



Results for Q4 FY21

Ended March 31, 2022

Net One Systems Co., Ltd.

April 28, 2022 (Stock Code 7518: JP)

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Overview of FY21

We have launched efforts to balance "governance and corporate culture reform" with "sustained growth."

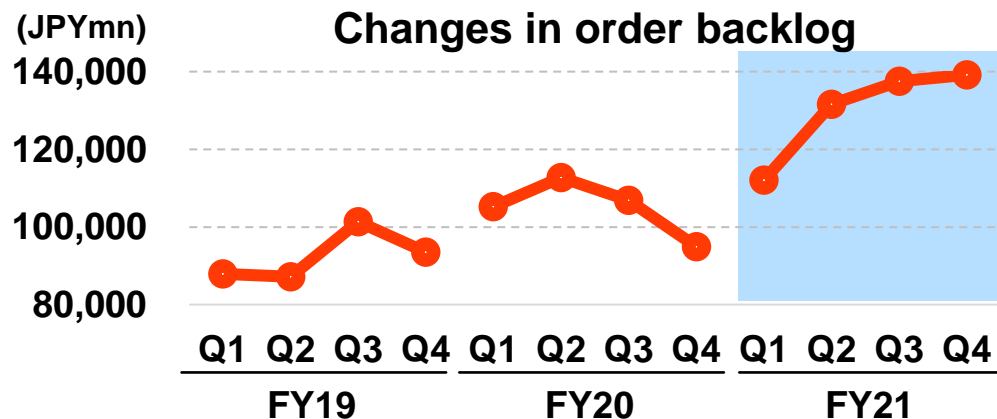
- **Measures to prevent recurrence**

Implementing measures for governance and corporate culture reform as planned

- **Financial results**

Business remained strong. Bookings and order backlog reached a record high.

On the other hand, revenue and profits fell short of the plan due to the prolonged delivery time for products caused by the shortage of semiconductors.



Outlook for FY22

The first year of the new mid-term management plan
Operating income to JPY22bn (+31.0% y/y)

- **Strengthen governance and promote measures to prevent recurrence**

Reform and strengthen toward a monitoring-type Board of Directors

Continue to promote measures to prevent recurrence

- **Financial outlook**

Promote growth strategies and reinforcement of the business base based on the new medium-term management plan.

To achieve JPY22bn in operating income and an operating margin of 10.5% through revenue growth in all segments and improvements in the gross margin and SG&A ratios.

Financial impact

Revenue delayed to FY22: JPY12.0bn

Breakdown of JPY12.0bn for each segment

Enterprise	Telecom Carrier	Public	Partner
JPY2.0bn	JPY1.2bn	JPY7.0bn	JPY1.8bn

Projected timing of revenue of JPY12.0bn

FY22			
Q1	Q2	Q3	Q4
JPY7.0bn	JPY3.0bn	JPY2.0bn	-

Counter-measure

Product delivery time is assumed to be at the current level for the time being.

We are taking measures to mitigate their impact.

- Utilization of inventory: maintain JPY7bn/month
- Proposal based on delivery dates (avoid products with long delivery times)
- Advance ordering of products with high order probability
- Standardize proposal to consolidate products handled
- Accelerate service proposals not tied to products

Transition into a company with an audit and supervisory committee*

The Board of Directors will consist of nine directors, including a majority of six outside directors, and will be chaired by an outside director.

(Planned, June 22, 2022)

Name	Position
Takafumi Takeshita	President & CEO
Takuya Tanaka	Executive director
Mitsuru Kiuchi	Executive director
Maya Ito	Outside executive director (Chair of the Board of Directors)
Hideki Suda	Outside executive director (Chair of the Nomination Advisory Committee)
Masayoshi Wada	Outside executive director (Chair of the Compensation Advisory Committee)
Kazuhiro Noguchi	Outside executive director (full-time member of the Audit & Supervisory Committee)
Sachiko Iizuka	Outside executive director (member of the Audit & Supervisory Committee)
Shigeki Kusaka	Outside executive director (member of the Audit & Supervisory Committee)

*Net One Systems plans to transition into a company with an audit and supervisory committee after obtaining approval for necessary changes to its Articles of Incorporation during the Annual Shareholders Meeting scheduled for June 2022.

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FY21 Results

Results summary for FY21

(JPYmn, % to revenue)	FY20 Results (A)		FY21 Results (B)		YoY (B-A)		FY21 Initial outlook (C)		Compare to initial outlook (B-C)	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Bookings	203,520		231,844		+28,324	+13.9%	217,000		+14,844	+6.8%
Revenue	202,122	100.0%	188,520	100.0%	(13,601)	-6.7%	209,000	100.0%	(20,479)	-9.8%
Cost of revenue	146,209	72.3%	136,734	72.5%	(9,475)	-6.5%	151,200	72.3%	(14,465)	-9.6%
Gross profit	55,913	27.7%	51,786	27.5%	(4,126)	-7.4%	57,800	27.7%	(6,013)	-10.4%
SG&A	36,239	17.9%	34,995	18.6%	(1,243)	-3.4%	35,800	17.1%	(804)	-2.2%
Operating Income	19,673	9.7%	16,790	8.9%	(2,882)	-14.7%	22,000	10.5%	(5,209)	-23.7%
Ordinary Income	18,208	9.0%	16,832	8.9%	(1,375)	-7.6%	22,000	10.5%	(5,167)	-23.5%
Net Income attributable to owners of the parent company	12,321	6.1%	11,225	6.0%	(1,096)	-8.9%	15,000	7.2%	(3,774)	-25.2%
Backlog	94,915		139,160		+44,245	+46.6%	-		-	

Bookings were strong, mainly in the telecom carrier, public, and partner sectors, and reached a record high. Order backlog also reached a record high. On the other hand, revenue and profits fell short of the plan due to delays in the revenue timing of several projects due to the prolonged delivery times for products caused by semiconductor shortages.

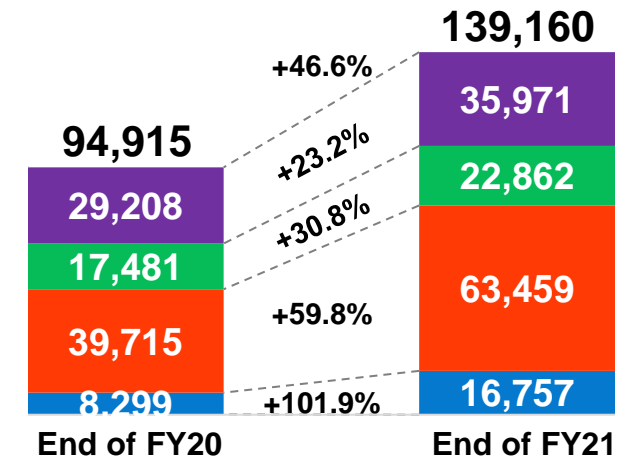
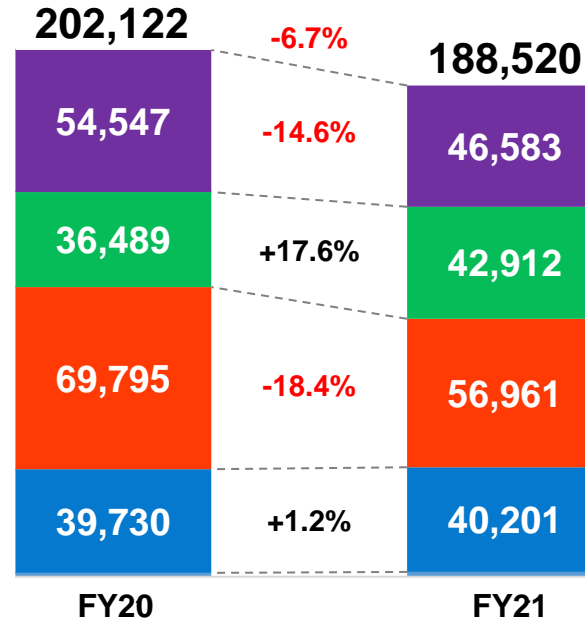
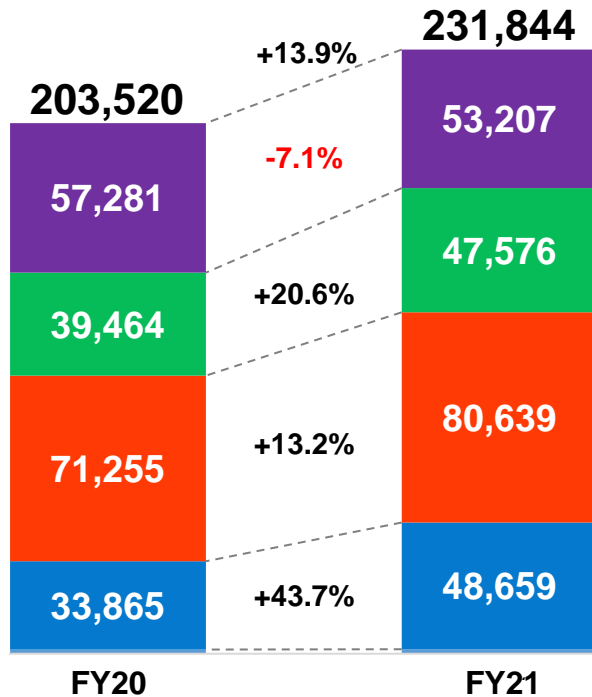
Performance by market sector

Bookings

Revenue

Backlog

(JPYmn)



Enterprise

In the manufacturing industry, bookings and revenue decreased due to restrained investment against the impact of semiconductor shortages. In the financial industry, Q2 was a trough in the investment period, and the negative impact could not be recovered for the full year. In 4Q, bookings recovered in both the manufacturing and financial industry. The timing of revenue was delayed due to the prolonged delivery of products.

Telecom Carrier

Due to semiconductor shortages, telecom carriers continued to place orders ahead in anticipation of longer delivery times for network products. Support for MSP and corporate business continued to be strong. On the other hand, revenue timing was delayed due to the prolonged delivery of products.

Public

Bookings for the security cloud and security enhancement projects for local governments were strong, which offset the loss of orders for the GIGA school projects in FY20. On the other hand, the timing of revenue was delayed due to the prolonged delivery of products.

Partner

The business of key partners, which had been affected by the COVID-19, showed an overall recovery trend. We received an order for a JPY3bn 5G project in Q1. MSP business remained strong. On the other hand, the timing of revenue was delayed due to the prolonged delivery of products.

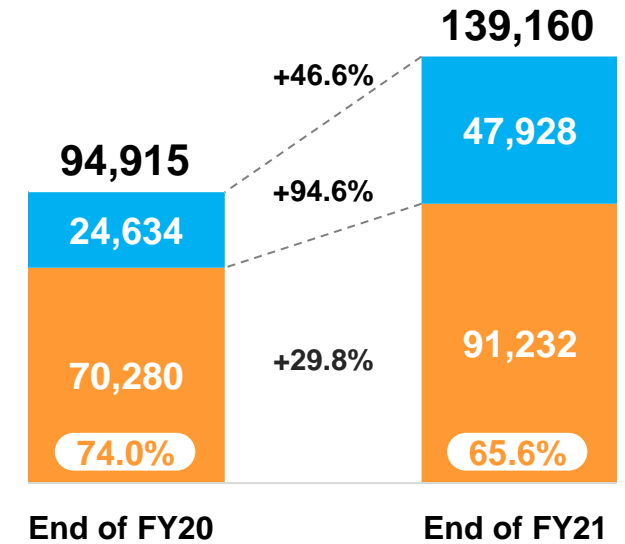
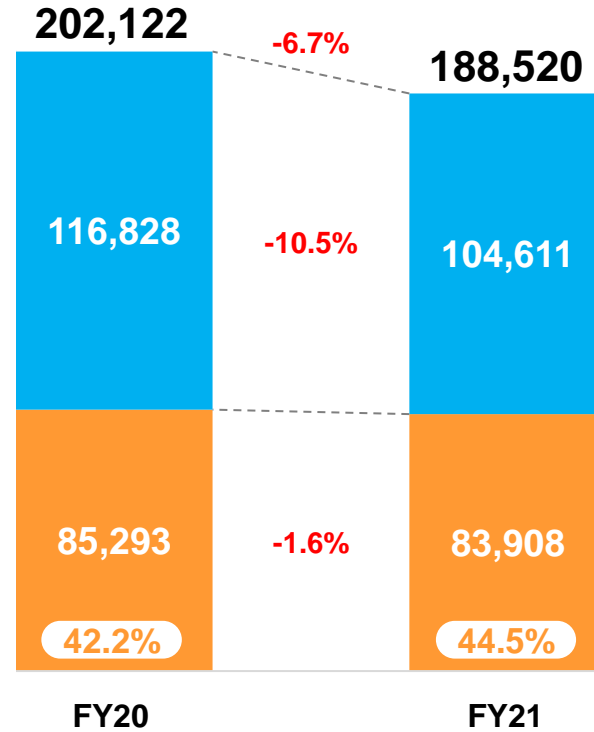
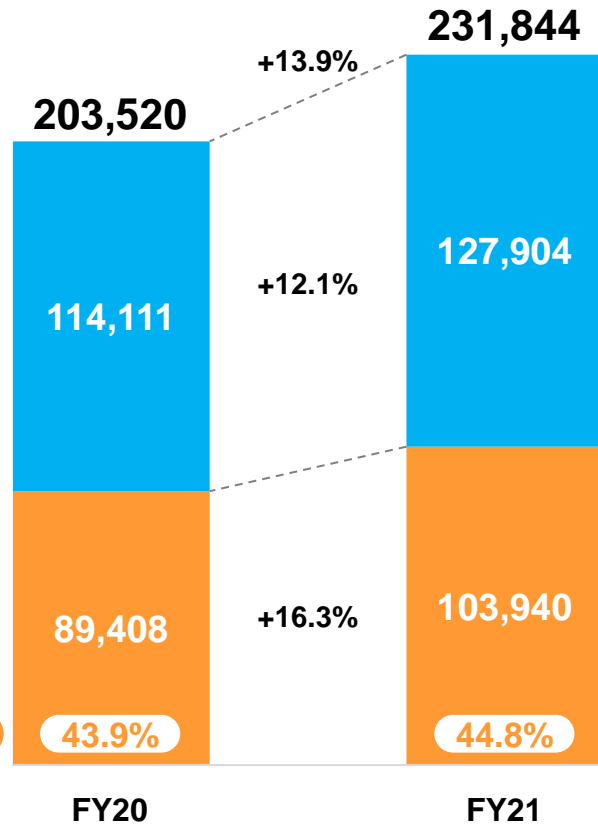
Performance by product category

(JPYmn)

Bookings

Revenue

Backlog



Product

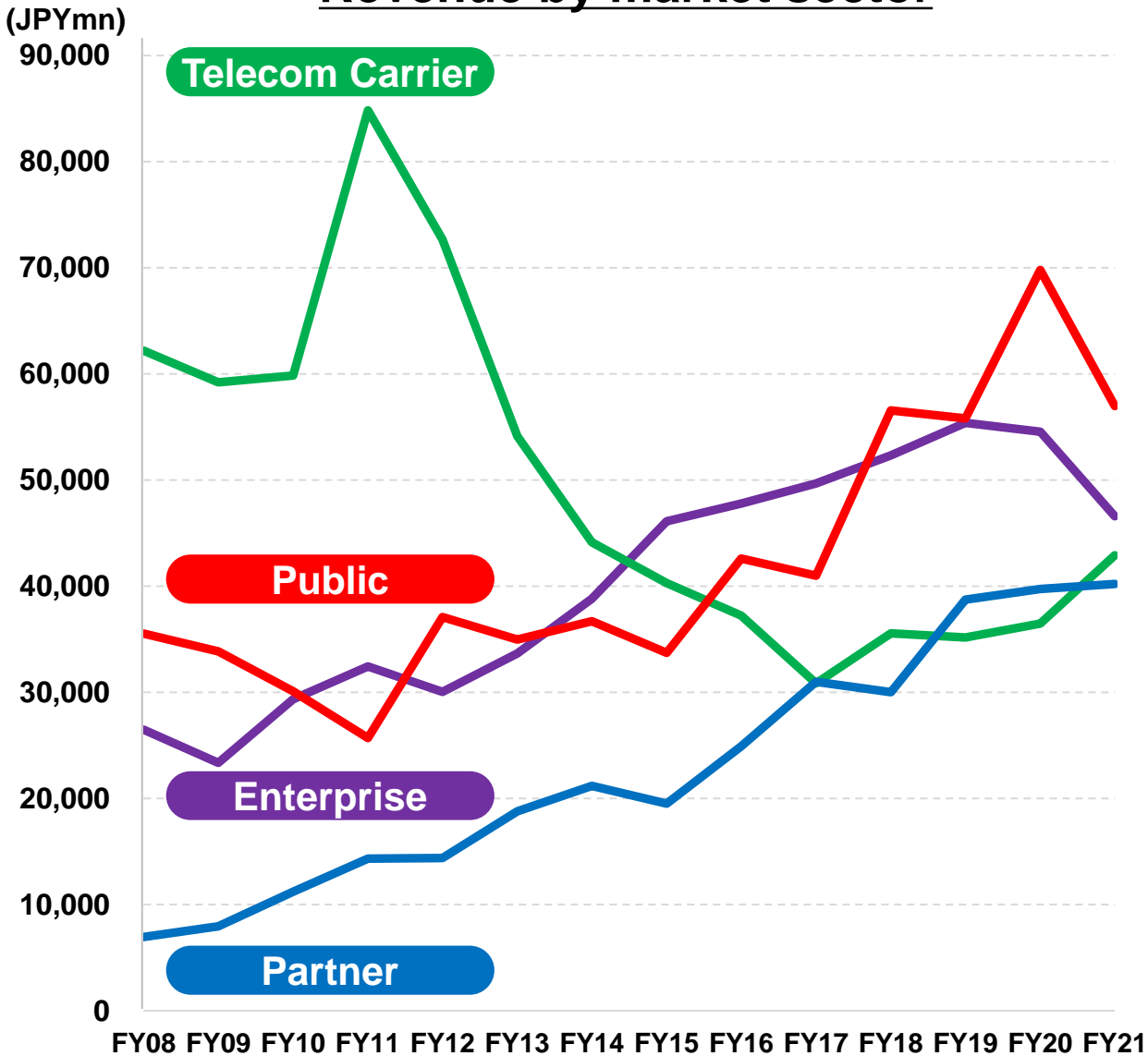
Bookings increased due to the advanced ordering of network products in the telecom carrier sector and the 5G project in the partner sector. Revenue decreased due to the delay in the timing of revenue caused by the prolonged delivery of products in each sector. As a result, the backlog increased significantly.

Service

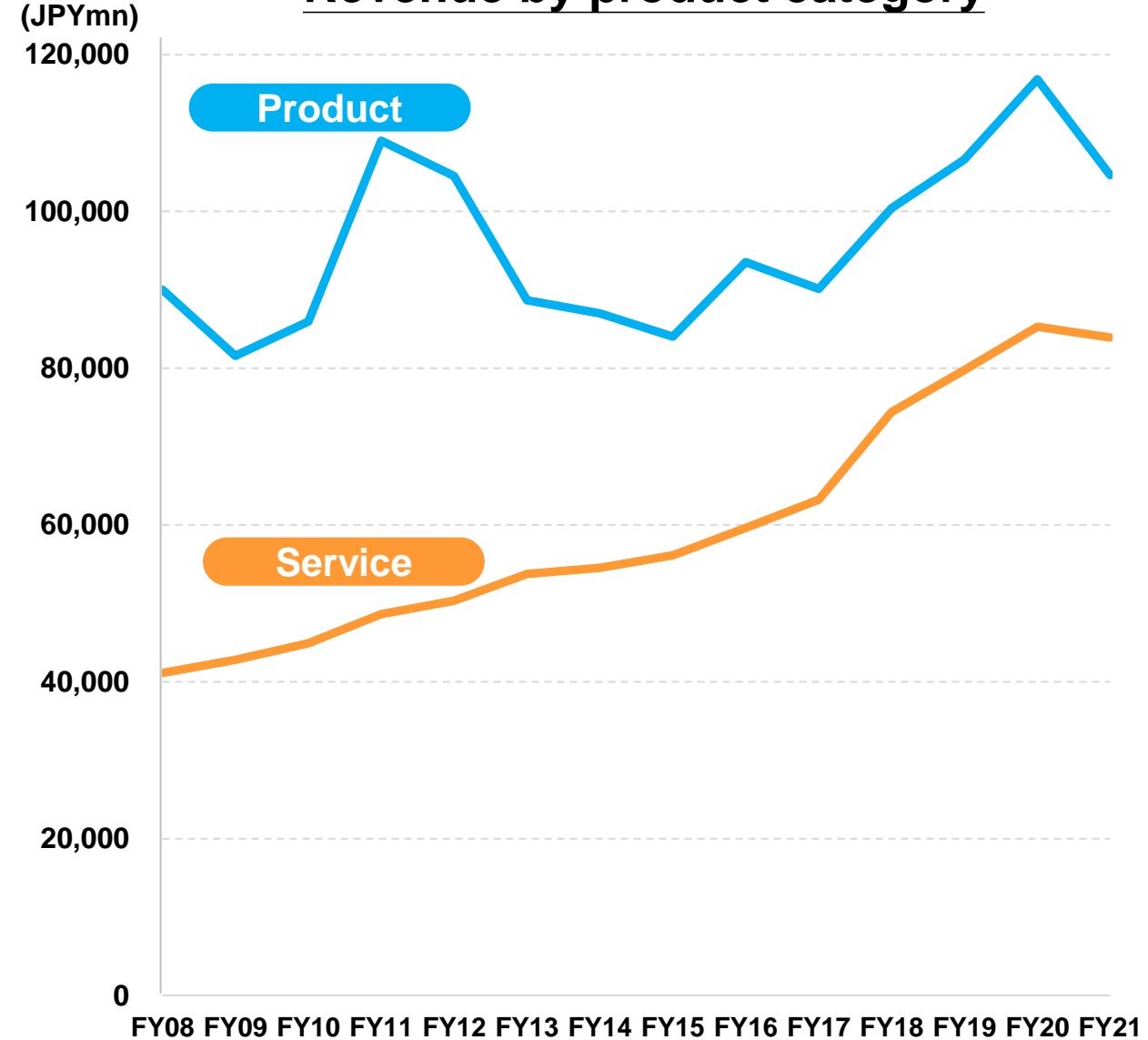
Bookings and backlog increased steadily due to progress in the “Integrated Services Business”. On the other hand, revenue decreased slightly due to a delay in the timing of revenue of system construction services, which are recorded simultaneously with products.

Revenue trend by market sector and product category

Revenue by market sector



Revenue by product category



Booking of focus markets and new models, and booking of security cloud and security enhancement projects for local governments



Healthcare

FY20	FY21
JPY3.8bn	JPY5.2bn

FY21 results: customers gradually restarted projects
 FY22 outlook: continue to recover with strong medical DX needs



School system

FY20	FY21
JPY23.9bn	JPY8.6bn

FY21 results: decreased in GIGA school projects
 FY22 outlook: continue to promote educational DX projects



Smart factory

FY20	FY21
JPY7.1bn	JPY8.7bn

FY21 results: at planned level
 FY22 outlook: continue to increase with expansion the scope of business to the entire supply chain



MSP

FY20	FY21
JPY8.6bn	JPY23.8bn

FY21 results: strong in security solution
 FY22 outlook: continue strong performance with strong demand for DX and security



Refurbishment

FY20	FY21
JPY2.0bn	JPY2.7bn

FY21 results: steady growth
 FY22 outlook: continue expansion, especially cost-conscious customers

Security cloud and security enhancement projects for local governments

FY21
JPY20.2bn

FY21 results: acquired an additional project of JPY4bn in Q4
 FY22 outlook: continue strong performance, but with a decrease in large projects in FY21 Q4

Revenue and P/L by reportable segment

	(JPYmn)	Reportable segment					Other	Total	Adjustment	Amount recorded in consolidated income statements
		Enterprise	Telecom Carrier	Public	Partner	Sub-total				
FY21 【Result】	Revenue	46,583	42,912	56,961	40,211	186,669	1,958	188,627	(107)	188,520
	Segment income	3,800	4,480	5,485	3,706	17,473	(111)	17,362	(571)	16,790
	Segment income margin	8.2%	10.4%	9.6%	9.2%					8.9%
FY20 【Previous】	Revenue	54,557	36,493	69,803	39,746	200,601	1,610	202,212	(89)	202,122
	Segment income	5,089	3,688	8,260	3,507	20,546	(102)	20,444	(770)	19,673
	Segment income margin	9.3%	10.1%	11.8%	8.8%					9.7%

(Notes)

1. The “Other” segment is not included as a reportable segment. It contains the global business.
2. The adjustment in segment income included corporate expenses not attributable to any reportable segment.
Corporate expenses are mainly related to general administrative expenses not attributable to reportable segment.

Consolidated balance sheets

(JPYmn)	Mar 31, 2021	Mar 31, 2022	Change	
	Results	Results	Amount	%
Total assets	155,782	161,713	5,930	+ 3.8%
Current assets	142,482	149,334	6,852	+ 4.8%
Cash and deposits + CD·CP	32,429	20,281	(12,148)	- 37.5%
Notes and accounts receivable-trade	63,027	51,362	(11,664)	- 18.5%
Inventory assets	17,592	43,928	26,336	+ 149.7%
Other	29,432	33,762	4,329	+ 14.7%
Noncurrent assets	13,300	12,378	(921)	- 6.9%
Property, plant and equipment	4,504	4,728	224	+ 5.0%
Intangible assets	1,467	1,070	(397)	- 27.1%
Investment etc.	7,328	6,579	(748)	- 10.2%
Total liabilities	81,987	93,165	11,178	+ 13.6%
Current liabilities	66,637	77,918	11,280	+ 16.9%
Non-current liabilities	15,350	15,247	(102)	- 0.7%
Total net assets	73,795	68,547	(5,247)	- 7.1%
Shareholders' equity	73,075	67,406	(5,668)	- 7.8%
Accumulated other comprehensive income	438	956	518	+ 118.3%
Subscription rights to shares	222	168	(53)	- 24.0%
Non-controlling interests	60	15	(44)	- 75.0%
Total liabilities and net assets	155,782	161,019	5,237	+ 3.4%

Exchange rate, EPS, Employees

	FY20	FY21	YoY	
			Amount	%
Exchange rate (\$JPY)	106.04	110.66	+4.62	+4.4%
Earnings per share (JPY)	145.42	134.15	(11.27)	-7.7%

	End of FY20	End of FY21	YoY	
			Amount	%
Number of employees	2,560	2,703	+143	+5.6%

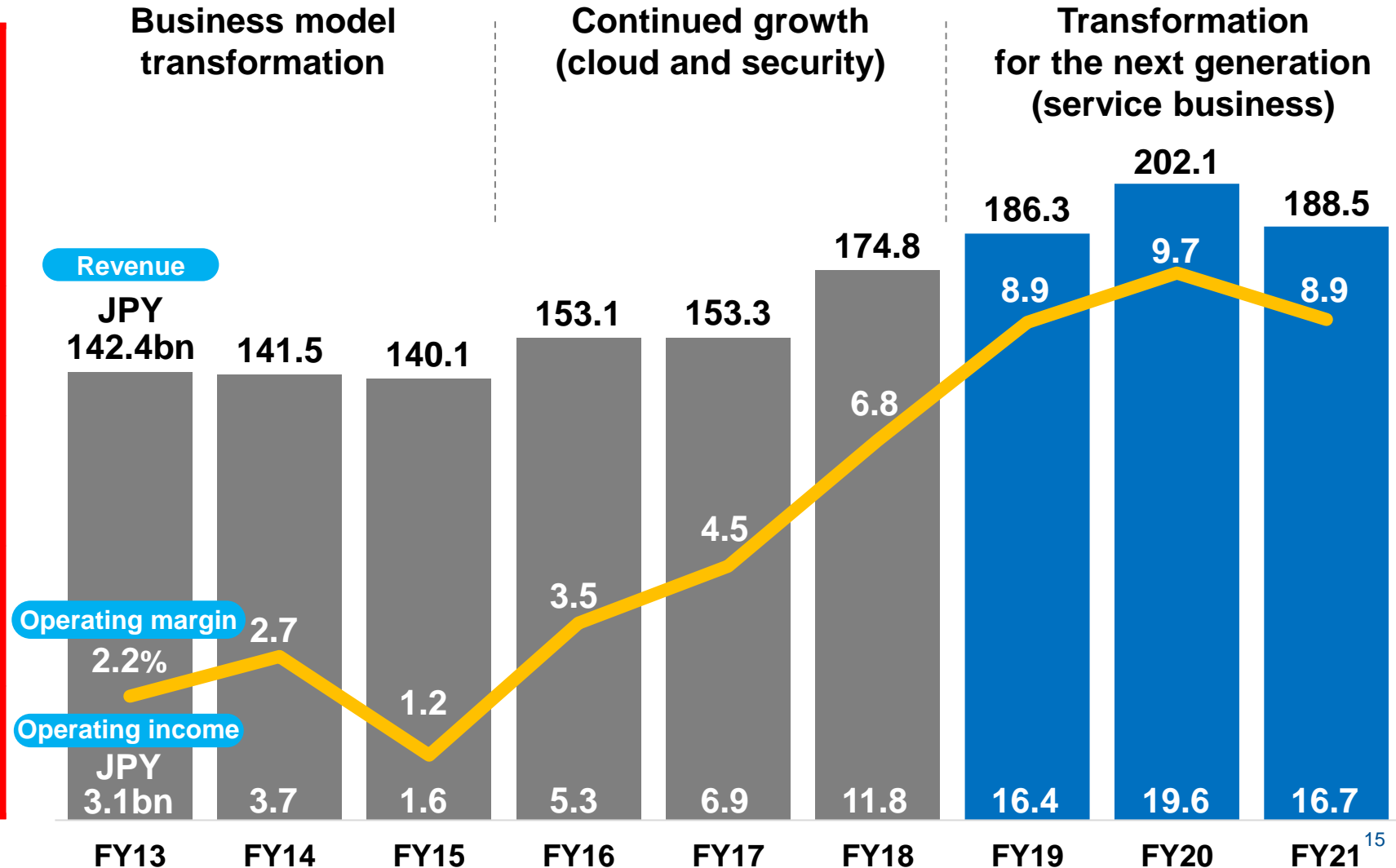
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Review of medium-term business plan (FY19-21)

Medium-term business plan targets

The business performed well in line with our growth strategy.
On the other hand, each indicator fell short of the plan due to the impact of prolonged delivery of products.

	FY18 Results	FY21 Initial plan	FY21 Results
Revenue	JPY 174.8bn	JPY 220.0bn	JPY 188.5bn
Operating Income	JPY 11.8bn	JPY 21.0bn	JPY 16.7bn
Operating margin	6.8%	9.5%	8.9%
Service ratio	42.6%	50.0%	44.5%
ROE	12.8%	16.8%	15.8%



Demand for network, security, and cloud expanded along with digitalization acceleration.
 Bookings growth for the focus markets and new models totaled JPY32.2bn, achieving the planned growth of JPY25.0bn.

Focus markets: demand for DX expanded. continue to be part of the focus areas in the new mid-term plan

Healthcare

Bookings in each fiscal year

FY18	FY19	FY20	FY21
JPY4.0bn	JPY6.0bn	JPY3.8bn	JPY5.2bn

Target:+JPY5bn, Result:+JPY1.2bn

COVID-19 caused a decline in hospital ICT Investment
 On the other hand, the need for medical DX continued

School system

Bookings in each fiscal year

FY18	FY19	FY20	FY21
JPY5.1bn	JPY7.6bn	JPY23.9bn	JPY8.6bn

Target:+JPY5bn, Result:+JPY3.5bn

With the GIGA school concept, educational DX
 made significant progress.
 On the other hand, investments were concentrated
 ahead of schedule in FY20 due to the COVID-19

Smart factory

Bookings in each fiscal year

FY18	FY19	FY20	FY21
JPY4.0bn	JPY6.7bn	JPY7.1bn	JPY8.7bn

Target:+JPY5bn, Result:+JPY4.7bn

Factory DX accelerated even amid the COVID-19 in
 FY20 and the semiconductor shortage in FY21, which
 held back ICT investment in the manufacturing sector

New models: base for business promotion and continue to generate profit in the new mid-term plan

MSP

Bookings in each fiscal year

FY18	FY19	FY20	FY21
JPY3.7bn	JPY4.7bn	JPY8.6bn	JPY23.8bn

Target:+JPY5bn, Result:+JPY20.1bn

Progress was made in the new service co-
 creation model with telecom carriers and the
 support model for all group companies

Refurbishment

Bookings in each fiscal year

FY18	FY19	FY20	FY21
JPY0bn	JPY1.6bn	JPY2.0bn	JPY2.7bn

Target:+JPY5bn, Result:+JPY2.7bn

Established as a highly profitable & green new business
 Telecom and financial companies were the first to adopt
 this solution

Integrated Service Business: accelerated support for the entire lifecycle, including optimization proposals
Implementation of DX: workstyle reform made significant progress. In DX, priority was given to addressing recurrence prevention measures

Grand design proposal initiatives progressed
 In the new mid-term plan, "DX strategy consulting" will be added and further strengthen



Integrated Service Business

Service bookings

	FY18	FY19	FY20	FY21
Amount	JPY79.6bn	JPY88.8bn	JPY89.4bn	JPY103.9bn
Ratio	44.0%	43.4%	43.9%	44.8%

Service revenue

	FY18	FY19	FY20	FY21
Amount	JPY74.4bn	JPY79.7bn	JPY85.2bn	JPY83.9bn
Ratio	42.6%	42.8%	42.2%	44.5%

Although service grew significantly, product also increased at the same time, and the ratio did not reach the target of 50%

Workstyle reform made significant progress
 In the new mid-term plan, we will improve operational efficiency through "thorough visualization"



Implementation of DX

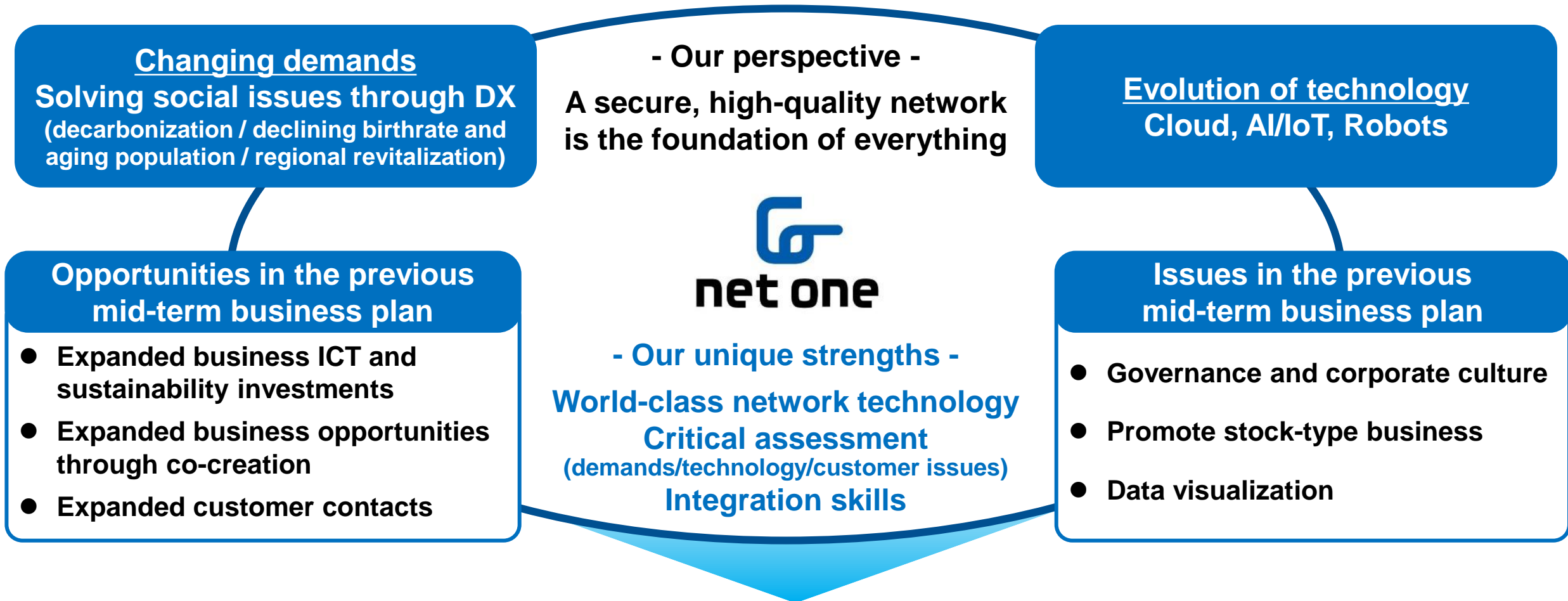
80% of employees work from home

Accelerated the co-creation of office workers and teleworkers for the new normal

Workflow for various applications, approvals, etc. were digitalized by handled products to improve efficiency
 We will deploy this knowledge in DX proposals

Workstyle reform made significant progress, including addressing the COVID-19.
 On the other hand, in DX, priority was given to reestablishing policies and addressing recurrence prevention measures.

In the market, the importance of networks is further increasing.
Based on the opportunities and issues of the previous mid-term business plan, a new mid-term management plan that can leverage the unique strengths of Net One Systems



3

Overview of the new medium-term management plan (FY22-24)

- Purpose -

Unleash the potential of people and networks, and create a prosperous future by carrying on / inheriting tradition and making Innovation happen

Sustainability management / Four materialities

Realization of a safe and secure advanced information society

- ✓ Provide solutions and services by issue and domain
- ✓ Expand and promote the service business

Thriving professional personnel

- ✓ Train IT personnel for the next generation
- ✓ Promotion of diversity and inclusion

Contribution to a decarbonized society

- ✓ Reduce greenhouse gas emissions through our business
- ✓ Reduce emissions in the business processes of our Company

Maintaining and enhancing the governance structure for sustainable growth

- ✓ Foster the corporate culture and enhance internal controls
- ✓ Realization of Health and Productivity Management®

Digitalization (DX) has become central to solving social issues, making network and security more critical. We will be a company that helps solve social issues (sustainability) with world-class network technology. Furthermore, we will accelerate the shift to functional services that don't depend on hardware to achieve stable growth.

Reinforcement of the business base

Promote governance and corporate culture reform
Company-wide structure to accelerate service shift

Governance and corporate culture reform

To a business base for mid- to long-term growth

- ✓ Continue to promote measures to prevent recurrence
- ✓ Reform and strengthen toward a monitoring-type Board of Directors
- ✓ Personnel evaluation and compensation system for service shift

Organization & Human resources

Provide high value-added services through deep customer facing

- ✓ Develop consulting and DX/CX* human resources
- ✓ Transfer sales administrative tasks to increase customer facing time
- ✓ Consolidation of engineering dept. to provide high quality services

Strategic investment
/Shareholder returns
Thorough visualization

Growth strategy

Solving social issues as a new business opportunity
Accelerating service shift

Business strategy: increase JPY30.0bn revenue in focus areas

Focus on high DX demand areas (decarbonization / declining birthrate and aging population / regional revitalization)

1. Smart manufacturing: +JPY10.0bn
2. Social infrastructure to realize Society 5.0: +JPY10.0bn
3. Digital government: +JPY10.0bn

Service strategy: expand focused services and increase service ratio to 55%

Create cutting-edge examples and improving efficiency through standardization & automation

1. DX strategy consulting services: creating cutting-edge examples
2. Managed services: lateral expansion of cutting-edge examples
3. In-house cloud services: full package offer of cutting-edge examples

*CX(Customer Success): initiatives to maximize the benefits of ICT

Relevance of each initiative

Business strategy

Focus on areas with high demand for social issue resolution & DX
(for decarbonization / declining birthrate and aging population / regional revitalization)

Revenue +JPY10.0bn

Smart manufacturing

Revenue +JPY10.0bn

Society 5.0

Revenue +JPY10.0bn

Digital government

World-class network technology

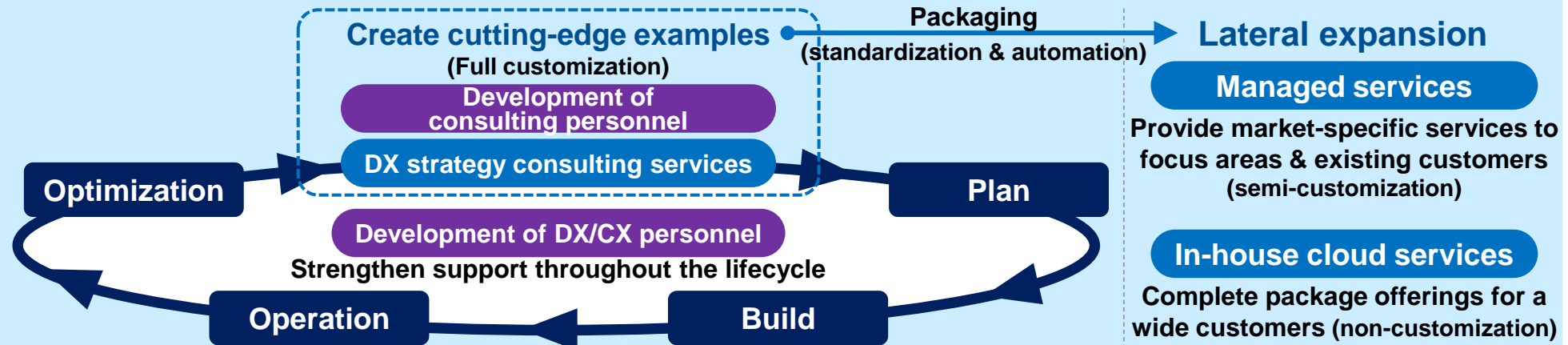
Network, security, cloud, and operation

Service strategy

Strengthen the Integrated Services Business & create and laterally expansion cutting-edge examples

Service ratio: to 55%

- Investment**
- ✓ Thorough visualization
 - ✓ Service HR Development
 - ✓ Service delivery facilities



Organization & HR

Accelerate solving social issues & service shift

Reorganization of sales dept.

Reorganized to focus on solving issues
Transfer sales administrative tasks to increase customer facing time

Personnel evaluation and compensation system for service shift

Full renewal planned for FY23 for service shift

Consolidation of engineering dept.

Create cutting-edge examples and new services
High quality & standardization & automation

Strong corporate governance & fostering a new corporate culture

Management indicators

Continue to improve management indicators "revenue, operating margin, service ratio, and ROE" by setting DX & social issue resolution as new demand areas and accelerating service shift toward stable growth.

Step 1

Business model transformation

Sustained growth (Cloud and security)

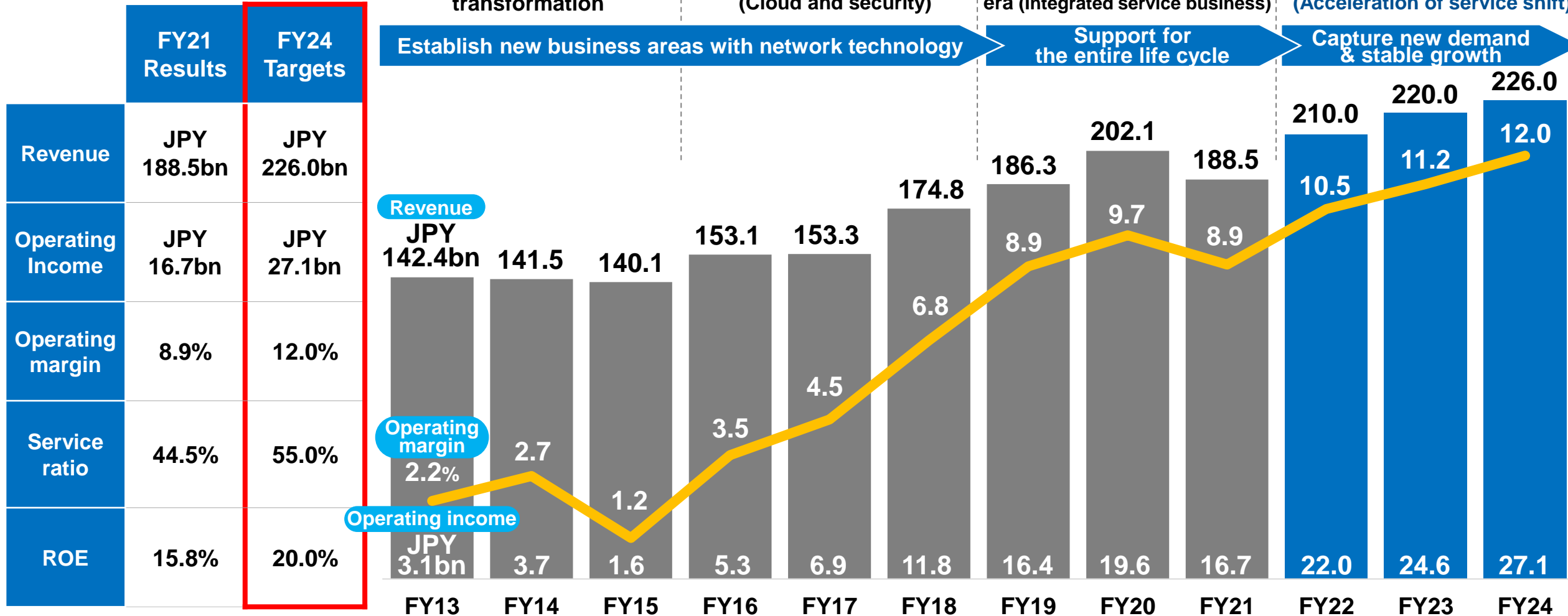
+ Transformation for the next era (Integrated service business)

+ DX & solving social issues (Acceleration of service shift)

Establish new business areas with network technology

Support for the entire life cycle

Capture new demand & stable growth



Achieve management indicators through thorough visualization, KPI trees, and financial strategies

Thorough visualization

Accelerate and refine management decisions
Prevention of recurrence and promotion of corporate culture reform

Visualization of management (profitability & budget control)

by market

by project

by product

by service

Optimal investment of management resources by breaking down and understanding the status of management indicators

Visualization of business processes
Visualization of organization and people

KPI trees

Promote company-wide efforts in the same direction toward the achievement of management indicators

Management indicators

Revenue

Operating margin

Service ratio

ROE

KPI trees for sustainable growth

Sales dept.: revenue & cash generation
Engineering dept.: creation of service
Administration dept.: creation of business base

Financial strategy

Develop and execute financial strategies for service shift

Strategic investment

JPY30.0bn level in 3 years to strengthen profitability (compared to the previous medium-term business plan: 1.5 times)

Pursuit of an optimal capital structure

Proactive shareholder returns

Proceed with consideration in conjunction with "Thorough visualization"

Expand the scope of "Smart factory" from the factory to the entire supply chain
Support customers' digitalization, security measures, and decarbonization

Factories and supply chain ICT infra become more complex due to "digitalization" and "decarbonization" initiatives. Networked control systems are becoming more critical, and ICT infra development and security measures are high priorities.

Digitalization

Networking the control system

Strengthen security

Decarbonization

Real-time monitoring of factory production status

Network connectivity and robust security measures throughout the factories and supply chain

Improve efficiency of manufacturing and prototyping, reduce production downtime

Develop the edge-cloud infrastructure required for high-volume and advanced data analysis

Improve work style and production efficiency

Remote manufacturing monitoring and work support, and skill transfer from skilled workers
Robot introduction and operation support

Visualization of CO₂ emissions & electricity consumption

Establish monitoring and control systems for each process and facility

From status monitoring to future forecasting and reduction

Enable the use of renewable energy

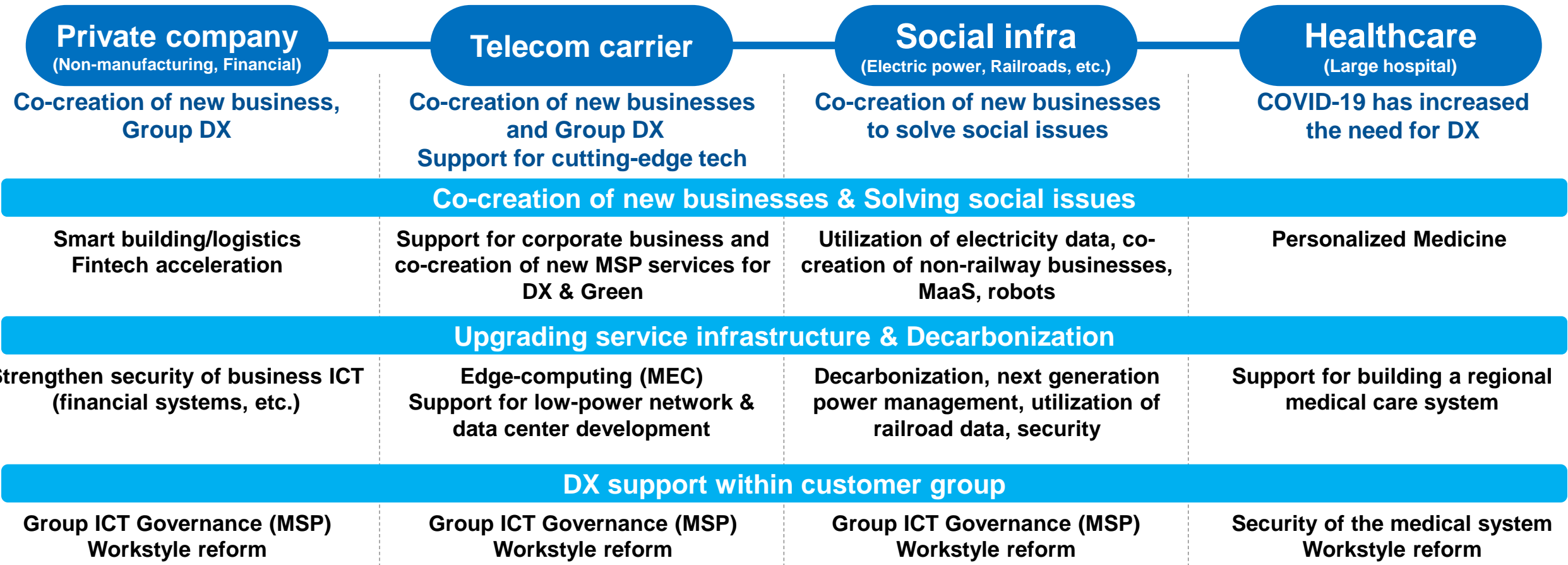
System connection between production and power systems
More robust security measures for power control systems

Focus area 2: Social infrastructure to realize Society 5.0

Society5.0: A human-centered society that balances economic advancement with the resolution of social problems by a system that highly integrates cyberspace and physical space

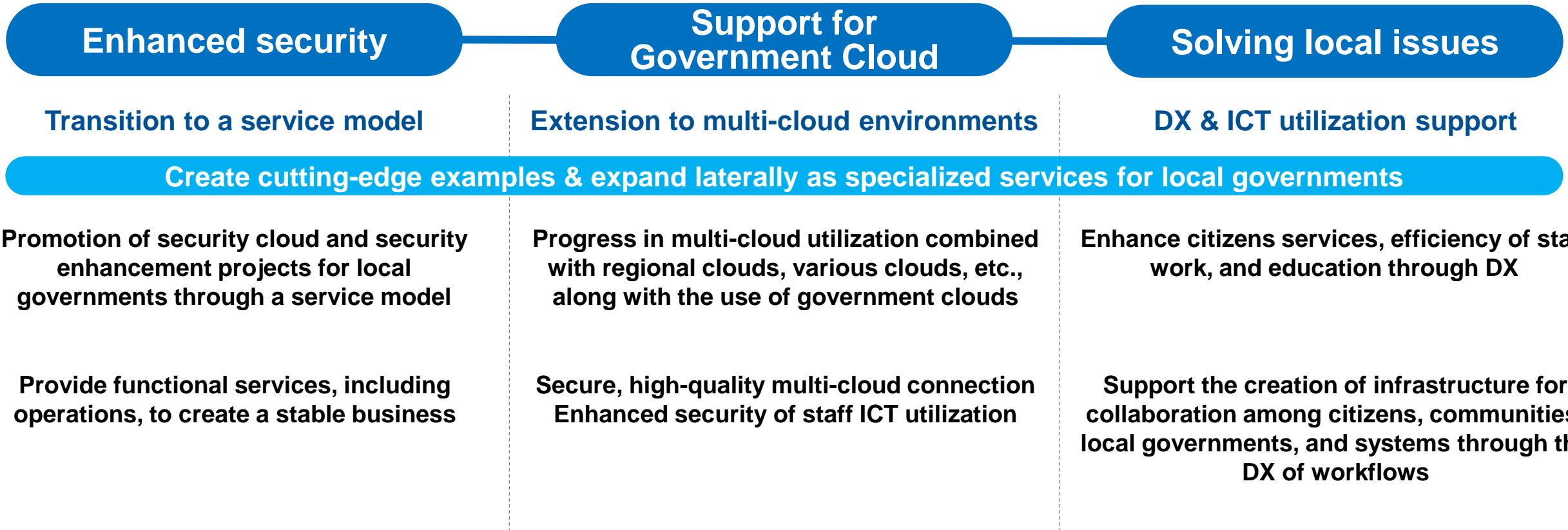
Quoted from Cabinet Office materials

Create new value (for decarbonization / declining birthrate and aging population / regional revitalization) by supporting the connection of people and goods through networks and sharing various knowledge and information



**Local government ICT infrastructure is undergoing a major transition with DX
Create cutting-edge examples quickly and expand laterally as specialized services for local governments**

**Improve operational efficiency, improve service quality to citizens, and reduce costs through DX
Migration to a new network architecture based on multi-cloud utilization**



Positioning of focus areas and market segments

Overlap each focus area and segment, and capture markets from multiple angles by combining direct sales with collaboration models

- Focus areas -

Smart manufacturing

Society 5.0

Digital government

Direct Sales
&
Collaboration

Direct Sales
&
Collaboration

Direct Sales
&
Collaboration

Manufacturing
industry

Financial industry

Non-manufacturing
industry

Hospital

Electric Power
& Railroad

Local government

Enterprise sector

Telecom
Carrier

Public sector

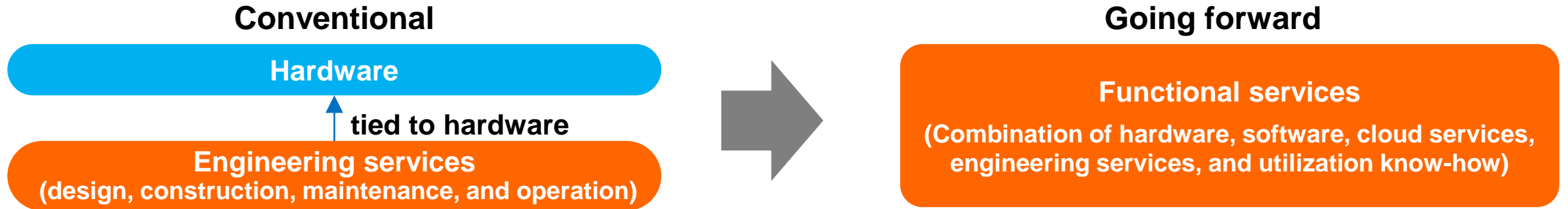
Telecom Carrier sector and Partner sector



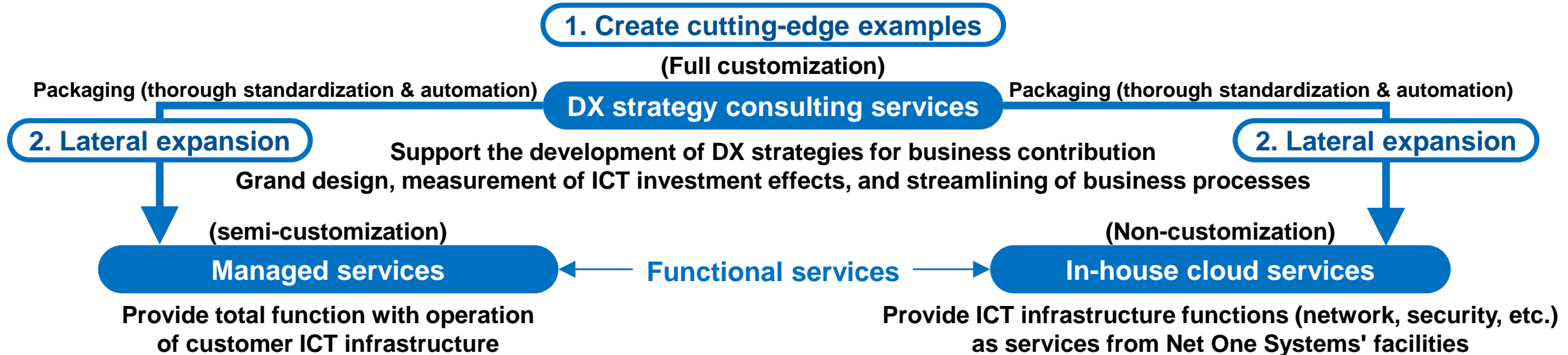
net one

Changes in the service business

Create and expand new service businesses that provide functions not tied to hardware in order to achieve stable growth and improve profitability



Initiative to create functional services



- Purpose -

Unleash the potential of people and networks, and create a prosperous future by carrying on / inheriting tradition and making Innovation happen

Contribution areas

Smart manufacturing

Society 5.0

Digital government

Our value: supporting to solve social issues

Professional personnel



Governance

World-class network technology

Service

Cloud

Security

Operation

Social issues

Decarbonization

Declining birthrate and aging population

Regional revitalization

4

FY22 Outlook

FY22 outlook

(JPYmn, % to revenue)	H1		H2		Annual		YoY	
	Amount	%	Amount	%	Amount	%	Amount	%
Bookings	106,000		109,000		215,000		(16,844)	-7.3%
Revenue	96,000	100.0%	114,000	100.0%	210,000	100.0%	+21,479	+11.4%
Cost of sales	69,500	72.4%	81,500	71.5%	151,000	71.9%	+14,265	+10.4%
Gross profit	26,500	27.6%	32,500	28.5%	59,000	28.1%	+7,213	+13.9%
SG&A	18,300	19.1%	18,700	16.4%	37,000	17.6%	+2,004	+5.7%
Operating income	8,200	8.5%	13,800	12.1%	22,000	10.5%	+5,209	+31.0%
Ordinary income	7,700	8.0%	13,300	11.7%	21,000	10.0%	+4,167	+24.8%
Net income attributable to owners of the parent	5,200	5.4%	8,800	7.7%	14,000	6.7%	+2,774	+24.7%
Dividends per share	JPY37.00		JPY37.00		JPY74.00		+2.00	+2.8%

Promote growth strategies and reinforcement of the business base based on the new medium-term management plan. Achieve JPY22.0bn in operating income and an operating margin of 10.5% through revenue growth and improvements in the gross margin and SG&A ratio.

(Note) This outlook is based on currently information and estimates based on reasonable assumptions.

FY22 outlook by market sector

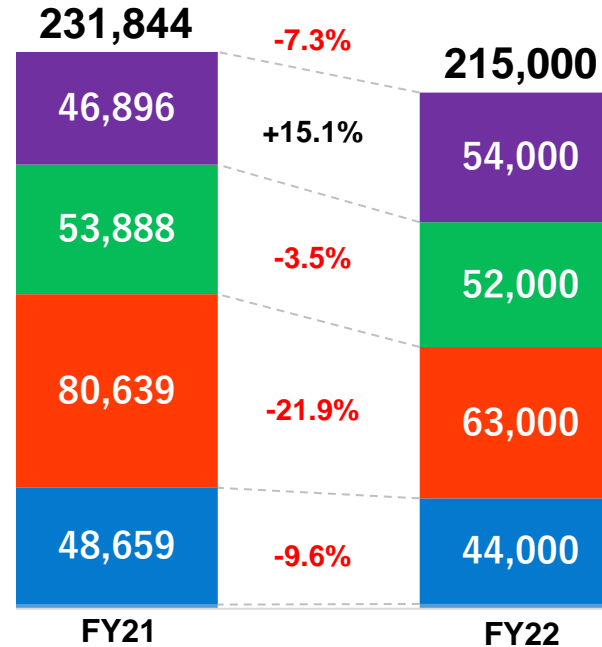
Partial change of market segmentation

Due to the change in business to service co-creation, the Internet Service Provider (ISP) business will be reclassified from the Enterprise sector to the Telecom Carrier sector from FY22.

The results for FY21 shown at the right figure reflect this reclassification.

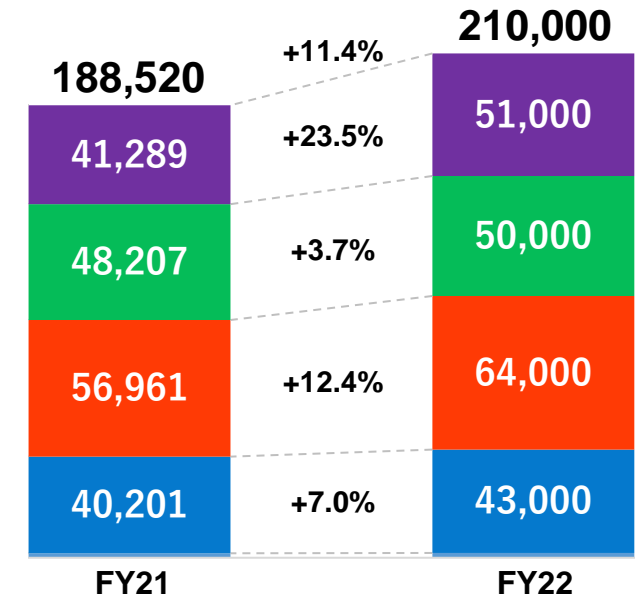
ISP business for FY21 (JPYmn)		
Bookings	Revenue	Backlog
6,311	5,294	4,690

Bookings



Revenue

(JPYmn)



Enterprise

The manufacturing industry is expected to recover with smart manufacturing. Non-manufacturing industry is expected to expand by focusing on areas where digitalization is expanding. The financial industry is expected to remain flat due to investment in digitalization and cost reduction.

Telecom Carrier

Focus on supporting digitalization and security business for private companies and public institutions through corporate and MSP business. On the other hand, bookings are expected to decrease due to the partial advance of network enhancement projects in FY21.

Public

Focus on acquiring security cloud and security enhancement projects for local governments. On the other hand, bookings are expected to decrease due to the two large projects (total JPY8bn) awarded in FY21 Q4 advance bookings and focusing on highly profitable projects.

Partner

Continue to strengthen collaborative business with key partners. On the other hand, bookings are expected to decrease due to the 5G projects (JPY3bn) in FY21 and a portion of the MSP business being brought forward.

FY22 outlook by product category

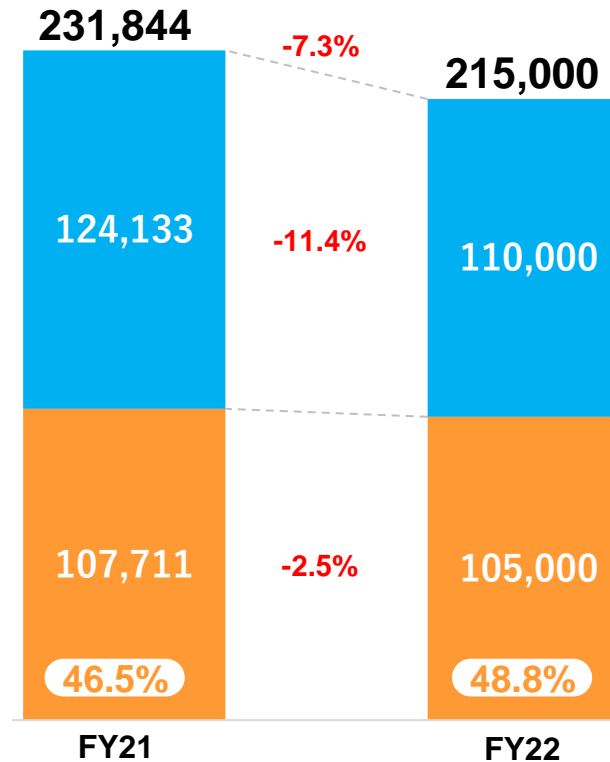
Partial change of product category

In order to expand functional services, SaaS (cloud services) will be reclassified from product to service from FY22.

The results for FY21 shown at the right figure reflect this reclassification.

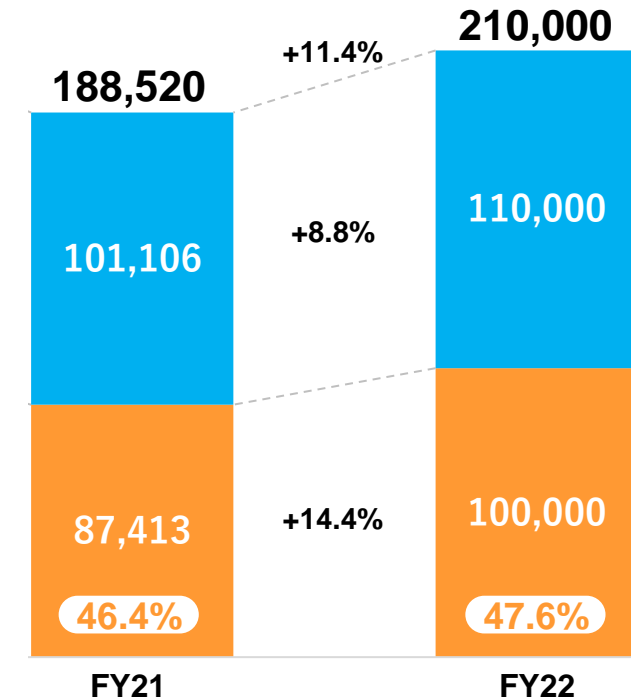
SaaS business for FY21 (JPYmn)		
Bookings	Revenue	Backlog
3,771	3,505	598

Bookings



Revenue

(JPYmn)



Product

Bookings are expected to decrease due to a portion of the Telecom Carrier sector and the Partner sector business being brought forward in FY21, as well as avoiding product-centric projects and focusing on more profitable service-centric projects. Revenue is expected to increase as the company digests its large order backlog.

Service

Bookings are expected to decrease due to the bookings in advance of FY21. However, the impact is expected to be minimal due to the expansion of focused services and focus on service-centered projects. Revenue is expected to increase due to the growth of focused services and an increase in system construction services, which are booked simultaneously with product revenue. The service ratio is expected to increase in both bookings and revenue.

5

Progress of measures to prevent recurrence

We steadily implemented recurrence prevention measures as planned and built a foundation for fostering a corporate culture that will prevent fraud from ever occurring again. We will firmly restore trust by continuing to strengthen the effectiveness of our preventive measures, promote corporate culture reform, and monitor progress while incorporating the opinions of our employees in FY22 and beyond.

Objectives

Prevent fraud from recurring and restore stakeholder trust

Accomplishments in FY21

Reviewed management vision and Code of Conduct

- Management and employees worked together to develop a new corporate philosophy system (the Company's purpose, mission, goals, values, and action guidelines) as the basis for corporate culture reform

Developed and strengthened internal control systems

- The Internal Control Enhancement Council, headed by the President and CEO and including outside experts, promoted company-wide and continuous measures to prevent recurrence
- Established a 1.5th line of defense (Business Control Division) to check and support the first line of defense from a standpoint closer to on-the-ground staff
- Strengthened the structure and functions of the third line of defense (Internal Audit Office)

Promoted various improvement initiatives that incorporate opinions from on-the-ground staff

- Promoted each initiative while gathering employee opinions and providing feedback

Disclosed information regarding recurrence prevention measures to stakeholders

- Submitted an improvement status report to the Tokyo Stock Exchange
- Disclosed monthly progress status and detailed semi-annual operational status on our website

Action plans for further progress in FY22 and beyond

Strengthen corporate governance by reviewing organizational structure

- Strengthen supervision of business execution and establish a prompt and flexible business execution system by transitioning to a company with an audit and supervisory committee (planned)

Spread new management vision and Code of Conduct

- Promote activities to disseminate the new corporate philosophy system by bringing together all members of management and employees

Establish a mechanism to ensure our corporate values stay

- Establish a forum for management and employees to reflect on the past, including instances of fraud, and to realize the future development of the Company

Further strengthen operation of internal control system

- Continue efforts to further enhance the effectiveness of improvement initiatives
- Regularly monitor the implementation of recurrence prevention measures (in addition to internal audits)

Strengthen governance of Group companies

- Promote improvement activities in accordance with the business practices of each company by fostering a common understanding of the objectives shared by all Group companies
- Establish and operate a common whistleblower contact desk for all Group companies

Further promote the reform of our corporate culture, and the implementation and instilling of measures to prevent the recurrence

In order to prevent the recurrence of past scandals, we have positioned corporate culture reforms as a key measure. We have established a specialized organization as an advisory committee to the Board of Directors for such reforms.

Governance and Corporate Culture Advisory Committee

Governance and corporate culture reforms

Enhancing governance

- Shift focus from business management to monitoring
- Strengthen the management oversight system, including further coordination of three-way audits, etc.

Corporate culture reforms

- Foster an environment in which employees feel comfortable voicing their opinions
- Instill a new code of conduct and values
- Train and actively recruit personnel
- Create a system to prevent scandals from being forgotten

Continuous implementation of measures to prevent recurrence

- Continued implementation, including the improvement of recurrence prevention measures developed under eight themes

Enhance internal control systems

- Strengthen the effectiveness of the three (Defense-) lines model
- Continuous, effective PDCA implementation

Key Activities in FY21

<p>1. Governance reform and promotion</p>	<ul style="list-style-type: none"> • After completing our transition to a new organizational structure on April 1, 2021 (1.(2)-a/f/g), we established a framework for enhancing cooperation among corporate officers and with the Internal Audit Office (1.(4)-a, 1.(5)-d/e, 1.(6)-a/b/c/d) and strengthened our system of checks and balances by establishing checklists (1.(2)-b/c/d). • Introduced various internal training and communication measures to strengthen compliance awareness (1.(1)-a/b,1(3)-a,1(4)-b) • Held dialogues between outside executive directors and shareholders (individual or small meetings) (1.(6)-e)
<p>2. Enhancement of risk management system</p>	<ul style="list-style-type: none"> • Strengthened risk management using risk survey sheets (2.(2)-b), established a system through which all risk information is gathered and made available to the Risk Management Committee (2.(2)-c), and prepared emergency response manuals (2.(5)-a), driven mainly by the Risk Management Committee and the Risk Management Office, which newly appointed a full-time general director on April 1, 2021 (2.(3)-a)
<p>3. Strengthening of business execution systems and other internal systems</p>	<ul style="list-style-type: none"> • Reassessed regulations for sales and purchasing processes (3.(1)-b), strengthened cost control measures by reexamining budget control rules (3.(3)-a/b/d), and expanded opportunities for information exchange between business divisions (3.(1)-a, 3.(2)-a) in order to strengthen our system of checks and balances • Reassessed rules regarding application for additional costs to eliminate excessive pressure (3.(3)-c)
<p>4. Radical revisions to our auditing system</p>	<ul style="list-style-type: none"> • Reviewed focal points, conducted internal audits by organization and theme, and expanded reporting system (4.(1)-b) to strengthen internal audit function • Held forums for opinion exchange to strengthen cooperation with Audit & Supervisory Board members (4.(4)-b) and accounting auditors (4.(5)-a) • Conducted a fundamental review of evaluation procedures and documents for J-SOX-related operations (4.(3)-a/b/c). Note: Final completion of J-SOX evaluation for FY21 is scheduled for June.
<p>5. System for collecting employee feedback</p>	<ul style="list-style-type: none"> • Established a system to make it easier for employees to express concerns by revising regulations concerning internal reporting (whistleblowing) to ensure the protection of whistleblower confidentiality, providing informative activities and training related to the internal reporting system (5.(1)-a), and establishing a feedback system that utilizes third-party points of contact (5.(2)-a)
<p>6. Reform and creation of organizational culture</p>	<ul style="list-style-type: none"> • Adjusted personnel evaluation system (added evaluation points concerning compliance, abolished rules regarding individual incentives) (6.(1)-a/b) and established documents and systems for proper implementation of personnel rotation (6.(3)-a) • The Reform Committee of Governance and Corporate Culture (6.(2)-a) reviewed our management vision and Code of Conduct (6.(2)-b) and promoted activities to disseminate them (6.(2)-c/d/e)
<p>7. Accounting literacy education and training and instruction based on prior examples of misconduct</p>	<ul style="list-style-type: none"> • Carried out training and discussions to improve accounting literacy and accounting-related knowledge (7.(1)-a) and education based on prior examples of misconduct and daily mistakes (7.(1)-b, 7.(2)-a, 7.(3)-a)
<p>8. Ongoing monitoring</p>	<ul style="list-style-type: none"> • Established a system under which the Internal Control Enhancement Council monitors the progress of recurrence prevention measures and discusses issues as they arise in a timely manner (8.(1)-a) • Implemented periodic investigations separate from internal audits that look into the potential existence of fraud (8.(2)-a)

Note: Please refer to our release entitled “Additional Measures to Prevent Recurrence” dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures. Almost all measures have been completed in FY21, but we will continue to work on improvement activities through ongoing monitoring. For details of improvements in FY22, please refer to our release entitled “Progress of Recurrence Prevention Measures in 2H FY21 and Changes in FY22” dated April 28, 2022 (available in Japanese only).

Activities in Q4 FY21

1. Governance reform and promotion	<ul style="list-style-type: none"> Completed review of selection criteria for executive director candidates and vice presidents and preparation of relevant documents (1.(7)-a)
2. Enhancement of risk management system	<p><i>All measures fully in place or under observation</i></p>
3. Strengthening of business execution systems and other internal systems	<p><i>All measures fully in place or under observation</i></p>
4. Radical revisions to our auditing system	<ul style="list-style-type: none"> Completed internal review of J-SOX control documents (final completion scheduled for June 2022) (4.(3)-a)
5. System for collecting employee feedback	<p><i>All measures fully in place or under observation</i></p>
6. Reform and creation of organizational culture	<ul style="list-style-type: none"> Completed adjustments to our management vision and Code of Conduct and disclosed changes through our internal electronic bulletin boards (6.(2)-b/c) Completed revisions to the electronic edition of our Vision Book that reflects changes indicated above and internally disclosed all relevant changes (6.(2)-c)
7. Accounting literacy education and training and instruction based on prior examples of misconduct	<p><i>All measures fully in place or under observation</i></p>
8. Ongoing monitoring	<p><i>All measures fully in place or under observation</i></p>

Note: Please refer to our release entitled “Additional Measures to Prevent Recurrence” dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures (in blue). Almost all measures have been completed in FY21, but we will continue to work on improvement activities through ongoing monitoring. For details of improvements in FY22, please refer to our release entitled “Progress of Recurrence Prevention Measures in 2H FY21 and Changes in FY22” dated April 28, 2022 (available in Japanese only).

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