in FY18**
  - Products: 50.0%
  - Services: 43.0%
Appendix
### Case study

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Customer name</th>
<th>Contents</th>
<th>Cloud system with security</th>
<th>IIoT</th>
<th>Global</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>Apr.</td>
<td><strong>Yamazaki Mazak Corporation</strong></td>
<td>Technical support for IoT solution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan.</td>
<td><strong>Tokorozawa city office</strong></td>
<td>Virtual desktop for security</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>Sept.</td>
<td><strong>Tokyo Metropolitan Hospitals</strong></td>
<td>Unified platform infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sept.</td>
<td><strong>Hiroshima prefectural office</strong></td>
<td>Virtual desktop for security</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aug.</td>
<td><strong>Saga University</strong></td>
<td>Software defined network</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>July</td>
<td><strong>Kyushu Railway Company</strong></td>
<td>Group ICT infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>June</td>
<td><strong>SAPPORO DRUG STORE CO., LTD.</strong></td>
<td>Cloud collaboration system</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Apr.</td>
<td><strong>National Institute of Informatics</strong></td>
<td>Cyber attack monitoring/detection system</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### New service

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Contents</th>
<th>Cloud system with security</th>
<th>IIoT</th>
<th>Global</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>Apr.</td>
<td>Prevention of information leakage from the cloud services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Feb.</td>
<td>Acquired international standard certification specialized for cloud security</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>Oct.</td>
<td>Prevention of information leakage from malware infected terminals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oct.</td>
<td>Offer Tokyu Railway's share office service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oct.</td>
<td>Capital service to realize subscription model</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sept.</td>
<td>Monitor all cloud services in use by employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>Monitor connection path and performance to the cloud services</td>
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<td></td>
<td>Apr.</td>
<td>Net One Connect established</td>
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### others

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<tr>
<th>Year</th>
<th>Month</th>
<th>Contents</th>
<th>Cloud system with security</th>
<th>IIoT</th>
<th>Global</th>
<th>Corporate</th>
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<tr>
<td>2017</td>
<td>Nov.</td>
<td>Acquired Telework Award of Minister for Internal Affairs and Communications</td>
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<td></td>
<td>Aug.</td>
<td>Partnership agreement with Shizuoka City for regional revitalization</td>
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