

DISCLAIMER

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Management Philosophy

Contribute to Innovation in Society by Utilizing ICT.

Management Vision

Net One Group's management philosophy is "Contribute to innovation in society by utilizing ICT." To achieve this, we promise to continue making constant efforts toward our goal to be trusted and supported by all stakeholders as an Admired Company, while always ensuring we fulfill our responsibilities to customers, partners, shareholders and employees and contribute to the ICT market, civil society and the global environment.

To our shareholders:

Thank you as ever for your kind support. We are pleased to hereby bring you this notice of our 32nd Annual Shareholders Meeting.

In June 2018, Takayuki Yoshino became Chairman & CEO, and Toru Arai became President & COO, and we have shifted to a system with two Representative Directors. Through these efforts, we are working to strengthen our management base and promote the development of next-generation human resources.

In the new medium-term business plan from fiscal year 2019, in order to maximize ICT utilization, we will work on creating a unique system that is not bound by the traditional views of society, and create businesses and services that realize safety, security and high productivity.

The Group theme for 2019 is “*sooryoku*,” which means “power to create and adapt.” This represents “creation” that transforms existing things with creative ideas, “adaptation” to adapt to new changes, and the “power” that drives them.

We would like to ask our shareholders to continue to understand and support the Group's challenge to change for the next generation as a “Charge, Channel and Change” technology professional group.

Net One Systems Co., Ltd.

Takayuki Yoshino
Chairman & CEO

Toru Arai
President & COO

May 22, 2019

Net One Systems Co., Ltd.
7-2, Marunouchi 2-chome,
Chiyoda-ku, Tokyo

NOTICE OF THE 32nd ANNUAL SHAREHOLDERS MEETING

To Our Shareholders:

This is to notify you that the 32nd Annual Shareholders Meeting of Net One Systems Co., Ltd. (hereinafter referred to as the “Company”) will be held as indicated below. Your attendance is cordially requested.

IN THE EVENT THAT YOU ARE UNABLE TO ATTEND THE MEETING IN PERSON, YOU MAY EXERCISE YOUR VOTING RIGHTS IN WRITING OR BY ELECTROMAGNETIC METHODS INCLUDING THE INTERNET AS EXPLAINED IN “Instructions Concerning the Exercise of Voting Rights” (pages 6 to 7). PLEASE CAREFULLY READ “Reference document regarding Shareholders Meeting” (pages 8 to 24) ATTACHED HERE TO AND EXERCISE YOUR VOTING RIGHTS BY 5:30 PM ON JUNE 12, 2019 (WEDNESDAY).

Truly yours,

Toru Arai
President & COO
Net One Systems Co., Ltd.

1. Date/Time: June 13, 2019 (Thursday) at 10:00 am
(The reception of shareholders will commence at 9:00 am)
2. Place: JP TOWER Hall & Conference (KITTE 4F)
7-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan
3. Agenda of the Meeting:
Matters to be Reported:
 1. Business Report, consolidated financial statements and Accounting Auditor’s and the Audit & Supervisory Board’s audit result reports on consolidated financial statements for the 32nd fiscal year (April 1, 2018 to March 31, 2019)
 2. Non-consolidated financial statements for the 32nd fiscal year (April 1, 2018 to March 31, 2019)

Matters to be Resolved:

- Proposal 1: Appropriation of surplus
- Proposal 2: Election of eleven (11) Executive Directors
- Proposal 3: Election of one (1) Audit & Supervisory Board Member
- Proposal 4: Payment of bonuses to Executive Directors

Requests for Attendance

If you plan to attend the meeting, please present the enclosed shareholder's Exercise of Voting Right Form to the receptionist at the meeting.

When attending by proxy, the proxy will be required to present documentary proof of his or her authority to exercise your voting rights (a letter of proxy) in addition to the shareholder's Exercise of Voting Right Form to the receptionist. You may name one (1) shareholder who holds voting rights of the Company to act as proxy and exercise your voting rights in accordance with the provisions of the Company's Articles of Incorporation.

Information about the Attachments to This Notice

- Of documents to be attached to this Notice, "Notes to consolidated financial statements" and "Notes to non-consolidated financial statements" (collectively the "Relevant Documents") are posted on the Company's website (<https://www.netone.co.jp/>) in accordance with the provisions of relevant laws and regulations, and the Company's Articles of Incorporation. These two notes are not therefore included in the attachments to this Notice.

Meanwhile, the Relevant Documents posted on the Company's website as well as the attachments to this Notice are included in the consolidated financial statements and non-consolidated financial statements (excluding (Reference)), both of which have been audited by Audit & Supervisory Board Members to prepare an audit report and by Accounting Auditor to prepare an accounting audit report.

- If you wish to obtain the Relevant Documents posted on the website in paper form, please contact our Corporate Communications & Investors Relations Office (Phone: 03-6256-0615) to have forms mail to you.
- Any additional explanations to or changes to contents of the reference document regarding Shareholders Meeting, business report, consolidated financial statements and non-consolidated financial statements required up to one (1) day before the Shareholders Meeting shall be notified to shareholders by posting on the Company's website.

(Company's website: <https://www.netone.co.jp/>)

Information about Business Briefing Session

To enable shareholders to further their knowledge about the Company, the shareholders are invited to participate in the Company's Business Briefing Session taking place at the same venue subsequent to the conclusion of the Shareholders Meeting as follows.

Date/Time: June 13, 2019 (Thursday)

To be held subsequent to the conclusion of the Shareholders Meeting following a break of approximately 50 minutes.

Place: JP TOWER Hall & Conference (KITTE 4F)
7-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan
(Same venue as the Shareholders Meeting)

Main topics: · Businesses and growth strategies of the Company
· Questions and Answers

Instructions Concerning the Exercise of Voting Rights

The right to vote at the Annual Shareholders Meeting is a key right for shareholders. Please exercise your voting rights after considering the reference documents for the Annual Shareholders Meeting below (pages 8 to page 24). Voting rights may be exercised by the three methods below.

Exercise of voting rights by attendance at the Annual Shareholders Meeting

Please submit the Exercise of Voting Right Form to the receptionist.

When attending by proxy, the proxy will be required to present documentary proof of his or her authority to exercise your voting rights (a letter of proxy) in addition to the shareholder's Exercise of Voting Right Form to the receptionist. You may name one (1) shareholder who holds voting rights of the Company to act as proxy and exercise your voting rights in accordance with the provisions of the Company's Articles of Incorporation.

Date and Time of the Annual Shareholders Meeting:

10:00 a.m. on June 13, 2019 (Thursday)

Exercise of voting rights by mailing of written documents

Please indicate your approval or disapproval for each of the proposals on the enclosed Exercise of Voting Right Form and send it back to the Company. (No postage is needed.)

Arrival deadline for the exercise of voting rights by mailing of written documents:

No later than 5:30 p.m. on June 12, 2019 (Wednesday)

Exercise of voting rights via the Internet

Please access the following designated website for exercising voting rights from a personal computer, smart phone or cellular phone, etc. and indicate your approval or disapproval to each of the proposals as instructed on the screen, using the "Voting Rights Exercise Code" and "Password" printed on the enclosed Exercise of Voting Right Form.

For details, please refer to page 7.

Online voting website: <https://www.web54.net>

Deadline for the exercise of voting rights through online voting:

No later than 5:30 p.m. on June 12, 2019 (Wednesday)

For institutional investors:

Institutional investors may use the voting rights exercise platform operated by ICJ Inc. as a mean to exercise voting rights at the Annual Shareholders Meeting.

Instructions Concerning the Exercise of Voting Rights via the Internet

If you wish to exercise your voting rights via the Internet, we would like you to confirm the followings and exercise your voting rights by personal computer, smart phone or cellular phone by 5:30 p.m., Wednesday, June 12, 2019 (Japan Standard Time).

If you attend the meeting, you do not need to take the procedures for exercising the voting rights in writing (sending the Exercise of Voting Right Form by mail) or via the Internet.

1. Website for exercising voting rights

You can exercise your voting rights through the following voting website designated by the Company:

[Online voting site] <https://www.web54.net>

2. How to exercise voting rights via the Internet

At the voting website, please use the “Voting Rights Exercise Code” and “Password” printed on the Exercise of Voting Right Form, and indicate your approval or disapproval to the proposals as instructed on the screen.

3. Notes

- (1) If you exercise your online votes more than once via the Internet, only the last vote will be regarded as effectively exercised voting rights.
- (2) If you exercise your voting rights both in writing (sending the Exercise of Voting Right Form by mail) and via the Internet, only the online vote will be regarded as effectively exercised voting rights.
- (3) The fees for the Internet service provider and for the telecommunications carriers (connection fees, etc.) in connection with utilizing the above website for the exercise of voting rights shall be borne by the shareholder.
- (4) In certain Internet user environments or with certain types of smart phones or cellular phones, you may not be able to exercise your voting rights via the Internet.

4. Handling of Voting Rights Exercise Code and Password

- (1) Voting Rights Exercise Code indicated on the Exercise of Voting Right Form is valid only for this meeting.
- (2) In case you commit more errors than a certain number of tries to input your password, you will not be allowed to use the password. If you would like your password to be reissued, please follow the screen guide and follow the procedures.

Inquiries Regarding Voting via the Internet:

<p>Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Web Support Dedicated Line: 0120-652-031 (Toll-free) (Japan only) Business Hours: 9 a.m. – 9 p.m. (Japan Standard Time)</p>
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Reference document regarding Shareholders Meeting

Proposal 1: Appropriation of surplus

The Company makes continuous efforts to maximize shareholder value by enhancing corporate value and has a policy to increase shareholders' equity, a driver for expansion of the business base and growth of business, and to consistently pay out dividends to shareholders over the long term that appropriately reflects its performance thereover.

1. Year-end dividend

Under the above policy, the Company aims to provide a consolidated dividend payout ratio of 30% or more.

The year-end dividend for the 32nd fiscal year, adding a commemorative dividend for the 30th anniversary of the Company's founding, is proposed as follows.

Type of payout	Cash dividend
Allocation of cash dividend and its total amount	20 yen per common share (ordinary dividend 18 yen, 30th anniversary commemorative dividend 2 yen) Total dividend 1,693,426,080 yen
Effective date of dividend from surplus	June 14, 2019

Dividend on an annual basis including the interim dividend (ordinary dividend 15 yen, 30th anniversary commemorative dividend 2 yen) is 37 yen per share (consolidated dividend payout ratio of 35.1%, consolidated dividend payout ratio excluding 30th anniversary commemorative dividend of 31.3%).

2. Appropriation of surplus

Account and amount of surplus that will decrease	Retained earnings brought forward	3,680,000,000 yen
Account and amount of surplus that will increase	General reserve	3,680,000,000 yen

Proposal 2: Election of eleven (11) Executive Directors

At the conclusion of this Annual Shareholders Meeting, the term of office of all eleven (11) Executive Directors will expire, and it is proposed that eleven (11) Executive Directors (of which four (4) are Outside Executive Directors) to be elected.

All the candidates for Outside Executive Directors satisfy the “Independence Standards” (page 22) established by the Company.

This proposal was deliberated by the Advisory Committee.

The candidates for Executive Directors are as follows.

Candidate number	Name	Present position and responsibility in the Company	Attributes of the candidate				Status of attendance at Board of Directors
1	Takayuki Yoshino	Chairman & CEO	Reelected				12/12 (100%)
2	Toru Arai	President & COO, in charge of Business Development Division, in charge of Customer Service Division	Reelected				12/12 (100%)
3	Takahisa Kawaguchi	Senior Vice President, in charge of Corporate Planning & Management Division	Reelected				12/12 (100%)
4	Shinji Hirakawa	Executive Vice President, in charge of East Japan Business Unit 1, in charge of West Japan Business Unit	Reelected				10/10 (100%)
5	Takafumi Takeshita	Senior Vice President, in charge of East Japan Business Unit 2, in charge of Central Japan Business Unit	Reelected				10/10 (100%)
6	Takuya Tanaka	Senior Vice President, in charge of Corporate Planning & Management Division, in charge of Investment & New Business Development	Reelected				10/10 (100%)
7	Fumihiko Shinoura	Senior Vice President, in charge of Business Development Division, in charge of Customer Service Division	Newly elected				–
8	Kunio Kawakami	Outside Executive Director	Reelected	Outside	Independent		12/12 (100%)
9	Mitsuo Imai	Outside Executive Director	Reelected	Outside	Independent		12/12 (100%)
10	Rieko Nishikawa	Outside Executive Director	Reelected	Outside	Independent	Female	12/12 (100%)
11	Ryugo Hayano	Outside Executive Director	Reelected	Outside	Independent		10/10 (100%)

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
1	Takayuki Yoshino (Feb. 14, 1951) [Reelected]	Chairman & CEO	30,010 shares	12/12 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1969	Joined NEC Engineering, Ltd. (current NEC Fielding, Ltd.)			
Aug. 1973	Joined Tokyo Electron Limited			
May 1996	Joined Fore Systems Inc.			
Apr. 1998	Joined Nihon Cisco Systems, K.K. (current Cisco Systems G.K.)			
Jul. 2003	Senior Managing Director of Cisco Systems, K.K.			
Oct. 2007	Advisor of the Company			
Jun. 2008	President & CEO			
Apr. 2011	President & CEO			
Jun. 2018	Chairman & CEO (incumbent)			
Reasons for selecting candidate for Executive Director				
<p>Mr. Takayuki Yoshino has extensive experience and a substantial track record in a wide range of fields including involvement in management as an Executive Director at an industrial company. In addition, since assuming office as President & CEO of the Company, he has led the Group based on his strong leadership and made every effort to enhance corporate value. Moreover, since assuming office as Chairman & CEO of the Company, he supervises the entire management of the Company from a broad perspective to strengthen the management base under the new management system of the Company. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Executive Director.</p>				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
2	Toru Arai (Oct. 6, 1958) [Reelected]	President & COO	16,286 shares	12/12 (100%)

Career summary, position and responsibilities at the Company, and significant concurrent positions

Apr. 1981	Joined Ryoden Elevator Construction Ltd.
Oct. 1983	Joined Ministry of Education National Laboratory for High Energy Physics (current High Energy Accelerator Research Organization), Data Processing Center
Aug. 1988	Joined Mitsubishi Corporation (seconded to Ungermann-Bass Networks K.K.)
Jun. 1989	Joined Ungermann-Bass Networks K.K.
Apr. 1990	Joined the Company
Apr. 2006	Vice President, Network Technology Division
Jun. 2006	Executive Director
Aug. 2008	President & CEO of Net One Systems USA, Inc.
Apr. 2011	Senior Vice President
Apr. 2014	Executive Vice President
Jun. 2018	President & COO
Apr. 2019	President & COO, in charge of Business Development Division, in charge of Customer Service Division (incumbent)

Reasons for selecting candidate for Executive Director

Mr. Toru Arai has made every effort to strengthen the management base of the entire Group and to optimize management, among others as the Executive Director of the Company in charge of corporate planning operations and others. In addition, since assuming the position of President & COO of the Company, under the new management system of the Company, he is responsible for overall management to strengthen the management base. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Executive Director.

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
3	Takahisa Kawaguchi (Oct. 28, 1953) [Reelected]	Senior Vice President	26,356 shares	12/12 (100%)

Career summary, position and responsibilities at the Company, and significant concurrent positions

Apr. 1976	Joined Tokyo Electron Limited
Oct. 1996	Joined KANEMATSU CORPORATION
Oct. 1999	Director, General Manager of Sales Department of Kanematsu Aerospace Corporation
Apr. 2002	President & CEO of Kanematsu Aerospace Corporation
Apr. 2004	Joined Cisco Systems K.K. (current Cisco Systems G.K.)
Aug. 2004	Executive Officer of Cisco Systems K.K.
Nov. 2008	Advisor of the Company
Jan. 2009	Senior Managing Director of Net One Partners Co., Ltd.
Jun. 2009	Director, Senior Managing Director of Net One Partners Co., Ltd.
Oct. 2013	President & CEO of Net One Systems Singapore Pte. Ltd. (incumbent)
Apr. 2014	Vice President
Oct. 2014	President & CEO of Net One Partners Co., Ltd.
Apr. 2015	Vice President
Jun. 2015	Senior Vice President
Apr. 2018	Chairman of Net One Partners Co., Ltd. (incumbent)
Apr. 2019	Senior Vice President, in charge of Corporate Planning & Management Division (incumbent)
(Significant concurrent positions)	
Chairman of Net One Partners Co., Ltd.	
President & CEO of Net One Systems Singapore Pte. Ltd.	
Director of Net One Asia Pte. Ltd.	

Reasons for selecting candidate for Executive Director

Mr. Takahisa Kawaguchi is not only involved in management as President & CEO of an industrial company but also is currently making every effort to grow and develop domestic and international businesses as Chairman of a subsidiary and officer of an associate of the Company inside and outside Japan. In these respects and others, he has extensive experience and a substantial track record covering all aspects of management. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Executive Director.

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
4	Shinji Hirakawa (Oct. 10, 1960) [Reelected]	Executive Vice President	68 shares	10/10 (100%)

Career summary, position and responsibilities at the Company, and significant concurrent positions

Apr. 1983	Joined Teraoka Seiko Co., Ltd.
Aug. 1987	Joined Kubota Tekko K.K. (current Kubota Corporation)
Aug. 1988	Joined SHOWA ELECTRIC WIRE AND CABLE CO., LTD. (current SWCC SHOWA CABLE SYSTEMS CO., LTD.)
May 1999	Joined Cisco Systems K.K. (current Cisco Systems G.K.)
Jun. 2010	Operation Director in charge of Public System Business Division of Cisco Systems K.K.
Jan. 2011	Joined the Company
Apr. 2011	Vice President
Apr. 2017	Senior Vice President President and Representative Executive Officer of Net One Connect G.K.
Jun. 2018	Executive Vice President, in charge of East Japan Business Unit 1, in charge of West Japan Business Unit (incumbent)

Reasons for selecting candidate for Executive Director

Mr. Shinji Hirakawa has extensive experience and a substantial track record through his many years of practical experience in sales operations. Since assuming office as a Vice President, he has made every effort to expand sales of the Company's products and services. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Executive Director.

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
5	Takafumi Takeshita (Mar. 28, 1965) [Reelected]	Senior Vice President	45,861 shares	10/10 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1988	Joined Ungermann-Bass Networks K.K.			
May 1989	Joined the Company			
Apr. 2006	Vice President of Technical Service Headquarters of Network Service And Technologies Co., Ltd. (current Net One Systems Co., Ltd.) (seconded)			
Jun. 2009	Executive Director of Network Service And Technologies Co., Ltd.			
Jul. 2011	Vice President			
Jun. 2018	Senior Vice President, in charge of East Japan Business Unit 2, in charge of Central Japan Business Unit (incumbent)			
Apr. 2019	President and Representative Executive Officer of Net One Connect G.K. (incumbent)			
	(Significant concurrent positions)			
	President and Representative Executive Officer of Net One Connect G.K.			
	Executive Director of Net One Next Co., Ltd.			
Reasons for selecting candidate for Executive Director				
Utilizing the extensive experience he has acquired in technology operations, Mr. Takafumi Takeshita has led the Company's sales and technology operations and made every effort to develop these operations. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Executive Director.				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
6	Takuya Tanaka (Apr. 7, 1969) [Reelected]	Senior Vice President	458 shares	10/10 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1992	Joined Nihon Unisys, Limited			
Aug. 1996	Joined Nihon Cisco Systems K.K. (current Cisco Systems G.K.)			
Aug. 2000	Vice President, in charge of Western Japan Sales Headquarters of Cisco Systems K.K.			
Apr. 2009	Joined the Company Vice President, in charge of Western Japan Sales Headquarters of Net One Partners Co., Ltd.			
Apr. 2013	Vice President of Net One Partners Co., Ltd.			
Apr. 2014	Executive Director and Vice President of Net One Partners Co., Ltd.			
Apr. 2017	Vice President, Executive Director and Executive Vice President of Net One Partners Co., Ltd.			
Apr. 2018	President, CEO of Net One Partners Co., Ltd. (incumbent)			
Jun. 2018	Senior Vice President			
Apr. 2019	Senior Vice President, in charge of Corporate Planning & Management Division, in charge of Investment & New Business Development (incumbent)			
(Significant concurrent positions)				
President & CEO of Net One Partners Co., Ltd.				
Reasons for selecting candidate for Executive Director				
Mr. Takuya Tanaka has extensive experience and a substantial track record through his many years of practical experience in sales operations. Since assuming office as a Vice President at one of the Company's subsidiaries, he has led and made every effort to develop said subsidiary. Having judged that it is necessary that he continue in the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Executive Director.				

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
7	Fumihiko Shinoura (Jul. 13, 1961) [Newly elected]	Senior Vice President	0 shares	—

Career summary, position and responsibilities at the Company, and significant concurrent positions

Apr. 1984	Joined Kanebo, Ltd.
Apr. 1989	General Manager, Market Development Group, Information Systems Division of Kanebo, Ltd.
Apr. 1992	General Manager, Business Development Office of Mudge Japan Co., Ltd.
Jan. 1997	General Manager, Product Planning Division of Nihon Cisco Systems, K.K. (current Cisco Systems G.K.)
Aug. 2004	Managing Director of Nihon Cisco Systems, K.K.
Nov. 2008	Advisor of the Company
Jan. 2009	Vice President of Net One Partners Co., Ltd.
Apr. 2011	Vice President of the Company
Apr. 2018	Senior Vice President
Apr. 2019	Senior Vice President, in charge of Business Development Division, in charge of Customer Service Division (incumbent)

Reasons for selecting candidate for Executive Director

Mr. Fumihiko Shinoura has abundant experience and results through many years of practice in the product planning department, and has made efforts to expand products and services of the Company after becoming a Vice President of the Company. Having judged that it is necessary that he assume the position of Executive Director in order to further enhance the Company's corporate value, the Company has selected him as a candidate for Executive Director.

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
8	Kunio Kawakami (Sep. 24, 1943) [Reelected] [Independent] [Outside]	Outside Executive Director	28,307 shares	12/12 (100%)

Career summary, position and responsibilities at the Company, and significant concurrent positions

Apr. 1967 Joined Kanto Denki Koji Co., Ltd. (current Kandenko Co., Ltd.)
Jul. 1999 Director, Assistant Senior Sales Director and Engineering Manager of Kanto Denki Koji Co., Ltd.
Jul. 2003 Managing Director, Director of Network Solutions Division, Kanto Denki Koji Co., Ltd.
Jun. 2008 Director of Tepco Systems Corporation
Jul. 2008 Special Adviser of Kandenko Co., Ltd.
Jun. 2009 Outside Executive Director of the Company (incumbent)
Jun. 2010 Adviser of Kandenko Co., Ltd.
Dec. 2012 Vice President and Director of ZECO Co., Ltd.

Matters Concerning Candidate for Outside Executive Director

(1) Reasons for selecting candidate for Outside Executive Director:

Mr. Kunio Kawakami has been selected as a candidate for Outside Executive Director based on the determination that he will fully contribute to the overseeing of the Company's management, taking into consideration his experience as director of other companies, as well as his broad knowledge and experience in the field of information and communication business.

(2) The Company filed Mr. Kunio Kawakami as an Independent Executive Officer pursuant to the provisions of Tokyo Stock Exchange (TSE). If this proposal is resolved and approved as originally proposed, the Company will continue to have him as an Independent Executive Officer.

(3) As Mr. Kunio Kawakami used to work for Kandenko Co., Ltd. (until June 2011), there are certain transactions between the company and the Company. However, the amount of revenue from such transactions for the current fiscal year is approximately 15 million yen (less than 0.1% of revenue of the Company for the current fiscal year) and the amount of purchases through such transactions for the current fiscal year is approximately 109 million yen (less than 0.1% of revenue of the company for the current fiscal year). Therefore, we believe that there is no risk of conflict of interest with general shareholders in these transactions.

As he used to work for Tepco Systems Corporation (until June 2009), there are certain transactions between the company and the Company. However, the amount of revenue from such transactions for the current fiscal year is approximately 145 million yen (less than 0.1% of revenue of the Company for the current fiscal year). Therefore, we believe that there is no risk of conflict of interest with general shareholders in these transactions.

(4) Mr. Kunio Kawakami currently occupies the position of Outside Executive Director of the Company and his term of office will be ten (10) years at the conclusion of this general meeting.

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
9	Mitsuo Imai (May 15, 1951) [Reelected] [Independent] [Outside]	Outside Executive Director	11,481 shares	12/12 (100%)

Career summary, position and responsibilities at the Company, and significant concurrent positions

Apr. 1974	Joined Hitachi Cable, Ltd. (current Hitachi Metals, Ltd.)
Apr. 2005	Executive Officer, General Manager of Corporate Planning & Development Office, Group Executive of Environment & Disaster Prevention Group and CIO, Hitachi Cable, Ltd.
Sep. 2006	Executive Officer, Group Executive of Information Systems Group, Group Executive of Information Technology Business Innovation Promotion Group and CIO, Hitachi Cable, Ltd.
Apr. 2007	Executive Managing Officer, Group Executive of Information Systems Group, Group Executive of Information Technology Business Innovation Promotion Group and CIO, Hitachi Cable, Ltd.
Apr. 2009	Representative Executive Officer, President and Chief Executive Officer of Hitachi Cable, Ltd.
Jun. 2009	Representative Executive Officer, President, Chief Executive Officer and Director of Hitachi Cable, Ltd.
Jun. 2011	Senior Corporate Advisor of Hitachi Cable, Ltd.
Jun. 2012	Outside Executive Director of the Company (incumbent)

Matters Concerning Candidate for Outside Executive Director

(1) Reasons for selecting candidate for Outside Executive Director:

Mr. Mitsuo Imai has been selected as a candidate for Outside Executive Director based on the determination that he will fully contribute to the overseeing of the Company's management, taking into consideration his experience as a corporate manager as well as his broad knowledge and experience in the field of information and communication business.

(2) The Company filed Mr. Mitsuo Imai as an Independent Executive Officer pursuant to the provisions of Tokyo Stock Exchange (TSE). If this proposal is resolved and approved as originally proposed, the Company will continue to have him as an Independent Executive Officer.

(3) As Mr. Mitsuo Imai used to work for Hitachi Metals, Ltd. (until June 2013), there are certain transactions between the company and the Company. However, the amount of purchases from such transactions for the current fiscal year is approximately 15 million yen (less than 0.1% of revenue of the company for the current fiscal year). Therefore, we believe that these transactions have no risk of conflict of interest with general shareholders.

(4) Mr. Mitsuo Imai currently occupies the position of Outside Executive Director of the Company and his term of office will be seven (7) years at the conclusion of this general meeting.

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
10	Rieko Nishikawa (Feb. 3, 1955) [Reelected] [Independent] [Outside] [Female]	Outside Executive Director	4,549 shares	12/12 (100%)

Career summary, position and responsibilities at the Company, and significant concurrent positions

Apr. 1985 Full-time lecturer, Faculty of Law, Keio University
 Sep. 1989 Visiting Researcher, Harvard Law School
 Sep. 1991 Visiting Foreign Scholar, Fordham University, School of Law
 Apr. 1992 Assistant Professor, Faculty of Law, Keio University
 Oct. 1999 Visiting Scholar, The George Washington University Law School
 Apr. 2000 Professor, Faculty of Law, Keio University (incumbent)
 Aug. 2003 Outside consultant, Inter-American Development Bank
 Jun. 2015 Outside Executive Director (incumbent)

(Significant concurrent positions)

Professor, Faculty of Law, Keio University

Matters Concerning Candidate for Outside Executive Director

(1) Reasons for selecting candidate for Outside Executive Director

Ms. Rieko Nishikawa has been selected as a candidate for Outside Executive Director based on the determination that she will fully contribute to the overseeing of the Company's management, taking into consideration her ample knowledge and experience as a university professor specializing in legal research. Although she has no experience of direct involvement in management, it has been determined from the foregoing reason that she will be able to execute her duties properly.

(2) The Company filed Ms. Rieko Nishikawa as an Independent Executive Officer pursuant to the provisions of Tokyo Stock Exchange (TSE). If this proposal is resolved and approved as originally proposed, the Company will continue to have her as an Independent Executive Officer.

(3) Ms. Rieko Nishikawa is currently a Professor at the Faculty of Law, Keio University. There are certain transactions between Keio University and the Company. However, the amount of revenue from such transactions for the current fiscal year is only approximately 4 million yen (less than 0.1% of revenue of the Company for the current fiscal year). Therefore, we believe that these transactions have no risk of conflict of interest with general shareholders.

(4) Ms. Rieko Nishikawa, currently a Professor at the Faculty of Law, Keio University, is scheduled to retire on March 31, 2020.

(5) Ms. Rieko Nishikawa currently occupies the position of Outside Executive Director of the Company and her term of office will be four (4) years at the conclusion of this general meeting.

Candidate number	Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors
11	Ryugo Hayano (Jan. 3, 1952) [Reelected] [Independent] [Outside]	Outside Executive Director	54 shares	10/10 (100%)

Career summary, position and responsibilities at the Company, and significant concurrent positions

Apr. 1979 Assistant, School of Science, The University of Tokyo
Nov. 1982 Associate Professor, Ministry of Education National Laboratory for High Energy Physics (current High Energy Accelerator Research Organization)
Apr. 1985 Visiting Associate Professor, School of Science, The University of Tokyo
Apr. 1986 Associate Professor of Physics, School of Science, The University of Tokyo
Jan. 1997 Full Professor, Graduate School of Science, The University of Tokyo
Jun. 2015 Councilor, Radiation Effects Research Foundation (incumbent)
Aug. 2016 President, Talent Education Research Institute (Suzuki Method) (incumbent)
Apr. 2017 Science Fellow, Hobonichi Co., Ltd. (incumbent)
May 2017 Representative, Office-Hayano LLC (incumbent)
May 2017 Director, General Incorporated Foundation Shigeta Education Foundation (current Public Interest Incorporated Foundation Shigeta Education Foundation) (incumbent)
Jun. 2017 Professor Emeritus, The University of Tokyo (incumbent)
Apr. 2018 Director of International Physics Olympiad 2022 Association (incumbent)
Jun. 2018 Outside Executive Director of the Company (incumbent)

(Significant concurrent positions)

Councilor, Radiation Effects Research Foundation
President, Talent Education Research Institute (Suzuki Method)
Science Fellow, Hobonichi Co., Ltd.
Representative, Office-Hayano LLC
Director, Public Interest Incorporated Foundation Shigeta Education Foundation
Professor Emeritus, The University of Tokyo
Director, International Physics Olympiad 2022 Association

Matters Concerning Candidate for Outside Executive Director

(1) Reasons for selecting candidate for Outside Executive Director

Mr. Ryugo Hayano has been selected as a candidate for Outside Executive Director based on the determination that he will fully contribute to the overseeing of the Company's management, taking into consideration his ample knowledge and experience as a university professor specializing in physics research, and his insight attained through practical experience at various organizations.

Although he has no experience of direct involvement in management, it has been determined from the foregoing reason that he will be able to execute his duties properly.

(2) The Company filed Mr. Ryugo Hayano as an Independent Executive Officer pursuant to the provisions of Tokyo Stock Exchange (TSE). If this proposal is resolved and approved as originally proposed, the Company will continue to have him as an Independent Executive Officer.

(3) Mr. Ryugo Hayano is currently a Professor Emeritus at The University of Tokyo. There are certain transactions between The University of Tokyo and the Company. However, the amount of revenue from such transactions for the current fiscal year is only approximately 136 million yen (less than 0.1% of revenue of the Company for the current fiscal year). Therefore, we believe that these transactions have no risk of conflict of interest with general shareholders.

(4) Mr. Ryugo Hayano currently occupies the position of Outside Executive Director of the Company and his term of office will be one (1) year at the conclusion of this general meeting.

- (Notes)
1. There are no special interests between the candidates and the Company.
 2. The Company has entered into a limited liability agreement with Mr. Kunio Kawakami, Mr. Mitsuo Imai, Ms. Rieko Nishikawa and Mr. Ryugo Hayano, respectively. The purpose of this agreement is to limit liability as provided for in Article 423, Paragraph 1 of the Companies Act. The maximum liability amount shall be the minimum amount stipulated in applicable laws and regulations. If the reelection of them is approved, the Company will continue the said agreements.
 3. The number of attendance and percentage of attendance for Mr. Shinji Hirakawa, Mr. Takafumi Takeshita, Mr. Takuya Tanaka and Mr. Ryugo Hayano has been calculated based on the number of Board of Directors meetings held after their assumption of office following the election at the 31st Annual Shareholders Meeting on June 14, 2018 (10 times, respectively).

(Reference)

Independence Standards

The Company has established Independence Standards for Outside Executive Directors and Outside Audit & Supervisory Board Members as follows, and deems that any Outside Executive Directors and Outside Audit & Supervisory Board Members who do not fall under any of following items possess independence from the Company with no risk of conflict of interest with general shareholders.

1 Persons who perform executive roles*₁ or persons who have performed executive roles in the Company or its subsidiaries, at present or in the past;

2 Parties for whom the Company is a major business partner and whose transaction amounts with the Company exceed 2% of their sales in their latest business year or persons who perform executive roles therein;

3 Major business partners of the Company with which the Company's transaction amounts exceeds 2% of the Company's sales in the latest business year or persons who perform executive roles therein;

4 Major shareholders of the Company (entities that own 10% or more of the total voting rights of the Company) or persons who perform executive roles therein;

5 Certified public accountants, attorneys and consultants, etc. who receive money or other property more than 10 million yen per year except for executive remuneration from the Company (or if the entity receiving such property is an organization, such as a corporation and association, persons belonging to such entity which receive property in excess of 2% of total annual income of the organization from the Company);

6 Persons who received donations more than 10 million yen per year from the Company in the latest business year (or if the entity receiving such donations is an organization, such as a corporation and association, persons belonging to such entity which received donations in excess of 2% of total annual income of the organization from the Company);

7 Persons who have fallen under any of items 2 through 6 above in the past three years; or

8 Spouses and relatives of up to the second degree of kinship of those who fall under any of items below:

(1) Principal persons who currently perform executive roles*₂ or principal persons who have performed executive roles in the Company or its subsidiaries in the past three years;

(2) Persons to whom any of items 2 through 4 apply;

"Persons who perform executive roles" refer to principal persons who perform executive roles.

(3) Persons to whom item 5 or item 6 apply.

"Persons belonging to such entity" refer to principal persons who perform executive roles (or persons who are deemed as important as principal persons who perform executive roles) of the entity; or, in the case that the entity is a professional body including audit corporation or law office, persons who possess professional qualifications including certified public accountants or attorneys.

*1 Persons who perform executive roles as stipulated in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act.

*2 Principal persons who perform executive roles refer to persons who perform significant executive roles such as Executive Directors (excluding Outside Executive Directors), Operating Officers, Vice Presidents or department heads.

End

Proposal 3: Election of one (1) Audit & Supervisory Board Member

At the conclusion of this general meeting, the term of office of Audit & Supervisory Board Member, Mr. Toru Matsuda will expire. The Company therefore proposes the election of one (1) Audit & Supervisory Board Member.

Additionally, the Company has obtained the agreement of the Audit & Supervisory Board with respect to this proposal.

The candidate for Audit & Supervisory Board Member is as follows.

Name (Date of birth)	Present position in the Company	Number of the Company's shares owned	Status of attendance at Board of Directors	Status of attendance at Audit & Supervisory Board
Toru Matsuda (Mar. 29, 1955) [Reelected]	Audit & Supervisory Board Member	0 shares	12/12 (100%)	13/13 (100%)
Career summary, position and responsibilities at the Company, and significant concurrent positions				
Apr. 1977	Joined OLYMPIC FISHING TACKLE CO., LTD. (current Mamiya-OP Co., Ltd.)			
May 1979	Joined General Air Conditioning Co., Ltd. (current DENSO AIR SYSTEMS CORPORATION)			
Feb. 1983	Joined Niko France Co., Ltd. (current NIHON L'OREAL K.K.)			
Feb. 1987	Joined Takada CooperVision Co., Ltd. (current Alcon Japan Ltd.)			
Apr. 1991	Joined the Company			
Apr. 2000	General Manager, Quality Assurance & Management Center			
Sep. 2002	Operations Manager of ProStorage Co., Ltd. (seconded)			
Apr. 2006	Manager, ISMS Promotion Office of the Company			
Apr. 2009	General Manager, CSR Promotion Department			
Apr. 2012	General Manager, General Affairs Division			
Apr. 2013	Manager, Internal Audit Office			
Jun. 2015	Audit & Supervisory Board Member (incumbent)			
Reasons for selecting candidate for Audit & Supervisory Board Member				
Mr. Toru Matsuda has extensive experience and deep knowledge about the Company's business contents through his practical experience of business administration and management operations and others. He has properly executed his duties with his knowledge as an Audit & Supervisory Board Member after assumed the position of the Company. Having judged that it is necessary that he continue in the position of Audit & Supervisory Board Member, the Company has selected him as a candidate for Audit & Supervisory Board Member.				

(Notes) 1. There are no special interests between Mr. Toru Matsuda and the Company.

2. The Company has entered into a limited liability agreement with Mr. Toru Matsuda. The purpose of this agreement is to limit liability as provided for in Article 423, Paragraph 1 of the Companies Act. The maximum liability amount shall be the minimum amount stipulated in applicable laws and regulations. If the reelection of him is approved, the Company will continue the said agreement.

Proposal 4: Payment of bonuses to Executive Directors

With consideration of the results for the current fiscal year, the Company proposes payment of bonuses which amount is 121,700,000 yen in total to six (6) Executive Directors excluding Executive Director Mr. Takuya Tanaka, Executive Director Mr. Kunio Kawakami, Executive Director Mr. Mitsuo Imai, Executive Director Ms. Rieko Nishikawa and Executive Director Mr. Ryugo Hayano out of eleven (11) Executive Directors as of the end of the current fiscal year.

The decision of the specific amount, timing and payment method of the bonuses to each individual Executive Director is requested to be settled by Board of Directors.

This proposal was deliberated by the Advisory Committee.

(Attachments)

Business Report

April 1, 2018 to March 31, 2019

1. Business conditions of the Corporate Group

(1) Business activities and results

• Market environment

In recent years, the use of information and communication technology (ICT) has expanded against a background of business digitization and reforms in working styles. At the same time, the use of the cloud, the strengthening of information security, and the demand for networks supporting these are expanding.

The Group combines the world's most advanced products to create unique value and provides these to customers. In addition, employees themselves utilize these in practice to accumulate experiences in both success and failure, supporting customers in quick and effective adoption.

• Mid-Term Business Plan and its results from the fiscal year ended March 31, 2017 to the fiscal year ended March 31, 2019

Based on this market environment, the Group formulated a three-year medium-term business plan (hereinafter, "Current Mid-Term Business Plan") from the fiscal year ended March 31, 2017 to the fiscal year under review (fiscal year ended March 31, 2019). We designated four growth strategies: (1) Protecting existing customers' investment; (2) Expansion of existing customers' investment; (3) Development for new markets; and (4) Accelerate service business. We set business targets for the final year: revenue of 170 billion yen, operating income of 11 billion yen, and operating margin of 6.5%.

1) Protecting existing customers' investment

In the existing network infrastructure handled by the Group, we provided proposals for functional updates for using the cloud, and sales were steady.

2) Expansion of existing customers' investment

For existing customers, we supported the promotion of the use of the cloud and the enhancement of information security. Sales were strong in all customer groups, including private companies, central ministries, local governments, and telecommunications carriers, and contributed significantly to profit growth in the Current Mid-Term Business Plan period.

3) Development for new markets

New markets covered the IIoT market, corporate market, and global market.

In the IIoT market, we started "smart factory" transformation in real-world environments in the manufacturing industry. Sales remained steady, focusing on the development of network infrastructure connecting various production machines, and data collection and analysis.

In the corporate market, business models that can be efficiently deployed to small and medium-sized companies, including the support for managed services provided by telecommunications carriers, grew steadily.

In the global market, we focused on developing a system for business expansion in the ASEAN region. Although we have not achieved target of the business plan, we have laid the foundations for future growth, including investment in local partner companies and expansion of business collaboration.

4) Accelerate service business

With the development of solutions focused on the cloud and security, and capital services that realize payment formats according to usage periods, the transformation of the business model from equipment sales to service provision has advanced.

Furthermore, from the fiscal year under review, all activities of the Group are defined as “integrated service businesses,” and by supporting all ICT lifecycles of planning, introduction, operation, and optimization, we made efforts to further enhance added value.

As a result of these efforts, we have continuously achieved target of our plans for revenue, operating income, and operating margin from the first year to the third year of the Current Mid-Term Business Plan.

Overall bookings accepted in the fiscal year under review were 188,332 million yen (up 10.7% year-over-year). Meanwhile, revenue the Company generated during the fiscal year under review were 181,935 million yen (up 12.9% year-over-year).

Regarding profit and loss, due to continuous efforts to reduce costs, expand services, and improve productivity, the Company’s gross profit stood at 44,395 million yen (up 17.4% year-over-year). Selling, general and administrative expenses increased to 31,383 million yen (up 6.1% year-over-year), operating income stood at 13,012 million yen (up 57.9% year-over-year), ordinary income stood at 13,258 million yen (up 57.5% year-over-year), and profit attributable to owners of parent was 8,913 million yen (up 56.9% year-over-year).

■ Overview by product category

In the fiscal year under review, bookings accepted, revenue and backlog by product category were as follows.

(unit: million yen)

	Equipment products	Service business
Bookings accepted	107,936 (up 9.5% YoY)	80,396 (up 12.3% YoY)
Revenue	107,045 (up 10.0% YoY)	74,890 (up 17.4% YoY)
Backlog	18,112 (up 5.2% YoY)	57,406 (up 10.6% YoY)

<Reference: Product category>

The Group classifies its products into two product categories: equipment products (products that are purchased from overseas or domestic ICT makers and then sold), and service business product (products that are manpower offered by our employees as the service). By combining equipment products with the service business, we are able to create the Company's original added value and provide optimal ICT infrastructural environments for our customers.

■ Overview by market sector

Amidst diversification of customer needs, the characteristics of the ICT market vary depending on the region and the company. In order to closely observe the market and deliver the optimum solution tailored to the customer, the Group has broadly classified the market into four categories. During the fiscal year under review, bookings accepted, revenue, and backlog by market sector were as follows.

Enterprise – Enterprise (ENT) market

—— Composition ratio in 32nd term: **28.8%**

<Main business description>

The Company engages in business targeting large-scale private enterprise including manufacturing industry (automobiles, electrical machinery, etc.), non-manufacturing industry (transport, services), Japanese financial institutions and foreign affiliates. We support utilizing ICT to realize information utilization aimed at improving competitiveness, work-style innovation, reducing costs, and other goals.

<Highlights of fiscal year under review>

Sales for security measures, cloud infrastructure, work style innovation, and IIoT business remain steady. As a result, bookings accepted and revenue increased compared with the previous fiscal year.

(unit: million yen)

Bookings accepted	51,293 (up 0.1% YoY)
Revenue	52,329 (up 5.3% YoY)
Backlog	21,498 (down 4.6% YoY)

Telecom carrier – Telecom carrier (SP) market

—— Composition ratio in 32nd term: **19.5%**

<Main business description>

The Company engages in business targeting fixed and mobile telecommunication carriers. We work with our customers to enhance the social infrastructural environment by providing foundational network architecture and network related services as infrastructure.

<Highlights of fiscal year under review>

The service infrastructure business made satisfactory progress and bookings accepted and revenue increased year on year.

(unit: million yen)

Bookings accepted	35,386 (up 3.2% YoY)
Revenue	35,552 (up 15.3% YoY)
Backlog	14,241 (down 1.2% YoY)

Public – Public (PUB) market—— Composition ratio in 32nd term: **35.0%**

<Main business description>

The Company engages in business targeting government, local government, the education sector, corporations that provide social infrastructure (cable television, power, etc.), healthcare (hospitals) and other public institutions. We continue to strengthen security for public information, etc. and enhance the foundational architecture for public sharing in order to optimize investment costs.

<Highlights of fiscal year under review>

Security measure business proceeded firmly. As a result, bookings accepted and revenue increased compared with the previous fiscal year.

(unit: million yen)

Bookings accepted	69,831 (up 32.1% YoY)
Revenue	63,666 (up 30.6% YoY)
Backlog	31,843 (up 24.0% YoY)

**Partners – Partner Business
(Net One Partners Co., Ltd.)**—— Composition ratio in 32nd term: **16.5%**

<Main business description>

The Group engages in cooperative business ventures with partner companies (resale business models) in order to realize businesses that can reach a wide range of markets that the Group cannot reach alone. By fusing the Group's ICT infrastructure solutions with the system solutions of partner companies, it is possible to create optimized added value for each market.

<Highlights of fiscal year under review>

The Group accelerated its deployment of solutions with a focus on profitability, and although revenue was down year on year, profit increased.

(unit: million yen)

Bookings accepted	31,607 (up 2.7% YoY)
Revenue	30,028 (down 3.1% YoY)
Backlog	7,930 (up 24.8% YoY)

(2) Issues to be addressed

Currently, the ICT market is entering a period of change. With the rapid growth of cloud service providers mainly of the United States, products from ICT manufacturers are undergoing a major transformation from hardware to software.

Customers have also changed to regard ICT as a core of business transformation, and digitization and work-style innovation are becoming important investment objectives.

In such a changing market, the Group made its advanced network technology the core of its initiatives and worked on creating new cloud foundational architecture and value for its security measures. In the future, we will proceed to realize further transformations to become a company that can create values together with customers to support their growth and provide new added value.

Based on this, the Group has newly established the following medium-term business plan, which covers the three-year period from the fiscal year ending March 31, 2020 to the fiscal year ending March 31, 2022.

The management philosophy of the Group is “contributing to social innovation by leveraging ICT.” In order to respond to the transformation of the ICT market and create high added value, we will work on the following three growth areas as a medium-term growth strategies.

1) Growth of customers and partners: Value co-creation

First, the Group must be a company that supports the growth of our customers and partners and one that gains recognition from them. For that reason, we will create new value together through the “integrated service business” that contributes to the improvement of customer productivity.

2) Growth of the company: Uniqueness

Next, to grow our customers and partners, we need to grow ourselves. For this purpose, we will work on fundamental reforms to improve productivity and continue to create unique value by making wide use of this experience in the proposals for existing markets and “focus markets/new models.”

3) Growth of employees: Initiative

Lastly, the growth of the Group requires the growth of each employee. We aim to enable each employee to create innovation autonomously, and accumulate new ICT utilization knowledge called “Work-Style Innovation 2.0/DX,” as well as formulate and develop educational programs for strengthening creativity and applied power.

Basic strategies

We will work on the following three basic strategies to realize the three growth areas in our medium-term growth strategies.

(i) Expanding focus markets and new models: Extending market coverage

We will focus on markets and customers that can promote added value through our “integrated service business” and aim for growth in existing markets, focus markets, and new models.

Specifically, in existing markets, we will expand our business through continuous solution development in order to utilize multiple cloud services and strengthen information security. In focus markets, we will target the “healthcare market,” “education market,” and “smart factory market” where ICT development is expected to advance. In addition, we will work on initiatives such as a new model, “support for managed service providers (MSP)” that can be efficiently expanded to small and medium-sized businesses, as well as “development of refurbishment (refurbished products)” that can achieve both cost differentiation and high profitability.

Through these efforts, in the third year, we will promote new revenue growth of 25 billion yen in focus markets and new models, and together with growth in existing markets, we will achieve company-wide revenue growth.

(ii) Driving “integrated service business”: Expansion of service business

The Group defines all activities for customers as “integrated service businesses” and supports the entire ICT lifecycle of planning, implementation, operation, and optimization. We introduce perspectives of customer successes (successes in the customer's business) into such activities and

provide the knowledge to pursue new added value.

In addition, we mutually connect products and services provided by ICT manufacturers and cloud service providers to develop solutions that can use multiple cloud services safely, and aim to respond to the conversion “from possession to utilization” through capital services and other measures.

We will accelerate the integrated service business and expand the service ratio through these efforts.

(iii) Implementation of DX: Increasing productivity

Since 2010, the Group has created an environment where it is possible to carry out operations anytime and anywhere through the improvement of in-house ICT tools, personnel systems, and office environments. We call this “Work-Style Innovation 1.0.” We will further accelerate this initiative, review all operations, and reform them into an integrated system, thereby improving the speed and quality of operations and improving company-wide productivity. We call this “Work-Style Innovation 2.0/DX.”

In addition, by accelerating the concept of “netone on netone (returning the experience of the net one to the business of the net one),” which provides reference experiences of success/failure in this process, we will reduce customer trial and error time and improve satisfaction.

Medium-term management indicators

We will create high added value through three growth strategies and three basic strategies, and aim for a target in the final fiscal year (fiscal year ending March 31, 2022) of: revenue of 220.0 billion yen, operating income of 21.0 billion yen, operating margin of 9.5%, service ratio of 50%, ROE of 16.8%.

The Group will aim to be a company that is trusted and supported by all our stakeholders and strive to improve corporate added-value by continuing to create new value.

(3) Status of income and assets

I. Status of consolidated financial results

Segment	29 th FY (April 1, 2015 to March 31, 2016)	30 th FY (April 1, 2016 to March 31, 2017)	31 st FY (April 1, 2017 to March 31, 2018)	32 nd FY (current FY) (April 1, 2018 to March 31, 2019)
Revenue (million yen)	145,180	157,236	161,107	181,935
Ordinary Income (million yen)	2,594	5,701	8,418	13,258
Profit attributable to owners of parent (million yen)	1,508	3,822	5,682	8,913
Basic Earnings per Share (yen)	17.85	45.20	67.16	105.28
Total Assets (million yen)	102,613	103,365	106,827	125,498
Net Assets (million yen)	55,533	57,328	60,363	66,858
Equity Ratio (%)	54.0	55.3	56.4	53.1
Net Assets per Share (yen)	655.43	676.30	711.48	787.69

II. Status of non-consolidated financial results

Segment	29 th FY (April 1, 2015 to March 31, 2016)	30 th FY (April 1, 2016 to March 31, 2017)	31 st FY (April 1, 2017 to March 31, 2018)	32 nd FY (current FY) (April 1, 2018 to March 31, 2019)
Revenue (million yen)	127,655	134,043	130,753	153,160
Ordinary Income (million yen)	2,297	5,318	6,682	11,169
Profit (million yen)	1,437	3,580	4,499	7,492
Basic Earnings per Share (yen)	17.00	42.34	53.18	88.50
Total Assets (million yen)	95,770	96,525	98,947	114,526
Net Assets (million yen)	52,683	54,061	56,008	60,965
Equity Ratio (%)	54.9	55.9	56.4	53.1
Net Assets per Share (yen)	621.72	637.68	660.02	718.09

(4) Status of financing

No special matters to report.

(5) Status of capital expenditures

The Company spent a total of 2,778 million yen for capital expenditures during the fiscal year under review mainly on equipment improvement for the purpose of developing new products, and improving the evaluation system and the customer support framework.

(6) Status of parent company and significant subsidiaries

I. Status of the parent company

Not applicable.

II. Status of significant subsidiaries

Company name	Investments in capital	Ratio of the Company's capital contribution	Main business activities
	Million yen	%	
Net One Partners Co., Ltd.	400	100.0	Sales, installation, introduction and maintenance service related to ICT equipment for partners
Net One Next Co., Ltd.	100	100.0	Sales, installation, introduction and maintenance of reusable ICT equipment

- (Notes) 1. The Company established Net One Next Co., Ltd. on January 4, 2019 with 100% ownership of the Company.
2. The Company absorbed Xseed Co., Ltd. on June 1, 2018.

(7) Main offices (as of March 31, 2019)

Company name	Office name	Location
Net One Systems Co., Ltd.	Head Office	Chiyoda-ku, Tokyo
	Kansai Branch	Yodogawa-ku, Osaka
	Tennoz Office	Shinagawa-ku, Tokyo
	Hokkaido Branch	Chuo-ku, Sapporo
	Tohoku Branch	Aoba-ku, Sendai
	Tsukuba Office	Tsukuba-shi, Ibaraki
	Takanawa Office	Shinagawa-ku, Tokyo
	Chubu Branch	Naka-ku, Nagoya
	Toyota Office	Toyota-shi, Aichi
	Hokuriku Office	Kanazawa-shi, Ishikawa
	Hiroshima Office	Naka-ku, Hiroshima
	Takamatsu Office	Takamatsu-shi, Kagawa
	Kyushu Branch	Hakata-ku, Fukuoka
	Okinawa Office	Naha-shi, Okinawa
	Technical Center	Shinagawa-ku, Tokyo
	Quality Assurance & Management Center	Ota-ku, Tokyo
Quality Assurance & Management Center West Branch	Joto-ku, Osaka	

Company name	Office name	Location
Net One Partners Co., Ltd.	Head Office	Chiyoda-ku, Tokyo
Net One Next Co., Ltd.	Head Office	Chiyoda-ku, Tokyo

(8) Status of employees (as of March 31, 2019)

I. Number of employees of the Corporate Group

Name of segment, etc.	Number of employees	Comparison to end of previous FY
Enterprise Sector	394	Increase of 5
Telecom carrier Sector	141	Decrease of 15
Public Sector	361	Increase of 6
Enterprise/Telecom carrier/Public common business	454	Decrease of 12
Partner Sector (Net One Partners Co., Ltd.)	152	Increase of 6
Other	1	Decrease of 57
Support services for maintenance and operation	255	Decrease of 37
Unallocable (Common)	536	Increase of 81
Total	2,294	Decrease of 23

(Note) The number of employees includes individuals dispatched to the Group from outside the Group but excludes individuals dispatched outside the Group from the Group.

II. Number of employees of the Company

Name of segment, etc.	Number of employees	Comparison to end of previous FY
Enterprise Sector	394	Increase of 5
Telecom carrier Sector	141	Decrease of 15
Public Sector	361	Increase of 6
Enterprise /Telecom carrier/Public common business	454	Decrease of 12
Partner Sector (Net One Partners Co., Ltd.)	–	–
Other	–	–
Support services for maintenance and operation	255	Decrease of 37
Unallocable (Common)	536	Increase of 81
Total	2,141	Increase of 28

(Note) The number of employees includes individuals dispatched to the Company from other companies but excludes individuals dispatched from the Company to other companies.

(9) Other significant matters related to the status of the Corporate Group

Not applicable.

2. Status of shares of the Company (as of March 31, 2019)

- (1) Number of authorized shares to be issued 200,000,000 shares
- (2) Total number of shares issued 86,000,000 shares
(including 1,328,696 shares of treasury stock)
- (3) Number of shareholders 15,690

(4) Distribution of shares by shareholder type

Foreign institutions and others	41.2%
Financial institutions	39.9%
Individual shareholders, etc.	15.3%
Securities companies	1.8%
Net One Systems Co., Ltd.	1.5%
Other institutions	0.3%

(5) Major shareholders (Top 10)

Name of shareholder	Number of shares held	Percentage of ownership (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	16,087,600	19.0
SSBTC CLIENT OMNIBUS ACCOUNT	6,504,132	7.7
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,626,800	5.5
BBH FOR MATTHEWS JAPAN FUND	2,818,100	3.3
Meiji Yasuda Life Insurance Company	1,440,000	1.7
GOVERNMENT OF NORWAY	1,409,200	1.7
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1,390,000	1.6
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,364,500	1.6
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,364,100	1.6
MUFG Bank, Ltd.	1,324,800	1.6

(Notes) 1. Although the Company owns 1,328,696 shares of treasury stock, it is excluded from the major shareholders above.

2. The calculation of the percentage of ownership excludes treasury stocks.

(6) Other important matters concerning the Company's shares

Not applicable.

3. Status of the Company's share acquisition rights, etc.

(1) Outline of share acquisition rights under the equity compensation-type stock options plan held by Executive Directors (excluding Outside Executive Directors) of the Company as of end of FY2018

Name (Date of resolution to issue)	Number of owners	Number of share acquisition rights	Class and number of shares to be issued upon the exercise of share acquisition rights	Amount to be paid in for share acquisition rights	Value of assets contributed upon the exercise of the share acquisition rights	Effective period during which the share acquisition rights are exercisable	Remarks
Net One Systems Co., Ltd. FY2012 share acquisition rights (June 14, 2012)	6 Executive Directors (excluding Outside Executive Directors)	170	17,000 shares of common share of the Company	90,000 yen per share acquisition right	1 yen per share	July 3, 2012 to July 2, 2042	(Note 1)
Net One Systems Co., Ltd. FY2013 share acquisition rights (June 13, 2013)	6 Executive Directors (excluding Outside Executive Directors)	216	21,600 shares of common share of the Company	62,700 yen per share acquisition right	1 yen per share	July 2, 2013 to July 1, 2043	(Note 1)
Net One Systems Co., Ltd. FY2014 share acquisition rights (June 17, 2014)	6 Executive Directors (excluding Outside Executive Directors)	259	25,900 shares of common share of the Company	56,400 yen per share acquisition right	1 yen per share	July 4, 2014 to July 3, 2044	(Note 1)
Net One Systems Co., Ltd. FY2015 share acquisition rights (June 16, 2015)	7 Executive Directors (excluding Outside Executive Directors)	225	22,500 shares of common share of the Company	71,700 yen per share acquisition right	1 yen per share	July 3, 2015 to July 2, 2045	(Note 2)
Net One Systems Co., Ltd. FY2016 share acquisition rights (June 16, 2016)	7 Executive Directors (excluding Outside Executive Directors)	335	33,500 shares of common share of the Company	53,100 yen per share acquisition right	1 yen per share	July 5, 2016 to July 4, 2046	(Note 2)
Net One Systems Co., Ltd. FY2017 share acquisition rights (June 15, 2017)	7 Executive Directors (excluding Outside Executive Directors)	188	18,800 shares of common share of the Company	101,400 yen per share acquisition right	1 yen per share	July 4, 2017 to July 3, 2047	(Note 2)
Net One Systems Co., Ltd. FY2018 share acquisition rights (June 14, 2018)	7 Executive Directors (excluding Outside Executive Directors)	123	12,300 shares of common share of the Company	175,400 yen per share acquisition right	1 yen per share	July 3, 2018 to July 2, 2048	

- (Notes) 1. The share acquisition rights owned by three (3) Executive Directors out of six (6) Executive Directors were granted prior to appointment as Executive Director.
2. The share acquisition rights owned by three (3) Executive Directors out of seven (7) Executive Directors were granted prior to appointment as Executive Director.

(2) Outline of share acquisition rights under the equity compensation-type stock options plan granted to employees, etc. during FY2018

Name (Date of resolution to issue)	Number of grantees	Number of share acquisition rights	Class and number of shares to be issued upon the exercise of share acquisition rights	Amount to be paid in for share acquisition rights	Value of assets contributed upon the exercise of the share acquisition rights	Effective period during which the share acquisition rights are exercisable
Net One Systems Co., Ltd. FY2018 share acquisition rights (June 14, 2018)	4 Vice Presidents	51	5,100 shares of common share of the Company	175,400 yen per share acquisition rights	1 yen per share	July 3, 2018 to July 2, 2048

4. Items regarding the Company's Executive Directors and Audit & Supervisory Board Members

(1) Names, etc. of Executive Directors and Audit & Supervisory Board Members (as of March 31, 2019)

Position	Name	Responsibilities at the Company and significant concurrent positions
Chairman & CEO	Takayuki Yoshino	General management
President & COO	Toru Arai	General management, in charge of Market Development Division, in charge of Customer Service Division, in charge of Business Development Division President & CEO of Net One Systems USA, Inc.
Executive Director	Takahisa Kawaguchi	In charge of Corporate Planning & Strategy Division Chairman of Net One Partners Co., Ltd. President & CEO of Net One Systems Singapore Pte. Ltd. Director of Asiasoft Solutions Pte. Ltd.
	Shinji Hirakawa	In charge of Eastern Japan Business Division 1, in charge of Western Japan Business Division President and Representative Executive Officer of Net One Connect G.K.
	Takafumi Takeshita	In charge of Eastern Japan Business Division 2, in charge of Central Japan Business Division Executive Director of Net One Next Co., Ltd.
	Takuya Tanaka	In charge of Administration & Management Division, in charge of New Business Division President & CEO of Net One Partners Co., Ltd.
	Norihisa Katayama	In charge of Administration & Management Division President and Representative Executive Officer of Net One Business Operations G.K.
	Kunio Kawakami	
	Mitsuo Imai	
	Rieko Nishikawa	Professor, Faculty of Law, Keio University
	Ryugo Hayano	Councilor, Radiation Effects Research Foundation President, Talent Education Research Institute (Suzuki Method) Science Fellow, Hobonichi Co., Ltd. Representative, Office-Hayano LLC Director, Public Interest Incorporated Foundation Shigeta Education Foundation Professor Emeritus, The University of Tokyo Director, International Physics Olympiad 2022 Association

Position	Name	Responsibilities at the Company and significant concurrent positions
Audit & Supervisory Board Member (Full-time)	Toru Matsuda	
Audit & Supervisory Board Member	Masamichi Kikuchi	
	Keiichi Horii	Partner of South Toranomon Law Offices Member, Operating Committee of the Arbitration Center of the Daiichi Tokyo Bar Association
	Hideki Suda	Advisor, Asahi Building Kanzai K.K.

- (Notes)
1. President & COO Mr. Toru Arai retired from the position of President & CEO of Net One Systems USA, Inc. on March 31, 2019.
 2. Asiasoft Solutions Pte. Ltd. changed its name to Net One Asia Pte. Ltd. on April 1, 2019.
 3. Executive Director Mr. Shinji Hirakawa retired from the position of President and Representative Executive Officer of Net One Connect G.K. on March 31, 2019.
 4. Executive Director Mr. Takafumi Takeshita assumed the position of Executive Director of Net One Next Co., Ltd. on January 4, 2019.
 5. Executive Director Mr. Norihisa Katayama assumed the position of President and Representative Executive Officer of Net One Business Operations G.K. on November 1, 2018.
 6. Executive Directors Mr. Kunio Kawakami, Mr. Mitsuo Imai, Ms. Rieko Nishikawa and Mr. Ryugo Hayano are Outside Executive Directors as stipulated by Article 2, Item 15 of the Companies Act. The Company has notified Tokyo Stock Exchange (TSE) of the status of Mr. Kunio Kawakami, Mr. Mitsuo Imai, Ms. Rieko Nishikawa and Mr. Ryugo Hayano as Independent Executive Officers pursuant to the provisions of the Exchange.
 7. Audit & Supervisory Board Members Mr. Masamichi Kikuchi, Mr. Keiichi Horii, and Mr. Hideki Suda are Outside Audit & Supervisory Board Members as stipulated by Article 2, Item 16 of the Companies Act. The Company has notified Tokyo Stock Exchange (TSE) of the status of Mr. Masamichi Kikuchi, Mr. Keiichi Horii, and Mr. Hideki Suda as Independent Executive Officers pursuant to the provisions of the Exchange.
 8. Audit & Supervisory Board Member Mr. Masamichi Kikuchi is a certified public accountant and has a respectable degree of knowledge in finance and accounting.
 9. Audit & Supervisory Board Member Mr. Hideki Suda retired from the position of Advisor of Asahi Building Kanzai K.K. on March 31, 2019.
 10. The Company has entered into a limited liability agreement with each of Outside Executive Directors and each of Audit & Supervisory Board Members. The purpose of this agreement is to limit liability as provided for in Article 423, Paragraph 1 of the Companies Act.

(Reference) The Company has introduced a Vice President system, and the Vice Presidents as of March 31, 2019 are as follows.

Position	Name	Responsibilities at the Company, etc.
President	Toru Arai*	General management
Senior Vice President	Shinji Hirakawa*	In charge of Eastern Japan Business Division 1, in charge of Western Japan Business Division President and Representative Executive Officer of Net One Connect G.K.
	Fumihiko Shinoura	In charge of Business Development Division, in charge of Market Development Division, in charge of Customer Service Division
Vice President	Takahisa Kawaguchi*	In charge of Corporate Planning & Strategy Division Chairman of Net One Partners Co., Ltd. President & CEO of Net One Systems Singapore Pte. Ltd.
	Takafumi Takeshita*	In charge of Eastern Japan Business Division 2
	Takuya Tanaka*	In charge of Administration & Management Division, in charge of New Business Division President & CEO of Net One Partners Co., Ltd.
	Norihisa Katayama*	In charge of Administration & Management Division President and Representative Executive Officer of Net One Business Operations G.K.
	Junichi Nakamura	In charge of Central Japan Business Division
	Norio Shimada	General Manager of Eastern Japan Business Division 2 (in charge of Sales Division 1 and Sales Division 4)
	Hideo Fukumoto	General Manager of Administration & Management Division (in charge of TQM Promotion Division, Finance Division, Accounting Division and Capital Services Division) President & CEO of Net One Next Co., Ltd.

(Notes)

1. Vice Presidents marked with * also serve as Executive Directors.
2. Vice President Mr. Norihisa Katayama and Mr. Norio Shimada retired from the position of Vice President of the Company on March 31, 2019.
3. Vice President Mr. Hideo Fukumoto assumed the position of President & CEO of Net One Next Co., Ltd. on January 4, 2019.

(2) Remuneration, etc. for Executive Directors and Audit & Supervisory Board Members

I. The amount of remuneration, etc. for Executive Directors and Audit & Supervisory Board Members

Classification	Executive Directors (Of which Outside Executive Directors)		Audit & Supervisory Board Members (Of which Outside Audit & Supervisory Board Members)		Total (Of which Outside Executive Directors and Audit & Supervisory Board Members)		Remarks
	Number of persons paid	Amount paid	Number of persons paid	Amount paid	Number of persons paid	Amount paid	
Basic Remuneration	13 (4)	Million yen 274 (54)	4 (3)	Million yen 49 (23)	17 (7)	Million yen 323 (77)	(Notes 1, 2)
Bonuses	6 (-)	121 (-)	- (-)	- (-)	6 (-)	121 (-)	(Note 3)
Equity compensation-type stock options	7 (-)	21 (-)	- (-)	- (-)	7 (-)	21 (-)	(Note 4)
Total		418 (54)		49 (23)		467 (77)	

- (Notes) 1. The maximum amounts of remunerations was decided as 470 million yen per year for Executive Directors (of which, maximum amount for Executive Directors excluding Outside Executive Directors is 400 million yen per year and maximum amount for Outside Executive Directors is 70 million yen per year), based on a resolution passed at the 28th Annual Shareholders Meeting on June 16, 2015, while 100 million yen per year for Audit & Supervisory Board Members, based on a resolution passed at the 17th Annual Shareholders Meeting on June 25, 2004.
2. Although the Company has eleven (11) Executive Directors as of the end of the current fiscal year, the number of persons paid, and amount paid shown above includes two (2) Executive Directors retired at the conclusion of 31st Annual Shareholders Meeting on June 14, 2018.
3. Number of persons paid and amount paid based on “Payment of bonuses to Executive Directors” scheduled for resolution at the 32nd Annual Shareholders Meeting to be held on June 13, 2019.
4. Remuneration, etc. through share acquisition rights under equity compensation-type stock option plan was decided as not exceeding 50 million yen per year for Executive Directors (excluding Outside Executive Directors) based on a resolution passed at the 25th Annual Shareholders Meeting held on June 14, 2012. In the columns of “Equity compensation-type stock options,” expenses for the current fiscal year are presented.

II. Policy for determining the amount of remuneration, etc. for Executive Directors and Audit & Supervisory Board Members

For its executive remuneration system, the Company adopts basic policies to continue its growth and enhance the corporate value of the Company continuously by strengthening the link between executive remuneration and the Company’s business performance, and to ensure fairness and objectivity in the process of determining executive remuneration, etc.

1) Remuneration, etc. for Executive Directors (excluding Outside Executive Directors)

Remuneration, etc. for the Company’s Executive Directors (excluding Outside Executive Directors) consists of a basic remuneration, which is fixed, bonuses, which is a corporate performance-linked compensation over the short term offered annually based on performance,

and equity compensation-type stock options, which is a corporate performance-linked compensation over the medium to long term.

The basic remuneration is determined according to the position and title of each Executive Director, and a basic amount is set for each rank.

Bonuses for each Executive Director are determined by considering the business target achievement rate and other factors for both the Company on a consolidated basis (productivity per employee in terms of revenue and operating income) and the department that the Executive Director is in charge of (productivity per employee in terms of bookings accepted by division, revenue by division and operating income by division).

Regarding to the equity compensation-type stock option plan, the Company believes that linking Executive Directors' compensations to the value of the Company's stocks will encourage the Executive Directors to enhance the corporate value over the medium to long term and further increase incentives and motivation to increase the share price in the context of sharing with its shareholders the benefits and risk from a stock price's rise or fall. The amount of individual payment (the number of allotment of stock options) of each Executive Director is calculated by dividing the basic amount set based on the position of each Executive Director by the fair value per such stock option.

With a view to ensuring fairness and objectivity in determining the amounts of remuneration, etc. for Executive Directors (excluding Outside Executive Directors), the determination of specific amounts of remuneration must follow the deliberations by the Advisory Committee, and must be set within the ceiling of remuneration, etc. resolved at the Shareholders Meeting. Determining the amount of basic remuneration and equity compensation-type stock options require resolution of the Board of Directors, while determining the amount of bonuses requires resolution of the Shareholders Meeting.

2) Remuneration, etc. for Outside Executive Directors and Audit & Supervisory Board Members

Remuneration, etc. of Outside Executive Directors and Audit & Supervisory Board Members consists only of a basic remuneration from the perspective of securing their independence. Amounts of remuneration, etc. for Outside Executive Directors are determined, after deliberation of the Advisory Committee to ensure fairness and objectivity of remuneration, etc., along with those for other Executive Directors by the resolution of the Board of Directors within the ceiling of Executive Directors remuneration resolved at the Shareholders Meeting. Amounts of remuneration, etc. for Audit & Supervisory Board Members are determined by deliberations among Audit & Supervisory Board Members within the ceiling of Audit & Supervisory Board Members remuneration resolved at the Shareholders Meeting.

(3) Items regarding Outside Executive Directors and Outside Audit & Supervisory Board Members**I. Significant concurrent positions and relationships with organizations where concurrent positions are held**

Classification	Name	Significant concurrent positions	Remarks
Executive Director	Rieko Nishikawa	Professor, Faculty of Law, Keio University	(Note 1)
	Ryugo Hayano	Councilor, Radiation Effects Research Foundation President, Talent Education Research Institute (Suzuki Method) Science Fellow, Hobonichi Co., Ltd. Representative, Office-Hayano LLC Director, Public Interest Incorporated Foundation Shigeta Education Foundation Professor Emeritus, The University of Tokyo Director, International Physics Olympiad 2022 Association	(Note 2) (Note 3)
Audit & Supervisory Board Member	Keiichi Horii	Partner of South Toranomom Law Offices Member, Operating Committee of the Arbitration Center of the Daiichi Tokyo Bar Association	(Note 4)
	Hideki Suda	Advisor, Asahi Building Kanzai K.K.	(Note 5)

- (Notes) 1. There are certain transactions between Keio University and the Company. However, the amount of revenue from such transactions for the current fiscal year is only approximately 4 million yen (less than 0.1% of revenue of the Company for the current fiscal year). Therefore, we believe that these transactions have no risk of conflict of interest with general shareholders.
2. There are certain transactions between The University of Tokyo and the Company. However, the amount of revenue from such transactions for the current fiscal year is only approximately 136 million yen (less than 0.1% of revenue of the Company for the current fiscal year). Therefore, we believe that these transactions have no risk of conflict of interest with general shareholders.
3. There are no special relationships between Radiation Effects Research Foundation, Talent Education Research Institute (Suzuki Method), Hobonichi Co., Ltd., Office-Hayano LLC, Public Interest Incorporated Foundation Shigeta Education Foundation and International Physics Olympiad 2022 Association and the Company.
4. There are no special relationships between South Toranomom Law Offices and the Daiichi Tokyo Bar Association and the Company.
5. Audit & Supervisory Board Member Mr. Hideki Suda retired from the position of Advisor of Asahi Building Kanzai K.K. on March 31, 2019. There are no special relationships between Asahi Building Kanzai K.K. and the Company.

II. Significant activities during the current fiscal year

1) Status of attendance at Board of Directors meetings and Audit & Supervisory Board meetings

Classification	Name	Board of Directors meetings (held 12 times)		Audit & Supervisory Board meetings (held 13 times)	
		Number of meetings attended	Percentage of attendance	Number of meetings attended	Percentage of attendance
Executive Director	Kunio Kawakami	12	100.0%	–	–%
	Mitsuo Imai	12	100.0%	–	–%
	Rieko Nishikawa	12	100.0%	–	–%
	Ryugo Hayano	10	100.0%	–	–%
Audit & Supervisory Board Member	Masamichi Kikuchi	12	100.0%	13	100.0%
	Keiichi Horii	12	100.0%	13	100.0%
	Hideki Suda	12	100.0%	13	100.0%

- (Notes) 1. The percentage of attendance for Mr. Ryugo Hayano has been calculated based on the number of Board of Directors meetings held after their assumption of office following the election at the 31st Annual Shareholders Meeting on June 14, 2018 (10 times).
2. In addition to the number of Board of Directors meetings held above, three (3) resolutions were adopted in writing which are regarded as having been resolved by the Board of Directors in accordance with the provisions of the Companies Act and of the Company's Articles of Incorporation.

2) Status of remarks made at Board of Directors meetings and Audit & Supervisory Board meetings

Classification	Name	Status of remarks made at Board of Directors meetings and Audit & Supervisory Board meetings
Executive Director	Kunio Kawakami	Based on his knowledge and experience in the information and communication business as well as experience as director of other companies, Kunio Kawakami expresses opinions and makes comments regarding the Company's business.
	Mitsuo Imai	Based on his knowledge and experience in the information and communication business as well as experience as a corporate manager of other companies, Mitsuo Imai expresses opinions and makes comments regarding the Company's business.
	Rieko Nishikawa	Based on her ample knowledge and experience as a university professor specializing in legal research, Rieko Nishikawa expresses opinions and makes comments regarding the Company's business.
	Ryugo Hayano	Based on his ample knowledge and experience as a university professor specializing in physics research and the insights gained through the practice of various groups, Ryugo Hayano expresses opinions and makes comments regarding the Company's business.
Audit & Supervisory Board Member	Masamichi Kikuchi	From his standpoint as a certified public accountant, Masamichi Kikuchi expresses opinions and makes comments regarding the Company's business.
	Keiichi Horii	From his standpoint as an attorney, Keiichi Horii expresses opinions and makes comments regarding the Company's business.
	Hideki Suda	Based on his knowledge and experience in the information and communication business as well as experience as a corporate manager of other companies, Hideki Suda expresses opinions and makes comments regarding the Company's business.

(Reference) In order to strengthen governance, the Company holds meetings as an optional system between Outside Executive Directors and Audit & Supervisory Board Members (Full-time Audit & Supervisory Board Members and Outside Audit & Supervisory Board Members), and utilizes the views of Outside Executive Directors and Audit & Supervisory Board Members in management. The meetings of between Outside Executive Directors and Audit & Supervisory Board Members are held twice a year. By securing opportunities for recommendations by Outside Executive Directors and Audit & Supervisory Board Members, together with exchanging of information and sharing, we promote collaboration between Outside Executive Directors and Audit & Supervisory Board Members.

5. Items regarding Accounting Auditors

(1) Name of Accounting Auditor

Deloitte Touche Tohmatsu LLC

(2) Amount regarding remuneration, etc. for Accounting Auditor during the current fiscal year

I. The amount of remuneration, etc. for the Accounting Auditor during the current fiscal year	53 million yen
II. Total amount of money and other property benefits to be paid by the Company and its subsidiaries	53 million yen

- (Notes)
1. The audit contract between the Company and the Accounting Auditor does not separate the audit remuneration for audits based on the Companies Act and audits based on the Financial Instruments and Exchange Act, and as they cannot be separated in practice, the total amount is shown in I. above.
 2. The Audit & Supervisory Board obtained necessary materials and received reports from Executive Directors, relevant internal departments, and the Accounting Auditor, and performed verification to confirm that the auditing performance in the previous fiscal year, the content of the Accounting Auditors' accounting plan for the current fiscal year, and the basis for calculation of the remuneration estimate, were appropriate. Based upon this verification, the Audit & Supervisory Board determined that the amount regarding remuneration, etc. for the Accounting Auditor is reasonable, and gave consent to it.

(3) Description of non-audit service

Not applicable.

(4) Policy on resolution of dismissal or non-reappointment of Accounting Auditor

When the Audit & Supervisory Board deems it necessary such as when there is an impediment to the execution of the Accounting Auditor's duties, the Audit & Supervisory Board will determine the content of a proposal on the dismissal or non-reappointment of the Accounting Auditor, and the Board of Directors will submit the proposal to the Shareholders Meeting on the basis of that decision.

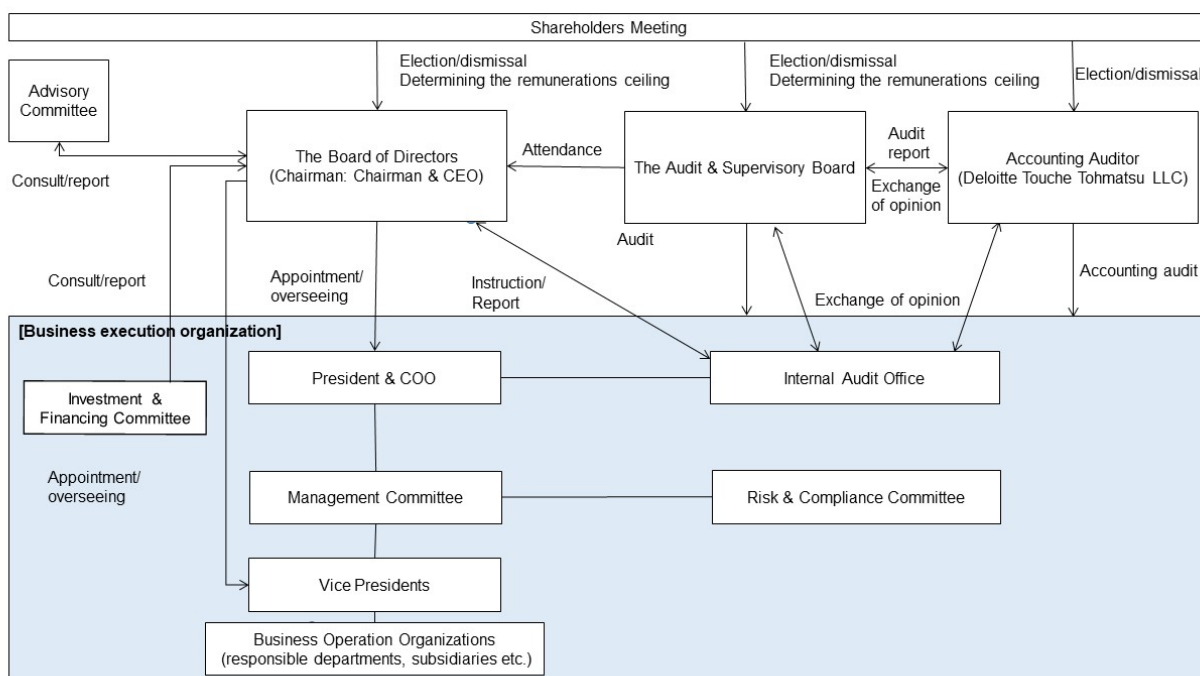
In addition, when it is deemed that the Accounting Auditor falls into the categories stipulated under each item of Paragraph 1, Article 340 of the Companies Act, the Accounting Auditor will be dismissed based on the unanimous agreement of the Audit & Supervisory Board Members. In this event, the Audit & Supervisory Board Member appointed by the Audit & Supervisory Board shall report the fact of the dismissal of the Accounting Auditor and the reasons for it to the first Shareholders Meeting to be convened following the dismissal.

6. Corporate Governance

(1) Basic matters regarding corporate governance (as of May 1, 2019)

Based on a management vision of “to be a company trusted and supported by all stakeholders (an admired company),” the Company advocates “sustainable growth” as its foremost priority. In order to attain the objective and to enhance its corporate value over the medium to long term, the Company continuously strives to enhance and strengthen corporate governance to realize fair and transparent decision-making in a swift and decisive way.

The Company adopts the following mechanism to establish a highly effective corporate governance system: The Company has in place an Audit & Supervisory Board system, which, with more than half of its members being independent Outside Audit & Supervisory Board Members, audits the execution of duties by the Executive Directors; in addition, independent Outside Executive Directors who constitute more than thirty percent (30%) of the members of the Board of Directors oversee management and execution of duties. The Company also employs the Vice President System to beef up its management control and overseeing function by the Board of Directors, and to execute business more efficiently and promptly. Moreover, by establishing the Advisory Committee the Company adopts a fair and objective way of electing or dismissing the Company’s Executive Directors and Vice Presidents as well as determining their remuneration, etc.



I. Executive Directors and the Board of Directors

The Company's Board of Directors consists of eleven (11) members (male: 10, female: 1) including four (4) independent Outside Executive Directors (a notification has been filed with the Tokyo Stock Exchange explaining that all of which are Independent Executive Officers), and meets once a month in principle to decide on matters stipulated by laws and regulations, or the Company's Articles of Incorporation, as well as significant matters relating to management or business execution including the vision and policy for management and Mid-Term Business Plan. The Board of Directors also oversees overall management of the Company through reports on status of Executive Directors' execution of duties, etc.

In addition, in order to increase fairness and transparency in management and to strengthen corporate governance, the Company has established an Advisory Committee, which consists of Representative Directors, Outside Executive Directors, Full-time Audit & Supervisory Board Members and Outside Audit & Supervisory Board Members, and chaired by one of the Outside Executive Directors as a consultative body to the Board of Directors to discuss matters related to the election or dismissal of candidates for Executive Directors and Vice Presidents and their remuneration, etc.

II. Business Execution System

The Company constructed a system which enables prompt and efficient business execution, securing fairness and transparency in management, by way of concentrating the function of the Board of Directors on control and overseeing of management through delegation of decision-making authority on matters not requiring resolution of the Board of Directors as stipulated by internal regulations to the Management Committee (which meets approximately twice a month) under the President & COO, or Vice Presidents, etc.

III. Audit & Supervisory Board Members and the Audit & Supervisory Board

The Company's Audit & Supervisory Board consists of four (4) members (male: 4, female: 0) including three (3) independent Outside Audit & Supervisory Board Members (a notification has been filed with the Tokyo Stock Exchange explaining that all of which are Independent Executive Officers), and it meets once a month in principle to audit the execution of duties by Executive Directors as well as to exercise the authority relating to the appointment or dismissal of Accounting Auditors and audit remuneration, among other matters.

The Audit & Supervisory Board Members also attend notable meetings including the Board of Directors meetings, the Management Committee, the Advisory Committee, the Risk & Compliance Committee, and the Investment & Financing Committee to express their opinion from time to time when discussing significant matters related to management and business execution and to listen to reports on the status of management and business execution.

(2) System for ensuring appropriateness of operation and overview of system operation

The Board of Directors has established the "Basic Policy of Internal Control System" and is operating based on it.

An overview of the system is as follows.

[Basic Policy of Internal Control System]

- I. System for ensuring that Executive Directors' execution of duties comply with laws and regulations, and Articles of Incorporation
 - 1) Matters requiring resolution of the Board of Directors as stipulated by laws and regulations, or Articles of Incorporation, as well as significant matters relating to management or business execution, are discussed and decided at Board of Directors meeting.
 - 2) Outside Executive Directors are elected to strengthen the overseeing functions of the Board of Directors, while the Advisory Committee is established to discuss matters relating to the election or dismissal of candidates for Executive Directors and their remunerations, etc.
 - 3) Audit & Supervisory Board Members audit the execution of duties by the Executive Directors to ensure compliance with laws and regulations, and Articles of Incorporation. Also, the Audit &

Supervisory Board receives reports from Executive Directors with regard to significant matters relating to audits, and discusses and resolves the matters amongst the Audit & Supervisory Board Members.

II. System for retention and management of information related to Executive Directors' execution of duties

The Company's document retention and management shall be as stipulated by "Document Management Rules."

III. Policy and other system regarding management of risks of loss

- 1) Business risks related to changes in the economic environment and market needs are managed by the principal departments in charge of business and investments with the support and cooperation of the departments involved to comprehend and evaluate risks and provide a timely and appropriate response. With regard to new businesses and investments, subsequent to research and review of business risks by each principal department with the support and cooperation of the departments involved followed by deliberation by the Investment & Financing Committee, actions are taken upon determination of the Board of Directors or the Management Committee.
- 2) With regard to operational risks to the Company, including business interruption risks caused by natural disasters and diseases such as major earthquakes, wind and flood damage and infectious diseases, etc., and business cessation risks caused by the loss of credibility for the Company due to misconducts of the Company's Executive Directors or employees or leakage of confidential information, the Company implements corporate-wide risk management activities after deliberations at Risk & Compliance Committee, while determining at the Management Committee the significant risks being managed for each fiscal year and holding the meetings of Risk & Compliance Committee regularly. The Company also formulates and improves risk management regulations and related rules that establish basic policies and systems for the Company's risk management.

IV. System for ensuring efficiency of execution of duties by Executive Directors

- 1) The Company has employed the Vice President System and, by concentrating the function of the Board of Directors on control and overseeing of management, the Company aims to strengthen corporate governance and has constructed a system which enables prompt and efficient business execution separate from control and overseeing function of management.
- 2) The Management Committee discusses and decides on significant matters related to management and business execution other than matters to be resolved for discussion at Board of Directors meeting.
- 3) Decision to execute and the process of executing significant matters are as stipulated by the Administrative Authority Standard Table.
- 4) From the viewpoint of improving operational efficiency, the Company continually revises and improves its operational system and formulates and expands the information system infrastructure that supports it.

V. System for ensuring execution of duties by employees comply with laws and regulations, and Articles of Incorporation

- 1) Risk & Compliance Committee discusses and decides on significant matters regarding compliance system and reviews its operational status. In the case of a material compliance violation, Risk & Compliance Committee identifies facts based on investigation and discusses and determines the appropriate measures to prevent recurrence. In the event Risk & Compliance Committee discovers that a compliance violation has been committed by an employee, the Company will take disciplinary action against the relevant employee according to the rules of employment.
- 2) The Company, upholding "integrity and trust" as its common corporate value, establishes a group

compliance manual that indicates the specific code of conduct to be adhered by the Executive Directors and employees and a code of ethics that indicates the ethical standard for executives and employees. The Company also provides systematic compliance training to all Executive Directors and employees on an ongoing basis based on the understanding that compliance forms the basis for sustainable growth and the enhancement of the corporate value of the Company.

- 3) At least one (1) hotline for reporting and inquiring about compliance violations is established both inside and outside the company, and a hotline connecting to a Full-time Audit & Supervisory Board Member is established for reporting and inquiring regarding violations of compliance by Executive Directors or Vice Presidents. Hotline outside of the Company also accepts reports and inquiries anonymously. The Company ensures that employees are fully aware of the availability of such hotline and establishes an environment in which employees can use the hotline/consultation contact with a sense of security.

VI. System for ensuring appropriateness of operation of the Corporate Group comprised of the Company and its subsidiaries

- 1) In addition to establishing the principal department for the management of Group companies and receiving regular reports based on the Investment and Financing Control Regulations, the Company discusses key decisions in advance. Moreover, Group Business Liaison Meetings are held regularly to share various issues at each Group company.
- 2) With regard to Group-wide risk management, the Company has formulated Risk Management Regulations and promotes Group-wide risk management activities in addition to appointing members from subsidiaries to Risk & Compliance Committee in order to operate on a Group basis. Moreover, in the event of an event with a serious impact on the Group, the Company implements a prompt and smooth response based on the Emergency Countermeasure Regulations.
- 3) The Company has formulated a Mid-Term Business Plan with the participation of subsidiaries, and manages the progress of the plan while regularly receiving reports on the status of management at subsidiaries.
- 4) In addition to having common values and code of conduct as a Group through the Group Compliance Manual, Risk & Compliance Committee discusses and decides on significant matters regarding the Group's compliance. In addition, the Company's whistleblower hotline also handles reports and inquiries from officers and employees of Group companies.
- 5) The Company's Executive Directors and employees are appointed and seconded as Executive Directors and Audit & Supervisory Board Members at subsidiaries to oversee and audit the execution of business at subsidiaries.
- 6) With regard to ensuring credibility of financial reporting based on the Financial Instruments and Exchange Act, through coordination with the subsidiaries, the Company undertakes periodical review and evaluation of the maintenance and operational status of internal control of the Group, as well as striving for its maintenance and improvement.

VII. Matters relating to employees involved when Audit & Supervisory Board Members request the placement of employees to assist in their duties

Employee(s) to assist in Audit & Supervisory Board Members' duty shall be placed at Internal Audit Office.

VIII. Matters concerning the independence from Executive Directors of employees assisting in the duties of Audit & Supervisory Board Members and matter related to ensuring the effectiveness of the instructions from Audit & Supervisory Board Members to the employees involved

- 1) Internal transfers and evaluations for employees assisting in the duties of Audit & Supervisory Board Members require the consent of Audit & Supervisory Board Members to ensure the independence of the employee involved from the Executive Directors.
- 2) When the employees assisting in the duties of Audit & Supervisory Board Members receive the necessary instruction related to those duties, the system required to enable them to follow the relevant instructions is established.

IX. Systems for reporting to Audit & Supervisory Board Members and systems for ensuring that a person who made a report to Audit & Supervisory Board Members does not receive disadvantageous treatment as a result of the report in question

- 1) When an Executive Director discovers a fraudulent act by another Executive Director, an act by an Executive Director in violation of laws and regulations and/or the Articles of Incorporation, or a fact that may cause significant damage to the Company, the Executive Director must report it to Audit & Supervisory Board Members at once.
- 2) The Internal Audit Office reports plans for internal audits and the results of internal audits to Audit & Supervisory Board Members.
- 3) When Audit & Supervisory Board Members request reports on the execution of duties, officers and employees of the Group must provide reports on the relevant matters without delay.
- 4) The Group Audit & Supervisory Board must be convened regularly and receive reports on the implementation status of audits at subsidiaries from Audit & Supervisory Board Members of subsidiaries.
- 5) When officers and employees of the Group discover a fact that may cause significant damage to the Group, they must immediately report to the Company's Audit & Supervisory Board Members.
- 6) In addition to prohibiting disadvantageous treatment of a Group officer or employee who has made a report to an Audit & Supervisory Board Member for the reason of having made the relevant report, the Company actively publicizes the role played by the whistleblower hotline and the strict confidentiality of reporting and inquiries and establishes an environment that enables officers and employees of the Group to be relaxed about making reports and inquiries.

X. Matters concerning procedures for prepayment or refund of expenses arising in connection with the execution of the duties of Audit & Supervisory Board Members, matters concerning policy for processing expenses or obligations arising in connection with the execution of other duties and other systems for ensuring that the audits by Audit & Supervisory Board Members are implemented effectively

- 1) Audit & Supervisory Board Members share information and exchange opinions with Executive Directors by attending meetings of the Board of Directors and Management Committee.
- 2) Audit & Supervisory Board Members exchange opinions with the Accounting Auditors at least once every six months and, when necessary, exchange opinions with relevant departments and corporate attorneys of the Company.
- 3) When an Audit & Supervisory Board Member claims prepayment or refund of expenses arising in connection with execution of their duties, the Company processes the expense or obligation concerned, except for when it is deemed that the expense or obligation related to the claim in question is not necessary for the execution of the duties of the Audit & Supervisory Board Member concerned.

XI. Basic policy and system towards antisocial forces

- 1) The Company adopts a basic policy not to have any relationship, including business transactions, with antisocial forces that threaten the order and safety of community, by stipulating "the prohibition of associating with antisocial forces" as a code of conduct in the Group Compliance Manual.
- 2) In close coordination with outside specialized agencies such as The Federation for Prevention of Special Violence under Jurisdiction of the Metropolitan Police Department ("Tokubouren") and its regional council, of which the Company is a member, police stations under the jurisdiction, and corporate attorneys, the Company will develop and strengthen a system to ensure the collection of information related to antisocial forces and to secure access to appropriate advice and cooperation, while raising awareness and alertness to ensure the Group has no relationships with antisocial forces through compliance training programs within the Group.

[Overview of Internal Control System operation]

I. Risk and compliance system

1) Meetings of Risk & Compliance Committee

In the current fiscal year, the Committee, which consists of Executive Directors and General Managers of the Company and its subsidiaries and is chaired by the Executive Director in charge of Administration & Management Division, has been held total 11 times.

2) Measures relating to compliance

Measures implemented by the Company include operation of whistleblower hotline for reports and inquiries, survey targeting employees of the Company and its partner companies, and educational activities (including e-learning, oath, compliance lecture targeting all employees, trainings for new employees and mid-career workers).

Furthermore, the Risk & Compliance Committee has reviewed the utilization status of whistleblower hotline for reports and inquiries, and the results of the survey, among other matters.

In the current fiscal year, no material report or inquiry relating to the breach of laws and regulations has been made.

3) Measures relating to risk management

The Risk & Compliance Committee has engaged in improving and strengthening risk management activities by means of determining the Group's significant risks being managed in the current fiscal year as well as conducting monitoring, analysis and evaluation on the risk management activities by the principal departments responsible for each risk, while reporting to the Management Committee on a quarterly basis and seeking its instructions as appropriate.

Furthermore, the Company held business continuity plan training (companywide safety confirmation training and training for switching core tasks to alternative locations) twice in anticipation of the occurrence of a major earthquake in the current fiscal year.

In the current fiscal year, no risk incident that could have a significant impact on the Group's management has occurred.

II. System for effective business execution

In accordance with decision-making rules including matters to be resolved at the Board of Directors and Management Committee as stipulated by internal regulations, the Board of Directors (held 12 times in the current fiscal year in addition to three resolutions adopted in writing which are regarded as having been resolved by the Board of Directors) and Management Committee (held 21 times in the current fiscal year) conduct deliberations on matters to be discussed in their meetings and efficient decision-making.

III. System for management of subsidiaries

The Company's Executive Directors or employees are appointed as Executive Directors and Audit & Supervisory Board Members at subsidiaries.

As stipulated by internal regulations, the principal department for the management of Group companies submits business plans of subsidiaries, etc., to the Management Committee for its approval, and reports on the status of management at subsidiaries to the Board of Directors, Management Committee and Investment & Financing Committee. Moreover, Group Business Liaison Meetings have been held 10 times in the current fiscal year.

IV. System for audit by Audit & Supervisory Board Members

In addition to attending notable meetings such as those of the Board of Directors, the Management Committee, the Advisory Committee, the Risk & Compliance Committee, and the Investment & Financing Committee, Audit & Supervisory Board Members convened meetings for mutual exchange of opinions with the Representative Directors of the Company (held twice in the current fiscal year) and the Group Audit & Supervisory Board (held twice in the current fiscal

year), and conducted interviews with officers and employees of the Group.

Furthermore, the Audit & Supervisory Board Members received results of the audit relating to the fiscal years as stipulated by laws and regulations from Accounting Auditor on regular basis and exchanged opinions and information regarding Internal Control System operation.

(Note) Figures stated in this Business Report are rounded down to the nearest unit.

Consolidated balance sheet

(unit: million yen)

Account title	32 nd FY (As of March 31, 2019)	31 st FY (Reference) (As of March 31, 2018)	Account title	32 nd FY (As of March 31, 2019)	31 st FY (Reference) (As of March 31, 2018)
Assets			Liabilities		
Current assets	113,410	95,164	Current liabilities	49,846	41,544
Cash and deposits	23,305	21,953	Accounts payable-trade	18,791	17,551
Notes and accounts receivable-trade	43,464	41,755	Lease obligations	4,051	2,767
Investments in leases	8,723	4,139	Accounts payable-other	1,919	1,463
Short-term investment securities	1,999	1,999	Income taxes payable	3,839	1,556
Merchandise	3,385	1,904	Advances received	15,015	12,477
Goods in transit	416	229	Asset retirement obligations	19	–
Costs on uncompleted construction contracts	10,461	10,992	Provision for bonuses	3,969	2,907
Supplies	23	10	Provision for directors' bonuses	134	99
Prepaid expenses	13,109	8,642	Other	2,106	2,721
Advances paid	7,775	3,036	Non-current liabilities	8,793	4,919
Other	744	503	Lease obligations	8,391	4,539
Allowance for doubtful accounts	(1)	(1)	Asset retirement obligations	396	380
			Other	5	–
Non-current assets	12,087	11,662	Total liabilities	58,640	46,464
Property, plant and equipment	5,240	5,125	Net assets		
Buildings	1,097	1,221	Shareholders' equity	66,631	60,369
Tools, furniture and fixtures	4,143	3,904	Capital stock	12,279	12,279
Intangible assets	1,434	1,801	Capital surplus	19,475	19,462
Goodwill	–	20	Retained earnings	35,921	29,716
Other	1,434	1,780	Treasury stock	(1,044)	(1,088)
Investments and other assets	5,412	4,735	Accumulated other comprehensive income	62	(167)
Investment securities	730	427	Valuation difference on available-for-sale securities	1	0
Long-term loans receivable	6	6	Deferred gains or losses on hedges	61	(168)
Deferred tax assets	2,690	2,352	Share acquisition rights	163	160
Other	1,985	1,949			
			Total net assets	66,858	60,363
Total assets	125,498	106,827	Total liabilities and net assets	125,498	106,827

Consolidated statement of income

(unit: million yen)

Account title	32 nd FY (April 1, 2018 to March 31, 2019)	31 st FY (Reference) (April 1, 2017 to March 31, 2018)
Revenue	181,935	161,107
Cost of revenue	137,540	123,278
Gross profit	44,395	37,829
Selling, general and administrative expenses	31,383	29,587
Operating income	13,012	8,241
Non-operating income	334	236
Interest income	1	0
Fiduciary obligation fee from associates	117	60
Sales incentive	91	49
Dividends income of group insurance	69	59
Gain on donation of non-current assets	8	0
Other	46	66
Non-operating expenses	88	59
Interest expenses	50	53
Foreign exchange losses	26	-
Other	11	6
Ordinary income	13,258	8,418
Extraordinary losses	187	36
Loss on retirement of noncurrent assets	24	32
Loss on sales of investment securities	7	-
Loss on valuation of investment securities	-	3
Loss on valuation of shares of subsidiaries and associates	155	-
Profit before income taxes	13,070	8,382
Income taxes-current	4,597	2,322
Income taxes-deferred	(440)	377
Profit	8,913	5,682
Profit attributable to owners of parent	8,913	5,682

Consolidated statement of changes in net assets

(April 1, 2018 to March 31, 2019)

(unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2018	12,279	19,462	29,716	(1,088)	60,369
Changes of items during the period					
Dividends from surplus			(2,708)		(2,708)
Profit attributable to owners of parent			8,913		8,913
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock		13		44	57
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	13	6,204	43	6,261
Balance as of March 31, 2019	12,279	19,475	35,921	(1,044)	66,631

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total accumulated other comprehensive income		
Balance as of April 1, 2018	0	(168)	(167)	160	60,363
Changes of items during the period					
Dividends from surplus					(2,708)
Profit attributable to owners of parent					8,913
Purchase of treasury stock					(0)
Disposal of treasury stock					57
Net changes of items other than shareholders' equity	0	229	230	3	233
Total changes of items during the period	0	229	230	3	6,495
Balance as of March 31, 2019	1	61	62	163	66,858

Non-Consolidated balance sheet

(unit: million yen)

Account title	32 nd FY (As of March 31, 2019)	31 st FY (Reference) (As of March 31, 2018)	Account title	32 nd FY (As of March 31, 2019)	31 st FY (Reference) (As of March 31, 2018)
Assets			Liabilities		
Current assets	101,723	86,300	Current liabilities	44,767	38,019
Cash and deposits	21,686	18,943	Accounts payable-trade	16,889	17,165
Notes receivable-trade	176	246	Lease obligations	4,051	2,767
Accounts receivable-trade	36,988	35,421	Accounts payable-other	1,880	1,702
Electronically recorded monetary claims - operating	299	167	Accrued expenses	1,025	878
Lease investment assets	8,723	4,139	Income taxes payable	3,428	1,020
Short-term investment securities	1,999	1,999	Accrued consumption taxes	587	971
Merchandise	996	305	Advances received	12,709	10,271
Goods in transit	226	177	Deposits received	282	263
Costs on uncompleted construction contracts	9,139	9,144	Asset retirement obligations	19	-
Supplies	19	7	Provision for bonuses	3,686	2,614
Prepaid expenses	12,643	8,150	Provision for directors' bonuses	121	84
Short-term loans receivable	1	3,503	Other	85	280
Advances paid	7,786	3,046	Non-current liabilities	8,793	4,919
Other	1,035	1,047	Lease obligations	8,391	4,539
Allowance for doubtful accounts	(1)	(1)	Asset retirement obligations	396	380
			Other	5	-
Non-current assets	12,803	12,647	Total liabilities	53,561	42,939
Property, plant and equipment	5,190	5,049	Net assets		
Buildings	1,096	1,192	Shareholders' equity	60,772	55,932
Tools, furniture and fixtures	4,093	3,856	Capital stock	12,279	12,279
			Capital surplus	19,475	19,462
Intangible assets	1,435	1,772	Legal capital surplus	19,453	19,453
Software	1,424	1,762	Other capital surplus	22	8
Other	11	10	Retained earnings	30,062	25,278
			Legal retained earnings	86	86
Investments and other assets	6,177	5,825	Other retained earnings	29,975	25,191
Investment securities	133	29	General reserve	21,030	19,410
Stocks of subsidiaries and affiliates	1,497	1,738	Retained earnings brought forward	8,945	5,781
Investments in capital	1	1	Treasury stock	(1,044)	(1,088)
Investments in capital of subsidiaries and affiliates	30	10	Valuation and translation adjustments	28	(84)
Long-term loans receivable	6	6	Valuation difference on available- for-sale securities	1	0
Long-term prepaid expenses	5	5	Deferred gains or losses on hedges	27	(85)
Deferred tax assets	2,557	2,139	Share acquisition rights	163	160
Lease and guarantee deposits	1,818	1,765	Total net assets	60,965	56,008
Other	126	127			
Total assets	114,526	98,947	Total liabilities and net assets	114,526	98,947

Non-Consolidated statement of income

(unit: million yen)

Account title	32 nd FY (April 1, 2018 to March 31, 2019)	31 st FY (Reference) (April 1, 2017 to March 31, 2018)
Revenue	153,160	130,753
Cost of revenue	114,457	98,451
Gross profit	38,702	32,301
Selling, general and administrative expenses	28,921	27,079
Operating income	9,781	5,222
Non-operating income	1,445	1,516
Interest income	8	13
Fiduciary obligation fee from associates	1,244	1,338
Other	192	163
Non-operating expenses	57	56
Interest expenses	50	53
Other	6	3
Ordinary income	11,169	6,682
Extraordinary income	18	–
Gain on extinguishment of tie-in shares	18	–
Extraordinary losses	187	34
Loss on retirement of non-current assets	24	31
Loss on sales of investment securities	7	–
Loss on valuation of investment securities	–	3
Loss on valuation of shares of subsidiaries and associates	155	–
Profit before income taxes	10,999	6,647
Income taxes-current	3,948	1,748
Income taxes-deferred	(441)	399
Profit	7,492	4,499

Non-consolidated statement of changes in net assets

(April 1, 2018 to March 31, 2019)

(unit: million yen)

	Shareholders' equity									Valuation and translation adjustments (Note 2)	Share acquisition rights	Total net assets
	Capital stock	Capital surplus			Retained earnings			Treasury stock	Total shareholders' equity			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings (Note 1)	Total retained earnings					
Balance as of April 1, 2018	12,279	19,453	8	19,462	86	25,191	25,278	(1,088)	55,932	(84)	160	56,008
Changes of items during the period												
Dividends from surplus						(2,708)	(2,708)		(2,708)			(2,708)
Profit						7,492	7,492		7,492			7,492
Purchase of treasury stock								(0)	(0)			(0)
Disposal of treasury stock			13	13				44	57			57
Net changes of items other than shareholders' equity										113	3	116
Total changes of items during the period	-	-	13	13	-	4,783	4,783	43	4,840	113	3	4,957
Balance as of March 31, 2019	12,279	19,453	22	19,475	86	29,975	30,062	(1,044)	60,772	28	163	60,965

(Note) 1. Details of Other retained earnings

(unit: million yen)

	General reserve	Retained earnings brought forward	Total
Balance as of April 1, 2018	19,410	5,781	25,191
Changes of items during the period			
Provision of general reserve	1,620	(1,620)	-
Dividends from surplus		(2,708)	(2,708)
Profit		7,492	7,492
Purchase of treasury stock			
Disposal of treasury stock			
Total changes of items during the period	1,620	3,163	4,783
Balance as of March 31, 2019	21,030	8,945	29,975

(Note) 2. Details of Valuation and translation adjustments

(unit: million yen)

	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total
Balance as of April 1, 2018	0	(85)	(84)
Changes of items during the period			
Net changes of items other than shareholders' equity	0	112	113
Total changes of items during the period	0	112	113
Balance as of March 31, 2019	1	27	28

Independent auditor's reports

(not attached)

Audit report from Audit & Supervisory Board

Audit Report

We the Audit & Supervisory Board received reports on 32nd period, April 1, 2018 to March 31, 2019 from each Audit & Supervisory Board Member with regard to the procedure and results of audit over the execution of duties by Executive Directors. We examined them, prepared this Audit Report and report to you as follows.

1. Auditing procedure employed by Audit & Supervisory Board Members and the Audit & Supervisory Board, and contents of the audit
 - (1) The Audit & Supervisory Board established auditing policy and division of responsibilities. In addition to receiving status and results of the audit from each Audit & Supervisory Board Member, the Audit & Supervisory Board received reports from Executive Directors, etc. and Accounting Auditors regarding execution of their duties and requested for explanations as necessary.
 - (2) In addition to complying with the standard established by the Audit & Supervisory Board, following the auditing policy and division of responsibilities, communicating with Executive Directors, internal audit division and other employees, and collecting information and developing the structure for auditing, each Audit & Supervisory Board Member performed the audit in the following methods.
 - a. The Audit & Supervisory Board attended Board of Directors meetings and other notable meetings, received reports from Executive Directors and employees on execution of their duties, received further explanations from Executive Directors and employees as necessary, reviewed important documents regarding significant decisions, and researched the status of business and finance at the head office and other significant offices. With regard to subsidiaries, the Audit & Supervisory Board communicated with Directors and Audit & Supervisory Board Members of subsidiaries and exchanged information and received business reports from subsidiaries as necessary.
 - b. With regard to the Board of Directors' resolutions regarding the development of systems necessary to ensure that the execution of the duties by the Executive Directors complies with the laws and regulations and the Articles of Incorporation, which is described in the Business Report, and other systems prescribed by Article 100, Paragraphs 1 and 3 of Ordinance for Enforcement of the Companies Act as systems necessary to ensure the properness of operations of the corporate group consisting of the Company and its subsidiaries and status of systems (internal control system) established by such resolutions, as well as the status of the establishment and operations of those systems, the Audit & Supervisory Board received reports from Executive Directors and other employees of the Company, requested their explanations, and expressed its opinions.
 - c. The Audit & Supervisory Board monitored and examined that Accounting Auditors are maintaining their independency and are performing proper audit, and received reports on status of execution of duties and requested for explanations as necessary. Based upon notice from the Accounting Auditors that "system for ensuring proper execution of duties" (the matters listed in each item of Article 131 of Corporate Accounting Rules) are maintained in accordance with "Quality Control Standard for Audit" (Business Accounting Council dated October 28, 2005), the Audit & Supervisory Board requested for explanations as necessary.

Based on the above methods, the business reports and supporting schedules, non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to non-consolidated financial statements) and supporting schedules as well as consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and notes to consolidated financial statements) for the current business year were examined.

2. Results of the audit

(1) Results of audit related to business reports

- a. We confirm that business reports and supporting schedules are in accordance with laws and regulations, and the Articles of Incorporation and correctly indicate the corporate status.
- b. We could not confirm unlawful acts or significant events indicating breach of laws and regulations or the Articles of Incorporation related to execution of duties by Executive Directors.
- c. We confirm that contents of resolution by the Board of Directors relating to internal control system are suitable. In addition, there are no matters to report regarding the business reports and Executive Directors' execution of duties related to the internal control system.

(2) Results of audit related to non-consolidated financial statements and supporting schedules

We confirm that Deloitte Touche Tohmatsu LLC's auditing procedures and results are correct.

(3) Results of audit related to consolidated financial statements

We confirm that Deloitte Touche Tohmatsu LLC's auditing procedures and results are correct.

3. Subsequent Events

As described in Significant Subsequent Events to consolidated financial statements and non-consolidated financial statements, the Board of Directors resolved at a meeting held on March 22, 2019 to purchase additional shares of Net One Asia Pte. Ltd. (former company name Asiasoft Solutions Pte. Ltd.) and to make it a subsidiary. The Company concluded a share transfer agreement on April 17, 2019 and acquired the shares on the same day.

May 15, 2019

Audit & Supervisory Board

Net One Systems Co., Ltd.

Audit & Supervisory Board Member (Full-time) Toru Matsuda

Audit & Supervisory Board Member Masamichi Kikuchi

Audit & Supervisory Board Member Keiichi Horii

Audit & Supervisory Board Member Hideki Suda

(Note) Pursuant to Article 2, Item 16 and Article 335, Paragraph 3 of the Companies Act, Masamichi Kikuchi, Keiichi Horii and Hideki Suda are Outside Audit & Supervisory Board Members.

Achieving “innovation for the next generation” and creating new added value

The Group has been working toward continuous growth and strengthening its management base, as a group of professionals aiming for artisanal skills in “Charge, Channel and Change.” In the new medium-term business plan, we will lead a digital transformation (DX)* with a distinctive Japanese style, centering on “Work-Style Innovation 2.0/DX” in which we are taking the initiative in implementing innovation.

* To use ICT technology to create new revenue models and achieve significant improvements in business efficiency.

Toru Arai

President & COO

Net One Systems Co., Ltd.

Summary of personal history of Toru Arai

Joined the Company in 1990. Active as a network technology specialist since the early days of the Internet. Since 2006, as an Executive Director of the Company, he has been in charge of corporate planning operations in addition to technology operations, and has made efforts to strengthen the management base of the entire Group and optimize management, among other initiatives. “Mastering TCP/IP,” which he co-authored and published in 1994, is still being read as an introduction to networks.

Please reflect on FY2018, in which you were appointed President & COO in June of last year and the final year of the previous medium-term business plan.

Our proposal for a cloud system incorporating information security measures was the core of major profit growth and performed well. This is a point common to the entire previous medium-term business plan period (FY2016-2018). Over the past decade, the Company has shifted from a business centered on equipment sales to a company that can support entire ICT infrastructures that are safe and convenient by leveraging network technology. The importance of business expansion using cloud computing and robust cyber-attack countermeasures is increasing, and this has been adopted by many customers.

In addition, as unique initiatives, we have promoted the provision of value-added proposals to our customers based on what our employees have experienced within the Company in terms of cloud computing, security, work-style innovation, and other areas. Recently, there has been a great increase in the number of cases in which customers consult us about issues, and I feel that expectations for us have changed.

Please give us an outline of the new medium-term business plan from fiscal year 2019 that aims to “innovation for the next generation.”

The most important thing is to continue to create new value in the significantly changing ICT market, and to transform into a company that is accepted by customers. If the Company continues to be a traditional business centered on equipment sales, it will not be able to respond to the growth of cloud service providers mainly in the United States, or to the softwarization of ICT manufacturers, and will not be able to create value for customers.

Conversely, if we are able to incorporate these changes in the market with a positive manner and add our own value, we will be able to transform ourselves into a company that can create unique value in the world.

Medium-term growth strategies and basic strategies

In light of this, as a medium-term growth strategies, we have set three growth steps: “growth of our customers and partners,” “growth of the Company,” and “growth of employees.”

First, we must provide value that can support the growth of our customers and partners. And we must

grow into a company that continues to create value. This can be achieved through the growth of individual employees so that they can generate innovation autonomously. We aim to make this cycle run smoothly.

In order to realize this medium-term growth strategies (three growths steps), we will work on three basic strategies: “(1) expansion of focus markets and new models”; “(2) acceleration of integrated service business”; and “(3) practice of Work-Style Innovation 2.0/DX.”

Basic strategy (1): Expanding focus markets and new models

We selected the healthcare market, education market, and smart factory market as new markets to focus on. The point common to these markets is that ICT development is expected moving forward.

In the healthcare market, in many hospitals, multiple systems, such as electronic medical record systems and accounting systems, have separate ICT infrastructures. Integrating these will lead to a significant increase in efficiency.

In the educational market, it is necessary to reform the way teachers work and to take security measures to protect the sensitive information of children and students. In this field, we can make use of the knowledge that we have been supporting local governments and private companies.

In the smart factory market, in the previous medium-term business plan, we worked with major manufacturing customers under the name of the IIoT (IoT for manufacturing factories). Key contents are the development of a network infrastructure for the collection of production data in the factory and an infrastructure for the accumulation, organization, and analysis of data. The customer base is expanding, and I feel that we can expand our business.

In addition, we have established “support for MSP (managed service providers)” and “development of refurbishment (refurbished products)” as business models to focus on.

“MSP” is a service provider that acts as an agent for the operation and management of primarily ICT equipment. We have a large number of small and medium-sized customers that are difficult to respond to, so if we can provide solutions to support MSP, we will be able to indirectly and efficiently approach new customer segments.

Next is “development of refurbishment (refurbished products).” Although the importance of hardware is reduced by the softwarization in recent changes in the ICT market, it nonetheless remains a necessity. Therefore, in April of this year, we launched our newly established subsidiary, Net One Next Co., Ltd., to provide refurbished products and offer maintenance services that do not rely on manufacturers. We will develop this business into a business that contributes to the reduction of environmental impact by providing necessary functions at optimum cost by providing refurbished products as an option, in addition to new products.

Basic Strategy (2): Driving “Integrated service business”

Since the previous fiscal year, the Group has defined all activities for customers as “integrated service businesses,” and has created added value by supporting the entire ICT life cycle of planning, implementation, operation, and optimization. In this way, we are working to increase the service ratio and improve profitability.

In order to further accelerate this business, we will introduce the perspective of customer success (customer’s business successes). We believe that the current needs of our customers are to use ICT for business transformation, and that these two factors can contribute significantly to the creation of new added value.

We will also develop solutions that can connect and use multiple cloud services safely, and provide an integrated ICT infrastructure necessary for customers’ business transformation. In order to respond to “utilization from possession,” we will continue to expand capital services and others as a payment model according to the period of use without possession of ICT products as an asset.

Basic Strategy (3): Implementation of DX

“Work-Style Innovation 2.0/DX” is a company-wide effort to improve productivity. The reason we set this at the forefront of our basic strategies is that we believe that, for customers, productivity improvement affects our customers’ business as a whole and, as a result, leads to an improvement in sales and profits of the Company.

I would like to explain the reason for adding “2.0” to work-style innovation. Since 2010, we have been reforming the way we work. Specifically, we have prepared an ICT tool that enables employees to safely operate business systems from outside the Company, and to communicate with each other through video conferences and chat systems. We have also introduced personnel systems, such as a telework system and a flex system, in order to realize flexible working styles. This has enabled employees to work in the same environment as the Company, at home, at customers, and on business trips. We call this “Work-Style Innovation 1.0.”

Under the “Work-Style Innovation 2.0/DX,” we will work to further improve productivity. This system eliminates inefficient business processes, converts all operations into data and visualizes them, and promotes them with a minimum number of man-hours.

What we want to realize is a system in which a series of operations and data flow automatically through the system, from quotation and order-taking in the sales division, product ordering, product shipment from warehouses in the purchasing division, and billing, sales, and payment in the accounting division. We believe that the realization of this system will greatly improve the speed, accuracy and quality of our operations.

Furthermore, the concept of “netone on netone (returning the experience of the net one to the business of the net one)” was newly introduced. If we can convey to our customers our experience of success and failure in the “Work-Style Innovation 2.0/DX,” it will be new and unique added value. This is because customers can avoid unnecessary mistakes and can significantly reduce the review period and implementation period.

Lastly, please send a message to our shareholders.

As the ICT market is in a period of great change, we believe that we can establish a unique position as an unprecedented company and contribute to innovation in society. I believe that our efforts can create a Japanese-style digital transformation (DX).

We would like to ask our shareholders for their continued support and encouragement as the Group strives to create new added value for the next generation.

About the Net One Group Annual Report

We have published an Annual Report as a means to explain our approach to business activities and management from a more medium- and long-term perspective, and post it on our website. We encourage you to read it. (Contents are updated from time to time.)

[URL] <https://report.netone.co.jp/en/index.html>