

Interim Financial Report for FY2004 (ending March 2005) (Non-Consolidated Report)



November 8, 2004

Corporate Name Net One Systems Co., Ltd.

Tokyo Stock Exchange
Prefecture of headquarters
Tokyo

Stock Code Number 7518
(URL <http://www.netone.co.jp>)

Representative Title President & CEO
Osamu Sawada

Inquiries Title Director, Manager of Operation Department
Nao Aruma

TEL (03) 5462-0800

Date of board meeting for interim period November 8, 2004

Provision of interim dividend:
will be provided

FY commencement date of _____

Provision for odd-shares:
not provided

Dividend for the interim period

1. Interim Results for FY ending March 2005 (April 1, 2004 to September 30, 2004)

(1) Consolidated Financial Results

(unit: figures are rounded down to the nearest million yen)

	Sales		Operating Profit		Ordinary Profit	
	Milkon yen	%	Milkon yen	%	Milkon yen	%
Six months ended Sept. 2004	56,208	(13.5)	3,874	(20.9)	3,872	(18.5)
Six months ended Sept. 2003	49,521	(32.1)	3,205	(29.2)	3,268	(27.0)
Year ended Mar. 2004	119,287		10,187		10,234	

	Net Income		Net Income per Share	
	Milkon yen	%	yen	sen
Six months ended Sept. 2004	2,210	(14.5)	4,006	10
Six months ended Sept. 2003	1,930	(6.7)	7,018	46
Year ended Mar. 2004	6,089		21,930	41

(Note) Average number of shares in the term: Six months ended Sept. 2004 551,685 shares

Six months ended Sept. 2003 275,116 shares, Year ended Mar. 2004 275,479 shares

Changes in principal accounting policies: None

Percentage: increase/decrease against previous interim period (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. 2004	0	0	_____	_____
Six months ended Sept. 2003	0	0	_____	_____
Year ended Mar. 2004	_____	_____	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. 2004	71,408	54,102	75.8	98,066	45
Six months ended Sept. 2003	67,205	48,009	71.4	174,048	26
Year ended Mar. 2004	72,718	52,158	71.7	188,915	59

(Note) Issued and outstanding shares at the end of the period:

Six months ended Sept. 2004 551,688 shares

Six months ended Sept. 2003 275,842 shares

FY ended Mar. 2004 275,842 shares

Repurchased stocks at the end of the period:

Six months ended Sept. 2004 211 shares

Six months ended Sept. 2003 105 shares

FY ended Mar. 2004 105 shares

2 . Forecast for FY ending Mar. 2005 (April 1, 2004 to Mar. 31, 2005)

	Sales	Ordinary Profit	Current Net Income	Annual Dividend Per Share			
				End of the term			
Fiscal Year	Million yen	Million yen	Million yen 円	yen	sen	yen	sen
	142,000	12,350	7,000	1,000	0	1,000	0

(Reference) Forecast net income per share for FY ending Mar. 2005 12,688 yen 33 sen

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

Reference information regarding current interim period (FY) net income per share, current interim period (FY) dividend per share and shareholders' equity per share

On May 20, 2004, the company provided 2 shares for 1 share stock split.
 In order to make comparisons over period of time, following chart indicates the per share values after applying retroactive adjustments for the stock split.

	Current FY interim period April 1, 2004 to September 30, 2004		Previous FY interim Period April 1, 2003 to September 30, 2003		Previous FY April 1, 2003 to March 31, 2004	
	Yen	Sen	Yen	Sen	Yen	Sen
Current quarter (FY) net income per share	4,006	10	3,509	23	10,965	21
Current quarter (FY) net income per share assuming full dilution	—————		—————		500	0
Shareholder's equity per share	98,066	45	87,024	13	94,457	80

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, 2003)		End of Current FY Interim Period (as of Sept. 30, 2004)		End of Previous FY Edited Balance Sheet (as of Mar. 31, 2004)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
ASSETS		%		%		%
Current Assets	58,974	87.8	63,339	88.7	64,721	89.0
Cash and Deposits	1,568		10,894		2,701	
Note Receivable	507		555		1,118	
Account Receivable	36,218		31,906		41,789	
Inventories	16,689		16,280		15,570	
Others	4,115		3,798		3,685	
Allowance for Doubtful Receivables	124		96		144	
Fixed Assets	8,231	12.2	8,068	11.3	7,997	11.0
1 . Tangible Fixed Assets	3,044	4.5	2,950	4.1	2,951	4.1
Tools, Fixtures, and Equipment	2,526		2,478		2,463	
Others	518		471		487	
2. Intangible Fixed Assets	1,288	1.9	1,478	2.1	1,482	2.0
3 . Investment and other Assets	3,898	5.8	3,640	5.1	3,564	4.9
Investment Securities	2,113		1,473		1,517	
Others	2,031		2,400		2,293	
Allowance for Doubtful Receivables	246		233		246	
Total Investment and Other Assets	67,205	100.0	71,408	100.0	72,718	100.0
LIABILITIES						
Current Liabilities	18,877	27.8	17,140	24.0	19,917	27.4
Account Payable	12,936		12,383		13,689	
Accrued Corporation Tax, etc.	1,415		1,304		2,865	
Advance Received	2,054		1,982		1,449	
Allowance for Bonus	501		289		390	
Others	1,771		1,180		1,522	
Fixed Liabilities	518	0.8	166	0.2	642	0.9
Allowance for Retirement Benefits	354		-		469	
Allowance for Bonus for Retiring Executives	163		-		173	
Long Term Miscellaneous Account	-		165		-	
Others	0		0		0	
Total Liabilities	19,195	28.6	17,306	24.2	20,560	28.3
SHAREHOLDERS' EQUITY						
Capital Stock	12,278	18.3	12,279	17.2	12,278	16.9
Additional Paid-in Capital	19,452	28.9	19,453	27.2	19,452	26.7
Capital Reserve	19,452		19,453		19,452	
Accumulated Earnings	16,357	24.3	22,402	31.4	20,516	28.2

Earned Surplus Reserve	85		85		85	
Unappropriated Reserve	14,062		19,547		14,062	
Interim Period (FY)	2,209		2,769		6,368	
Unappropriated Profit						
Difference from Securities	15	0.0	61	0.1	5	0.0
Revaluation						
Repurchased Stock	94	0.1	94	0.1	94	0.1
Total Shareholders' Equity	48,009	71.4	54,102	75.8	52,158	71.7
Total Liabilities,						
Shareholders' Equity	67,205	100.0	71,408	100.0	72,718	100.0

(2) Income Statement

(unit: figures are rounded down to the nearest million yen)

	Previous FY Interim Period Apr. 1, 2003 to Sept. 30, 2003		Current FY Interim Period Apr. 1, 2004 to Sept. 30, 2004		Previous FY Edited Income Statement Apr. 1, 2003 to Mar. 31, 2004	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
Sales	49,521	100.0	56,208	100.0	119,287	100.0
Cost of Goods Sold	40,371	81.5	45,764	81.4	97,301	81.6
Gross Profit on Sales	9,149	18.5	10,444	18.6	21,985	18.4
Selling, General and Administrative Expenses	5,944	12.0	6,570	11.7	11,798	9.9
Operating Profit	3,205	6.5	3,874	6.9	10,187	8.5
Non-Operating Income	78	0.1	31	0.1	81	0.1
Non-Operating Expense	14	0.0	33	0.1	33	0.0
Ordinary Profit	3,268	6.6	3,872	6.9	10,234	8.6
Extraordinary Profit	3	0.0	186	0.3	821	0.7
Extraordinary Loss	43	0.1	337	0.6	644	0.6
Income before Taxes	3,228	6.5	3,721	6.6	10,411	8.7
Corporate Tax, Residence Tax, and Business Tax	1,387	2.8	1,178	2.1	4,796	4.0
Adjustment to Corporate Tax, etc.	88	0.2	333	0.6	474	0.4
Current Interim Period (FY) Net Profit	1,930	3.9	2,210	3.9	6,089	5.1
Retained Earnings at the Beginning of the Period	278		559		278	
Unappropriated Net Profit for the Interim (FY) period	2,209		2,769		6,368	

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 2 to 20 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 uncertainty, 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

(Additional Information)

In accordance with law of defined contribution pension plan, the Company has terminated the retirement benefits system for executives as of September 30, 2004 and from October 1, 2004 onward, defined contribution pension plan and prepaid retirement benefit plan have been in effect. To shift to the new plans, accounting policy on changes within retirement benefit plans (No. 1 of Application Guidelines in Accounting Standards for Business Enterprises) has been applied. The effect of this shift to new plans will create 137M yen gain on termination of retirement benefits system under extraordinary gain.

- (4) Allowance for bonus for retiring directors

(Additional Information)

Although the company has been accruing interim period payment amount based on retirement benefit system for executives, June 25, 2004 general meeting of shareholders resolved to terminate the retirement benefit system for executives (including the regulations) and to provide the executives with their entitled retirement benefits based on the term of service until the termination of retirement benefit system.

Relative to this, in addition to retirement benefit for executives amounting to 119M yen, 69M yen

for service fee was accrued; out of this total amount, 165M yen was accrued as a long-term miscellaneous account.

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 Contract
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.

Notable matters

(Interim Balance Sheet)

(unit: figures are rounded down to the nearest million yen)

End of previous interim period (as of Sept. 30, 2003)	End of current interim period (as of Sept. 30, 2004)	End of previous FY (as of Mar. 31, 2004)
Net Depreciation of Tangible Fixed Assets 5,276	Net Depreciation of Tangible Fixed Assets 5,844	Net Depreciation of Tangible Fixed Assets 5,470
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	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	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 change in number of issued and outstanding shares during current interim period
(April 1, 2004 to September 30, 2004)

1. New shares issued through exercise of stock subscription right in accordance with Commercial Code
Article 280 Chapter 20 and Article 280 Chapter 21 Section 1

Number of shares issued 4 shares
Issuing price 428,925 yen per share
Amount for capitalization 214,463 yen per share

2. Stock split (2 shares for 1 share) effective May 20, 2004

Number of shares issued 275,948 shares

(Matters related to Interim Income Statement)

(unit: figures are rounded down to the nearest million yen)

Previous FY Interim Period Apr. 1, 2003 to Sept. 30, 2003	Current FY Interim Period Apr. 1, 2004 to Sept. 30, 2004	Previous FY Apr. 1, 2003 to Mar. 31, 2004
Significant non-operating income	Significant non-operating income	Significant non-operating income
Interest Earned 7	Interest Earned 9	Interest Earned 15
Dividend Earned 1	Income from Subsidiaries' Commissioned Business 11	Dividend Earned 1
Income from Subsidiaries' Commissioned Business 10	Dividend from Group Insurance 1	Income from Subsidiaries' Commissioned Business 21
Gain from Currency Exchange 34		Gain from Currency Exchange 8
Dividend from Group Insurance 14		Dividend from Group Insurance 14
		Sales Incentives 10
Significant non-operating expense	Significant non-operating expense	Significant non-operating expense
Interest Expense 0	Stock Issuing Expense 13	Interest Expense 3
Commitment Fee 4	Loss from Currency Exchange 6	Stock Issuing Expense 2
Loss from Management of Capital Fund Previous FY Consumption Tax, Etc. 2	Commitment Fee 5	Commitment Fee 9
	Loss from Management of Capital Fund 5	Loss from Management of Capital Fund Previous FY Consumption Tax, Etc. 4
Significant extraordinary Profit	Significant extraordinary Profit	Significant extraordinary Profit
Reversal from Allowance for Doubtful Receivables 1	Reversal from Allowance for Doubtful Receivables 48	Reversal from Allowance for Doubtful Receivables 1
Gain from Sales of Investment Securities 2	Gain from Termination of Retirement Benefits System 137	Gain from Sales of Investment Securities 673
		Gain from Exchange of Investment Securities 146
Significant Extraordinary Loss	Significant Extraordinary Loss	Significant Extraordinary Loss

Loss from Removal of Tools, Fixtures, and Equipment	43	Loss from Removal of Buildings	2	Loss from Removal of Tools, Fixtures, and Equipment	126
		Loss from Removal of Tools, Fixtures, and Equipment	2	Loss from Revaluation of Investment Securities	505
		Loss from Revaluation of Investment Securities	233	Loss from Termination of Welfare Facility Contract	8
		Amount Relative to Termination of Retirement Benefits System for Executives	69		
Depreciation		Depreciation Amount		Depreciation Amount	
Tangible Fixed Assets	514	Tangible Fixed Assets	464	Tangible Fixed Assets	1,126
Intangible Fixed Assets	71	Intangible Fixed Assets	77	Intangible Fixed Assets	145

(Matters related to lease transactions)

As our company employs electronic disclosure system based on Securities Exchange Law Section 27, 30-6, description has been abbreviated.

(Matters related to marketable securities)

There are no subsidiaries or affiliated companies with marketable values during previous FY interim period (Apr. 1, 2003 to Sept. 30, 2003,) current FY interim period (Apr. 1, 2004 to Sept. 30, 2004,) or previous FY (Apr. 1, 2003 to Sept. 30, 2004.)