

Interim Financial Report for FY2003 (Ending March 2004)

November 6, 2003

Corporate Name	Net One Systems Co., Ltd.	Tokyo Stock Exchange
		Prefecture of the headquarters
		Tokyo
Stock Code Number	7 5 1 8 (URL http://www.netone.co.jp)	
Company representative	Title President & CEO Name: Kazuo Sato	
Inquiries	Title Director, Manager of Product Development Name Isao Nakamura	TEL (0 3) 5 4 6 2 - 0 8 0 0
Date of board meeting for FY	November 6, 2003	Provision of interim dividend: will be provided
Commencement date of dividend for the interim period	_____	Provision for odd shares: not provided

1. Results of FY2003 interim period (April 1, 2003 to September 30, 2003)

(1) Financial Results (unit: rounded down to the nearest million yen)

	Sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
Six months ended Sept. 2003	49,521	(32.1)	3,205	(29.2)	3,268	(27.0)
Six months ended Sept. 2002	37,485	(9.1)	2,481	(8.1)	2,574	(13.3)
Year ended 2003	92,926		7,434		7,535	

	Interim (current) net income		Net income per share (current interim period)	
	Million yen	%	yen	sen
Six months ended Sept. 2003	1,930	(6.7)	7,018	46
Six months ended Sept. 2002	1,809	(46.9)	6,635	52
Year ended 2003	4,383		15,899	55

- (note) 1. Average number of shares in the term: Six months ended Sept. 2003 275,116 shares.
Six months ended Sept. 2002 272,632 shares, Year ended Mar. 2003 273,111 shares
2. Changes in principal accounting policies: None
3. Percentage: increase/decrease against previous year on sales, operating profit, ordinary profit and net income

(2) Dividend status

	Interim period dividend per share		Annual dividend per share	
	yen	sen	yen	sen
Six months ended Sept. 2003	0	0	_____	
Six months ended Sept. 2002	0	0	_____	
Year ended 2003	_____		1,000	0

(3) Financial position

	Total Assets	Shareholders' Equity	Shareholders' equity Ratio to total assets	Shareholders' Equity Per Share	
	Million yen	Million yen	%	yen	sen
Six months ended Sept. 2003	67,205	48,009	71.4	174,048	26
Six months ended Sept. 2002	56,605	43,401	76.7	158,820	08
Year ended 2003	73,884	46,067	62.4	167,988	69

(note) 1. Issued and outstanding shares at the end of the period:

Six months ended Sept. 2003 275,842 shares
Six months ended Sept. 2002 273,275 shares
FY ended Mar. 2003 273,986 shares

2. Repurchased stocks at the end of the period:

Six months ended Sept. 2003 105 shares
Six months ended Sept. 2002 105 shares
FY ended Mar. 2003 105 shares

2. Forecast for FY ending Mar. 2004 (Apr. 1, 2003 to Mar. 31, 2004)

	Sales	Ordinary Profit	Current net income	Annual dividend per share			
				End of the term			
Fiscal year	Million yen	Million yen	Million yen	yen	sen	yen	sen
	113,300	10,000	5,750	1,000	0	1,000	0

(Reference) Forecast net income per share for FY ending Mar. 2004 20,845 yen 27 sen.

The above forecast is based on currently available information and the actual business performance may vary in relation to various factors. For particulars relating to above forecast, refer to Operating Results and Financial Status (a) Operating Results (2) Forecast for the next term on page 9 of attached consolidated report.

Interim Financial Reports

(1) Comparative Balance Sheet

(unit: rounded down to the nearest million yen)

	End of previous FY interim period (as of Sept. 30, 2002)		End of current FY interim period (as of Sept. 30, 2003)		End of previous FY (as of Mar. 31, 2003)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
ASSETS		%		%		%
Current Assets	48,919	86.4	58,974	87.8	66,138	89.5
Cash and Deposits	11,483		1,568		7,654	
Note Receivable	665		507		1,214	
Account Receivable	19,473		36,218		40,757	
Inventories	14,084		16,689		13,194	
Others	3,243		4,115		3,404	
Allowance for Doubtful Receivables	31		124		87	
Fixed Assets	7,686	13.6	8,231	12.2	7,745	10.5
1. Tangible Fixed Assets	3,452	6.1	3,044	4.5	2,769	3.8
Tools, Fixtures, and Equipment	2,516		2,526		2,235	
Others	936		518		534	
2. Intangible Fixed Assets	691	1.2	1,288	1.9	1,198	1.6
3. Investment and other assets	3,542	6.3	3,898	5.8	3,777	5.1
Investment Securities	1,963		2,113		2,033	
Others	1,578		2,031		2,013	
Allowance for Doubtful Receivables	-		246		270	
Total Investment and other assets	56,605	100.0	67,205	100.0	73,884	100.0
LIABILITIES						
Current Liabilities	12,860	22.7	18,677	27.8	27,411	37.1
Account Payable	6,858		12,936		20,973	
Accrued Corporation Tax, etc.	1,753		1,415		2,481	
Advance Received	1,865		2,054		1,457	
Allowance for Bonus	470		501		340	
Others	1,913		1,771		2,157	
Fixed Liabilities	343	0.6	518	0.8	405	0.5
Allowance for Retirement Benefits	187		354		239	
Allowance for Bonus for Retiring Directors	155		163		165	
Others	0		0		0	
Total Liabilities	13,204	23.3	19,195	28.6	27,816	37.6
SHAREHOLDERS' EQUITY						
Capital Stock	12,076	21.3	12,278	18.3	12,132	16.4
Additional Paid-in Capital	19,250	34.0	19,452	28.9	19,306	26.1
Capital Reserve	19,250		19,452		19,306	
Accumulated Earnings	12,167	21.5	16,357	24.3	14,741	20.0
Earned Surplus Reserve	85		85		85	
Unappropriated Reserve	10,126		14,062		10,126	
Interim period (FY) Unappropriated Profit	1,955		2,209		4,529	
Difference from other securities revaluation	1	0.0	15	0.0	18	0.0
Repurchased Stocks	94	0.1	94	0.1	94	0.1
Total Shareholder's Equity	43,401	76.7	48,009	71.4	46,067	62.4
Total Liabilities, Shareholder's Equity	56,605	100.0	67,205	100.0	73,884	100.0

(2) Comparative Income Statement

(unit: rounded down to the nearest million yen)

	Previous FY interim period (Apr. 1, 2002 to Sept. 30, 2002)		Current FY interim period (Apr. 1, 2003 to Sept. 30, 2003)		Previous FY (Apr. 1, 2002 to Mar. 31, 2003)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Sales	37,485	100.0	49,521	100.0	92,926	100.0
Cost of Goods Sold	29,187	77.9	40,371	81.5	73,785	79.4
Gross Profit on Sales	8,298	22.1	9,149	18.5	19,140	20.6
Sales and Administrative Expense	5,817	15.5	5,944	12.0	11,706	12.6
Operating Profit	2,481	6.6	3,205	6.5	7,434	8.0
Non-operating Income	111	0.3	78	0.1	128	0.1
Non-operating Expense	18	0.0	14	0.0	27	0.0
Ordinary Profit	2,574	6.9	3,268	6.6	7,535	8.1
Extraordinary Profit	1,287	3.4	3	0.0	1,264	1.4
Extraordinary Loss	694	1.8	43	0.1	1,084	1.2
Current interim period (FY) income before tax, etc.	3,167	8.5	3,228	6.5	7,715	8.3
Corporate tax, residence tax, & business tax	1,730	4.6	1,387	2.8	3,923	4.2
Adjustment to corporate tax, etc.	371	0.9	88	0.2	590	0.6
Current interim period (FY) net profit	1,809	4.8	1,930	3.9	4,383	4.7
Retained earnings at the beginning of the period	146		278		146	
Unappropriated net profit for the interim (FY) period	1,955		2,209		4,529	

Significant accounting policy for the basis of interim period financial statements

1 . Valuation standard and valuation method for assets

(1) Securities

Securities of subsidiaries and affiliated companies

Cost accounting method using moving average method

Other Securities

Securities with market value

Market value method based on market value on closing date

(Accounting for difference in valuation is total direct casting equity method and for cost of products sold, moving average method is applied.)

Securities with no market value

Cost accounting method using moving average method

(2) Derivatives

Market value

(3) Inventory assets

Merchandises

Cost accounting method using moving average method

Uncompleted Works

Cost accounting method using individual method

2 . Accounting method for depreciation of fixed assets

(1) Tangible fixed assets

Fixed percentage method with an exception of lease assets which employs straight line method. Significant asset life is as follows.

Buildings 3 to 26 years

Machinery, tool, and equipment 3 to 15 years

Assets leased to others 6 years

(2) Intangible fixed assets

Software for internal use

Straight line method based on usability life (5 years)

Software for sale

Straight line method based on useful life(3 years)

(3) Long term prepaid expense

Average depreciation method

3 . Accounting method for accrual of allowance

(1) Allowance for doubtful receivables

To prepare for loss from uncollectable receivables, for general uncollectable credits, calculation based on actual uncollectable rate is budgeted and for special receivables with higher uncertainly, probability of collectivity is considered on individual basis and uncollectable receivables are budgeted accordingly.

(2) Allowance for bonus

Expenditure from payment of bonus to employees is recorded based on payment prospect.

(3) Allowance for retirement benefits

To prepare for employee retirement benefits, the amount expected to be accrued by the end of the current interim accounting term is budgeted based on liabilities from prospective employee retirement benefits and pension assets to be accrued by the end of the FY.

Difference due to calculation will be accrued in the proceeding FY using straight line method determined through applying average number of employment (5 years) at the time of such incident.

(4) Allowance for bonus for retiring directors

To prepare for allowance for bonus for retiring directors, interim payment amount is budgeted based on policy for bonus for retiring directors.

4 . Exchange standard for foreign currency assets and liabilities

With regards to debts and credits in foreign currencies, the amount is calculated to yen using spot exchange rate as of the closing date of the interim period and difference from conversion is accrued as gain or loss.

5 . Accounting method for lease transaction

Except for lease products where ownership is expected to transfer to the debtor, the accounting method for lease transactions in conformance with accounting policy of general lease transactions is applied.

6 . Method for hedge accounting

(1) Hedge accounting method

Carry over hedge accounting is applied with the exception of Exchange Contract where allocation procedure is applied when requirements for allocation procedure are met.

(2) Hedge procedure and subject to hedge

Hedge Procedure	:	Exchange Contact
Subject to Hedge	:	Planned foreign currency transactions

(3) Hedge policy

In accordance with the monetary limitation on transactions and transaction authority in corporate management provisions, risk hedge for currency fluctuation of foreign liabilities relating to future business assets is applied.

(4) Hedge efficiency valuation policy

For Exchange Contract considered to have high hedge efficiency, efficiency valuation has been omitted.

7 . Other significant matters serving as the basis of creating interim financial report

Accounting policy for consumption tax, etc.

Accounting method for consumption tax and local consumption tax used pre-tax method.

With regards to current interim period, prepaid consumption tax, etc. and suspense receipt consumption tax have been offset and included under Others in Current Liabilities.

Changes to Accounting Method

From current interim FY, as the monetary significance of maintenance service will continue to enhance in relation to increase in its sales, in order to more precisely delineate operating results through explicitly corresponding income and expense, maintenance service operation related depreciation expense of service parts and personnel expense which were previously accrued under sales and administrative expense have been reclassified under cost of goods.

As results, as compared to applying former accounting method, cost of goods increased by 370 million yen while gross profit on sales, and sales and administrative expense decreased by the same amount, and operating profit, ordinary profit, and current interim period income before tax remained unaffected.

Notable matters

(Interim Balance Sheet)

(unit: rounded down to the nearest million yen)

End of previous interim period (as of Sept. 30, 2002)	End of current interim period (as of Sept. 30, 2003)	End of previous FY (as of Mar. 31, 2003)
(1) Net Depreciation of Tangible Fixed Assets 4,526	(1) Net Depreciation of Tangible Fixed Assets 5,276	(1) Net Depreciation of Tangible Fixed Assets 4,820
(2) Overdraft contract and loan commitment In order to efficiently procure operating fund, overdraft contract and loan commitment has been signed with 6 company banks. End of term balance for unused credit is as follows. Maximum amount of the overdraft and loan commitment 29,200 Amount loaned - yen End balance 29,200	(2) Overdraft contract and loan commitment In order to efficiently procure operating fund, overdraft contract and loan commitment has been signed with 6 company banks. End of term balance for unused credit is as follows. Maximum amount of the overdraft and loan commitment 29,200 Amount loaned - yen End balance 29,200	(2) Overdraft contract and loan commitment In order to efficiently procure operating fund, overdraft contract and loan commitment has been signed with 6 company banks. End of term balance for unused credit is as follows. Maximum amount of the overdraft and loan commitment 29,200 Amount loaned - yen End balance 29,200

Details of changes in number of issued and outstanding shares during current interim FY (April 1, 2003 to September 30, 2003)

New shares issued through exercise of stock subscription right in accordance with former Commercial Code Article 280 Chapter 19 Section 2

(1) Number of shares issued	1,856 shares
(2) Issuing price	157,500 yen per share
(3) Amount for capitalization	78,750 yen per share
(4) Total amount of capitalization	146 million yen

(Matters related to Interim Income Statement)

(unit: rounded down to the nearest million yen)

Previous FY Interim Period Apr. 1, 2002 to Sept. 30, 2002	Current FY Interim Period Apr. 1, 2003 to Sept. 30, 2003	Previous FY Apr. 1, 2002 to Mar. 31, 2003
Significant non-operating income	Significant non-operating income	Significant non-operating income
Interest earned 6	Interest earned 7	Interest earned 15
Dividend earned 1	Dividend earned 1	Dividend earned 1
Gain from currency exchange 87	Gain from currency exchange 34	Gain from currency exchange 86
Income from subsidiaries' commissioned business 7	Income from subsidiaries' commissioned business 10	Income from subsidiaries' commissioned business 14
	Dividend on Group Insurance 14	
Significant non-operating expense	Significant non-operating expense	Significant non-operating expense
Stock Issuing Expense 9	Interest expense 0	Stock Issuing Expense 9
Commitment fee 5	Commitment fee 4	Commitment fee 9
Employment promotion payment 3	Loss from management of capital fund 6	Employment promotion payment 3
	Previous FY Consumption Tax, Etc. 2	Loss from management of capital fund 3
Significant extraordinary profit	Significant extraordinary profit	Significant extraordinary profit
Gain from sales of investment securities 1,264	Gain from sales of investment securities 2	Gain from sales of investment securities 1,264
Reversal from allowance for doubtful receivables 23	Reversal from allowance for doubtful receivables 1	
Significant extraordinary loss	Significant extraordinary loss	Significant extraordinary loss
Loss from removal of fixed assets 28	Loss from removal of fixed assets 43	Loss from removal of fixed assets 52
Loss from sales of investment securities 195		Loss from sales of investment securities 195
Loss from revaluation of investment securities 408		Loss from revaluation of investment securities 450
Extinguish advances 62		Extinguish advances 144
		Transfer to allowance for bad debt 226
		Loss on cancellation of benefit program 15
Accrued depreciation	Accrued depreciation	Accrued depreciation
Tangible fixed assets 765	Tangible fixed assets 514	Tangible fixed assets 1,558
Intangible fixed assets 41	Intangible fixed assets 71	Intangible fixed assets 102

